Karafarin Bank

Annual Report

and Financial Statements

for the Year ended March 20th, 2010

Karafarin Bank

Annual Report

Report to the General Assembly of Shareholders

Survey of the Iranian Economy

Financial Statements

Karafarin Bank

Report of the Chairman of the Board of Directors to the General Assembly of Shareholders of KARAFARIN BANK for the Year Ended March 20th, 2010

Report of the Chairman of the Board of Directors

It is a great pleasure for me to say a few words to our shareholders and our clients about the report of Karafarin bank's main operations and accounts for the year ended March 20th, 2010.

It has been a fruitful year for us, and our Bank has continued its steady progress in almost all areas. Our main concern was to improve the quality of our services and a great part of our efforts was placed on the improvement of our information technology. There seemed to be a definite need to make certain modifications, as is referred to further down in the Board's report. We hope to be able to redress all the shortcomings and offer much better standard of services to our customers by the end of next year.

We also continued our policy of prudent expansion and remained the smallest bank in size in the banking system. Despite our relative small size, or, probably because of it, we managed to maintain our profitability. It would, however, be unrealistic not to mention the obstacles we have come across, especially those in connection with the international financial crisis and the sanctions. Although real, the effects of these limitations, to a great extent, were contained, due to our flexibility and prudence.

We have maintained high standard of professional ethics. It has been the cornerstone of our policy to be open and transparent to our shareholders as well as our customers. During the year under review in this report, we continued to adhere to this policy. I believe, it has been mainly for this reason that our bank has a good name and I hope that our good name will continue to remain the most valuable asset of Karafarin Bank.

A. A. Afkhami

Background

As most of you who have been with us from the outset, remember Karafarin Bank was initially established as a non-bank Credit Institution with a capital of 30 billion rials. The founding shareholders were members of the Association of Industrial Managers of Iran, the Association of Construction Companies of Iran, the Utility Engineers Society and the Architects and Urban Development Society, together with a group of senior bankers and, of course, the public. It was registered with the Companies Registrar's Office of Tehran under registration number 157915 on 18/09/1378 (December 9th, 1999) and continued to operate as a non-bank credit institution until the third quarter of 1380 (December 2001).

Upon approval of the "Establishment of Non-State-Owned Banks Act" on 1379/01/21 (April 10th, 2000) and the ratification of the regulations by the Central Bank of Iran, the Board decided to opt for a banking license. On December 5th, 2001, the Central Bank issued its preliminary approval authorizing conversion of our license into a banking one. Finally, after completion of the formalities and receiving the final approval of the Central Bank, we started operating as Karafarin Bank on December 26th, 2001.

Message of the Board of Directors

The Board would like to draw the attention of our esteemed shareholders to two important developments during the year under review. Firstly, the world underwent an important financial crisis and its effects are still with us. In the economic section of the Bank's report, reference has been made to this crisis. The crisis naturally affected our banking system as well. Our bank has managed to minimize these effects as far as possible. The second development is to do with the internal operations of the Bank: we managed to realize the promise made last year and implement our core banking system. Once again, there is a section further down, which deals with this achievement.

We have the pleasure of presenting to you the full report of our operations for the year ended March 20th, 2010.

In the mean time, we believe the information provided hereunder, represent a fair picture of the Bank's operations and is in conformity with the Company's interests, its Articles of Association and the legislations and rules and regulations in force. It is a realistic and comprehensive report and contains all the necessary information for an objective overview of the Company; and has been approved by the Board on May 16th 2010.

Human Resources

A)The following tables show the distribution of our personnel according to the level of education and according to the position.

Year	Doctorate & Masters	B.A.	Post Diploma & Diploma	Below Diploma	Total
2009-10	56	1,008	260	26	1,350
2008-09	47	979	246	34	1,306

Year	Headquarters	Branches	Total	Mean share of headquarter personnel per branch
2009-10	353	997	1350	7
2008-09	298	1008	1306	4

B)Training Courses

During the year under review, 1347 members of our personnel and management participated in 139 training courses and seminars, as follows:

Internal		Core Banking		Abroad		Upon Employment	
Number of Training Course	Number of Participant	Number of Training Course	Number of Participant	Number of Training Course	Number of Participant	Number of Training Course	Number of Participant
99	584	36	722	2	33	2	8

Financial Highlights: Parent Company

	2009-10	Revised 2008-09	Revised 2007-08
A) Financial Information at the end of Period (Million Rials)			
Total Income (1)	6,343,327	5,336,671	3,660,063
Operational Profit (2)	2,355,781	1,870,658	1,096,822
Non-Operational Income (3)	46,427	17,874	38,536
Net Profit- After Tax	1,670,782	1,217,565	744,833
Annual Adjustment	52,398	2,726	11,267
Cash from Operational Activity	3,280,900	1,292,344	1,218,316
B) Financial Situation Information at the end of Period			
Total Asset	37,430,772	35,249,312	25,734,532
Total Liabilities	33,193,600	31,627,023	23,673,583
Share Capital	2,000,000	2,000,000	1,050,000
Shareholders	4,237,172	3,622,288	2,060,949
C) Rate of Return			
Return on Assets (4)	4.60%	4%	3.40%
Return on Equity (5) (Net Wealth)	42.50%	42.90%	49.30%
Capital Adequacy Ratio (6)	16.1	14.7	11.2
D) Information of Each Share			
No. of Shares at the Assembly Time	2,000,000,000	2,000,000,000	1,050,000,000
Primary Projected Profit per Share-Rials	790	629	471
Last Projected Profit per Share-Rials	790	590	471
Realized Profit per Share- Rial	835	609	709
Proposed Profit per Share to be Distributed-Rial	600	500	571
Latest Share Price on the Date Preparation of this Report	3,585	3,382	4,271
Book Value per Share	1,000	1,000	1,000
The Ratio of Price to the Realized Profit per Share (8)	4.5	5.73	9.07
E) Other Information			
Number of Staff (end of year)	1,350	1,306	1,222

- **The above report has been approved by the Board of Directors on May 16th 2010**
- **The data in these financial highlights are naturally identical with our financial statements; the differences are due to the difference in methodology of reporting and classification.**

Footnotes:

1. Sum total of all incomes
2. Sum total of interests ("profits") on facilities granted and deposits made, return on investments and commissions, minus interests ("profits") paid on deposits received and provisions on doubtful debts
3. Sundry incomes
4. Return on assets=net profits/mean total assets at beginning. & end of period
5. Return on equity=net profits/mean total equity at beginning. & end of period
6. Ratio of tier I capital/total assets weighted according to risks
7. P/E=price per share on the date of preparation of the report / latest projection of profit per share

Financial Highlights: Parent Company

	Revised		
	2009-10	2008-09	2007-08
A) Financial Information at the end of Period (Million Rials)			
Total Income (1)	6,343,327	5,336,671	3,660,063
Operational Profit (2)	2,355,781	1,870,658	1,096,822
Non-Operational Income (3)	46,427	17,874	38,536
Net Profit- After Tax	1,670,782	1,217,565	744,833
Annual Adjustment	52,398	2,726	11,267
Cash from Operational Activity	3,280,900	1,292,344	1,218,316
B) Financial Situation Information at the end of Period			
Total Asset	37,430,772	35,249,312	25,734,532
Total Liabilities	33,193,600	31,627,023	23,673,583
Share Capital	2,000,000	2,000,000	1,050,000
Shareholders	4,237,172	3,622,288	2,060,949
C) Rate of Return			
Return on Assets (4)	4.60%	4%	3.40%
Return on Equity (5) (Net Wealth)	42.50%	42.90%	49.30%
Capital Adequacy Ratio (6)	16.1	14.7	11.2
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Last Projected Profit per Share-Rials	790	590	471
Realized Profit per Share- Rial	835	609	709
Proposed Profit per Share to be Distributed-Rial	600	500	571
Latest Share Price on the Date Preparation of this Report	3,585	3,382	4,271
Book Value per Share	1,000	1,000	1,000
The Ratio of Price to the Realized Profit per Share (7)	4.5	5.73	9.07
E) Other Information			
Number of Staff (end of year)	1,350	1,306	1,222

Financial Highlights: Consolidated

	Revised		
	2009-10	2008-09	2007-08
A) Financial Information At the end of Period (Million Rials)			
Total Income	6,388,505	5,342,902	3,695,545
Operational Profit	2,399,943	1,874,410	1,133,000
Non-Operational Income	47,444	18,745	37,841
Net Profit- After Tax	1,660,237	1,164,872	739,148
Annual Adjustment	56,319	5,047	11,267
Cash from Operational Activity	3,206,508	1,197,478	1,070,585
B) Financial Situation Information At the end of Period			
Total Asset	37,618,231	35,478,767	26,055,667
Total Liabilities	33,467,070	31,936,628	23,999,551
Share Capital	2,000,000	2,000,000	1,050,000
Shareholders	4,151,161	3,517,201	2,022,653
C) Rate of Return			
Return on Assets	4.50%	4%	3.39%
Return on Equity (Net Wealth)	43.20%	42.05%	49.34%
Capital Adequacy Ratio	16.1	14.7	11.2
D) Information of Each Share			
No. of Shares At the Assembly Time	2,000,000,000	2,000,000,000	1,050,000,000
Primary Projected Profit per Share-Rials	790	629	471
Last Projected Profit per Share-Rials	790	590	471
Realized Profit per Share- Rial	835	609	709
Proposed Profit per Share to be Distributed-Rial	600	500	571
Latest Share Price on the Date Preparation of this Report	3,585	3,382	4,271
Book Value per Share	1,000	1,000	1,000
The Ratio of Price to the Realized Profit per Share	4.5	5.73	9.07
E) Other Information			
Number of Staff (end of year)	1,350	1,306	1,222

Capital and Distribution of Shareholder

The capital of the Bank was originally, 30 billion rials, comprised of 30 million shares of 1,000 rials each; it was increased in several stages to 2 trillion rials, by the end of 1388 (March 20, 2010).

Changes in the Capital			
Date of Increase	Percentage of Increase	New Capital (million rials)	Method of Increase
14.11.2004	**75**	350,000	Shareholders' Liabilities & Settlement in Cash
29.09.2005	**100**	700,000	Shareholders' Liabilities & Settlement in Cash
19.12.2007	**50**	1,050,000	Shareholders' Liabilities & Settlement in Cash
07.12.2008	**90.48**	2,000,000	Shareholders' Liabilities & Settlement in Cash

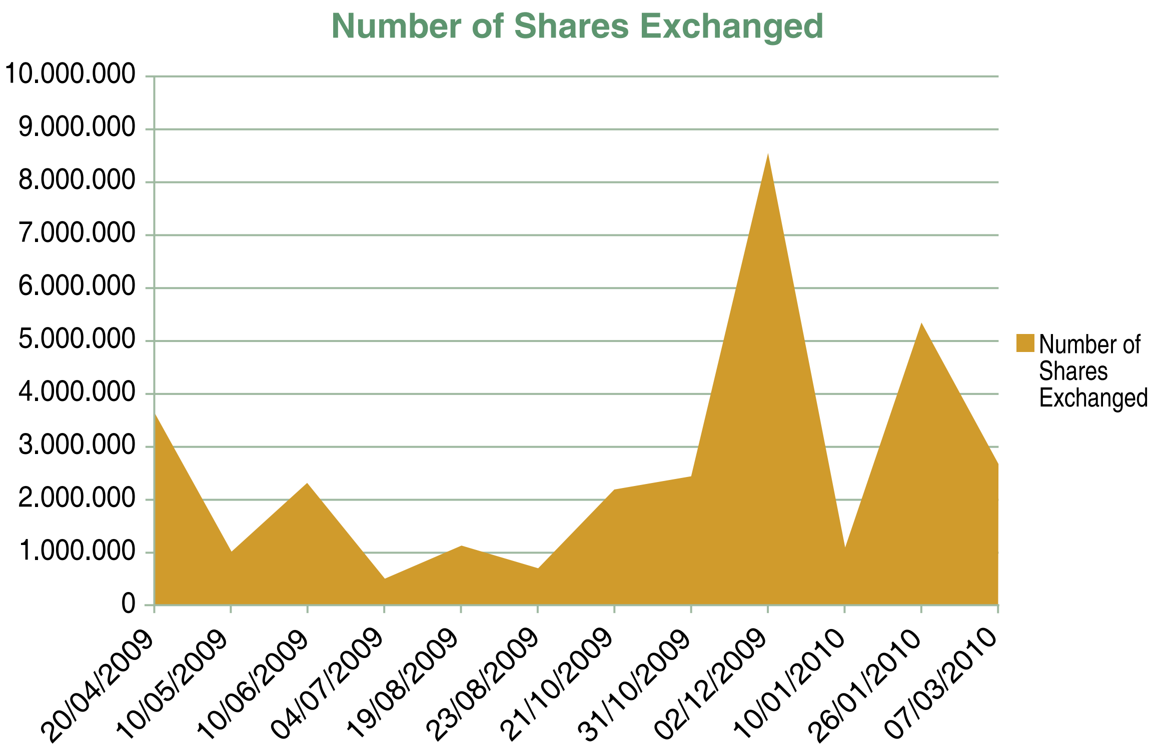
The following table, shows the list of the first 20 shareholders, owning more than 1% of the Bank, by the end of 1388 (March 20, 2010).

20 main Shareholders of the Bank at the end of March 20th 2010 and date of Approval of the Report					
No.	Shareholder	March 20th 2010		May 16th 2010	
		Number of Shares	Percentage	Number of Shares	Percentage
1	Legal Persons	173,713,831	8.69	173,713,831	8.69
2	Real Persons	96,222,890	4.81	96,222,890	4.81
3	Real Persons	43,840,834	2.19	43,840,834	2.19
4	Real Persons	42,967,641	2.15	42,967,641	2.15
5	Real Persons	41,065,078	2.05	41,065,078	2.05
6	Real Persons	40,142,462	2.01	40,142,462	2.01
7	Real Persons	40,000,000	2	40,000,000	2
8	Real Persons	40,000,000	2	39,900,000	2
9	Real Persons	39,032,433	1.95	39,032,433	1.95
10	Real Persons	32,160,418	1.61	32,160,418	1.61
11	Legal Persons	32,078,915	1.6	32,078,915	1.6
12	Real Persons	29,900,000	1.5	29,800,000	1.49
13	Real Persons	29,488,233	1.47	29,488,233	1.47
14	Real Persons	29,200,000	1.46	29,300,000	1.47
15	Real Persons	29,150,000	1.46	29,300,000	1.47
16	Legal Persons	28,571,428	1.43	28,571,428	1.43
17	Real Persons	27,339,541	1.37	27,339,541	1.37
18	Legal Persons	26,541,921	1.33	26,541,921	1.33
19	Legal Persons	25,000,100	1.25	25,738,365	1.29
20	Real Persons	22,475,822	1.12	25,000,100	1.25
21	Other	163,019,257	8.15	225,517,759	11.28
Sum		1,031,901,804	51.6	1,097,812,849	54.89

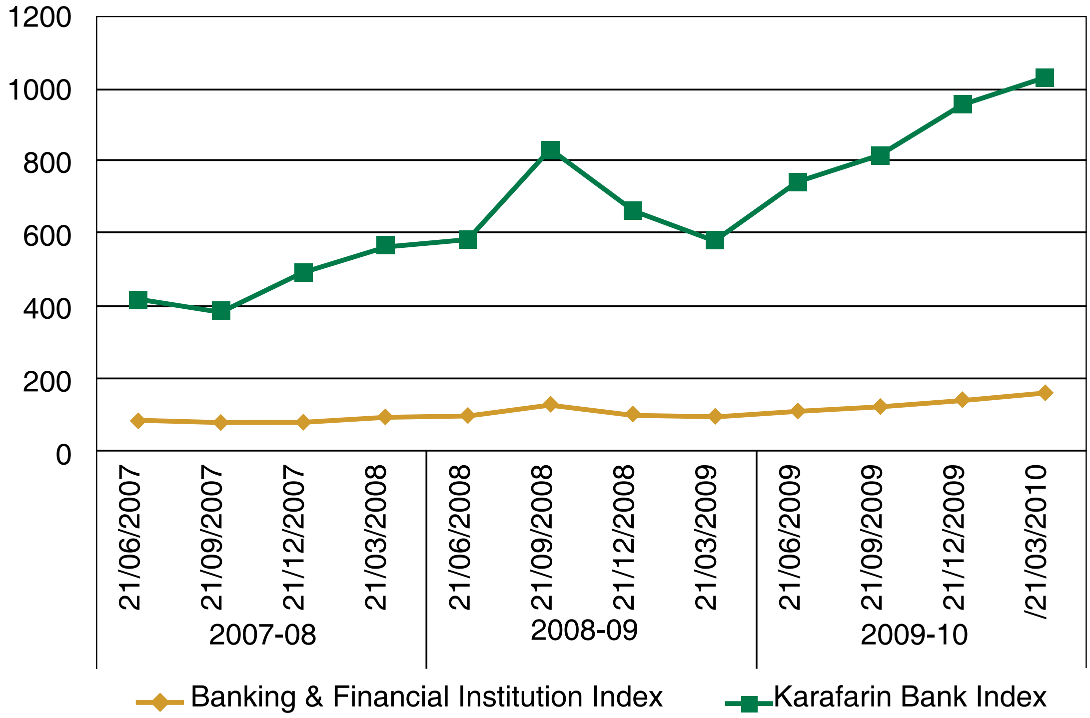
The Bank's Share in Tehran Stock Exchange (TSE)

The Bank's shares were quoted in TSE as of 1381/07/11 (October 3rd, 2002) under the group Banks and Financial Institutions Industry, and the first transaction took place five months later. The following table shows the performance of the Bank's shares during the past three years.

Year Ended	Number of Shares Traded	Value of transactions (million rials)	Number of Days Quoted	Number of Days Traded	at the end of Financial Year		
					Market Value (million rials)	Price (rial)	Capital (million rials)
March 20th 2008	21,601,776	812,245	242	242	4,352,250	2,145	1,050,000
March 20th 2009	192,033,222	602,193	238	238	5,024,000	2,512	2,000,000
March 20th 2010	455,742,666	1,574,459	228	228	7,644,000	3,822	2,000,000



Index of Karafarin Bank's Share in TSE



Transparency of Information and Liquidity of Shares

The Bank's rank in terms of transparency of information and liquidity of shares according to the evaluation made by the TSE are given in the following table:

Description	2009-10	2008-09
Transparency of Information (rank)	65	104
Number of Days Quoted	228	238
Number of Days Traded	228	238
Transaction Volume / Average Weighted Capital Ratio	78.7%	39.5%

Position of the Bank in the Industry

In 1387 (2008-09) the banking industry's turnover amounted to 297.8 trillion rials, which, compared to the previous year, showed an increase of 23%. During the same period, our Bank's turnover amounted to 5.3 trillion rials, which, compared to the previous year, showed an increase of 45.9%. This was equal to 1.8% of the total banking system (compared to 1.5% the previous year); amongst the 18 authorized banking institutions, our Bank's ranked 13th (compared to 14 the previous year).

Legal Environment of the Bank

The most important legislations, rules, regulations governing the Bank's activities are as follows:

1. The Monetary and Banking Act
2. Usury Free Banking Act
3. Cheque Act
4. Facilitating Extension of Bank Credit Act
5. Commercial Code
6. Registration of Companies Legislations
7. Taxation Acts
8. The Central Bank Monetary Policy Package,

The Central Bank Monetary Policy Package contains monetary policy measures applied by the Central Bank. The most recent measure pertaining to the legal deposits and the rate of interest ("profit") payable to depositors are as follows:

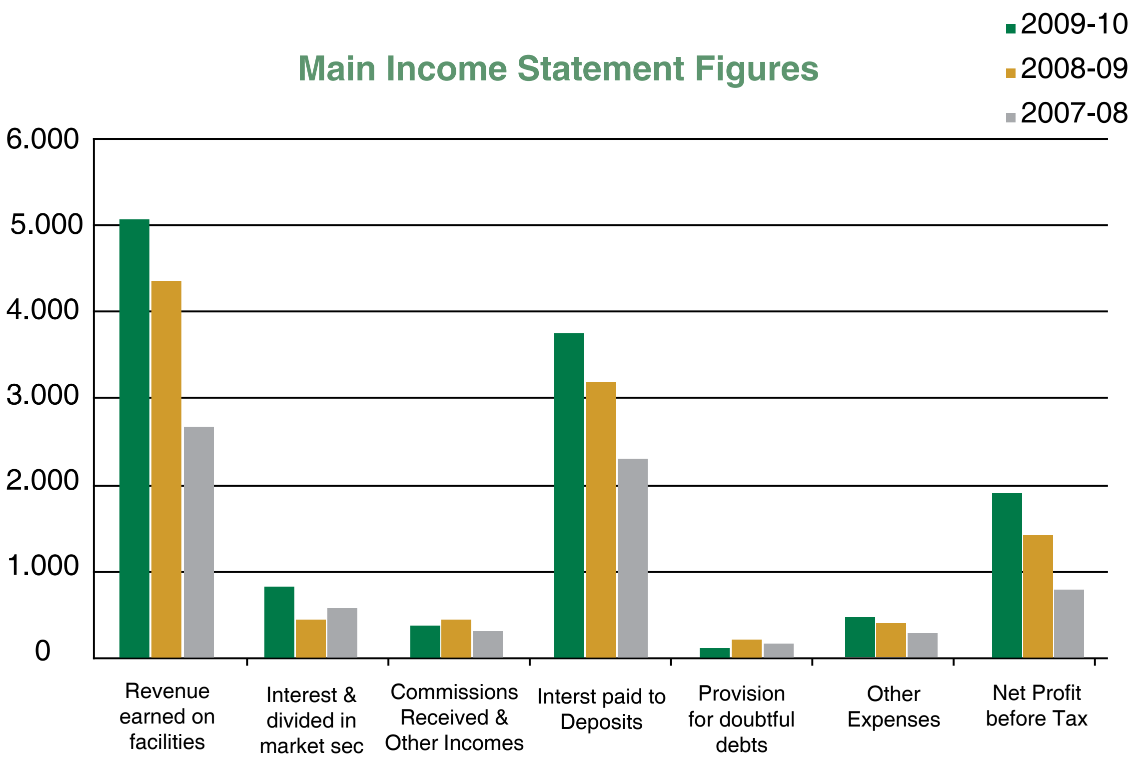
Description	Interest Rate (%)		Legal Reserve Rate (%)	
	2009-10	2008-09	2009-10	2008-09
Current Account	0	0	17	20
Support Account	9	9	16	17
Short-term Deposit	9	9	16	17
Six-Month Deposit	12	16	16	17
One-Year Deposit	14.5	17.25	15	17
Two-Year Deposit	15.5	17.5	13	15
Three-Year Deposit	16	18	13	15
Four-Year Deposit	17	18.5	12	13
Five-Year Deposit	17.5	19	10	11

Financial and Operational Activities of the Bank in 1388 (Year ended March 20th, 2010)

Main Income Statement Figures

(billion rials)

	2009-10	Share	Growth	2008-09	Share	Growth	2007-08	Share	Growth
Revenue earned on facilities	5,089	80%	14%	4,472	84%	66%	2,700	74%	50%
Interest & dividend on market sec.	848	13%	80%	470	9%	(23%)	611	17%	39%
Commissions Received & Other Incomes	407	6%	3%	394	7%	13%	348	10%	13%
Total Revenue	6,344	100%	19%	5,337	100%	46%	3,655	100%	43%
Interest Paid to Deposits	(3,802)	60%	19%	(3,207)	60%	38%	(2,321)	63%	38%
Provision for Doubtful Debts	(140)	2%	(42%)	(241)	5%	18%	(205)	6%	36%
Other Expenses	(496)	8%	13%	(438)	8%	41%	(310)	8%	67%
Net Profit Before Tax	1,906	30%	31%	1,450	27%	77%	819	22%	55%
Taxes	(235)	4%	1%	(232)	4%	209%	(75)	2%	103%
Net Profit After Tax	1,671	26%	37%	1,218	23%	64%	744	20%	51%



Income derived from the Facilities granted, Deposits and Investments made.

Description	2009-10	2008-09	2007-08	Percentage of Changes in 2009 from 2008	Reason of Changes
Revenues Under Islamic Contracts	3,640,642	3,401,234	2,131,408	42%	Increase in the Productive Assets
Revenues under Foreign Currency Facilities	28,483	187,538	41,180	-84%	Decrease in the foreign Facilities
Interest on Statutory Deposits	1,419,637	884,008	527,527	61%	Receiving Of Sundry Debts
Investments & Deposits	847,536	469,878	610,946	80%	Increase in the Productive Assets

Interest Paid to Investment Deposits

Description	2009-10	2008-09	2007-08	Percentage of Changes in 2009 from 2008	Reason of changes
Short-Term Deposits	362,354	613,096	981,880	-41%	Decrease in Interest Rate
Support Account	346,281	351,452	203,271	-1.50%	…..
Three-Month Special Deposits	51,087	254,937	3,326	-80%	Changes to Four-Month
Three-Month & 1 Day Special Deposits	0	16,700	0	-100%	Changes to Four-Month
Four-Month Deposits	139,465	0	0	100%	Introduced in 2009
Six-Month special Deposits	109,665	206,853	98,794	-47%	Decrease in Interest Rate
One-Year Deposits	961,844	980,277	470,423	-2%	…
Two-Year Deposits	7,575	6,538	21,410	16%	….
Three-Year Deposits	6,872	4,402	6,648	56%	Increase in Deposits
Four-Year Deposits	10,509	7,323	8,484	44%	Increase in Deposits
Five-Year Deposits	670,720	411,904	457,058	63%	Increase in Deposits
One-Year Certificates of Deposit	1,092,269	198,151	0	451%	Issued by the end of 2008
Less than One-Year Certificates of Deposit	3,143	81,561	378	-96%	Stop Issuing in 2009
Foreign Currency Deposits	39,842	74,003	49,908	-46%	Decrease in Interest Rate
Profit Share of Depositors	**3,801,626**	**3,207,198**	**2,319,580**	**19%**	

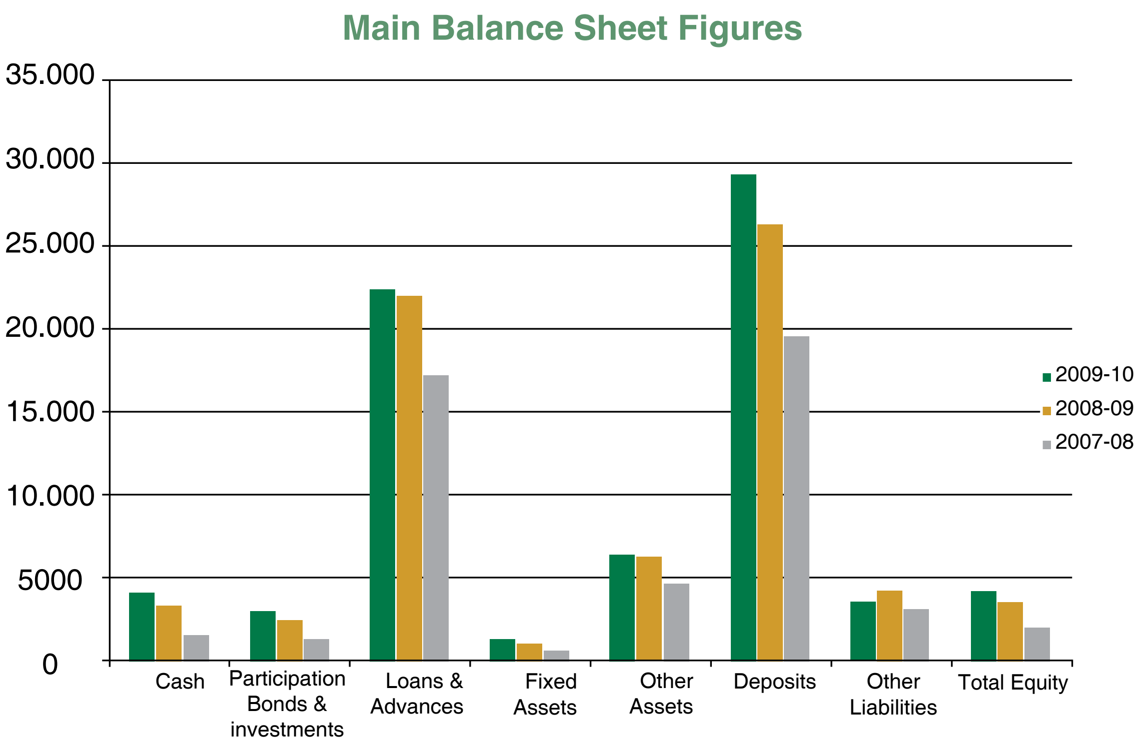
Expected and Actual EPS

Description	First Projection of EPS on Feb. 19th 2010	Actual EPS
Interest on Loans	5,744,320	5,088,761
Interest on Participation Bonds	462,814	452,722
Interest on Investing in Other Companies Share	99,538	69,292
Interest on Deposits	128,103	325,523
Total Revenue on Loans, Deposits and Investments	6,434,774	5,936,298
Profits on Investment Deposits	-4,327,003	-3,801,626
Cost of Sundry Debt	-150,888	-139,492
Commissions and Foreign Exchange Market	560,535	360,602
Net Operational Income	2,517,418	2,355,781
Other Income	7,536	46,427
Depreciation Cost	-46,000	-40,025
Administrative and Personnel Cost	-603,810	-456,524
Profit (loss) Before Tax Deduction	1,875,145	1,905,660
Tax	-295,379	-234,879
Profit (loss) After Tax Deduction	1,579,766	1,670,782
Ratio of Profit (loss) to Total Operational Income	24.6	28.1
Number of Company's Share	2,000,000,000	2,000,000,000
Profit (loss) of Each Share After Tax Deduction-Rial	790	835

Main Balance Sheet Figures

(billion rials)

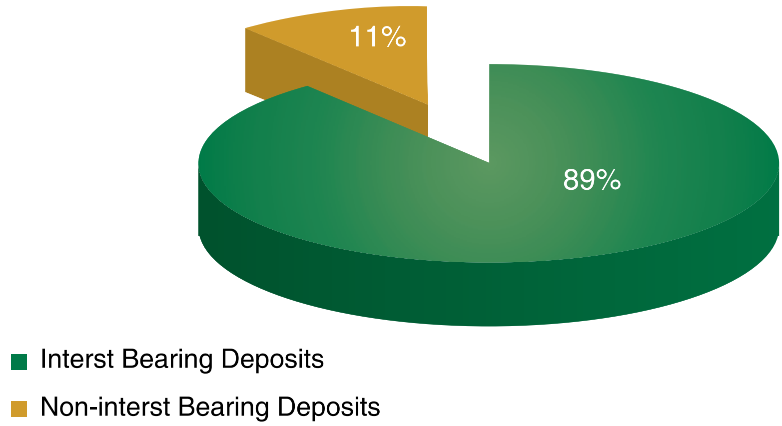
	2009-10	Share	Growth	2008-09	Share	Growth	2007-08	Share	Growth
Cash	4,092	11%	20%	3,413	10%	104%	1,672	6%	88%
Participation Bonds & Investments	3,015	8%	20%	2,502	7%	93%	1,294	5%	(18%)
Loans & Advances	22,468	60%	2%	22,047	63%	27%	17,354	67%	57%
Fixed Assets	1,344	4%	38%	974	3%	55%	628	2%	65%
Other Assets	6,512	17%	6%	6,313	18%	32%	4,787	19%	11%
Total Assets	37,431	100%	7%	35,24	100%	37%	25,735	100%	41%
Deposits	29,255	83%	9,3%	26,77	87%	35%	19,825	77%	33%
Other Liabilities	3,939	11%	(19%)	4,854	14%	26%	3,849	15%	62%
Total Liabilities	33,194	89%	6%	31,62	90%	30%	23,674	92%	37%
Equity:									
Share Capital	2,000	5%	-	2,000	6%	90%	1,050	4%	50%
Other	2,237	6%	40%	1,622	5%	298%	1,011	2%	59%
Total Equity	4,237	11%	18%	3,622	10%	149%	2,061	8%	116%
Total Liabilities & Equity	37,431	100%	7%	35,24	100%	37%	25,735	100%	41%



Distribution of Deposits

In 1388 (2009-10), the interest-wise distribution of deposits of the Bank is shown in the chart below

Distribution of Deposits



Changes in Liquidity Position

Description	2009-10	2008-09	2007-08	Changes from previous year (%)
Cash Operations	2,930,900	1,292,344	1,218,316	127%
Working Capital	18,780,070	16,569,253	7,640,692	13%
Current Ratio	2.1%	2.0%	1.5%	8%

Transaction with Affiliated Persons

Transactions Subject to Article 129 of the Commercial Code are revealed in the notes to the accounts.

Corporate Governance

One of our main objectives has been to adopt international standards of practice and professional ethics. We were first to adapt ourselves to Basel II and capital adequacy limits. For this purpose, we are setting up the infrastructure for the application of the body of principles and guideline governing all the parties interested, including share-holders, Board of Directors, employees, customers and the social environment as a whole, known as Corporate Governance. These principles and guidelines include transparency, equity, assumption of responsibility and being responsive.

It has to be noted that during the years 1386-87 (2008-2009), the Central Bank has also set rules and guidelines for application of the above-mentioned principles by banks during the year under review, an independent body was set up under the supervision of the Board of Directors to undertake this function. Two other new units of Internal Audit and Compliance have also been set up under the aegis of Corporate Governance. Meanwhile, the Board has appointed an Inspection Committee and a Compliance Committee to oversee these units.

Board of Directors and Executive Board

The bank is managed by a Board of Directors, consisting of nine members elected by the General Assembly of Shareholders convened in Extraordinary session on 1388/11/15 (Feb 4th, 2010). Members of the board are appointed for a period of two years. The credentials of these members had previously been approved by the Central Bank of Iran.

Afkhami, Ali-Ashraf
(representing Tadbir Investment Co.): Chairman
B.A. Mechanical Engineering,
M.A. in Management

Soltanzadeh, Reza
(representing Iran Industrial Investment Co.): Deputy Chairman
MBA
M.D.

Aghili, Parviz
Managing Director
Ph.D. in Finance

Dadkhah, Amir
Member of the Board
B.A., Mechanical Engineering

Hoorazar, Saeed
(representing Alton Development Co.): Member of the Board
M.S., Construction Engineering

Jaber Ansari, Mohammad Reza
Member of the Board
B.A., Economics

Kamvari Moghaddam, Iraj
Member of the Board
M.S., Construction Engineering

Khakpour, Parviz
(representing Iran Computer Equipments Co.): Member of the Board
M.A of Architect and Civil Engineering

Roosta, Ali
Member of the Board
B.A. in Accounting
ACA in Accounting
FCA in Accounting

Tabeghanoon, Mohammad Mehdi
(representing Kar-o-Andishe Co.): Member of the Board
B.A., Mechanical Engineering

Razavi, Habib
Alternate Member of the Board
M.A. Engineering Management
B.M. Biology

The Executive Board is composed of the following members:

Aghili, Parviz	Chairman
Hoorazar, Saeed	Member of the Board
Roosta, Ali	Member of the Board
Tabeghanoon, Mohammad Mehdi	Member of the Board

Specialized Committees

Administrative Committee
Employment Committee
High Credit Committee
Informatics Committee
Marketing Committee
Investment Committee
Strategic Committee
Asset & Liability Management Committee
Internal Audit Committee
Construction Committee
Overdue Assets Committee

Board of Directors' Meetings

There were 49 Board of Directors' meetings convened in 1388 (2009-10).

Information on Salary and Bonus of Managing Director and Board Members

A) The salary and bonus of the Managing Director is determined by the Board of Directors.

B) The special bonus of the Members of the Board of Directors is determined by the Ordinary General Assembly.

Executive Managers

Aghili, Parviz	Managing Director
Ghoddousi, Ahmad	Deputy Managing Director
Ahmadi, Saeed	Advisor to Managing Director
Jamalian, Mohammad-Taghi	Advisor to Managing Director
Rad, Massoud	Advisor to Managing Director
Nejati, Mahdi	Advisor to Managing Director
Javadi, Javad	Assistant Managing Director
Safarian, Majid	Executive Manager, Branches & Procurement
Almaei, Esmail	Senior Manager, Legal Dept.
Baghia, Ali-Reza	Inspection Dept.
Ferdosi, Yadollah	Senior Manager, Branches
Jariri, Farkhonde	Senior Manager, International Dept.
Javadi, M.Hosseyn	Senior Manager, Planning Dept.
Karimi, Mohsen	Senior Manager, Customer Relations
Mesgarian, A.Reza	Senior Manager, Procedures & Organization Dept.
Mirzaiee-Ghomi, Esmail	Senior Manager, Information Technology Dept.
Noorbakhsh, Iman	Senior Manager, Risk Management
Noormohammadi, Majid	Senior Manager, Finance
Parsa, Mehdi	Senior Manager, Credit Dept.
Taherkhani, Gitti	Senior Manager, Procurement
Sadegh-Vishekaiee, Gholam-Reza	Manager, Compliance Officer
Tayefe, Hosseyn	Senior Manager, Human Resources

Appointment of Legal Inspector and Auditor

The General Assembly of the Shareholders, convened in Extraordinary Session on 1388/04/25 (July 16th, 2009), appointed KPMG Bayat-Rayan Chartered Accountants as Legal Inspector and Mr. Manouchehr Bayat as Alternate Inspector.

Risk Management

1. Introduction

The II accord has classified major banking risks into three different types: credit risk, market risk, and operational risk. *Credit risk* is an investor's risk of loss arising from a borrower who does not make payments as promised. *Market risk* is the risk of decrease in the value of either an investment portfolio or a trading portfolio, due changes in the value of market risk factors. The four standard market risk factors are stock prices, interest rates, foreign exchange rates, and commodity prices. Finally, *operational risk* is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

2. Credit Risk

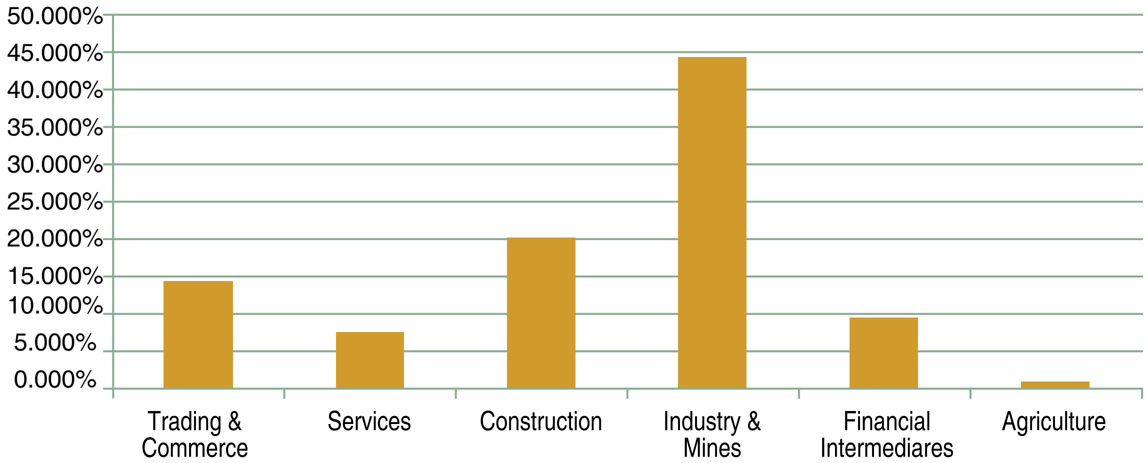
Since the majority of the assets of the bank are facilities granted, credit risk is the greatest risk that most banks are facing. In recent years, the number of defaulted loans has increased, and for various reasons a significant portion of the loans granted by the banking system has not been reimbursed. According to the latest report by the Central Bank the ratio of past due and non performing loans to total granted facilities was more than 21 percent in 1388 (2009-10).

According to our studies, factors such as inflation, interest rate, government fiscal policies, the housing price index, and recessionary tendencies have all played a significant role in bringing about the defaults. Out of these factors, the effects of the decrease in the non-oil-sector growth and increasing inflation rate has been greater than other variables. In this model, two scenarios have been analyzed. Firstly, the current situation continues without any shock caused by removing subsidies, increasing money supply and other external factors. In this case, it is predicted that the ratio of total nonperforming facilities of the banking system until the end of this year will increase to 25%. In the second scenario, the inflationary effects of removing subsidies are taken into account and a rate of growth of 40% in money supply is assumed; thereby, it is predicted that the ratio of nonperforming loans will increase to 32%.

In addition, another factor of importance is the fact that the majority of facilities granted by banks are backed by real estate as collaterals. According to the available data, and the declared government policies, there is no indication of significant changes in the current downward trend in the housing market this means that in case of default, the banks will face serious difficulty in disposing of these assets. Therefore, given the macroeconomic conditions, it may be concluded that the credit risk of all banks has increased compared to the recent past. Hence, it is necessary for the banks to be more prudent and employ greater efforts to identify high-risk clients.

In our Bank, currently 70% of the loans granted to corporate clients in various economic sectors are as follows:

Percentage of Corporate Loans in Different Sectors



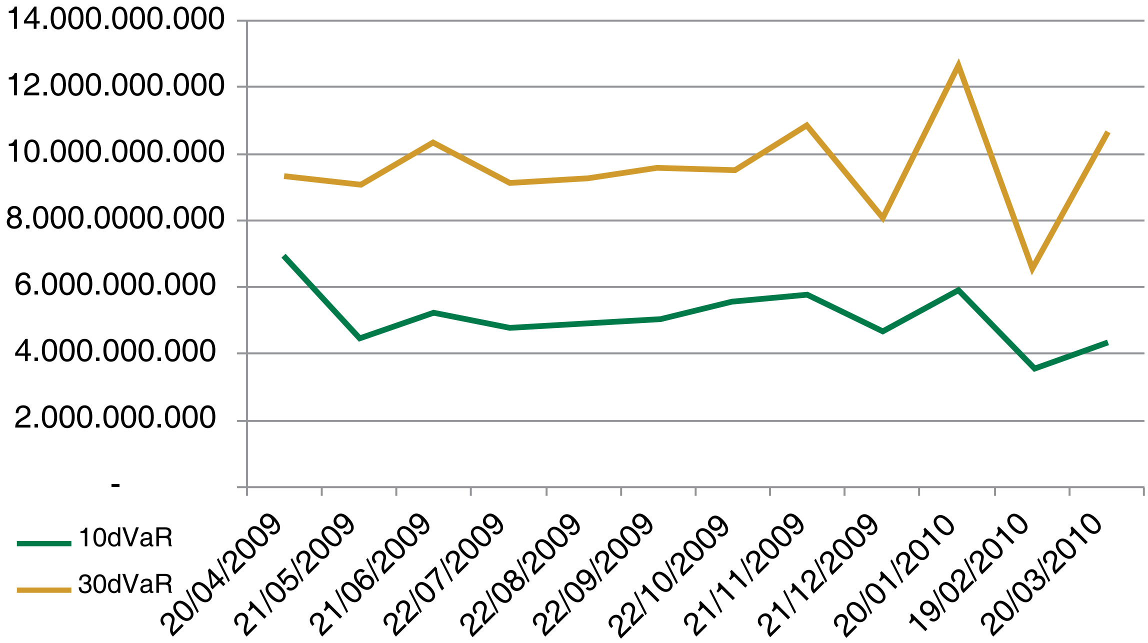
Also 45% of facilities granted to individuals are used in construction sector.

3. Market Risk

Market risk is the decline in the value of the Bank's assets due to price fluctuations in the market. This risk refers to either decrease in the return on the Bank's assets or fall in their value. Market risk includes investment in securities such as *stocks*, *bonds*, *foreign exchange assets* and *commodity markets* (such as agricultural commodities, gold and ...).

3.1. Stock Market Risk

A small part of the Bank's assets consists of stocks. During the year under review, due to price fluctuations, the value of the Bank's stock portfolio varied between 80b rials and 109b rials. A 99% confidence level was taken to measure the Bank's stock portfolio risk calculated on a daily basis. Thus, the average value at risk with 99% confidence level, during the next 10 working days will not exceed 5,092 million rials. The average value at risk at 99% confidence level for the next 30 days is up to 9,586 million rials. The following chart shows portfolio value at risk for the Bank during the past year.



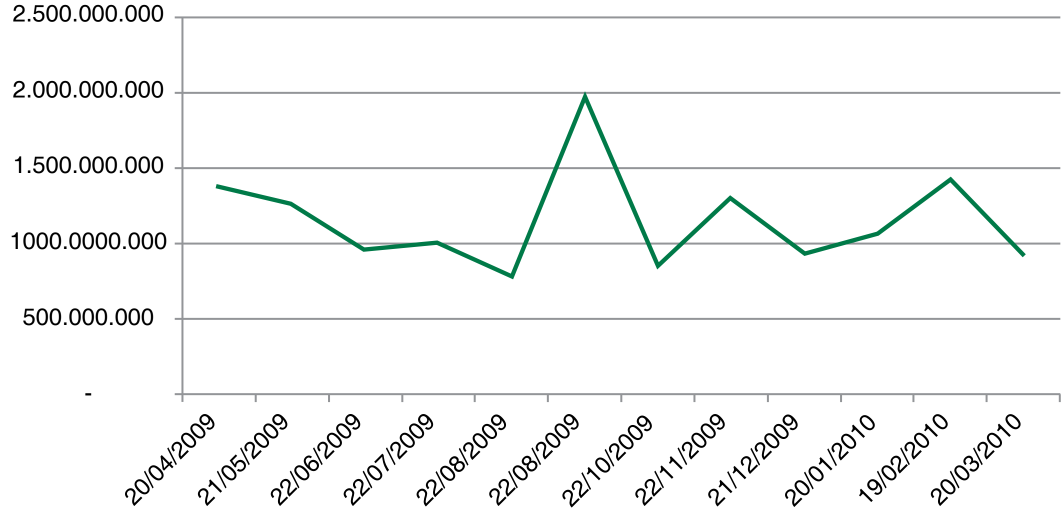
3.2. Foreign Exchange Risk

Exchange rate risk is a subset of market risk, which occurs due to exchange rate fluctuations. Our Bank holds a part of its assets and liabilities in foreign currencies in order to run its foreign operations. It is, therefore, important to measure the risk involved in holding foreign currency open positions.

The value of exchange rate risk on the final day of each month for the following 10 days is calculated on the basis of the net open position and history of volatility in currency portfolios. On March 21st 2010 the maximum loss of the Bank with 99% confidence due to fluctuations in exchange rates will be equivalent to 921 million rials. The following chart shows the loss due to fluctuations in foriegn exchange rates for different months. The average value at risk with 99% confidence over 12 months for 1388 (2009-10) was 1,154 billion rials. On average, this amounts to almost 4% of the net open foreign currency position at the end of each month.

Foreign Exchange Net Open Positions

10-Day 99%-VaR



4. Liquidity and Interest Rate Risk

Liquidity risk measures the ability of the Bank in honoring its short-term commitments. Typically for measuring this risk, the difference between the average maturity of liabilities and the average maturity of assets are matched. The following table shows the gap between the maurities of the Bank's assets and liabilities for the next month and the next three months. Due to having more short-term assets than short-term liabilities, it can be said that Bank’s liquidity risk is extremely low.

(billion rials)

	Maturing in next 3 months	Maturing in next month
Total liabilities	12,491	10,325
Total Assets	26,667	15,572
Gap	16,342	5,247

Given that the interest rates on deposits and facilities are determined by the Central Bank, and there is no integrated market to distinguish short-term and long-term interest rates, measuring interest rate risk and its effects on the Bank’s income is very difficult.

5. Operational Risk

Karafarin Bank started working on *operational risk* measurement in 2007. The goal is first to identify the main operational loss events throughout the Bank and then to find the best way to measure, monitor and control them. There are three approaches in the New Basel Accord for measuring operational risk, viz., *basic indicator*, *standard* and *advanced approaches*. Karafarin Bank intends to employ the advanced approach for operational risk measurement.

According to the New Basel Accord, the loss events in *operational risk* are divided into 7 major types, as follows:

- Internal Fraud
- External Fraud
- Employment Practices and Workplace Safety
- Clients, Products & Business Practices
- Damage to Physical Assets
- Business Disruptions and System Failures
- Execution, Delivery & Process Management

In order to have an accurate measure of *operational risk*, Karafarin Bank applies the loss distribution method. This method is one of the most recognized and used methods of advanced measurement verified by the Basel committee. This method relies on the quantitative records of the bank. The advantage of this method is that it provides the possibility of adding qualitative information, as advised by the Basel committee, for future improvement of the model. In this method, two aspects of loss are noted: loss frequency and loss severity. By loss frequency, it is meant the numbers of times that an event has happened. By loss severity, it is meant the amount of financial loss occurred because of a loss event. By implementing the probability loss distribution, the required capital for operational risk can be computed.

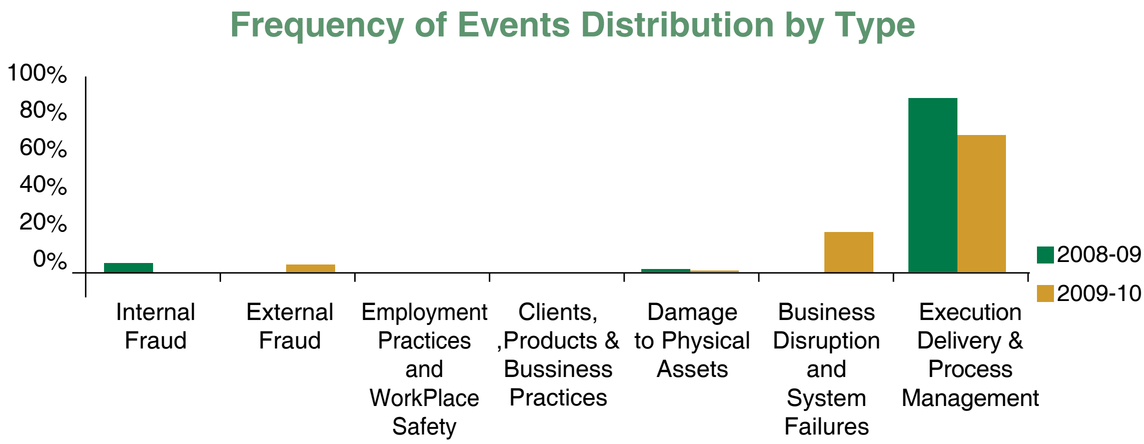
Karafarin Bank Operational Risk Status

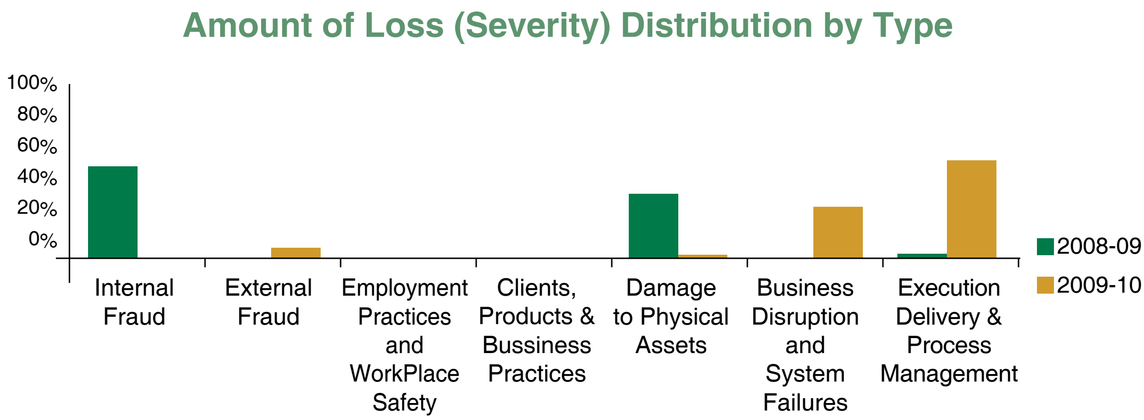
Based on basic indicator and standard models, operational capital charges are respectively 958 and 940 billion rials (see the following table). To verify these results, we have computed the risk by using the advanced model as well. This model is more sophisticated than the other two and needs more data. We have started to record loss events since two years ago and have tried to increase their accuracy. The capital exposed to operational risk is equal to 555 billion rials. It should be mentioned that due to database shortage, this number is a rough estimation.

The amount of capital allocation for operational risk with each Basel approach

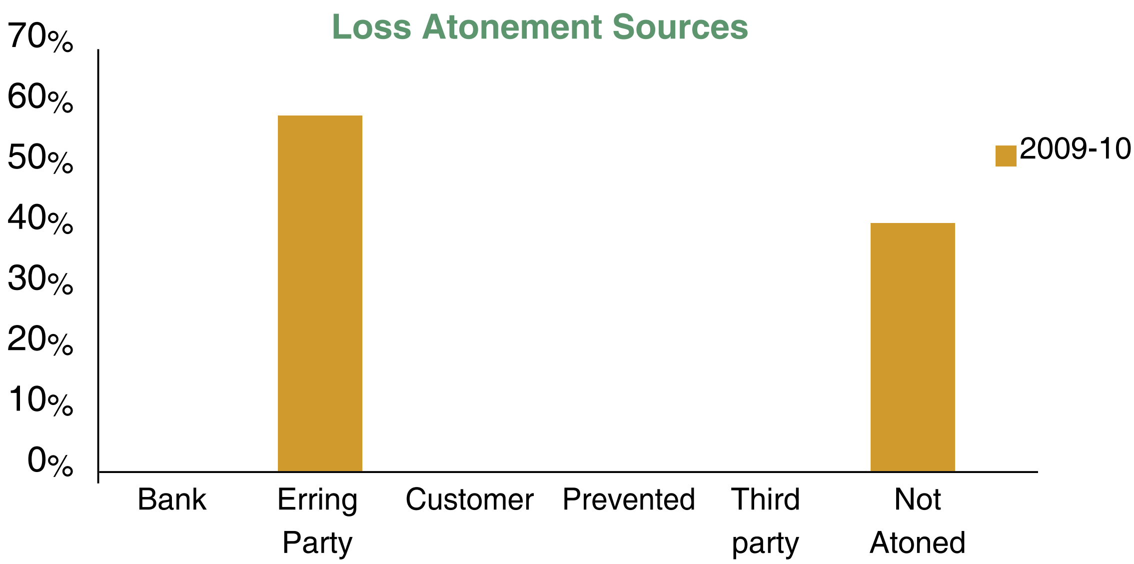
Measurement Method	Capital at Operational Risk Exposure (million rials)
Basic Indicator	958,276
Standardized	940,757
Advanced (Loss Distribution)	555,231

The following figure shows the relative frequency distribution of events across the Bank in the last two years, and the amount of loss undergone.





The losses above have been compensated through different sources as depicted in the figure above.



"Erring Party" means that person who either intentionally or unintentionally made an error bringing about loss to the Bank. "Prevented" means that the loss has been avoided before incurred because of the internal control system. The last figures above show only the data that the Risk Management Department, managed to collect and process. However, the Department will attempt to do as much as it can to cover and record all types of loss events across the Bank. The Risk Management Department has finished research on defining key risk indicators (KRIs) as well, therefore it will be able to monitor the operational risk drivers in the near future.

Social Activities of the Bank

The Bank made the following donations during the year under review:
1. 30 million rials to the Environmment Conference
2. 75 million rials to the Eng. Faculty of The U for publication of books
3. 215 million rials to Mahak Child Cancer Institution
4. 50 million rials to Cancer Seminar Association
5. 100 million rials to Bam Reconstruction Foundation

Implementation of Some of the Decisions of the Previous General Assemblies

1. Board members were paid an honorarium of 1 million rials per meeting for 1388 (2009-10).
2. Board members were paid a bonus of 350 million rials for 1387 (2008-09).
3. The approved distributed profit per share of 500 rials was paid in 2 stages.

Distribution of Profit

Members of the board propose the following distribution of profits:

	Proposed for 2009-10		Proposed for 2008-09	
	million rials	Rials per share	million rials	Rials per share
Profit before tax	1,905,660	953	1,450,217	725
Tax on profit	(234,879)	(117)	(232,651)	(116)
Total distributable profits	1,670,781	835	1,217,566	609
To be appropriated as follows:				
Legal reserves	(250,617)	(125)	(182,635)	(91)
Board of Directors bonus	(5,000)	(3)	(3,500)	(2)
Dividend	(1,200,000)	(600)	(1,000,000)	(500)
Undistributed profits at the beginning of the year	133,141	67	104,436	52
Adjustments	(52,398)	(26)	(2,726)	(1)
Undistributed profits at the end of the year	295,907	148	133,141	67

Implementation of Afarin Core Banking System

Subsequent to the acquisition of the System Access retail banking software vendor, by SunGard, a US company, the implementation of the purchased software became unattainable due to the new arrangement. After months of negotiations, an agreement was reached with SunGard Singapore (System Access), for Karafarin Bank to take over the implementation of the software from System Access. The implementation commenced after Karafarin consultants received some basic training from System Access/ SunGard in 2008. The implementation of the software was severely delayed due to the delivery of the incomplete source code by SunGard. Karafarin consultants spent considerable amount of time and effort to rectify the system deficiencies. The Afarin system became operational in 2010.

Complementary Activities

- Fixing the system and source code errors, so the system could be error free by 15/08/1388 (November 5th, 2009) without inducing the system to become non-operational. (High priority errors)
- Installing and implementing the system in all branches by 15/11/1388 (February 3rd, 2010).
- Accepting the new customers of the Bank utilizing Afarin system at all branches

by 15/08/1388 (November 5th, 2009) in such that the system would generate no high priority errors.

- Starting the preparation and implementation phases of the Card Management System (S2M) such that the system would become operational by 15/11/1388 (February 3rd, 2010).
- Completing the preparation of the Bank's data center.
- Converting and transferring data from the Bank Iran (Informatics Services Co.) into the Afarin system with frequent testing to make certain the operation is affected flawlessly and, subsequently, stop utilization of the previous system by 22/11/1388 (February 10th, 2010).
- Implementing the Card Management System and testing its interface connection with Shetab Center and begin the utilization of the system by 15/11/1388 (February 3rd, 2010).
- Preparation, implementation and utilization of telephone banking system.
- Preparation, implementation and utilization of contact center by 15/02/1389 (May 5th, 2010).
- Preparation, implementation and utilization of internet banking system by 15/02/1389 (May 5th, 2010).

Other Significant Activities of the Bank in 2009-10

In 2009-10, three projects were implemented by the Financial Department' which helped to smoothen the procedures and reduce costs. These projects consisted of a new methodology to reduce duplications between departments, as well as the main office and branches, electronic archives to facilitate access to various documents by all the interested departments and inventory listing based on bar codes.

Expansion Schemes and Future Projects

One of the steps forward in our investment banking activities was setting up an investment trust, which proved to be rather popular amongst smaller investors, so popular that all its units were sold during the year under review, for the second time, we sought the Central Bank authorization to raise the ceiling.
Moreover, in order to be able to offer new instruments, we are planning to set up an index fund and a fund of funds.

In the same spirit, two large and reputable firms have requested our Bank to underwrite and manage two new bond isuues for them. Our Investment Banking Department is planning to carry out these operation in 2010-11. It is worth pointing out that with the passage of the new legislation for the Development of New Finacial Institutions and New Instruments, we feel there is more to be done in developing Islamic Bonds ("sokook") and commercial papers.

Contact Information

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Contact Persons: Mr. Hashemi, Mr. Tadayoni and Ms. Maghrebi

Karafarin Bank

Survey of the Iranian Economy First 9-months of 1388

(March 20th – December 21st, 2009)

Karafarin Bank

Survey of the Iranian Economy

First 9-months of 1388

(March 20th –December 21st, 2009)

Survey of the Iranian Economy First 9-months of 1388(1)

(March 20th –December 21st, 2009)(2)

Overview

By the end of the year[2] (ended March 20, 2010), according to the Central Bank statistics, the average annual rate of inflation had reached 10.8% while the month-to-month rate rose to 10.4%, from its 3.5 years low of 7.4% three months earlier. The month-to-month rate continued its sharp decline for more than a year, to rise steadily once again towards the end of the year. During the same period, liquidity grew by 23.9%[3], about 50% more than the year before. Nonetheless, it was considerably below the years of high inflation.

The declining trend of the crude oil revenue in the first quarter of 2009 continued during the year. This was mainly due to the *lower average* prices, but also due to lower volume of exports. It should be noted that despite lower *average* prices, vis-a-vis 2008[4], in 2009 the prices slowly but steadily moved upward. It should be pointed out that while falling oil prices have no *direct* effect on the rate of growth of the GDP (which is at constant prices), falling production does. It is evident; however, that falling oil revenue has important *indirect* effects through its vital influence on other sectors of the economy.

There are no official GDP estimates for either 2009, or 2008. However, according to the Central Bank Vice-Governor, the preliminary estimates for 2008 indicate a rate of GDP growth of 0.5%, an unprecedented low rate for over 15 years. Moreover,

1- Our report is for most parts based on statistics released by the Central Bank and other official sources. But the release of various official statistics is not synchronized. Consequently, to be able to adhere to a reasonable time frame, we avail ourselves of press reports to complement our data. Nevertheless, the «period under review» serves only as a frame of reference; the data available may fall short of and, more rarely, go beyond it.
2- There is a calendar conversion table on the last page for your convenience.
3- For the end of 1388 (March 20, 2010) data, as there are as yet no published statistics, we have relied on the statement made by the Central Bank Vice-Governor (on 18 May, 2010) in a seminar on monetary policy, unless specified otherwise.
4- When we refer to the Gregorian calendar year, we mean the year ending on March 21st of the following year, except when we refer to a specific date, like 1st quarter of 2008

the rate of growth of the GDP for the October 2008-March 2009 must have been negative as the estimated rate of growth of 0.5% for the whole year was set against 2.7% rate of growth for the first half of the year. This is lower than the IMF forecasts of 2.3%, and 1.8% for the years ending March 20, 2008 and 2009 respectively.

Developments in construction seem to confirm the recession. This sector generally spearheads investments fluctuations and in Iran (as well as many other economies) is considered as a precursor of cyclical movements. It also acts as the driving force behind other sectors. In the 2nd and 3rd quarters of 2009, according to the Central Bank statistics, the number of construction permits issued and the rate of growth of private sector investments in new buildings in urban areas decreased enormously.

Unemployment for the last quarter of 2009 was 11.3%, which was 1.8 percentage points above the same period the previous year.

Meanwhile, during the last three quarters of 2009, as Government revenue fell by 0.5% and Government expenditure decreased by 2.6%, the budget deficit decreased by 8.2% and amounted to $15.9b[1]. Although almost 80% of the budgeted oil revenue was realized during the period under review, it turned out to be 23.6% less than that of the similar period the previous year. The decrease in the deficit, in absolute terms, was mainly due to the decrease in current and capital expenditures by some $2.3b, which were both short of forecast budget. The share of capital expenditures in total expenditures (at about 22%) remained almost unchanged. The bulk of the deficit (about 70.6%) was once again financed through the Oil Stabilization Fund (OSF).

Another symptom of the difficulties facing the investors was the rapidly increasing “overdue and unpaid” facilities of the banking system, which seems to have reached alarming proportions. Its magnitude reached between one-fifth and one-fourth of total bank credit, although part of this must have reflected the reluctance of certain borrowers to settle loans under the fixed structure of interest rates, rather than failing investment projects. Consequently, the banks were increasingly under pressure to assess more realistically their customers and the validity of their loan proposals, while demand for funds seemed to exceed its supply.

Traces of the same phenomenon, albeit at a more moderate scale, could be observed in the index of the volume and number of dishonored bills & drafts, which by March 20th, 2010, had increased by 11.8% and 2.9%, respectively.

In 2009, contrary to the trend in 2008, but in conformity with early expectations,

1- 1 USD $\approx$ 10,000 rials

stock prices followed a fairly steady upward trend and the Tehran Stock Exchange index gained 57.4% and reached 12,538. It seems that due to its relatively small size, the market has time and again proved to be sensitive to fluctuations. In this case, the rising international prices of metals, oil, and raw materials were mostly responsible for the change in trends. The softening of the tone by the US President toward the question of sanctions, (in the last quarter of 2009), in itself alone caused a jump of nearly 10% within 4 days. It is also a fact that despite the lackluster conditions in most countries, there was upward movement in all the main international capital markets.

During April-December 2009, all balance of payments variables (excepting non-oil exports) registered a marked decline, and for the first time in 11 years the balance of payments was $4.3b negative. The oil & gas revenue for the nine months amounted to about $48.4b, which indicated a decrease of 33%. Overall, the balance of trade remained positive and showed a surplus of $16b, almost less than half of the similar period last year. On the other hand, the capital account deficit increased substantially and reached $12.6b, a jump of almost 70%, compared to the same period the previous year. Taking into account -$4.9b of statistical errors & omissions, the reserves were down by -$9.2b.

Real Sector

As official GDP estimates for 2008 and especially 2009, are as yet not available, our comments are mostly based on the available data for 2008. The preliminary GDP estimates for 2008, according to the Vice-Governor of the Central Bank, indicate an annual rate of growth of 0.5%, an unprecedented low rate for over 15 years. Last April, the IMF revised downwards its previous estimate for 2008 to 2.3%; its forecast for 2009 is 1.8%. For the year under review, therefore, we are led to postulate recessionary pressure accompanied by a moderately rising price trend. The main factors responsible for this recession, according to the Central Bank Vice-Governor, were the slowdown in construction and “contraction of bank credit”.

According to the CBI’s preliminary estimates, during the second and third quarters of 2008, the rate of growth of the GDP at constant prices reached 2.7%, compared to 8% for the same period the previous year. The quarterly rates of growth were 3.3% and 2.3%, respectively, compared to 6.9% and 9% for the same periods the previous year. Given the annual rate of growth of 0.5% for the year, we may conclude that the rate of growth for the second half of the year (October 2008-March 2009) must have been negative. The growth is well below the projected 8% annual rate for the 4th development plan (2004-09). Thus, at the end of 2008, the GDP at current prices must have reached $363.9b[1].

1- Given 25.4% inflation, and 0.5% growth rate, we have approximately:
289 * (1 + (25.4 + 0.5)) = 363.9

During the second and third quarters of 2008, the rate of growth of *agriculture* was negative and stood at minus 10.3%, compared to plus 7.3% for the same period the previous year. The value added of this sector reached $4.3b. The rate of growth of this sector was negative during both quarters. Decrease in the rainfall of about 100mm from the average of 247mm in 2007 and 2008, was the major cause for the negative growth of *Agriculture*. As seasonal factors play an important role in this sector and the second quarter (July-September 2008) production normally accounts for almost half of the annul value added, while the fourth quarter (January-March 2009) is the least important, we may conclude that the annual rate of growth of agriculture must have also been very weak, or even negative.

During the second and third quarters of 2008, *Industry* grew by 7.4%, compared to 11.8% during the same period the previous year, and reached $6.8b. The quarterly distribution of *industry* indicates that the first quarter's contribution is the smallest and the third quarter is the greatest. The second and fourth quarters are relatively closer to the third.

Manufacturing as the major sub-sector of *industry* grew by 6.3% compared to 9.8% the same period the previous year. This sub-sector has a strong reaction to investors' behavior and must have been much more influenced by the global financial crisis during the latter part of the year (October 2008- March 2009) than other sectors.

In the second and third quarters of 2008, the rate of growth of *construction* reached 12.1%, compared to 21.3% the same period the previous year. The growth rate of 1386 was certainly exceptional. *Construction* experienced a boom during October 2007-June 2008. But recessionary trends appeared during the 3rd quarter of 2008.

According to the Central Bank statistics, during the second and third quarters of 2008, the number of construction permits issued in urban areas deceased by 37.2% compared to an increase of 1.9% for the same period the previous year, a relative decline of 39.1 percentage points. Simultaneously, the rate of growth of private sector investments in new buildings in urban areas decreased by 6.9% compared to an increase of 82.6% for the same period the previous year, which means a relative decline of 90 percentage points. These figures clearly indicate the depth of depression in this sector, which generally acts as the driving force for most other sectors in the Iranian economy.

In the second and third quarters of 2008, *water, electricity & gas*, the last sub-sector of *Industry*, increased by 5%, compared to 7.3% the same period the previous year.

According to the CBI statistics, the growth of the *Oil* sector during this period was minus 3.3%, compared to +2.3% the same period the previous year. As noted elsewhere, investment in the oil fields has been declining; and, unless it is revived, no increase in production may be expected soon.
Services, as the most important sector of the economy (accounting for more than 50% of the value added), registered a growth of 5.9%, against 7.7% the same period the previous year.

In the second and third quarters of 2008, according to the Central Bank data, Gross Fixed Capital Formation registered a growth of 9.4% (compared to 12.4% the same period the previous year) and reached $9.5b.

Another significant change was that for the first time in recent years, *Private Consumption* decreased by 2.5% during April-September 2008. Its decrease was minus 7.1% for the 3rd quarter of 2008, an unprecedented figure for more than 13 years. According to the estimate of the Iran Statistical Center, by the end of the last quarter of 2009, unemployment reached 11.3% which was 1.8 percentage points higher than the same period the previous year. The 15-24 year-old age-group was most affected by unemployment, where it reached 24.1%, 2.6 percentage points higher than the same period the previous year.

As noted above, according to the Fourth Economic Plan, in order to arrive at the projected unemployment rate for the fifth year of the Plan (8.4%), the annual average rate of growth of the GDP for the five years of the Plan must have reached 8%.

Gross Domestic Product at Constant 1997 Prices (April-December)

(billion USD)

	Value			% Change			Share of GDP (%)		Share in GDP growth (%)	
	2006	2007	2008	2006	2007	2008	2007	2008	2007	2008
Agricultural	4.5	4.8	4.3	4.5	7.3	-10.3	18.3	16.0	1.3	-1.9
Oil	2.5	2.6	2.5	2.8	2.3	-3.3	9.7	9.2	0.2	-0.3
Industry	5.6	6.3	6.8	7.5	11.8	7.4	24.0	25.1	2.7	1.8
Mine	0.15	0.17	0.19	9.9	16.2	8.4	0.7	0.7	0.1	0.1
Manufacturing	4.3	4.7	5.0	9.9	9.8	6.3	17.9	18.5	1.7	1.1
Construction	0.9	1.1	1.3	-3.4	21.3	12.1	4.3	4.7	0.8	0.5
Other	0.27	0.29	0.31	10.9	7.3	5.0	49.6	51.1	1.7	1.1
Services	12.1	13.0	13.8	9.6	7.7	5.9	18.3	16.0	3.8	2.9
Less: Commissions	0.39	0.42	0.36	19.3	6.4	-13.0	1.6	1.3	0.1	-0.2
GDP	24.3	26.3	27.0	7.3	8.0	2.7	100.0	100.0	8.0	2.7
GDP – OIL	21.8	23.7	24.5	7.8	8.7	3.4	90.3	90.8	8.7	3.4

Unemployment 2004-10 (%)

Year	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	Average Annual rate
2004-05*	10.4	-	10.3	-	10.3
2005-06**	11.9	10.9	10.9	12.1	11.5
2006-07	11.0	10.2	11.6	12.1	11.2
2007-08	10.7	9.9	9.8	11.9	10.6
2008-09	9.6	10.2	9.5	12.5	10.5
2009-10	11.1	11.3	11.3	-	11.2

* In the year 2004, calculations haven't been done for all seasons.
** The method of sampling has been changed this year.

Fiscal Policy

During the period under review (the 9 months ended on December 21, 2009), Government revenue reached $45.3b, which was 0.5% (or $0.2b) lower than the same period the previous year. Government expenditures amounted to $61.2b, which was 2.6% (or $1.6b) lower than the same period the previous year. As a result, the budget deficit reached $15.9b, which was 8.2% (or $1.4b) lower than the same period the year before.

As the government drew about 80% of its budgeted oil revenue, compared to about 59% for the same period the previous year, its annual deficit could become relatively much higher.

The bulk of the deficit was once again financed by drawing on the OSF (Oil Stabilization Fund). Its share of financing budget deficit was about 70.6% for the period. Privatization was the second source of financing the budget deficit, accounting for about 15.2%. The remaining 14.1% was financed by "Refunds [carried over] from previous years".

One of the main economic issues of the year, still unresolved, was the "Target-Oriented Subsidization" Bill (itself part of the so-called "Economic Reform Project"), which deals with the gradual removal of (essentially energy) subsidies and their subsequent *reallocation*. Among the issues discussed in the Bill was the amount of ''savings''[1] *generated* each year as a result of gradually removing subsidies. The Government believed in a rapid application of the project, which would generate some $40b, while the parliament favored a less hasty approach

1- As a matter of fact, the Bill refers to 'the income generated', which is a euphemism. Strictly speaking from the viewpoint of fiscal policy analysis, so long as the budget is in deficit, abolishment of subsidies should lead to a lower deficit and may not be even considered as "saving", nor reallocated. The quality and quantity of any new subsidies envisaged, must be subject to scrutiny in their own rights and merits, distinct from the removal of energy subsidies.

to cushion its inflationary effects and finally approved $20b. Notwithstanding, the question is still being debated and other proposals are being considered.

Out of the total revenue of $45.3b, the oil revenue accounted for $13.6b (or 30%, compared to 39% for the same period the year before), taxation accounted for $21b (46.3%, compared to 40.3% for the same period the year before) and other revenues accounted for $11b (23.7%, compared to 20.7% for the same period the year before).

During the period under review, the government oil revenue was 23.6% lower than the previous year. This resulted mainly from sharp drops in oil prices. Total Government reliance on oil, however, amounted to $31b, which was $9.9b (23%) less than the year before. This included $11.3b drawings on the OSF (22% less than the same period the year before), the 5% tax on the NIOC amounting to $1.9b (32% lower than the amount for the same period the previous year), the Ministry of Oil's 6% share in the total value of crude oil production, 4.5% *provisional profit on government's share in the total value of crude oil production* and taxes and duties on oil-products' sales, accounting for about 50.4% of total expenditure, compared to 64.8% the previous year.

As mentioned above, during the period under review, tax revenues increased by $2.6b or 14.4% (compared to 27.7% for the year before) and reached $21b. The growth of the tax revenue was mainly due to an increase of 16.1% in *direct taxes.* Amongst *direct taxes*, Corporate Tax accounted for $12b, which showed an increase of $2b (or19.6%), the bulk of which consisted of "taxes on government-owned companies", an increase of $2.3b. Non Government-owned companies accounted for another $12.7b of increase. On the other hand, the "turnover tax on the NIOC" and "overdue taxes on government-owned companies" registered decreases of $0.9b and $0.7b respectively, adding up to a total of minus $1.6b. "Islamic Foundations and Institutions" also registered a decrease of 64.3%, which amounted to only $4.9m, owning to their very small share (0.0007%) in this category.

The share of direct taxes in total tax revenue was about 72.5%, while 79.1% of direct taxes consisted of tax on corporations.

Indirect taxes increased by $0.5b or 10% (compared to 16% for the previous year), and reached $5.8b. Import Duties accounted for 65.9% of indirect taxes and registered a decrease of 8.7% [which is almost exactly to the 8.8% decreased imports] while Taxes on Goods and Services (purchase tax) showed an increase of 81% compared to the similar period the previous year; its share of total indirect taxes was about 34%.

Meanwhile, the lion's share of Taxes on Goods and Services went to the newly applied *value added tax* (VAT), which accounted for 54.6% of it, although it became operational as of the first month of 2009 What is more, the VAT rate was generally fixed at merely 1.5%, while some goods like agricultural and traditional handicrafts products were entirely exempted. Much higher rates were applied to some other goods, such as cigarettes and aircraft gasoline (with 12% and 20%, respectively). Nevertheless, the VAT provoked some negative reactions in view of the relatively tight business conditions; notwithstanding the negative reaction for the timing of its application, this may soon prove to be a main source of Government revenue.

"Other revenues" reached $10.8b, which was 14.2% higher than the similar period the previous year. This item consists of (i) 4.5% government's share in the total value of crude oil production (in effect, "royalty"), (ii) profits of state-owned companies (mainly the NIOC), and (iii) levies and duties and proceeds of sales of assets. Up to 2006, the major component of this section was by far energy subsidies, the omission of which accounts for its decline in 2006. This figure indicated the differences between the domestic and international fuel prices. Thereafter, the share of "Other revenues" in total revenues has increased constantly due to the inclusion of *royalty* and *privatization*. Showing energy subsidies was quite useful as it indicated the real burden of energy subsidies compared to such items as the budget deficit, or development expenditure. In 2008, the parliament required the reinstatement of this figure in the budget. With the "removal" of these subsidies and, in fact, replacing them by direct cash subsidies, this figure could reappear in the budget.

Government expenditure reached $61.2b and registered a decrease of $1.6b or 2.6% compared to the same period the previous year. Current expenditure amounted to $40.7b and decreased by $1.4b (or 3.2%), compared to the same period the previous year. Current expenditure accounted for about 66.5% of total expenditure, compared to 67% and 69.8% for 2008 and 2007, respectively. On the other hand, *Acquisition of capital assets*, or development expenditure, amounted to $13.2b, and decreased by $0.9b (or 6.4%). It accounted for about 21.6% of total expenditure, which is 0.9 percentage unit lower than the figure for the same period the previous year.

The share of development expenditure in total Government expenditure was 21.5%, which is about one percentage point below the same period the previous 2 years.

Repayment of loans, or *acquisition of financial assets*, the last constituent of government expenditures, amounted to $7.3b, which was $0.7b (or 9.8%) higher than the same period the previous year. The share of this item in total Government expenditure reached 11.9% compared to 10.6% for the same period in 2008.

The *budget deficit*, as mentioned above, amounted to $15.9b, which was $1.4b (or 8.2%) less than the same period the previous year, compared to increase of 53.2% the previous year. During the period under review, the decrease in the oil revenue over and above the decrease in total expenditures contributed most to the reduction in the budget deficit.

Once again, borrowing from the Oil Stabilization Fund (OSF) remained the most important source of financing the budget deficit, contributing to 70.6% of it. But during the period under review, for the first time *privatization* occupied the second place, with a share of 15.2%, compared to 14.1% for “others”. In reality, however, the majority of the shares of these companies were sold to semi-governmental organizations.

The share of various sources in financing the deficit is given in the table below:

Financing Budget Deficit (%)

	2007		2008		2009	
	Budget	Actual	Budget	Actual	Budget	Actual
Participation Bonds	3.2	3.8	1.8	0.0	0.0	0.0
Foreign borrowing	2.1	0.0	1.6	0.0	1.4	0.1
Privatization	30.9	3.1	20.6	5.0	43.7	15.3
Oil Stabilization Fund	57.5	85.6	71.5	83.1	49.8	70.6
Others	6.2	7.5	4.5	11.8	5.1	14.0
Total	100	100	100	100	100	100

As has been explained before, this presentation of <budget deficit> has a particular connotation. In a sense there is no *budget deficit*, unless it is *financed* by borrowing (either by selling bonds, or with much more inflationary impact, by drawings from the CBI), and not when it is limited to drawing on the OSF, (nor privatization). Because, from the point of view of its economic effects, drawing on the OSF is analogous to spending the oil revenue, although any spending beyond the budgeted the allocated oil-revenue should be considered as “Government borrowing”; and, to be repaid on a priority basis, in subsequent years. But the accumulated “borrowings” has so far only increased.

The following table summarises the main components of the budget;

Financial Position of the Government (billion dollars)

	2007	2008	2009	increase	Growth (%)			Composition (%)		
					2007/06	2008/07	2009/08	2007	2008	2009
Revenues:										
Oil & gas	14.7	17.7	13.6	-4.2	-6.2	20.9	-23.6	42.4	39	30
Taxes	14.4	18.3	21.0	2.6	31.7	27.7	14.4	41.4	40.3	46.3
Others	5.6	9.4	10.8	1.3	58.3	67.3	14.2	16.2	20.7	22.7
Total	34.6	45.5	45.3	-0.2	15.1	31.3	-0.5	100	100	100
Expenditures:										
Current	32.1	42.1	40.7	-1.4	8.7	31.1	-3.2	69.8	67	66.5
Capital	10.3	14.0	13.2	-0.9	8.3	36.6	-6.4	22.5	22.5	21.6
Acquisition of Assets	3.5	6.6	7.3	0.7	21	87.5	9.8	7.7	10.6	11.9
Total	46.0	62.9	61.2	-1.6	9.4	36.7	-2.6	100	100	100
Surplus/Deficit	-11.3	-17.4	-15.9	1.4	-4.9	53.2	-8.2			
Financed by:										
Participation Bonds	0.4	0.0	0.0	0.0	--	--	--	3.8	0.0	0.0
Foreign borrow.	0.0	0.01	0.02	0.01	-98.6	2089.7	134.2	0.0	0.0	0.1
Privatization	0.4	0.9	2.4	1.6	639.7	145	178.3	3.1	5	15.2
Oil Stabilization Fund	9.7	14.4	11.3	-3.2	-14.1	48.8	-22	85.6	83.1	70.6
Others	0.9	2.1	2.2	0.2	52.1	141.8	9.1	7.5	11.8	14.1
Total	11.3	17.4	15.9	1.4	-4.9	53.2	-8.2	100	100	100
Operational balance	-12.1	-14.3	-9.0	5.4	-19.7	18.3	-37.2			
Capital balance	4.3	3.6	0.3	-3.3	-28.9	-16.5	-90.6			
Total	-7.8	10.7	-8.7	2.1	-13.4	37.7	-19.3			
Tax	14.4	18.3	21.0	2.6	31.7	27.7	14.4	100	100	100
Direct Tax	9.8	13.1	15.2	2.1	37.6	33.1	16.1	68.5	71.4	72.5
Public corporation tax (overdue)	2.0	3.4	5.6	2.0	128.1	66.4	68.3	20.5	25.6	37.1
Oil performance	2.2	2.8	1.9	-0.9	12.4	26.1	-32	22.4	21.3	12.4
Non-public corporation tax	2.1	2.6	3.9	1.3	20.7	25.4	49	21	19.8	25.4
Indirect tax	4.5	5.2	5.8	0.5	20.5	16	10	31.5	28.6	27.5
Import tax	3.3	4.2	3.8	-0.4	20.4	26.8	-8.7	72.6	79.4	65.9
Tax on goods and services	1.2	1.1	2.0	0.9	20.7	-12.5	81	27.4	20.6	34.0

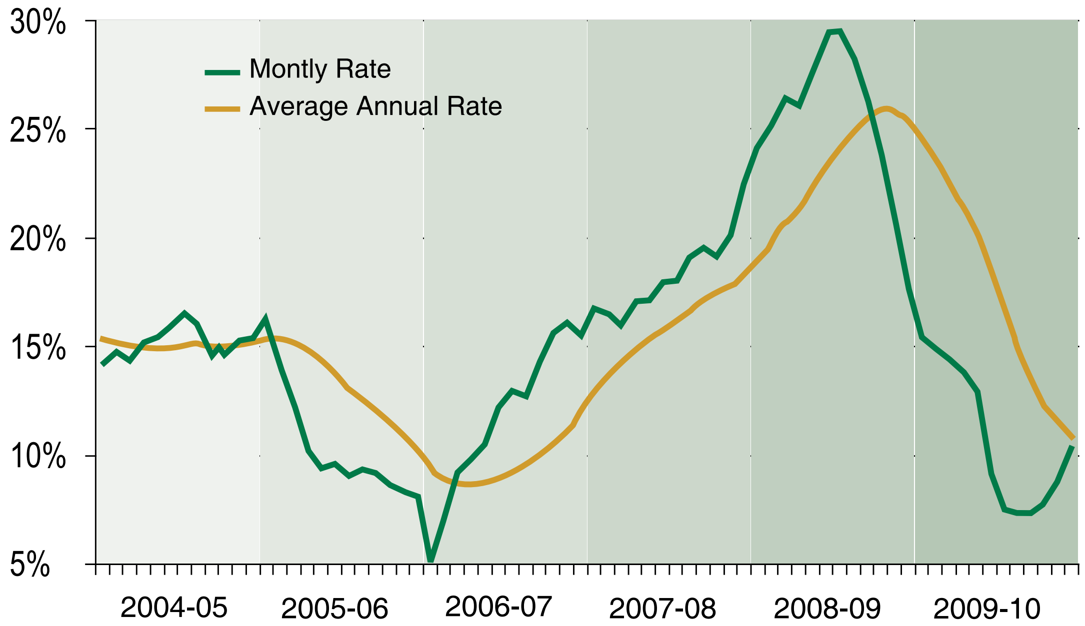
The new methodology adopted for the official presentation of the budget, however, is based on the assumption that oil is more of an asset ("wealth") rather than revenue. Consequently, in this sense, all expenditure of the oil *revenue* is deficit financing, as it is not really revenue, and immediately leads to increased demand as well as increased money supply. On the other hand, excess of foreign exchange revenue provides the possibility of importing more goods and services to absorb all or part of the increased effective demand. To this extent, the expansionary effect is neutralized.

Price Trend

At the end of the year (year ended March 20, 2010), the average annual rate of inflation reached 10.8%, which was 14.6 percentage points lower than the figure for the same period the previous year. This was 0.9 percentage points higher than the 9.9%, annual average rate projected in the Fourth Development Plan. The month-to-month rate reached 10.4%, which was 7.4 percentage points lower than the previous year. A sharp drop in the month-to-month rate occurred from November, 2009, and continued to December, 2010. The month-to-month rate began to rise again from the first month of 2010.

At the beginning of the year under review, the month-to-month rate was 15%; it dropped to 7.4% by the last month of 2009, the lowest rate in more than 3 years. Thereafter, it began to rise and the trend seems to have been reversed and deviated from the target of one-digit inflation. The point-to-point as well as the average annual inflation rates for the last two years are shown in the table 1.

(InflationApril 2004 – March 2010)



At the end of the year (March, 2010), the highest price rise, on a *month-to-month* annual basis, took place in the socially most sensitive items "Medical Care", which rose by 21.1% and "Education" which rose by 14.9%. During the year under review, the *average* annual rates of growth of "Medical Care" and "Education" at 19% and 16% respectively were also the highest. The share of "Food and Beverages" and "Housing", with weights of 28.49% and 28.6% respectively, continued to account of the lion's share in the CPI.

As of the beginning of April 2007, the consumer price index base year has been changed from 1997 to 2004. This has involved some necessary changes in weights. For the new base year, the calculation includes 359 items, compared to 310 items, and 12 groups of goods and services, compared to 8 groups, in the previous base year.

Table 1: Inflation (2007-10)

2007-8			2008-9			2009-10		
Month	Month-to-month	Average annual	Month	Month-to-month	Average annual	Month	Month-to-month	Average annual
April	16.8	12.8	April	24.2	19.1	April	15.5	24.5
May	16.6	13.6	May	25.3	19.8	May	15.0	23.6
June	16.1	14.2	June	26.4	20.7	June	14.5	22.5
July	17.1	14.8	July	26.1	21.5	July	14.0	21.5
August	17.3	15.4	August	27.6	22.3	August	13.1	20.2
September	17.9	15.8	September	29.4	23.3	September	9.3	18.5
October	18.1	16.2	October	29.5	24.3	October	7.6	16.7
November	19.1	16.8	November	28.3	25.0	November	7.4	15.0
December	19.6	17.2	December	26.4	25.6	December	7.4	13.5
January	19.2	17.5	January	24.0	25.9	January	7.8	12.2
February	20.2	17.8	February	20.8	25.9	February	8.9	11.3
March	22.5	18.4	March	17.8	25.4	March	10.4	10.8

Monetary Situation

During the last three quarters of 2009, the growth of almost all the major monetary aggregates again picked up. This was at least partially due to their considerable slow-down during the similar period the year before, essentially caused by the adoption of several monetary policy reforms (including withdrawal of the so-called 'bank checks' and slowing down of the growth of Central Bank's lending to banks) , as of the 4th quarter of 2007 and 1st quarter of 2008. The notable exception was private sector credit, which increased by 14.7%, almost the lowest annual rate of increase in 2001-10. During the period under review, the Central Bank cut back its lending to banks by 13%. Liquidity reached $217.2b and rose by 27.4%, compared to a mere 11.9% during the similar period in 2008. According to the statistics realized by the V.G of the CB[1], at the end of the year under review (March 2010), liquidity increased by 23.9% (compared to 15.9% the year before) and amounted to $235.6b.

Private sector credit reached $202.1b by the end of the period under review, which showed an annual increase of $26b (compared to $23.4b for the same period the year before). Its annual rate of growth was slightly lower than the year before, but seasonal comparisons indicate a moderately rising trend, as shown in the table below:

Annual Rate of Growth of Outstanding Central Bank Loans to Banks

Quarters	1st quarter	2nd quarter	3rd quarter	12 months
2008-9	30.8%	23.5%	15.3%	12.2%
2009-10	12.0%	13.1%	14.7%	-

The low rate of growth of credit expansion seems to be a sequel to 2008 events, rather accentuated by the rising tide of problematic loans (as referred to under "the banking System") and general depressive tendencies.

Meanwhile, whereas the CBI's claims on state entities rose by 20.4% (almost the same as the year before), its claims on the Government fell by 9.4%. As a whole the Central Bank credit to the public sector fell by 1.9% and reached $13.3b. The Government relied more on borrowing from the banks and its outstanding debt to the banks rose by 38.2%, amounting to $14b. As we shall see, the Oil Stabilization Fund remained the main source of financing Government deficit.

Total deposits amounted to $203.0b and increased by 27.9%, about three and a half times the 8.4% for the same period the previous year. Demand deposits, increased by a mere 3.7%, a sizeable jump compared to the astonishing decrease of 12.2% during the similar period last year. In fact, the growth of total deposits was due to some 34.8% growth in the volume of term deposits. At the end of the year, however, the rate of growth of term deposits was 27.5% (compared to 24.6% the year before). The enormous drop in demand deposits during the last three quarters of 2008 and its negligible growth in 2009 must be explained in terms of the "bank checks" withdrawn from circulation coupled with restrictive

1- See the footnote on page 1

credit measures in 2007; otherwise such a radical modification of monetary data could have reflected radical changes in liquidity preference.

It needs to be emphasized that the withdrawn of $13.0b worth of "bank checks" from circulation meant the equivalent decrease in demand deposits. At the same time, to make up for the hardship caused on the banks, the Central Bank extended some $5.6b new credit to banks, almost simultaneously, which meant a sudden injection of high-powered money into the system. The Central Bank must have assumed the two should cancel each other's effects (as the latter's greater liquidity, or 'power', should compensate its smaller amount). Even so, these upheavals make the comparison of the data seem unrealistic. Account must be made for these changes for comparative purposes.

Thus, term deposits continued to grow in importance as the major component of liquidity during the recent past and reached 82% of total deposits. Term deposits rose from 55% of liquidity in 1999 to 65% in 2005, 72.4% in 2008, 76.6% by December 21st 2009, and to 74.5% by the end of the year under review (March, 20th 2010).

Amongst term deposits, the growth of long-term investment deposits at 68.9%, compared to 11.2% during the similar period last year was most conspicuous. Contrariwise, the rate of growth of short-term investment deposits fell from 28.9% to merely 12%. This reversal of trends must reflect interest sensitivity of depositors, as during the period under review, the rates determined by the Central Bank heavily favored long-term investment deposits.

The rate of growth of "notes and coins" in circulation registered a huge decline from 123.9% by the end of the 4th quarter of 2008, to 33.6% during the period under review (year ended March 20th, 2010). Once again, the huge jump in 2008 and the resulting comparative decline during the period under review must have been solely due to replacement of "bank-checks", hitherto issued by banks, by the newly issued "Iran checks" by the Central Bank. Consequently, the change in trend of monetary aggregates brought about by this decline in the rate of growth of "notes and coins" in circulation, should not be considered *significant,* to the extent that it was a mere replacement of one element by the other.

The growth of money supply (M1) at 7.8 % was much above the 2% for the similar period last year, but well below the 31.8% for the same period in 2007. At the end of the year under review (March 2010), the growth of money supply reached 14.5%. As far as M1's composition is concerned, the shares of "notes and coins" and demand deposits remained roughly the same as the year before; but compared to 2007 and before, while the latter's share fell from around 85% to 72%, the former's share rose from 15% to 28%, because of the aforementioned changes.

The rate of growth of base money, as the source of all other monetary indicators, was lower than the rate for the same period the previous year and rose by 12.8 % against 32.5%. This increase was wholly brought about by the increase in the Central Bank's net foreign assets, while the Central Bank's lending to the banks and the Government actually decreased.

The ratio of private sector credit to private sector deposit, which had reached the unprecedented figure of 1.11 percent in 2008, fell back to 1.00% during the period under review. This means the banking system seems to be making a more prudent use of its resources. A welcome improvement in the highly volatile credit position of banks.

Another significant indicator was the ratio of M2 to base money (or the money multiplier), which was back at around 4.4, against 3.9 for the same date the year before. As referred to in our last year report, "without the afore-mentioned increase in notes and coins in circulation, this ratio would have been around 4.4, almost the same as before".

To sum up, we may conclude that after the important disruption of 2008, the trends gradually seemed to be picking up; excepting the decline in the Central Bank lending to banks, which was a deliberate policy measure, and the rather low rate of growth of private sector credit caused by a somewhat generally morose economic climate.

Monetary Aggregates

(billion USD)

	Amount					Growth (%)				
	Dec.07	March 08	Dec.08	March.09	Dec.09	Dec.07	March 08	Dec.08	March.09	Dec.09
Demand deposits	40.2	45.6	35.3	36.8	36.6	33.2	29.1	-12.2	-19.3	3.7
Term deposits	1,06.2	1,10.5	1,23.4	1,37.6	1,66.5	34.9	27.0	16.2	24.6	34.8
Total	1,46.4	1,56.0	1,58.7	1,74.4	2,03.0	37.7	27.6	8.4	11.7	27.9
Notes & coins	5.6	8.0	11.8	15.8	14.2	23.0	30.0	98.1	97.4	20.0
Money Supply (M1)	46.1	53.6	47.1	52.6	50.8	31.8	29.2	2.0	-1.9	7.8
Liquidity (M2)	1,52.3	1,64.0	1,70.5	1,90.1	2,17.2	33.9	27.7	11.9	15.9	27.4
Base Money*	33.0	36.6	43.7	54.1	49.3	41.6	30.5	32.5	48.0	12.8
Credit										
Private Sector credit	1,52.8	1,66.4	1,76.2	1,86.7	2,02.1	39.7	35.7	15.3	12.2	14.7
Public Sector credit	14.9	14.9	15.0	16.1	19.0	26.8	19.3	0.6	8.3	26.8
Total	1,67.7	1,81.3	1,91.2	2,02.8	2,21.2	38.4	34.2	14.0	11.9	15.7
Credit to Public sector										
Central Bank	13.6	13.2	13.6	13.0	13.3	1.0	0.3	0.2	-1.1	-1.9
Banks	14.9	14.9	15.0	16.1	19.0	26.8	19.3	0.6	8.3	26.8
Total	28.5	28.1	28.6	29.2	32.4	13.0	9.5	0.4	3.9	13.2
Credit to Gov't										
Central Bank	10.7	9.8	10.1	9.1	9.2	-2.3	-6.0	-5.3	-6.6	-9.4
Banks	9.1	9.1	10.1	11.6	14.0	88.5	61.8	11.1	27.1	38.2
Total	19.8	18.9	20.2	20.7	23.2	25.4	17.8	2.2	9.6	14.3
Credit to State entities										
Central Bank	2.9	3.4	3.4	3.9	4.1	15.3	24.2	20.7	14.5	20.4
Banks	5.8	5.8	4.9	4.6	5.1	-16.1	-15.5	-15.8	-21.1	3.4
Total	8.7	9.2	8.3	8.5	9.2	-7.8	-4.2	-3.8	-7.9	10.4
CB credit to BANKS	13.5	13.8	21.6	24.0	18.9	158.5	150.9	60.1	74.1	-13.0
CB credit public sector	13.6	13.2	13.6	13.0	13.3	1.0	0.3	0.2	-1.1	-1.9
Total CB credit	27.1	26.9	35.2	37.0	32.1	45.1	44.6	30.1	37.3	-8.7
money multiplier	4.62	4.49	3.90	3.52	4.41	-5.4	-2.2	-15.5	-21.7	12.9

Once again, we should emphasize that our analysis does not embrace the <non-authorized> financial institutions, due to lack of sufficient information about the volume and weight of their operations, which may be quite significant. As such, our conclusions are incomplete. These institutions generally have obtained their authorization to operate from various authorities. A great number of them have already applied for authorization from the Central Bank. Few of them publish standard balance-sheets and provide some data to the Central Bank, but this is not the rule.

Banking System

During the last three quarters of 2009, the Iranian banking system underwent slight structural changes. One new state-owned bank and two new privately-owned banks began their activities. The first, the Cooperative Development Bank became the fifth specialized state-owned bank. The two private banks were Bank Tat and Bank Shahr (literally “City Bank”). At present, the banking system is composed of thirteen state-owned banks and nine privately-owned banks, plus one fully authorized non-bank credit institution. There are also a number of non-bank financial intermediaries with uncertain status as regards their authorization, about which no official data are available.

During the last three quarters of 2009, the rate of growth of private sector credit continued to decline and reached 14.7%, which was 0.6 percentage points less than the similar period the previous year. However, various categories of banks performed differently. While the specialized banks credit expansion registered a rate of growth of 19.3%, that of the commercial banks was limited to 10.9%. This was a continuation of the trend set the year before. It is worth noting that while the Central Bank credit to the banking system was cut by 13%, it was drastically reduced by 77.6% for the private banks and 23.3% for the commercial banks; for the specialized banks it was increased by 16.2%.

Simultaneously, the gap between the rate of growth of the state-owned banks and the private banks narrowed down. The annual rate of growth of facilities granted by the privately-owned banks continued to drop by 15 percentage points (compared to 11 percentage points for the year before) and fell from 37.7% to 22.7%. The annual rate of growth of facilities granted by the state-owned banks increased from 11.5% to 13.1%. The share of the privately-owned banks in the total facilities granted has increased from 3% in 2003 and 15.4% by March 2007, to 18.6% by the end of the period under review. In this case, the reason must be partially attributed to the exceptionally slow expansion of total credit, mostly affecting the state-owned banks.

In recent years, low interest rates coupled with inflation, have kept the demand for bank credit strong and, as the state-owned banks could no longer cater for it by themselves, more demand has been diverted towards the private banks. The private banks have in turn proven to be capable of taking the initiative and carving a niche for themselves in the Iranian economy. Although their comparative advantage has been mostly eroded, particularly in mobilizing new deposits.

As we have seen, the rate of growth of deposits also picked up again considerably to reach 27.9%, compared to 8.4% during the same period the year before. The rate of growth of deposits of the state commercial banks and specialized banks reached 29.2% and 28.6% respectively, compared to 2.2% and -1.3% for the same period the year before. Meanwhile, the private banks registered a growth of 24.1% compared to 38.6% for the same period the year before and their share of total deposits for the first time decreased from 23.6% to 22.9%. If the hypothesis of recession settling down on the Iranian economy is to be accepted, the private banks are visibly as much affected by it as the banking system as a whole.

Another interesting aspect is the distribution of facilities according to the Islamic contracts. While in the state-owned banks “transactional contracts” (“foroosh aqsati or installment credit, Kharid-deyn or receivables-financing or factoring” and “ja’alah” etc.) accounted for about 71.7% of facilities granted, in the privately-owned banks the lion’s share (82.4%) was attributed to “participatory contracts” (“muzaribah or modaribeh or risk/profit sharing” and “mosharekat or participation”). This must be due to the fact that under participatory contracts, the rate of “profit” could not be pre-determined by the authorities; hence, more flexibility is allowed and generally rates are somewhat higher. On the other hand, in transactional contracts, the documentation is straight forward but the rate of “profit” is pre-determined by the authorities, which is sometimes set without due consideration to economic realities and facts.

Meanwhile, an alarming development in the banking system has been the rising ratio of none-performing or (‘impaired’) loans, (including overdues, in-arrears, and doubtful debts) to their total credit. According to the Central Bank data, this ratio has risen from 6.5% in 2004 to 8.4% in 2005, 9.2% in 2006, 11% in 2008 and 21.7% by December 2009. (In 2007, there was a slight modification in the presentation of these data, but it barely affects the general trend.)

It seems actually that the problem of non-performing loans is affecting the private banks a bit more acutely than the state-owned banks. For the private banks, this ratio has risen to 26.6% by December 2009 from 22.8% by the same period the previous year, and 10.5% by March 2008; the comparable figures for the state-owned banks are 20.6%, 16% and 11.1%. This may to some extent arise out of the methodology of reporting and how rescheduling may prove to be a solution in times of recession.

Notwithstanding the quality of the collaterals the banks hold, or the slight difference between the private and state banks, such a high ratio could become disastrous under crisis. Another significant consideration is the fact that so long as interest rates are below the efficiency of capital or even below inflation for most categories of borrowers, the reluctance to repay loans on-time may not necessarily arise out of project failures.

It is also a fact that real estate constitutes the bulk of these bank collaterals. This concentration of risk is obviously a potentially dangerous situation. As it happens, construction has been the sector hardest hit by recession. Consequently, should this hitherto hidden danger surface, then the non-performing loans should be treated with the greatest caution.

Traces of the same phenomenon, albeit at more moderate scale, could be observed in the index of the volume and number of dishonored Bills & Drafts, which increased by 11.8% and 2.9%, respectively.

Ratio of None-performing Loans of the Banking System (%)

	December 2007	March 2008	December 2008	March 2007	December 2009
Banking System	7.8	11.0	17.2	16.6	21.7
Private Banks	2.5	10.5	22.8	23.4	26.6
State-owned Banks	8.7	11.1	16.0	15.1	20.6

The description of the banking system without any reference to the non-authorized financial institutions, the total number of which, according to some sources reaches several thousands, would be unrealistic. It is certainly true that they seriously compete with the authorized banks, both in attracting deposits, as well as in extending facilities. Nonetheless, they are not bound by the standard prudential criteria, nor by monetary policy measures adopted by the Central Bank.

A great number of these institutions have asked for Central Bank authorization. Even the Central Bank has only sparse information about the type and volume of their activities and how strong or vulnerable they may be. At times they have encountered problems vis-à-vis their depositors and creditors. Our preliminary estimate suggests that their total weight easily exceeds that of the private banks. It is, therefore, of great importance to be able to incorporate the data concerning the activities of these institutions into the monetary aggregates.

An article appeared in the economic daily newspaper “Donyaye-Eghtesad” on (April 4th, 2010) presented some sporadic but still interesting statistics pertaining to five (probably the biggest five) such institutions. These data are summarized in the following table:

	June/July 2008	Feb/March 2010	% Growth
Facilities (billion USD)	10.8	22.3	107.1
% of Banking System	6.3	n.a	
Deposits (billion USD)	12.5	28.8	130.6
% of Banking System	8	n.a	

These figures, if obtained from reliable sources, could give an indication of the magnitude of the role of these institutions, given the fact that the outstanding private sector credit was about $202.1b and total deposits amounted to $217.2b by December 2009.

Table 6: Number of Bank Branches

	March 2009	December 2009	Growth (%)
Private Banks	786	835	6.2
State-owned Banks	16,526	16,420	-0.6
Banking System	17,312	17,255	-0.3

Due to higher number of branches, as well as obligation of most state-owned entities to do their banking with state-owned banks, the proportion of sight deposits in the state-owned banks is generally higher; and, therefore, their cost of money is considerably lower than the private banks. By the same token, their lending rate is also lower and there is greater demand for their funds, which under the current rate of inflation, may be considered as a bonus or "subsidy" by the state to all the borrowers from these banks across the board. This may also create problems with regard to repayment of loans.

Table 7: Distribution of Deposits & Credits (April-December)

(billion USD)

	Amount				Growth Rate (%)			Share (%)		
	2006	2007	2008	2009	2007	2008	2009	2007	2008	2009
Total Private Credit	109.4	152.8	176.2	202.1	39.7	15.3	14.7	100.0	100.0	100.0
Commercial Banks	68.7	99.0	108.0	119.7	44.2	9.1	10.9	64.8	61.3	59.2
Specialized Banks	25.8	3106	37.6	44.8	22.4	19.1	19.3	20.6	21.3	22.2
Total Govt. Bks.	94.4	130.5	145.6	164.6	38.2	11.5	13.1	85.4	82.6	81.4
Private Banks	15.0	22.3	30.7	37.6	48.7	37.7	22.7	14.6	17.4	18.6
Total deposit	108.9	146.4	158.7	203.0	34.4	8.4	27.9	100.0	100.0	100.0
Commercial Banks	75.5	98.9	101.1	130.7	31.1	2.2	29.2	67.6	63.7	64.4
Specialized Banks	16.8	20.5	20.2	26.0	21.4	-1.3	28.6	14.0	12.7	12.8
Total Govt. Bks.	92.3	119.4	121.3	156.7	29.3	1.6	29.1	81.6	76.4	77.1
Private Banks	16.6	27.0	37.4	46.4	62.6	38.6	24.1	18.4	23.6	22.9

Tehran Stock Exchange

In 2009-10, stock prices followed a fairly steady upward trend and the Tehran Stock Exchange index rose from 7,966 at March 21st, 2009 to 12,538 March 20th, 2010, which represents a gain of 57.4%. This was in direct contrast with its downward path the year before. The lowest point of the index (7,955) was almost the day the Exchange opened after the new year holidays; the highest point was 12,581, reached on November 9, 2010. The drop from peak to trough was about 58.1% (compared to 38%, 14.6% the previous year).

Several explanations may be given for the considerable upward rise in the index. It seems that due to its relatively small size, the market has proven to be quite sensitive and is subject to considerable fluctuations. During the year under review, however, rising international prices of metals, oil, and raw materials (mainly due to expected improvement in the economic climate) were mostly responsible for the rising TSE index. The softening of the tone by the US President toward the question of sanctions, half the way through the year (3rd quarter of 2009), in itself alone caused a jump of nearly 9.8% in the TSE index. It is also a fact that despite the recessionary conditions in most countries, there was upward movement in all the main international capital markets.

During the year under review, out of 244 working days, the movement of the index was positive for 154 days, compared to 87 for 238 working days the previous year.

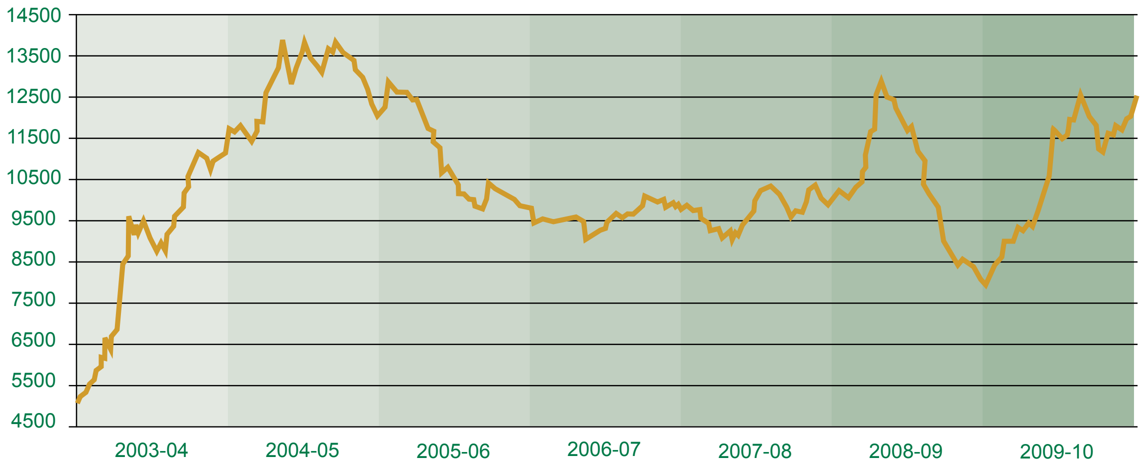
By the end of the year (March 20th, 2010), the value of the market (total outstanding shares, or *market capitalization*) reached about $65.1b, which showed an increase of 45.1% over the previous year. At the same time, the nominal value of the shares was about $28.8b and registered an increase of 16.5%, which is an indication of the rise in share prices. Thus the ratio of the market value to the nominal value rose from 1.8 in 2008 to 2.3 in 2009. This is also confirmed by the rise of average P/E from 3.84 to 5.81.

During the year under review, the amount of shares actually transacted in the Tehran Stock Exchange reached $18.4b, which was 34.1% higher than the previous year, compared to 88% in 2008. The number of shares transacted (65.6b shares) increased by 78.5%, compared to 105% the previous year. This indicates that the average value of shares transacted was less than the previous year. It is worth noting that in 2009 about 11.5% and in 2008 about 24% of shares transacted concerned transfer of *shares to workers*, *justice shares*, repayment of Government liabilities to retirement funds and Export Bonuses. These dealings took place outside the official opening hours and competitive transactions. Without them, the volume and number of shares transacted increased by 117% and 56% respectively.

In 2009, the total amount of the companies' profits reached $11.0b, which was 11.5% more than the previous year. The distributed profits amounted to $8.0b, which was about the same as the previous year. Hence the decrease in the ratio of profit distribution from 78.6% in 2008 to 72.4% in 2009. This has been mainly due to the reduction in the international prices of commodities.

During the year under review, the shares of six new companies were admitted to the Exchange and those of fifteen other companies were withdrawn. Consequently, the number of companies whose stocks were quoted was reduced from 346 in 2008 to 337 in 2009. During this period the TSE authorities raised the ceiling for acceptable orders to buy and sell and the permissible fluctuations in stock prices.

TSE index (April 2003- March 2010)



External Position

During the last three quarters of 2009, all the main components of the balance of payments (with the exception of non-oil exports) registered a marked decline, and for the first time in 12 years the balance of payments registered a deficit of $4.3b, compared to a surplus of $20.6b during the similar period the year before, a decrease of 121%. The capital account deficit increased substantially and reached -$12.6b, compared to -$7.5b during the similar period the year before, a jump of almost 70%.

The balance of trade remained positive and showed a surplus of $16b, 52.7% less than the similar period the year before, and the lowest in 4 years. This was exclusively due the decrease in the oil exports as non-oil exports registered an increase.

The oil & gas revenue for the nine months amounted to about $48.4b, which, compared to $71.7b during the similar period the year before, indicated a decrease of 32.5%. This was mainly due to the falling prices, but also due to the decrease in production. During the period under review, the average price of the Iranian heavy crude reached $66.7 per barrel, compared to $91.3 during the similar period the year before, a drop of 27%. Nevertheless, during the period under

review, unlike the year before, the trend was more steady and upwards. The lowest price ($50.1) was in April, while the highest price ($76.7) was in October, against $126.7 for July 2008 and $36.9 for November 2008.
On the other hand, non-oil exports reached $15.1b, compared to of $14.3b during the similar period the year before, which indicates an increase of 5.6%. Non-oil exports have been rising in recent years, but during the period under review, its rate was 15.6 percentage points below the same period the previous year. All the same, the share of non-oil exports in total exports has risen from 16.6% during the last three quarters of 2008 to 23.8% during the same period in 2009.

Imports amounted to $47.4b, compared to $52b during the similar period the year before, which indicates a decrease of 8.8%. In absolute (as well as relative) terms this was much too small a decrease to make up for the negative effect on the balance of trade of the fall in oil exports. It is worth noting that the Customs' statistics show that despite the decrease in their value, there has been an increase of 9.4% in the weight of the imports. This should mean either decrease in international prices of our imports, or, alternatively, change in their composition in favor of importing cheaper products. As the government has adopted a more liberal attitude towards imports in recent years, the slowdown must be due to factors affecting domestic demand.

By December 2009, as referred to above, the capital account presented a negative balance of -$12.6, compared to -$7.5b for the same period the year before, and -$11.4b up to the same period in 2007. This represents quite a sizeable outflow.

The net balance of services and transfers during April-December 2009 amounted to about -$7.7b. Consequently, after taking into account statistical errors and omission (of some -$4.9b), the net addition to the reserves were down by -$9.2b. Thus, in December 2009, the country's cumulative reserves reached about $76.9b, representing a decline of 10.7% over (the end of) the previous year (March, 21st, 2009).

Despite the fact that the Iranian economy has been to a great extent closed to the outside world as a result of the sanctions, as well as deliberate Government policy, the extension of the originally US financial crisis to other countries, gradually affected the whole world. The Iranian economy was also affected by falling oil prices. However, our recession seems to have its causes essentially amongst domestic factors.

At the end of the 4th quarter of 2009, the balance of the country's external obligations, according to the Central statistics, amounted to $22.1b, almost the same as the previous year. Consequently, it is estimated that our debt/reserve ratio has been rising slightly from 26.4% at March 20th, 2009, to roughly about 28.7%.

Table 8: Balance of Payments (April-December)

(billion USD)

	Amount				Change (%)		
	2006	2007	2008	2009	2007/06	2008/07	2009/08
Exports	57.7	69.9	85.9	63.5	21.3%	22.9%	-26.1%
Oil & Gas	48.3	58.1	71.7	48.4	20.4%	23.2%	-32.5%
Other Goods	9.4	11.8	14.3	15.1	25.7%	21.2%	5.6%
Import of Goods	37.5	40.2	52.0	47.4	7.1%	29.5%	-8.8%
Balance of Trade	20.1	29.8	33.9	16.0	47.8%	14.0%	-52.7%
Services (net)	-5.3	-5.7	-6.5	-8.1	7.5%	13.6%	24.7%
Transfers (net)	0.7	0.7	0.6	0.4	-7.8%	-13.0%	-36.7%
Current Account	15.6	24.7	28.0	8.3	58.9%	13.3%	-70.3%
Capital Account (net)	-3.0	-11.4	-7.5	-12.6	280.2%	-34.6%	69.3%
Balance of Payments	12.6	13.3	20.6	-4.3	6.1%	54.3%	-121.0%
Stats Errors & Omissions*	-2.0	-5.7	-4.8	-4.9	186.3%	-15.7%	2.1%
Change in Reserves	11.4	15.2	8.2	-9.2	33.9%	-46.0%	-211.5%
Cumulative Reserves	62.6	77.8	86.1	76.9	24.4%	10.6%	-10.7%

*including foreign exchange rate modifications

There are no officially confirmed data for the performance of the OSF, other than the private sector drawings of some $640m during the second and third quarter of 2009, compared to $830m during the same period the previous year. The Government "borrowings" from the OSF to finance part of its budget deficit amounted to $11.2b compared to $15.2b during the same period the previous year.

Karafarin Bank

Financial Statements

Financial Statements of Karafarin Bank (Public Joint-Stock Co.)
Parent Company
Balance Sheet as at March 20th., 2010

(Iranian Rials)

Assets	Note	2010	2009
Cash	5	218,953,970,789	200,416,322,462
Statutory Deposits	6	4,190,848,914,129	4,360,869,381,518
Interbank	7	3,872,885,767,554	3,212,447,364,416
Participation Bonds	8	2,595,949,000,000	2,103,389,000,000
Investment-Listed Shares	9	97,872,838,816	77,292,996,449
Receivables	12	22,467,788,439,037	1,857,148,752,441
Prepayments	10	1,811,510,437,071	16,666,332,431
Loans & Advances	11	11,880,971,592	22,046,998,555,772
Investment-Unlisted	13	321,443,426,400	321,641,422,400
Fixed Assets	14	905,224,610,059	614,872,745,138
Other Assets	15	935,961,007,298	437,568,326,185
Total Assets		**37,430,319,382,746**	**35,249,311,199,212**
Liabilities			
Current Deposits	16	1,348,199,065,358	1,061,515,243,861
Saving Deposits	16	240,061,860,251	348,376,507,074
Term Deposits	17	26,082,563,548,762	24,051,143,048,430
Other Deposits	18	1,584,109,673,955	1,312,000,586,147
Central Bank Facilities	19	740,550,000,000	1,363,375,000,000
Interbank	20	932,111,004,828	1,208,771,721,848
Payables & Provisions for Expenses Incurred	21	2,056,936,312,510	2,056,984,147,615
Dividend Payable	22	8,250,000,628	4,782,476,127
Total Liabilities		**32,992,781,466,292**	**31,406,948,731,102**
Income Tax		149,242,905,864	187,280,702,483
Provisions	23	51,123,338,056	32,793,527,381
Liabilities & Provisions		**33,193,147,710,213**	**31,627,022,960,966**
Equity			
Share Capital	24	2,000,000,000,000	2,000,000,000,000
Legal Reserves	25	736,264,494,106	485,647,245,642
Undistributed Profit		1,500,907,178,427	1,136,640,992,604
Total Equity		**4,237,171,672,533**	**3,622,288,238,246**
Total Liabilities & Equity		**37,430,319,382,746**	**35,249,311,199,212**
		37,430,772,138,211	35,249,311,199,212
Contingent Assets & Liabilities		0	- 0
Guarantees Issued	39	11,237,538,028,358	9,643,237,773,428
L/C Commitments	40	2,628,023,030,368	2,823,595,938,400
Underwriting Commitments	41	400,000,000,000	700,000,000,000
		14,265,561,058,726	**13,166,833,711,828**
Memorandum Items:			
Managed Funds	42	751,752,136,412	749,391,668,780
Securities & Assets Pledged as Collateral	43	114,977,381,918,252	99,442,049,051,437

Financial Statements of Karafarin Bank (Public Joint-Stock Co.)
Consolidated Accounts
Balance Sheet as at March 20th., 2010

(Iranian Rials)

Assets	Note	2010	2009
Cash	5	229,022,814,927	200,425,913,513
Statutory Deposits	6	4,190,848,914,129	4,360,869,381,518
Interbank	7	3,873,855,173,766	3,215,870,715,409
Participation Bonds	8	2,607,039,000,000	2,123,804,000,000
Investment-Listed Shares	9	100,672,131,869	90,262,380,096
Receivables	10	22,617,215,186,288	22,158,139,643,057
Prepayments	11	1,707,567,047,645	1,847,784,408,234
Loans & Advances	12	12,562,849,724	17,073,481,221
Investment-Unlisted	13	461,706,773,524	432,017,742,607
Fixed Assets	14	875,523,907,305	591,257,515,571
Other Assets	15	942,217,079,698	441,261,389,919
Total Assets		**37,618,230,878,876**	**35,478,766,571,145**
Liabilities			
Current Deposits	16	1,348,199,065,358	1,061,515,243,861
Saving Deposits	16	240,061,860,251	348,376,507,074
Term Deposits	17	26,055,502,206,227	24,045,603,430,522
Other Deposits	18	1,592,263,021,433	1,312,000,586,147
Central Bank Facilities	19	740,550,000,000	1,363,375,000,000
Interbank		932,111,004,828	1,517,272,100,119
Payables & Provisions for Expenses Incurred	21	2,341,831,902,828	2,055,913,819,119
Dividend Payable	22	8,250,000,628	6,781,759,207
Total Liabilities		**33,258,769,061,554**	**31,710,838,446,049**
Income Tax		156,745,417,859	192,753,328,550
Provisions	23	51,555,524,339	33,035,998,949
Liabilities & Provisions		**33,467,070,003,752**	**31,936,627,773,548**
Equity			
Share Capital	24	2,000,000,000,000	2,000,000,000,000
Provisions for Capital Increase		(72,559,078,449)	(77,663,887,393)
Legal Reserves	25	740,978,247,826	488,854,022,442
Undistributed Profit		1,460,022,822,876	1,103,689,665,405
Total Equity		**4,128,441,992,253**	**3,514,879,800,454**
Minority Participations	26	22,718,882,872	27,258,997,142
Total Liabilities & Equity		**37,618,230,878,876**	**35,478,766,571,145**
Contingent Assets & Liabilities			
Guarantees Issued	39	11,237,538,028,358	9,643,237,773,428
L/C Commitments	40	2,628,023,030,368	2,823,595,938,400
Underwriting Commitments	41	400,000,000,000	700,000,000,000
		14,265,561,058,726	**13,166,833,711,828**
Memorandum Items:			
Managed Funds	42	751,752,136,412	749,391,668,780
Securities & Assets Pledged as Collateral	43	114,977,381,918,252	99,442,049,051,437

Financial Statements of Karafarin Bank (Public Joint-Stock Co.)
Parent Company
Profit & Loss Statement for the Year Ended March 20th., 2010

(Iranian Rials)

Operating Income	Note	2010	2009
Interests			
Interest on Loans	27	5,033,347,169,091	4,379,818,474,245
Interest on Gov't. Bonds	28	452,721,553,654	310,436,904,927
Interest on Deposits	29	321,840,317,878	135,438,730,518
Total		**5,807,909,040,623**	**4,825,694,109,690**
Less:			
Interest Paid on Deposits	31	3,801,625,749,417	3,207,198,323,814
Financial Expenses	36	10,501,693,521	33,669,881,168
Net Interest Income		**1,995,781,597,685**	**1,584,825,904,708**
Dividends	30	72,974,193,727	24,002,147,144
Net Commissions Received	33	354,004,927,428	388,351,545,384
Other Income	34	91,311,722,698	86,539,163,349
Operating Income		**2,514,072,441,538**	**2,083,718,760,585**
Expenses			
Administrative Expenses	35	468,919,924,130	392,562,104,531
Doubtful Debts	32	139,492,082,260	240,939,939,165
Total		**608,412,006,390**	**633,502,043,696**
Operational Profits		**1,905,660,435,148**	**1,450,216,716,889**
Taxes	37	(234,878,778,718)	(232,651,368,315)
Net Profit after Tax		**1,670,781,656,430**	**1,217,565,348,574**
Profit per Share			
Before Tax		953	725
After Tax		835	609
Proposed Dividend		600	-

Financial Statements of Karafarin Bank (Public Joint-Stock Co.)
Consolidated Accounts
Profit & Loss Statement for the Year Ended March 20th., 2010

(Iranian Rials)

	Note	2010	2009
Operating Income			
Interests			
Interest on Loans	27	5,064,655,261,857	4,403,344,941,467
Interest on Gov't. Bonds	28	452,721,553,654	316,051,099,557
Interest on Deposits	29	321,840,317,878	136,913,891,734
Total		**5,839,217,133,389**	**4,856,309,932,758**
Less			
Interest Paid on Deposits	31	3,801,625,749,417	3,207,198,323,814
Financial Expenses	36	11,403,809,004	78,904,673,009
Net Interest Income		**2,026,187,574,968**	**1,570,206,935,935**
Dividends	30	85,827,280,321	(5,567,529,294)
Net Commissions Received	33	310,448,952,151	391,485,119,146
Other Income	34	92,328,532,417	87,410,332,262
Operating Income		**2,514,792,339,857**	**2,043,534,858,049**
Expenses			
Administrative Expenses	35	472,682,464,142	397,942,044,331
Doubtful Debts	32	139,492,082,260	242,548,164,165
Total		612,174,546,402	640,490,208,496
Operational Profits		1,902,617,793,455	1,403,044,649,553
Taxes	37	(242,381,290,713)	(238,172,163,578)
Net Profit after Tax		1,660,236,502,742	1,164,872,485,975
Minority Participations		4,540,114,270	8,525,977,214
Profit per Share			
Before Tax		951	702
After Tax		830	582
Proposed Dividend		600	500

Financial Statements of Karafarin Bank (Public Joint-Stock Co.)
Parent Company
Statement of Earnings for the Year Ended March 20th.2010

(Iranian Rials)

Earnings	**Note**	**2010**	**2009**
Undistributed Profit- Beginning of the Year		1,136,640,992,604	707,936,202,557
Net Profit for the Year		1,670,781,656,430	1,217,565,348,574
Previous Years Adjustments	38	(52,398,222,142)	(2,725,756,241)
Adjusted Accumulated Profits- Beginning of the Year		1,618,383,434,288	1,214,839,592,333
Total Available		2,755,024,426,891	1,922,775,794,890
Allocation			
Legal Reserve		(250,617,248,464)	(182,634,802,286)
Last Year Profit to be Distributed		(1,000,000,000,000)	(600,000,000,000)
Directors' Bonus		(3,500,000,000)	(3,500,000,000)
Undistributed Profits- This Year		-	-
Undistributed Profit- End of the Year		1,500,907,178,427	1,136,640,992,604

Financial Statements of Karafarin Bank (Public Joint-Stock Co.)
Consolidated Accounts
Statement of Earnings for the Year Ended March 20th .2010

(Iranian Rials)

Earnings	**Note**	**2010**	**2009**
Undistributed Profit- Beginning of the Year		1,103,689,665,405	711,287,679,381
Net Profit for the Year		1,664,776,617,012	1,173,398,463,189
Previous Years Adjustments	38	(56,319,234,157)	(5,046,942,843)
Adjusted Accumulated Profits- Beginning of the Year		1,608,457,382,855	1,168,351,520,346
Total Available		2,712,147,048,260	1,879,639,199,727
Allocation			
Legal Reserve		(252,124,225,384)	(184,178,938,033)
Last Year Profit to be Distributed		(1,000,000,000,000)	(588,270,596,289)
Directors' Bonus		000	(3,500,000,000)
Undistributed Profits- This Year		1,460,022,822,875	1,106,010,852,007
Minority Participations		(22,718,882,872)	(15,294,999,273)
Undistributed Profit- End of the Year		1,437,303,940,004	1,090,715,852,734

Financial Statements of Karafarin Bank (Public Joint-Stock Co.)
Parent Company
Cashflow Statement for the Year Ended March 20th.2010

(Iranian Rials)

Operational Activities	**Note**	**2010**		**2009**
Net Operational Cashflow	45		2,011,451,425,473	1,109,302,243,435
Investments				
Direct Investments & 'Legal Participations'		(83,978,747,722)		(363,308,513,579)
Tangible Fixed Assets		(290,351,864,921)		(49,323,670,035)
Direct Investments & 'Legal Participations' Sold		111,035,818,799		324,933,644,682
Tangible Fixed Assets Sold		2,612,015,872		138,000,000
Dividends Received		5,368,424,848		29,174,139,812
Intangible Fixed Assets Sold				-
Net Cash Inflow(Outflow) from Direct Investments			(255,314,353,124)	(58,386,399,120)
Net Cash Inflow before Financing Activities			1,756,137,072,349	1,050,915,844,315
Financing Activities				
Contribution to Capital Increase				376,048,657,560
Financing Received				151,904,404,048
Interests on Loans Received			(10,501,693,521)	(33,669,881,168)
Repayment of Principle of Financing Received			(622,825,000,000)	-
Net inflow(Outflow) of Cash			(633,326,693,521)	494,283,180,440
Net Cash Increase(Decrease)			1,122,810,378,828	1,545,199,024,755
Effects of Rate of Exchange Fluctuations			(93,834,327,363)	(74,794,202,170)
Cash Balance Beginning of the Year			3,062,863,686,878	1,592,458,864,293
Cash Balance End of the Year			4,091,839,738,344	3,062,863,686,878
Non-Cash Transactions	48		-	600,000,000,000

Financial Statements of Karafarin Bank (Public Joint-Stock Co.)
Consolidated Accounts
Cash Flow Statement for the Year Ended March 20th.2010,

(Iranian Rials)

	Note	2010		2009
Operational Activities				
Net Operational Cashflow	**45**		2,003,602,627,999	1,014,842,490,859
Investments				
Direct Investments & 'Legal Participations'		(83,978,747,722)		(142,089,738,353)
Tangible Fixed Assets		(284,266,391,734)		(24,556,887,258)
Direct Investments & 'Legal Participations' Sold		91,318,882,476		185,213,387,905
Tangible Fixed Assets Sold		2,612,015,872		22,370,880,424
InTangible Fixed Assets Sold				-
Dividends Received		35,356,109,247		28,939,118,659
Net Cash Inflow(Outflow) from Direct Investments			(238,958,131,861)	69,876,761,377
Net Cash Inflow before Financing Activities			1,764,644,496,138	1,084,719,252,236
Financing Activities				
Contribution to Capital Increase			000	376,048,657,560
Financing Received			-	151,904,404,048
Interests on Loans Received			(11,403,809,004)	(78,904,673,009)
Repayment of Principle of Financing Received			(622,825,000,000)	
Net inflow(Outflow) of Cash			(634,228,809,004)	449,048,388,599
Net Cash Increase(Decrease)			1,130,415,687,134	1,533,767,640,835
Effects of Rate of Exchange Fluctuations			(93,834,327,363)	(74,794,202,170)
Cash Balance Beginning of the Year			3,066,296,628,922	1,607,323,190,256
Cash Balance End of the Year			4,102,877,988,693	3,066,296,628,922
Non-Cash Transactions	**48**			600,000,000,000

NOTES TO THE ACCOUNTS

Note 1) Background and Formation of the Company

Karafarin Bank started its operation as Karafarinan Credit Institution (public joint-stock co.). The Company was registered under no.157915 with the Company Registrar's Office of Tehran on 19/9/1378 (December 9th. 1999). It was granted its banking license under the provisions of the "Law for Establishment of Non-State-Owned Banks" of 1379/01/02 (April 10th, 2000) and the relevant operating regulations, ratified by the Central Bank of Iran on 1379/09/14 (December 5th, 2000). It was registered under the same registration no.157915 with the Company Registrar's Office of Tehran as Karafarin Bank on 1380/10/01 (December 22nd, 2001) and started its operation a few days later. As of 1383/11/07 the Bank's shares are quoted in Tehran Stock Exchange. We moved into our new headquarters in 1386.

1-1) Objectives of the Bank

The Bank is authorized to engage in all banking operations under the provisions of the Monetary and Banking Law of Iran of Tir 1351 (July 1972), the Usury-free Banking Law, the Commercial Code and its Articles of Association. Its objectives are to accept deposits and otherwise raise funds through financial instruments and apply these funds for extension of credit and investment in various sectors of the economy.

1-2) Scopes of the Bank's Activities

- Accept all kinds of bank–deposits;
- Issue bearer or registered certificates of deposit;
- Grant credit facilities;
- Open letters of credit and engage in all foreign exchange transactions;
- Issue and process domestic and international payment orders and transfers;
- Issue, purchase and sell participation bonds and other instruments, for itself and on behalf of others under the operative regulations of the Central Bank of Iran;
- Receive credit facilities from real or legal persons in accordance with the standing regulations;
- Issue bank guarantees, endorse, accept and underwrite securities including participation bonds;
- Operate safe-deposit boxes;
- Grant facilities for the export of goods and technical services;
- Participate and invest directly or through acquisition of shares in the stock market in manufacturing, commercial or service projects;
- And engage in all other authorized banking activities.

Note 2) The Basis of Financial Statements

These accounts are prepared according to accepted international accounting standards and local rules and legislations, particularly the decisions of the Currency and Credit Council and those otherwise applied to banks.

Note 3) Consolidation Methods

3-1) The consolidates financial statements are composed of the financial statements of Karafarin Bank (Joint Stock Company) and 3 affiliated companies, after making due

adjustments for inter-group transactions and outstanding balances and unrealized profit and loss resulting from inter-group transactions. Where, the profit/loss is considerable, according to accounting standards, it has been appropriated proportionately.
3-2) The parent company's stocks, acquired by the affiliated companies, have been recorded at purchase price; in the consolidated balance sheet they have been recorded as "the parent companies' stocks owned by the affiliated companies" and deducted from the shareholders' equity.
3-3)The minority shareholders' equity consists of their share in the capital, reserves, accumulated profit and loss and the profit and loss for the year.

Note 4) Significant Accounting Policies

4-1)Investment

Assessment Method:

	Group Consolidated	Parent Company
Long-term Investments		
Investments in affiliated companies to be consolidated	Consolidated	at purchase price minus provisions taken for any permanent value readjustments
Other Long-term Investments	at purchase price minus provisions taken for any permanent value readjustments	at purchase price minus provisions taken for any permanent value readjustments
Short-term investments		
Short-term Liquid Investments	at purchase price or at average market price whichever is the lower	at purchase price or at average market price whichever is the lower
Other Short-term Investments	at purchase price or at average market price whichever is the lower	at purchase price or at average market price whichever is the lower
Recognition of Income		
Investments in affiliated companies to be consolidated	consolidated	recognized upon approval of profits by the annual general assemblies of the companies' concerned
Investments in affiliated companies to be consolidated	recognized upon approval of profits by the annual general assemblies of the companies' concerned	recognized upon approval of profits by the annual general assemblies of the companies' concerned

4-2) Tangible Fixed Assets

4-2-1) Tangible fixed assets are recorded at purchase price. Any expenditure incurred for betterment or repair of an asset, resulting in the extension of its useful life or its improved performance, is capitalized and depreciated over the remaining useful life of the asset. Minor expenses, when incurred, are treated as current expenditure and taken to the profit and loss account.

4-2-2) Depreciation of fixed assets is calculated on the tables attached to section 151 of Direct Taxes Act as shown in the following table:

Assets	Rate	Procedure
Land Buildings, Utilities , etc	7%	Regressive
Motor Vehicles	25% & 35%	Regressive
Hard-wares	3 &10 years	Straight line
ATMs	10 years	Straight line
POSs	10 years	Straight line
Furniture & fixture	10 years	Straight line

Assets not utilized immediately after their acquisitions, are depreciated at 30% of the above rates for the period they have been idle.

4-2-3) Fixed assets acquired during a month and immediately put to use are depreciated starting the first day of the following month.

4-2-4) Expenses incurred for renovation and major repairs of rented buildings are recorded under fixed assets and depreciated in 3 years.

4-3) Intangible Fixed Assets
Intangible fixed assets are recorded at purchase price. As of 1385, in accordance with the operative instructions MB 2946 of 16/12/1385 of the Central Bank of Iran, goodwill and other intangible fixed assets are not depreciated .Operational and office soft-ware are depreciated in straight line within five years.

4-4) Procedure for Recognition of Income from Facilities, Commissions and penalties

Interest on loans and facilities granted	On the basis of laps of time, rate of interest and outstanding amount
Commissions of facilities granted	Upon granting the facilities
Late payment penalties	On the basis of laps of time, rate of interest and outstanding amount of each installment
Guarantees Commissions	Upon issuing the guarantee
Other Services Commissions	Upon providing the service

4-5)The Share of Depositors in Joint Profits
Under the Banking Operations without Interest (Riba) Act and its Rules and Regulations and Instructions of the Central Bank, incomes from the facilities granted, investments in stocks and Participation Bonds are considered Joint Profits and the proportionate share of the depositors therein are determined and, after deduction of procuration fees, are paid to the depositors.

4-6) Categories of Facilities

Under the Currency and Credit Council Instruction "Categories of Financial Institutions' Facilities (as provided under the Central Bank Circular no. 2823/MB), upon maturity, bank facilities are categorized on the following bases:

1. Current facilities are those repaid on time or within two months of maturity;
2. Past due facilities are those repaid within 2 to 6 months after their maturities;
3. Non-performing facilities are those repaid within 6 to 18 months after their maturities;
4. Doubtful Debts are those remained unpaid over 18 months after their maturities.

4-7) Provisions for Doubtful Debts

According to the instructions of the Central Bank, banks are required to set aside 1.5% of their loan and investment portfolios as "general reserve for doubtful loans." An additional "specific provision" is set aside for those facilities that in the opinion of the Bank's Internal and/or External Auditors may so require.

Specific provisions are set aside according to the following table:

	Effective rate
Past due facilities	10%
Non-performing	20%
Doubtful Debts (According to customer’s capability to pay)	50%-100%
Doubtful Debts over 5 years after their maturities	100%

4-8) Provision for employees severance pay

Provision for employees’ severance pay is provided based on one-month of the latest salary of all employees at the end of each year.

4-9) Assets and liabilities in other currencies

All assets and liabilities are converted into rials at the rates specified by the Central Bank on March 20th of each year.

Note (5) Cash

(Iranian Rials)

	Note	Parent Company (Karafarin Bank)		Consolidated Accounts	
		2010	2009	2010	2009
Vault		217,447,656,182	198,499,513,918	227,516,500,320	198,503,285,418
Others		1,506,314,607	1,916,808,544	1,506,314,607	1,922,628,095
Total		**218,953,970,789**	**200,416,322,462**	**229,022,814,927**	**200,425,913,513**

Note (6) Due from Central Bank

(Iranian Rials)

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	2009	2010	2009
Statutory Deposit	3,607,683,000,000	3,866,768,000,000	3,607,683,000,000	3,866,768,000,000
Current Account with CBI	513,363,539,129	494,081,381,518	513,363,539,129	494,081,381,518
Others	69,802,375,000	20,000,000	69,802,375,000	20,000,000
Total	**4,190,848,914,129**	**4,360,869,381,518**	**4,190,848,914,129**	**4,360,869,381,518**

Note (7) Interbank

(Iranian Rials)

	Note	Parent Company (Karafarin Bank)		Consolidated Accounts	
		2010	2009	2010	2009
Term Deposits & Current Acc. with Banks -FCY	(7-1)	1,406,794,858,449	1,206,486,897,481	1,406,794,858,449	1,206,486,897,481
Term Deposits & Current Acc. with Banks -LCY		2,466,090,909,105	2,005,960,466,935	2,467,060,315,317	2,009,383,817,928
Total		**3,872,885,767,554**	**3,212,447,364,416**	**3,873,855,173,766**	**3,215,870,715,409**

Note (7-1) Due from Banks- FCY

(Iranian Rials)

Currency	Amount	Exchange Rate on 2010	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Euro	73,482,730	13,500	992,018,112,317	960,331,104,728	992,018,112,317	960,331,104,728
Emirates' Dirham	119,433,314	2,687	320,863,186,136	177,180,762,718	320,863,186,136	177,180,762,718
USD	4,431,028	9,779	43,330,044,731	40,830,958,959	43,330,044,731	40,830,958,959
Swedish Krona	17,549,439	1,388	24,358,620,916	1,787,084,861	24,358,620,916	1,787,084,861
Swiss franks	1,614,380	9,346	15,087,945,269	9,846,508,905	15,087,945,269	9,846,508,905
Pound Sterling	514,561	15,052	7,745,127,776	15,141,987,417	7,745,127,776	15,141,987,417
CHF	31,061,208	109	3,391,821,304	1,368,489,893	3,391,821,304	1,368,489,893
Yens			**1,406,794,858,449**	**1,206,486,897,481**	**1,406,794,858,449**	**1,206,486,897,481**

(Iranian Rials)

Note (8) Participation Bonds

Our holding, per type and date of issue of bonds, was as follows:

	Date of Issue	Maturity	Profit Rate	Note	Parent Company (Karafarin Bank) Nominal Amount 2010	Parent Company (Karafarin Bank) Nominal Amount 2009	Consolidated Accounts Nominal Amount 2010	Consolidated Accounts Nominal Amount 2009
Gostaresh Sanaie va Ma'aden Iran	88/11/14	91/11/14	16%		1,000,000,000,000	-	1,000,000,000,000	-
Ministry of Power	88/08/09	92/08/09	16%		779,610,000,000	0	779,610,000,000	0
Ministry of Power, 2nd Issue 1387	87/12/10	91/12/10	16%		278,350,000,000	278,350,000,000	278,350,000,000	278,350,000,000
Gov't. Development Projects	85/10/05	90/10/05	15/5%		209,725,000,000	-	209,725,000,000	-
Bank Maskan	86/10/01	89/10/01	15/5%		100,000,000,000	359,000,000,000	100,000,000,000	359,000,000,000
Ministry of Power, 2nd Issue 1386	86/11/19	91/11/19	15/5%		80,000,000,000	-	80,000,000,000	-
Rayan Saipa	87/10/14	90/10/14	15/5%		65,330,000,000	89,360,000,000	65,330,000,000	104,870,000,000
Ministry of Power, 1st Issue 1386	86/06/06	90/06/06	15/5%		54,555,000,000	-	54,555,000,000	-
Gov't. Development Projects	86/10/15	91/10/15	15/5%		50,000,000,000	-	50,000,000,000	-
Ministry of Power, 1st Issue 1387	87/10/01	91/10/01	15/5%		47,980,000,000	47,980,000,000	47,980,000,000	47,980,000,000
Karafarin Mutual Fund	86/04/23	88/04/23	16/5%		28,580,000,000	10,000,000,000	29,080,000,000	13,000,000,000
Ministry of Power, 1st Issue 1385	85/10/30	89/10/30	15/5%		27,090,000,000	-	27,090,000,000	-
Ministry of Power, 2nd Issue 1388	88/09/01	92/09/01	16%		25,000,000,000	.	25,000,000,000	.
Ministry of Power, 2nd Issue 1388	88/07/11	92/07/11	16%		10,690,000,000	0	10,690,000,000	0
Ministry of Power, 1st Issue 1388	88/07/06	92/07/06	16%		5,000,000,000	0	5,000,000,000	0
Gov't. Development Projects	84/10/10	88/10/10	15/5%		3,340,000,000	-	3,340,000,000	-
Others					-	1,639,299,000,000	10,590,000,000	1,641,204,000,000
Total					2,765,250,000,000	2,423,989,000,000	2,776,340,000,000	2,444,404,000,000
Less: Bonds Held for Our Clients					(169,301,000,000)	(320,600,000,000)	(169,301,000,000)	(320,600,000,000)
Our Own holding (Net)					2,595,949,000,000	2,103,389,000,000	2,607,039,000,000	2,123,804,000,000

(Iranian Rials)

Note (9) Investment-Listed Shares

	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Listed Shares at Purchase Price	(9-1)	111,543,329,092	138,402,404,169	114,342,622,145	151,371,787,816
Difference Between Market Price & Purchase Price		(13,670,490,276)	(61,109,407,720)	(13,670,490,276)	(61,109,407,720)
Total		**97,872,838,816**	**128,481,304,271**	**100,672,131,869**	**90,262,380,096**

Listed shares are adjusted on the basis of market prices at year-end.

(Iranian Rials)

(9-1) Groups

	Parent Company (Karafarin Bank) 2010 Purchase price	Parent Company (Karafarin Bank) 2010 Market price	Consolidated Accounts 2010 Purchase price	Consolidated Accounts 2010 Market price
Financial Intermediaries	30,384,166,750	29,899,699,280	32,264,166,750	31,779,699,280
Chemicals	27,565,251,499	23,366,848,761	27,565,251,499	23,366,848,761
Metals	21,794,822,130	18,615,405,161	21,794,822,130	18,615,405,161
Vehicles	10,879,477,431	7,884,360,408	10,879,477,431	7,884,360,408
Non-Metal Minerals	8,408,658,763	6,198,261,324	8,408,658,763	6,198,261,324
Radio & Television	4,315,799,067	4,045,468,446	4,315,799,067	4,045,468,446
Oil Industry	3,178,699,315	2,698,578,496	3,178,699,315	2,698,578,496
Engineering & Technical Services	1,830,959,739	1,858,791,000	1,830,959,739	1,858,791,000
Mineral Extraction	77354501600%	851,568,000	1,692,838,069	1,770,861,053
Construction	1,680,045,843	1,764,870,000	1,680,045,843	1,764,870,000
Others	731,903,539	688,987,940	731,903,539	688,987,940
Total	**111,543,329,092**	**97,872,838,816**	**114,342,622,145**	**100,672,131,869**

(Iranian Rials)

Note(10) Receivables	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Sundry Debtors In Iranian Rials	(10-1)	1,798,269,632,641	1,848,340,771,988	1,693,873,487,750	1,838,976,427,781
Sundry Debtors In Foreign Exchange		13,693,559,895	8,807,980,453	13,693,559,895	8,807,980,453
Total		**1,811,963,192,536**	**1,857,148,752,441**	**1,707,567,047,645**	**1,847,784,408,234**

(Iranian Rials)

Note (10-1) Sundry Debtors In Iranian rials	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Accrued Interest on Facilities	(10-1-1)	1,587,430,848,600	1,580,067,149,991	1,587,430,848,600	1,580,067,149,991
Interest on Paid L/Cs		2,555,914,658	54,909,253,176	2,555,914,658	54,909,253,176
Interest on Participation Bonds	(10-1-2)	63,454,562,267	54,413,681,032	63,740,538,895	54,868,707,795
Dividends		57,383,244,066	40,898,893,760	19,391,053,701	41,239,691,200
Others		87,445,063,050	118,051,794,029	20,755,131,896	107,891,625,619
Total		**1,798,269,632,641**	**1,848,340,771,988**	**1,693,873,487,750**	**1,838,976,427,781**

Note (10-1-1) This is interest receivable on loans, calculated on accrual basis as at March 20 th., 2010.

Note (10-1-2) This is interest receivable on Participation Bonds, calculated on accrual basis as at March 20 th., 2010

(Iranian Rials)

Note (11) Prepayments	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Insurance		4,418,848,261	2,210,420,959	3,935,348,261	1,870,272,169
Rent		1,514,000,000	2,094,012,000	1,514,000,000	2,094,012,000
Publications		1,450,000,000	0	1,450,000,000	0
Personnel Welfare		1,196,313,852	512,240,000	1,196,313,852	512,240,000
Informatic Sysems		1,071,000,000	9,252,683,500	1,071,000,000	9,252,683,500
Advertisement		330,350,529	352,000,000	330,350,529	352,000,000
Others		2,582,337,082	2,652,124,762	2,383,958,950	2,585,124,762
Total		**12,562,849,724**	**17,073,481,221**	**11,880,971,592**	**16,666,332,431**

(Iranian Rials)

Note (12) Loans & Advances

	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Installment Credit		472,397,827,320	90,668,767,961	472,397,827,320	90,668,767,961
Repairs & Upkeep Facilities		59,716,093,068	122,753,868,483	59,716,093,068	122,753,868,483
Leasing Facilities		66,506,017,669	132,684,130,876	215,932,764,920	243,825,218,161
Joint Participations		5,032,488,844,747	5,477,655,050,390	5,032,488,844,747	5,477,655,050,390
Commercial Participations		10,643,940,517,708	10,045,794,480,401	10,643,940,517,708	10,045,794,480,401
Gharz-ol-Hasanah Facilities		195,948,409	127,396,409	195,948,409	127,396,409
Purchase of Loans		298,821,511,923	117,113,784,443	298,821,511,923	117,113,784,443
Foreign Exchange Facilities		339,121,257,552	225,535,345,905	339,121,257,552	225,535,345,905
Facilities to Staff		380,079,245,286	238,908,528,805	380,079,245,286	238,908,528,805
Interbank Facilities		0	100,000,000,000	0	100,000,000,000
Overdue Facilities		1,028,119,666,688	1,422,390,112,452	1,028,119,666,688	1,422,390,112,452
Overdues & Doubtful Debts		3,450,871,875,516	2,469,958,208,544	3,450,871,875,516	2,469,958,208,544
Total		**21,772,258,807,896**	**20,443,589,674,669**	**21,921,685,555,147**	**20,554,730,761,954**
Less:					
Payment Received on Joint Participations & Commercial Participations		(734,043,715,041)	(427,528,674,926)	(734,043,715,041)	(427,528,674,926)
Future Interests		(419,624,844,032)	(462,312,276,286)	(419,624,844,032)	(462,312,276,286)
General Doubtful Debt Reserves		(388,667,433,766)	(364,864,508,652)	(388,667,433,766)	(364,864,508,652)
Special Doubtful Debt Reserves		(490,898,408,370)	(375,209,251,224)	(490,898,408,370)	(375,209,251,224)
Total		**19,739,024,406,687**	**18,813,674,963,581**	**19,888,451,153,938**	**18,924,816,050,866**
Debtors for Paid L/Cs		81,073,229,508	624,772,601,277	81,073,229,508	624,772,601,277
Overdues & Doubtful Debts on L/Cs Paid		682,935,497,435	320,507,726,917	682,935,497,435	320,507,726,917
Overdues on Guarantees Paid		50,968,612,064	11,491,433,943	50,968,612,064	11,491,433,943
Doubtful Debts on L/Cs Paid		116,697,759,006	142,862,276,685	116,697,759,006	142,862,276,685
Net Outstanding		**20,670,699,504,700**	**19,913,309,002,403**	**20,820,126,251,951**	**20,024,450,089,688**
Add: Debtors Term L/Cs		1,797,088,936,347	2,133,689,553,369	1,797,088,936,347	2,133,689,553,369
Total		**22,467,788,441,047**	**22,046,998,555,772**	**22,617,215,188,298**	**22,158,139,643,057**

(Iranian Rials)

Note (13) Investment-Unlisted

	Note	No. of shares	Our shares	%	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Karafarin Bank Investment Company		200,000,000	160,000,000	80	159,972,000,000	159,972,000,000	-	-
Karafarin Leasing Company		100,000,000	100,000,000	100	100,000,000,000	99,998,996,000	-	-
Karafarin Brokerage Company	(13-1)	50,000,000	50,000,000	100	25,000,000,000	25,000,000,000	-	-
Karafarin Insurance Company		200,000,000	20,822,856	10/80	21,595,426,400	21,595,426,400	34,127,641,400	21,595,426,400
Karafarin Money Exchange Co.	(13-2)	-	-	100	10,000,000,000	10,000,000,000	10,000,000,000	10,000,000,000
Iranian Investment Company	(13-1)	83,000	500	0/6	1,750,000,000	1,750,000,000	1,750,000,000	1,750,000,000
Tehran Stock Exchange Company		150,000,000	1,500,000	1	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
Over the Counter Company		100,000,000	1,000,000	1	1,000,000,000	1,000,000,000	1,500,000,000	1,500,000,000
Iran Credit Rating Company		2,417,000	45,000	1/86	450,000,000	450,000,000	450,000,000	450,000,000
Sima Rayaneh Company	(13-2)	1,000,000	350,000	20	175,000,000	200,000,000	175,000,000	1,000,000,000
Karafarin Investment Company	(13-1)	1,000,000	350,000	35	1,000,000	175,000,000	1,000,000	175,000,000
Iran Commodity Exchange					-	-	500,000,000	0
Participation in Projects					-	-	411,703,132,124	394,047,316,207
					321,443,426,400	**321,641,422,400**	**461,706,773,524**	**432,017,742,607**

Note (13-1) The paid capitals of Karafarin Brokerage Co., Iranian Credit Rating Co., & Sima Rayaneh Co. are respectively 50%, 35%, & 50%.
Note (13-2) Karafarin Money Exchange Co., is being established.

Note (14) Fixed Assets

Parent Company (Karafarin Bank)

	at cost				Accumulated Depreciation/Amortized				Net Book Value	
	2009	Increase	Decrease	2010	Depreciation /Amortization	Adjustments (sold Assets)	Adjustments	2010	2009	2010
Land & Building	433,431,506,530	78,970,956,458	-	512,402,462,988	41,610,551,770	20,792,914,142		62,403,465,912	391,820,954,760	162,186,650,471
Vehicles	7,767,188,000	754,200,000	(773,800,000)	7,747,588,000	3,592,131,798	1,066,346,063	(492,408,950)	4,166,068,911	4,175,056,202	4,883,149,303
Office Equipments	152,388,748,277	27,912,470,995	(1,310,928,300)	178,990,290,972	38,853,657,478	17,862,007,718	(289,865,692)	56,425,799,504	113,535,090,799	101,962,497,798
Total	593,587,442,807	107,637,627,453	(2,084,728,300)	699,140,341,960	84,056,341,046	39,721,267,923	(782,274,642)	122,995,334,327	509,531,101,761	269,032,297,572
Capital Prepayments	105,341,643,377	857,880,040,822	(634,142,081,773)	329,079,602,426	-			-	105,341,643,377	330,106,090,702
Net Fixed Assets	698,929,086,184	965,517,668,275	(636,226,810,073)	1,028,219,944,386	84,056,341,046	39,721,267,923	(782,274,642)	122,995,334,327	614,872,745,138	599,138,388,274

Fixed assets have been fully insured against fire, floods & earthquake.

Consolidated Accounts

	at cost				Accumulated Depreciation/Amortized				Net Book Value	
	2009	Increase	Decrease	2010	Depreciation /Amortization	Adjustments (sold Assets)	Adjustments	2010	2009	2010
Land & Building	409,322,449,052	73,131,000,302	-	482,453,449,354	42,165,325,723	21,598,367,465	-	63,763,693,188	367,157,123,329	418,689,756,166
Vehicles	8,266,782,000	754,200,000	(773,800,000)	8,247,182,000	3,795,309,229	1,140,450,205	(492,408,950)	4,443,350,484	4,471,472,771	3,803,831,516
Office Equipments	153,461,318,677	28,772,971,337	(1,310,928,300)	180,923,361,714	39,174,042,583	18,088,467,626	(289,865,692)	56,972,644,517	114,287,276,094	123,950,717,197
Total	571,050,549,729	102,658,171,639	(2,084,728,300)	671,623,993,068	85,134,677,535	40,827,285,296	(782,274,642)	125,179,688,189	485,915,872,194	546,444,304,879
Capital Prepayments	105,341,643,377	857,880,040,822	(634,142,081,773)	329,079,602,426	-			-	105,341,643,377	329,079,602,426
Net Fixed Assets	676,392,193,106	960,538,212,461	(636,226,810,073)	1,000,703,595,494	85,134,677,535	40,827,285,296	(782,274,642)	125,179,688,189	591,257,515,571	875,523,907,305

(Iranian Rials)

Note (15) Other Assets	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	2009	2010	2009
Goodwill	437,568,597,198	358,409,454,332	441,068,597,198	361,909,454,332
Deposits for Rented Buildings	121,210,000,000	66,607,500,000	121,210,000,000	66,607,500,000
Collaterals Seized	370,476,529,614	6,594,805,455	370,476,529,614	6,594,805,455
Deposits for Telephones	1,176,828,553	1,218,353,719	1,179,837,553	1,308,917,119
Deposits for Rented Software	0	1,071,000,000	0	1,173,500,334
Software	1,726,618,078	730,000,000	1,787,427,078	730,000,000
Undelivered Cheque Books	336,833,800	531,090,600	336,833,800	531,090,600
Others	3,465,600,055	2,406,122,079	6,157,854,455	2,406,122,079
Total	**935,961,007,298**	**437,568,326,185**	**942,217,079,698**	**441,261,389,919**

(Iranian Rials)

Note (16) Current & Saving Deposits	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	2009	2010	2009
Current Accounts- in Rials	1,196,331,082,917	747,131,028,564	1,196,331,082,917	747,131,028,564
Savings Accounts- in Rials	14,554,527,960	29,798,128,728	14,554,527,960	29,798,128,728
Current Accounts- in F.exchange	136,450,507,441	295,094,906,297	136,450,507,441	295,094,906,297
Savings Accounts- in F.exchange	225,507,332,291	318,578,378,346	225,507,332,291	318,578,378,346
Unutilized Portion of Managed Funds	15,417,475,000	19,289,309,000	15,417,475,000	19,289,309,000
Total	**1,588,260,925,609**	**1,409,891,750,935**	**1,588,260,925,609**	**1,409,891,750,935**

(Iranian Rials)

Note (17) Term Deposits		Parent Company (Karafarin Bank)		Consolidated Accounts	
	Note	2010	2009	2010	2008
Term Deposits- Rials	(17-1)	25,555,706,981,689	23,751,878,495,074	25,528,645,639,155	23,746,338,877,166
Term Deposits- Foreign Exchange	(17-2)	526,856,567,073	299,264,553,356	526,856,567,073	299,264,553,356
Total		**26,082,563,548,762**	**24,051,143,048,430**	**26,055,502,206,227**	**24,045,603,430,522**

(Iranian Rials)

Note (17-1) Term Deposits- Rials	Provision %	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
One-Month Deposits	9	(17-1-1)	8,423,183,888,090	6,718,439,783,444	8,396,122,545,555	6,718,439,783,444
Three-Month Deposits	0		0	654,776,863,731		654,776,863,731
Three-Month & 1 Day Special Deposits	0		0	1,016,844,601,577		1,016,844,601,577
Four-Month Deposits	9		547,521,502,524	0	547,521,502,524	-
Six-Month Deposits	16		471,816,886,755	1,158,527,874,725	471,816,886,755	1,158,527,874,725
One-Year Certificates of Deposits	18-19		1,039,895,193,762	6,183,543,984,464	1,039,895,193,762	6,183,543,984,464
One-Year Deposits	17.25		5,702,827,540,905	5,858,134,171,144	5,702,827,540,905	5,858,134,171,144
Two-Year Deposits	17.5		73,612,420,000	23,679,710,000	73,612,420,000	23,679,710,000
Three-Year Deposits	18		51,306,710,000	21,715,600,000	51,306,710,000	21,715,600,000
Four-Year Deposits	18.5		66,314,300,000	39,816,700,000	66,314,300,000	39,816,700,000
Five-Year Deposits	19		9,179,228,539,653	2,076,399,205,989	9,179,228,539,653	2,076,399,205,989
Total			**25,555,706,981,689**	**23,751,878,495,074**	**25,528,645,639,155**	**23,751,878,495,074**

Note (17-1-1) Linking accounts amount to 3,136 million rials of this item, bearing 9% interest rate.

(Iranian Rials)

Note (17-2) Term Deposits- F.Exchange	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Term-Deposit in EURO	358,056,139,500	162,737,579,678	358,056,139,500	162,737,579,678
Term-Deposit in Dirham	102,106,000,000	67,473,000,000	102,106,000,000	67,473,000,000
Term-Deposit in US Dollars	58,431,180,613	58,774,350,853	58,431,180,613	58,774,350,853
Term-Deposit in GB pound	8,263,246,960	10,279,622,825	8,263,246,960	10,279,622,825
Total	**526,856,567,073**	**299,264,553,356**	**526,856,567,073**	**299,264,553,356**

(Iranian Rials)

Note(18) Other Deposits	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Margins Held Against Letters of Guarantee (L/G's) Issued	1,117,273,136,430	982,734,158,095	1,117,273,136,430	982,734,158,095
Advances Received Against Letters of Credit	262,507,893,041	309,799,077,813	262,507,893,041	309,799,077,813
Others	212,481,991,962	19,467,350,239	212,481,991,962	19,467,350,239
Total	**1,592,263,021,433**	**1,312,000,586,147**	**1,592,263,021,433**	**1,312,000,586,147**

(Iranian Rials)

Note(19) Central Bank Facilities

	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Central Bank Facilities	(19-1)		650,000,000,000		650,000,000,000
Central Bank Deposit in Foreign Exchanges	(19-2)	740,550,000,000	713,375,000,000	740,550,000,000	713,375,000,000
		740,550,000,000	**1,363,375,000,000**	**740,550,000,000**	**1,363,375,000,000**

(Iranian Rials)

Note (20) Interbank

	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Money Orders on Other Banks		482,429,544,035	903,212,162,050	482,429,544,035	903,212,162,050
Checks Clearing		42,785,208,913	233,911,858,735	42,785,208,913	233,911,858,735
Facilities Received from IFC	(20-1)	13,767,600,000	17,490,600,000	13,767,600,000	17,490,600,000
Facilities Received from Bank Saman		344,983,911,374	0	344,983,911,374	306,314,658,467
Other		48,144,740,506	54,157,101,063	48,144,740,506	56,342,820,867
		932,111,004,828	1,208,771,721,848	932,111,004,828	1,517,272,100,119

Note (20-1) The total amount of the facility is $10m, of which $2m has been disbursed by the IFC; it is to be repaid in 10 installments of six-month each.
We have already repaid 3 installments.

(Iranian Rials)

Note (21) Payables & Provisions for Expenses Incurred

	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Margins Held Against Letters of Credit (L/C's) Opened	1,861,086,853,455	1,815,156,302,233	1,861,086,853,455	1,815,156,302,233
Differentials Between Payable & Unrealized Interest on Time Deposits	36,739,442,573	79,284,919,652	36,739,442,573	79,284,919,652
Provisions for Expenses Realized	46,049,917,701	22,287,955,025	46,266,881,918	22,635,192,713
Customers' Unclaimed Deposits on Guarantees Past Maturity	7,443,058,881	4,936,805,063	7,443,058,881	4,936,805,063
Good Performance Bonds Deposits	6,208,430,648	4,529,140,904	6,208,430,648	4,529,140,904
Social Welfare Organization	10,649,397,994	2,082,812,936	10,698,237,290	2,109,426,002
Others	88,759,211,259	128,706,211,802	373,388,998,064	127,262,032,552
Total	**2,056,936,312,510**	**2,056,984,147,615**	**2,341,831,902,828**	**2,055,913,819,119**

(Iranian Rials)

Note (22) Dividend Payable	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Dividend		8,250,000,628	4,782,476,127	8,250,000,628	6,781,759,207

(Iranian Rials)

Note (23) Provisions	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009
Provision for Severance Pay	(23-1)	32,793,527,381	21,375,820,419
Paid during the year		(1,590,642,023)	(2,732,184,294)
Provisions Taken		19,920,452,698	14,149,891,256
Total		**51,123,338,056**	**32,793,527,381**

Note (23-1) Provision for Severance Pay is annually updated on the basis of one-month salary of all full-time employees.

(Iranian Rials)

Note (24) Capital	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Paid Up Capital (divided into 2,000 million sha		2,000,000,000,000	2,000,000,000,000	2,000,000,000,000	2,000,000,000,000

Note (24-1) Capital Adequacy Ratio

This is the ratio between a bank's base capital and the risk carried by its various assets. For this purpose, each asset is given a weight according to the risk it is considered to carry. The ratio must be at least 8%.

(Iranian Rials)

Capital Adequacy	Parent Company (Karafarin Bank)	
Tier one:	**2009**	**2009**
Paid-up Capital	2,000,000,000,000	2,000,000,000,000
Legal Reserve	736,264,494,106	485,647,245,642
Accumulated Profits	1,500,907,178,427	1,136,640,992,604
Total Tier One Capital	**4,237,171,672,533**	**3,622,288,238,246**
General Reserve on Loans & Investments	388,667,433,766	364,864,508,652
Minus Adjustments to Tier Two Capital in Excess of 1.25% of Weighted Assets.	(31,171,109,573)	(28,060,289,185)
Total Tier Two Capital	357,496,324,193	336,804,219,467
Base Capital	**4,594,667,996,726**	**3,959,092,457,713**

	2010			2009		
Risk-Adjusted Assets	Assets	Risk Weight	Risk-Adjusted Assets	Assets	Risk Weight	Risk-Adjusted Assets
Cash	218,953,970,789	0	-	200,416,322,462	0	0
Due from Central Bank	4,190,848,914,129	0	-	4,360,869,381,518	0	0
Interbank	3,872,885,767,554	20	774,577,153,511	3,266,861,045,448	20	653,372,209,090
Gov't. Participation Bonds	2,502,039,000,000	0	-	1,661,403,000,000	0	-
Non-Gov't. Participation Bonds	93,910,000,000	100	93,910,000,000	441,986,000,000	100	441,986,000,000
Investments	419,316,265,216	100	419,316,265,216	398,934,418,849	100	398,934,418,849
Receivables	1,797,425,003,921	100	1,797,425,003,921	1,793,927,090,956	100	1,793,927,090,956
Prepayments	11,880,971,592	100	11,880,971,592	16,666,332,431	100	16,666,332,431
Housing Facilities & Leasing	1,074,926,881,365	50	537,463,440,682	1,600,694,205,706	50	800,347,102,853
Debtors Term L/Cs	1,797,088,936,347	50	898,544,468,174	2,133,689,553,369	50	1,066,844,776,685
Loans & Advances (Other)	19,595,772,621,326	100	19,595,772,621,326	18,312,614,796,697	100	18,312,614,796,697
Net Fixed Assets & Goodwill	1,344,519,825,335	100	1,344,519,825,335	615,602,745,138	100	615,602,745,138
Other Assets	496,665,792,022	100	496,665,792,022	436,838,326,185	100	436,838,326,185
Underwriting Commitment (Credit Conversion Factors 50%)	153,045,000,000	100	153,045,000,000	129,007,000,000	100	129,007,000,000
Guarantees Issued (Credit Conversion Factors 20%)	1,949,049,977,327	100	1,949,049,977,327	1,692,564,290,423	100	1,692,564,290,423
Guarantees Issued (Credit Conversion Factors 50%)	54,432,388,862	100	54,432,388,862	82,873,095,917	100	82,873,095,917
L/C Commitments (Credit Conversion Factors 20%)	473,103,027,465	100	473,103,027,465	502,759,372,117	100	502,759,372,117
Total Weighted Risk Adjusted Assets	40,045,864,343,251		28,599,705,935,433	37,647,706,977,217		26,944,337,557,341
	Capital Adequacy Ratio:		***16.07***	***Capital Adequacy Ratio:***		***14.69***

(Iranian Rials)

Note (25) Legal Reserves

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	**2009**	**2010**	**2009**
Balance at the Beginning of the Year	485,647,245,642	303,012,443,356	488,854,022,442	304,675,158,425
Appropriated from Net Income	250,617,248,464	182,634,802,286	252,124,225,383	184,178,864,017
Balance at the End of the Year	**736,264,494,106**	**485,647,245,642**	**740,978,247,826**	**488,854,022,442**

According to Articles (140) and (238) of the Commercial Code of Iran of 1347 (1968), Resolutions of the Currency and Credit Council and Article (58) of the Bank's Articles of Association, 15% of the Bank's annual net income must be retained and credited to the "Legal Reserve" until the balance equates the paid-in capital.

Note (26) Minority Participations

(Iranian Rials)

	2010	**2009**
Equity	40,028,000,000	40,028,000,000
Reserves	204,809,813	204,809,813
Accumulated Profit (Loss)	(17,513,926,941)	(12,973,812,671)
	22,718,882,872	**27,258,997,142**

Note (27) Interest on Loans

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	**2009**	**2010**	**2009**
Revenues Under Islamic Contracts	3,613,710,461,581	3,495,810,549,645	3,645,018,554,347	3,519,337,016,867
Late Payment Fees	1,419,636,707,510	884,007,924,600	1,419,636,707,510	884,007,924,600
Total	**5,033,347,169,091**	**4,379,818,474,245**	**5,064,655,261,857**	**4,403,344,941,467**

(Iranian Rials)

Note (28) Interest on Participation Bonds

		Parent Company (Karafarin Bank)		Consolidated Accounts	
	Note	**2010**	**2009**	**2010**	**2009**
Interest on Participation Bonds	(28-1)	452,721,553,654	310,436,904,927	452,721,553,654	316,051,099,557
		452,721,553,654	**310,436,904,927**	**452,721,553,654**	**316,051,099,557**

Note (28-1) Interest on Government's participation bonds is calculated on a daily basis and paid either on 90-day or 180-day intervals. For those securities with interest payment dates falling beyond the Bank's year-end, accrued Interest is calculated and taken into income for the year.

(Iranian Rials)

Note (29) Interest on Deposits

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	**2009**	**2010**	**2009**
Interest on Deposits with Banks in Rials	284,534,838,597	89,917,577,524	284,534,838,597	91,392,738,740
Interest on Statutory Deposits	35,737,579,008	36,450,817,276	35,737,579,008	36,450,817,276
Interest on Term Deposits with Foreign Banks	1,567,900,272	9,070,335,718	1,567,900,272	9,070,335,718
Total	**321,840,317,878**	**135,438,730,518**	**321,840,317,878**	**136,913,891,734**

Note (30) Income from Investments

(Iranian Rials)

	Note	Parent Company (Karafarin Bank)		Consolidated Accounts	
		2010	2009	2010	2009
Cash Dividends		21,852,775,154	52,365,327,868	34,705,861,748	23,580,787,960
Loss Due to Fall in Share Prices		47,438,917,444	(28,363,180,724)	47,438,917,444	(29,033,002,594)
Return on Investments		3,682,501,129	-	3,682,501,129	(115,314,660)
Total		**72,974,193,727**	**24,002,147,144**	**85,827,280,321**	**(5,567,529,294)**

Note (31) Interest on Term-Deposits

(Iranian Rials)

	Note	Parent Company (Karafarin Bank)		Consolidated Accounts	
		2010	2008	2010	2009
Interest Paid on Deposits-rials	(31-1)	3,727,291,758,867	3,056,542,320,086	3,727,291,758,867	3,056,542,320,086
Differential Between Provisional Interest Paid and Interest Realized	(31-2)	34,491,895,516	76,653,423,186	34,491,895,516	76,653,423,186
Interest Paid on Term Deposits- F.exchange		39,842,095,034	74,002,580,542	39,842,095,034	74,002,580,542
Total		**3,801,625,749,417**	**3,207,198,323,814**	**3,801,625,749,417**	**3,207,198,323,814**

Note (31-1) Provisional Interest paid

(Iranian Rials)

	Note	Parent Company (Karafarin Bank)		Consolidated Accounts	
		2010	2009	2010	2009
Five-year Deposits		679,572,678,418	418,603,603,711	679,572,678,418	418,603,603,711
Four-year Deposits		10,648,090,817	7,451,889,668	10,648,090,817	7,451,889,668
Three-year Deposits		6,962,250,494	4,472,495,020	6,962,250,494	4,472,495,020
Two-year Deposits		7,674,724,972	6,614,245,551	7,674,724,972	6,614,245,551
One-year Ddeposits		939,345,248,492	922,386,831,336	939,345,248,492	922,386,831,336
Certificates of Deposits		1,095,421,447,554	300,198,541,021	1,095,421,447,554	300,198,541,021
Special Short-term Deposits		304,171,419,098	508,919,464,725	304,171,419,098	508,919,464,725
Short-term Deposits		717,987,794,537	964,548,672,240	717,987,794,537	964,548,672,240
Total		**3,761,783,654,383**	**3,133,195,743,272**	**3,761,783,654,383**	**3,133,195,743,272**

Note (31-2) Calculation of differential between provisional interest paid and interest realized

(Iranian Rials)

	Parent Company (Karafarin Bank)	
	2010	**2009**
Income from 'Mutually Shared Profits'		
Interest on Facilities	4,835,350,768,178	4,172,510,435,784
Interest on Participation Bonds	452,721,553,654	308,550,131,735
Interest on Deposits	286,102,738,869	89,917,577,524
Dividends	69,291,692,598	14,660,119,857
Interest on Interbank Facilities	17,667,314,359	19,769,863,013
Total	**5,661,134,067,658**	**4,605,408,127,913**
Share of Depositors	4,492,036,378,519	3,730,756,189,181
Share of Term Deposits in Statutory Deposits' Bonus	35,737,579,008	34,084,851,173
Minus the Bank's Fees	(765,990,303,144)	(631,645,297,083)
Share of Depositors	3,761,783,654,383	3,133,195,743,271
Provisional interests Paid	(3,727,291,758,867)	(3,056,542,320,085)
Differential Between Provisional Interest Paid and Interest Realized	**34,491,895,516**	**76,653,423,186**

(Iranian Rials)

Resources employed to earn mutual profits (26 weeks average)	Parent Company (Karafarin Bank)	
	2010	**2009**
Net Use of Mutual Facilities	22,537,762,484,193	18,833,606,620,085
Net Use of Participation Bonds	2,805,282,130,765	1,950,967,792,500
Net Use of Deposits with Other Banks	1,928,832,092,583	700,125,985,726
Net use of Investments	453,233,254,869	442,171,069,167
Total	**27,725,109,962,410**	**21,926,871,467,479**
Average Term Deposits	25,533,010,104,801	21,054,843,236,106
Average Statutory Deposits on Term Deposits	(3,533,495,332,472)	(3,292,289,046,638)
Net Average Term Deposits	21,999,514,772,328	17,762,554,189,469
Surplus Sources	**5,725,595,190,082**	**4,164,317,278,010**

(Iranian Rials)

Note (32) Doubtful Debts Reserve	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
General Doubtful Debts Reserve		23,802,925,114	114,026,934,834	23,802,925,114	114,026,934,834
Specific Doubtful Debts Reserves		115,689,157,146	126,913,004,331	115,689,157,146	128,521,229,331
Total		**139,492,082,260**	**240,939,939,165**	**139,492,082,260**	**242,548,164,165**

According to the Circular no. MB/2382 of 1385/12/05 of the Banks Regulations Department of CBI, all banks and credit institutions are required to set aside 1,5% of net outstanding balance of their loan and investment portfolios in the form of "Reserves on Loans & Investments."

(Iranian Rials)

Note (33) Commissions	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Commissions Received					
On Guarantees Issued		199,618,219,835	176,442,987,765	199,618,219,835	176,442,987,765
On Foreign Exchange Operation		85,289,615,201	91,445,574,609	85,289,615,201	91,445,574,609
Discounted L/Cs		55,414,119,610	92,961,717,766	55,414,119,610	92,961,717,766
On Managed Funds		5,148,040,314	4,571,172,876	5,148,040,314	4,571,172,876
Others		25,661,694,746	35,013,976,010	25,661,694,746	39,327,830,971
Total		**371,131,689,706**	**400,435,429,026**	**371,131,689,706**	**404,749,283,987**
Less: Commissions Paid					
Commission Paid to the Brokers		(1,453,977,306)	(1,054,409,961)	(1,453,977,306)	(1,630,364,172)
Commission Paid to Other Banks for Participation Bonds Held in Trust		(3,081,729,177)	(1,721,827,561)	(3,081,729,177)	(1,721,827,561)
Commission Paid for Automation		(11,177,048,001)	(8,543,862,933)	(11,177,048,001)	(8,543,862,933)
Other		(1,414,007,794)	(763,783,187)	(44,969,983,071)	(1,368,110,175)
Net Commissions		**354,004,927,428**	**388,351,545,384**	**310,448,952,151**	**391,485,119,146**

(Iranian Rials)

Note (34) Other Income

	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Foreign Exchange Transactions		44,884,262,085	68,664,940,803	44,884,262,085	68,664,940,803
Valuation Fees		28,508,640,519	12,397,522,662	29,117,265,909	12,885,881,220
Others		17,918,820,094	5,476,699,884	18,327,004,423	5,859,510,239
Total		**91,311,722,698**	**86,539,163,349**	**92,328,532,417**	**87,410,332,262**

(Iranian Rials)

Note (35) Administrative Expenses

	Note	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Staff Charges		247,326,734,010	196,460,381,267	251,127,211,444	200,201,530,750
Data Processing Charges		55,482,479,700	48,175,898,109	55,763,557,300	48,336,842,842
Consultants' Fees	(35-1)	41,442,515,391	26,713,527,530	42,321,344,711	27,552,971,008
Rent		23,016,937,287	28,720,769,080	17,815,137,382	29,479,393,080
Upkeep and Maintenance Charges		17,247,287,129	18,629,289,627	17,414,602,213	18,811,517,017
Depreciation		40,025,196,230	16,641,841,582	41,218,054,937	17,543,076,494
Water, Electricity, Fuel & Telephone		11,847,399,489	9,720,787,957	11,908,828,287	9,787,316,782
Advertising Expenses		10,422,083,130	7,842,771,497	10,422,083,130	7,842,771,497
On-the-job-training Costs		1,054,638,263	7,686,901,467	1,054,638,263	7,686,901,467
Cash Insurance Premium		4,497,222,223	3,081,704,904	4,536,276,778	3,101,841,256
Printing Charges		1,299,034,707	2,272,058,170	1,310,462,207	2,298,809,670
Attendance Fees- Board Members		277,000,000	225,000,000	538,500,000	310,000,000
Others		14,981,396,571	26,391,173,341	17,251,767,490	24,989,072,468
Total		**468,919,924,130**	**392,562,104,531**	**472,682,464,142**	**397,942,044,331**

Note (35-1) The major part of "consultants' fees" concerns outsourcing of such services as guarding, cleaning branches and courier service.

(Iranian Rials)

Note (36) Financial Expenses

	Parent Company (Karafarin Bank) 2010	Parent Company (Karafarin Bank) 2009	Consolidated Accounts 2010	Consolidated Accounts 2009
Interest Paid to IFC	874,756,820	1,708,374,398	874,756,820	1,708,374,398
Interest Paid to Central Bank	9,455,342,468	31,961,506,770	9,455,342,468	31,961,506,770
Others	171,594,233	0	1,073,709,716	45,234,791,841
Total	**10,501,693,521**	**33,669,881,168**	**11,403,809,004**	**78,904,673,009**

Note (37) Taxes

37-1) The Group's Provisions for Taxes Have been as Follows:

	Consolidated Accounts		Parent Company (Karafarin Bank)	
	2010	2009	2010	2009
Carried forward from last year	192,753,328,550	42,489,150,373	187,280,702,483	40,217,606,591
Provision for Taxes for the Year	242,381,290,713	238,172,163,578	234,878,778,718	232,651,368,315
Paid During the Year	(238,313,020,839)	(87,907,985,401)	(232,840,394,772)	(85,588,272,423)
	196,821,598,424	192,753,328,550	189,319,086,429	187,280,702,483
Tax Prepayments	(40,076,180,565)		(40,076,180,565)	
Outstanding Tax Liabilities	156,745,417,859	192,753,328,550	149,242,905,864	187,280,702,483

37-2) Taxes status

Year	Declared Benefit/Loss	Declared Taxable Income	Tax							Assessment Method
			Declared by the Bank	0	Claimed by MOF	0	Agreed	Paid	Reserve	
1382	156,710	12,177	2,640	0	29,857	0	38,441	11,620	0	Declaration form is prepared
1383	215,976	35,876	8,072	0	47,838	0	37,010	37,010	7,883	Under Investigation in the Reconsideration Council
1384	350,189	83,688	18,830	0	74,640	0	82,175	71,228	0	Under Assessment
1385	529,949	164,155	36,935	0	149,490	0	0	46,935	0	Under investigation in the Supreme Tax Board
1386	819,626	335,500	75,487	0	214,937	0	0	75,487	0	Statement of defence being prepared
1387	1,450,215	1,034,006	232,651	0	0	0	0	232,651	0	Under investigation in the Supreme Tax Board
1388	870,325	0	0	0	0	0	0	0	234,879	
								جمع	242,762	
Tax Prepayment						0			(93,519)	
Tax Paid						0			149,243	

1- Income taxes have been fully paid up to 2002-2003

2- For 2003-04, the MOF decision has been modified. The Bank has, in accordance with section 259 of Direct Taxes Act, paid 1/3 and files its protest with the highest Council of Taxation.

3- Final tax assessment has been made for 1383(2005). The Bank has paid the tax, but has also submited its objection to the Superme Tax Board.

4- For 1385 the Bank has submitted its objection to the taxes claimed by MOF; the matter is under investigation

5- For 1385 the Bank has submitted its objection to the taxes claimed by MOF; the matter is under investigation by the arbitrations' committee.

5- For 1386 the Bank has submitted its objection to the taxes claimed by MOF; the matter is under investigation by the arbitrations' committee.

Note (38) Annual Adjustments

52.398 million rilas annual adjustment has been made for 1384 taxes.

Note (39) Guarantees Issued

(Iranian Rials)

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	2009	2010	2009
Bid & Performance Bonds, and Advanced Payment Guarantees- rials	9,321,727,665,070	8,679,419,276,128	9,321,727,665,070	8,679,419,276,128
Bid & Performance Bonds, and Advanced Payment Guarantees- F.exchange	1,141,946,900,694	931,882,525,918	1,141,946,900,694	931,882,525,918
Counter Guarantees- F.exchange	773,863,462,594	31,935,971,382	773,863,462,594	31,935,971,382
Total	**11,237,538,028,358**	**9,643,237,773,428**	**11,237,538,028,358**	**9,643,237,773,428**

Note (40) Commitments for L/Cs Opened

(Iranian Rials)

		Parent Company (Karafarin Bank)		Consolidated Accounts	
	Amount	2010	2009	2010	2009
L/Cs Opened in Euros	103,362,759.68	1,407,676,305,131	1,653,512,741,466	1,407,676,305,131	1,653,512,741,466
L/Cs Opened in USD	16,190,220.78	159,214,631,146	157,378,370,262	159,214,631,146	157,378,370,262
L/Cs Opened in Emirates' Dirham	126,802,831.65	340,780,351,353	535,755,478,204	340,780,351,353	535,755,478,204
L/Cs Opened in Yens	3,114,885,700	464,713,788,068	431,443,935,609	464,713,788,068	431,443,935,609
L/Cs Opened in Swedish Krona	174,627,250	242,382,623,000	0	242,382,623,000	0
L/Cs Opened in Other Currencies	-	13,255,331,669	45,505,412,859	13,255,331,669	45,505,412,859
Total		**2,628,023,030,367**	**2,823,595,938,400**	**2,628,023,030,367**	**2,823,595,938,400**

Note (41) Underwriting Commitments

(Iranian Rials)

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	2009	2010	2009
Underwriting Commitments- Rayan Saipa	400,000,000,000	400,000,000,000	400,000,000,000	400,000,000,000
Underwriting Commitments- Irankhodro	0	300,000,000,000	0	300,000,000,000
Total	**400,000,000,000**	**700,000,000,000**	**400,000,000,000**	**700,000,000,000**

Note (42) Managed Funds

(Iranian Rials)

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	2009	2010	2009
Managed Funds	736,334,661,412	626,708,149,761	736,334,661,412	626,708,149,761
Future Interests	15,417,475,000	122,683,519,019	15,417,475,000	122,683,519,019
Total	**751,752,136,412**	**749,391,668,780**	**751,752,136,412**	**749,391,668,780**

(Iranian Rials)

Note (43) Securities & Assets Pledged as Collateral	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	**2009**	**2010**	**2009**
Collaterals Pledged Against Facilities	83,236,681,423,602	75,912,138,925,095	83,236,681,423,602	75,912,138,925,095
Real Estate	18,998,320,295,182	12,976,756,413,987	18,998,320,295,182	12,976,756,413,987
Shares & Securities Pledged	7,898,320,295,182	6,769,473,410,913	7,898,320,295,182	5,720,033,410,913
Leased Goods	136,902,963,214	209,444,979,975	136,902,963,214	209,444,979,975
Others	4,707,156,941,072	3,574,235,321,467	4,707,156,941,072	4,623,675,321,467
Total	**114,977,381,918,252**	**99,442,049,051,437**	**114,977,381,918,252**	**99,442,049,051,437**

Note (45) Comparison of Profits Before Tax with Net Operational Cashflow

(Iranian Rials)

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	2009	2010	2009
Profits Before Tax	1,905,660,435,148	1,450,216,716,889	1,660,236,502,742	1,164,872,485,975
Depreciation	40,025,196,230	16,641,841,582	41,218,054,937	22,393,206,536
Capital Loss on Investments & Legal Participation Expenses	(47,438,917,444)	28,363,180,724	(47,438,917,444)	29,033,002,594
Dividends from Investments & Legal Participation	(21,852,775,154)	(52,365,327,868)	(34,705,861,748)	(23,580,787,960)
Profit on Sale of Fixed Assets	(254,987,070)	(102,586,699)	(254,987,070)	(102,586,699)
Doubtful Debt Expenses	139,492,082,260	240,939,939,165	139,492,082,260	242,548,164,165
Foreign Exchange Conversion	93,834,327,363	74,794,202,170	93,834,327,363	74,794,202,170
Increase in Severance Pay Reserves	18,329,810,675	11,417,706,962	18,519,525,390	11,564,163,991
Dividends Paid	(996,532,475,499)	(94,727,387,550)	(996,532,475,499)	(94,727,387,550)
Income Tax Paid	(272,916,575,337)	(88,314,028,664)	(206,373,380,023)	(87,907,985,401)
	858,346,121,171	1,586,864,256,711	667,994,870,907	1,338,886,477,821
Net Increase (Decrease) in Operational Liabilities				
Sight Deposits	178,369,174,674	293,203,444,704	178,369,174,674	293,203,444,704
Short-term Investment Deposits	(315,721,841,512)	7,115,384,934,902	(337,243,566,139)	7,115,384,934,902
Long-term Investment Deposits (Over One-year Maturity)	2,347,142,341,844	(183,409,879,367)	2,347,142,341,844	(183,409,879,367)
Accounts Payable	265,065,251,101	581,265,587,108	415,349,662,508	676,279,632,575
	2,474,854,926,106	7,806,444,087,347	2,603,617,612,887	7,901,458,132,814
Net Increase (Decrease) in Operational Assets				
Statutory Deposits and Due from the Central Bank	170,020,467,389	(1,060,561,070,158)	170,020,467,389	(1,060,561,070,158)
Participation Bonds	(492,560,000,000)	(1,198,752,638,889)	(483,235,000,000)	(1,201,695,638,889)
Prepayments	4,785,360,839	(9,613,292,233)	4,510,631,497	(7,455,831,971)
Receivables	54,226,441,140	(620,974,965,715)	140,217,360,589	(605,262,903,290)
Other Assets	(498,392,681,113)	(391,594,617,240)	(500,955,689,779)	(367,457,052,357)
Facilities Under the Islamic Contracts	(560,281,965,525)	(5,002,509,516,388)	(598,567,625,491)	(4,983,069,623,111)
	(1,322,202,377,270)	(8,284,006,100,623)	(1,268,009,855,795)	(8,225,502,119,776)
Net Operational Cashflow	2,010,998,670,008	1,109,302,243,435	2,003,602,627,999	1,014,842,490,859

Note (46) Breakdown of Net Increase in Cash Shown in the Cashflow

(Iranian Rials)

	Parent Company (Karafarin Bank)		Consolidated Accounts	
	2010	2009	2010	2009
Notes & Coins & Precious Metals	218,953,970,789	200,416,322,462	229,022,814,927	200,425,913,513
Creditor Position with Domestic Banks after Clearing	1,406,794,858,449	1,206,486,897,481	1,407,764,264,661	1,209,910,248,474
Foreign Currency and Creditor Position with Foreign Banks	2,466,090,909,105	2,005,960,466,935	2,466,090,909,105	2,005,960,466,935
Domestic Banks Creditor Position with Us after Clearing	0	(350,000,000,000)	0	(350,000,000,000)
Foreign Banks Creditor Position with Us after Clearing	-	-	-	-
	4,091,839,738,344	3,062,863,686,878	4,102,877,988,694	3,066,296,628,922

Note (47) Transactions Subject to Article 129 of the Commercial Code

(million rials)

Legal & Real Persons	Relationship	Name	Transaction	Amount	Balance at 1388/12/29
Butan Co.	Member of the Board	Mr. Khalili Araghi	Prolongation of Several Gurantees	83,219	83,219
			Several Civil Participation Contracts	41,072	41,072
Karafarin insurance Co.	Member of the Board	Mr. Aghili, Mr. Tabe' Ghanoon, & Mr. Hoorazar	Prolongation of Several Gurantees	9,061	15,081
			Several Gurantees	6,019	
			Purchase of Property in Sa'di Ave.	433,052	433,052
			Rent	1,405	1,405
			Employees, Property & Rent Insurance	5,783	5,783
Iran Office Machine Industries Co.	Member of the Board	Mr. Khakpoor	Several Gurantees	9,283	9,283
			Prolongation of L/Cs	104,917	249,958
			L/Cs	145,041	
			Purchase of Equipments	1,105	1,105
Iran Office Machine Industries Co.	Member of the Board	Mr. Khakpoor	Prolongation of Several Gurantees	1,486	4,453
			Several Gurantees	2,967	
			Purchase of Equipments	3,352	3,352
Kar va Andisheh Engineering Co.	Member of the Board	Mr. Tabe' Ghanoon	Prolongation of Several Gurantees	22,851	41,736
			Several Gurantees	21,625	
			Prolongation of L/Cs	228,590	236,533
			L/Cs	7,943	
			Purchase of Equipments	14	14
Karafarin Bank Leasing Co.	Member of the Board	Mr. Aghili, Mr. Tabe' Ghanoon, Mr. Hoorazar	Deposits & Rent	156,725	156,725
Karafarin Bank Investment Co.	Member of the Board	Mr. Tabe' Ghanoon, Mr. Hoorazar, Mr. Nayebi	Prepayments & Rent	2,436	2,436
			Prepayments & Rent	300,000	300,000
			Prolongation of a Guarantee	180	180
Iran Office Machine Services Co.	Member of the Board	Mr. Khakpoor	Purchase of Services & Equipments	1,576	1,576
Gam Shoe Co.	Member of the Board	Mr. Tabe' Ghanoon & Mr. Nayebi	Prolongation of Several Hire Purchase Facilities	16,260	16,260
			Prolongation of L/Cs	4,685	4,685
Karafarin Brokerage Co.	Member of the Board		Purchase of Shares from TSE for the Bank	8,676	8,676
			Purchase of Participation Bonds	273,844	273,844
			Prolongation of Several Gurantees	220	310
			Several Gurantees	90	
Geno Consultants Co.	Member of the Board	Mr. Khakpoor	Fees for Design, Architecture & Supervision	1,907	1,907
			Prolongation of Several Gurantees	2,618	32,271
			Several Gurantees	29,653	
Sepahan Industrial Group Co.	Member of the Board	Mr. Jaber-Ansari	Deposit & Rent (Sepahan)	10,900	10,900
			Prolongation of L/Cs	548	3,338
			L/Cs	2,790	