



## **BANK SADERAT PLC (the 'Bank')**

### **BASEL III PILLAR 3 DISCLOSURES**

**As at 31st December 2018**

#### **Contents**

Introduction.....	2
Risk Management Structure and Corporate Governance .....	3
Capital Adequacy.....	6
Capital Requirement, Resources & Ratios.....	7
Interest Rate Risk.....	8
Foreign Exchange Risk .....	9
Credit Risk.....	10
Operational Risk .....	13
Other Risks.....	14
Remuneration.....	16

## **Introduction**

Financial institutions within the scope of Basel III are required to disclose information about their risk exposures and the risk assessment processes they have used together with explanations of their risk objectives and risk management. These disclosures form Pillar 3 of the Basel III framework.

Basel III is implemented in the European Union ('EU') via the Capital Requirements Regulations ('CRR') and the Capital Requirements Directive ('CRD'). The CRD consists of three "Pillars":

### Pillar 1

Sets out the minimum capital requirement that banks are required to meet based on their credit, market and operational risk exposure.

### Pillar 2A

Requires the maintenance of supplementary capital to cover those risks not already covered under Pillar 1. In assessing the level of Pillar 2A capital the Bank has identified the risks to which it is exposed. For each identified risk, the Bank has determined whether it is possible to mitigate or otherwise manage the risk. If mitigation or management is not feasible, the risk will either be avoided or supplementary capital will be held to ensure that, should the event occur, the loss or cost associated with that event will not reduce the capital of the Bank to a level that cannot support the business.

### Pillar 2B

Requires the maintenance of supplementary capital to cover those risks to which the Bank may become exposed over a forward-looking planning horizon (e.g. due to changes in the economic environment). Pillar 2B capital takes the form of Capital Buffers which help to ensure that the Bank continues to meet minimum requirements during a stressed period.

### Pillar 3

Complements the minimum capital requirement (Pillar 1) and the supplementary capital requirement (Pillar 2) with the aim of developing a set of disclosures which enable market participants to assess information on a bank's risks, capital and risk management procedures.

The following pages explain the risks inherent in the Bank's business and the structure and procedures that the Board have established to manage those risks. It also explains the Bank's capital structure and how capital adequacy is managed.

The information contained in this disclosure has not been audited by the Bank's external auditors.

## **Activities of the Bank**

The principal activity of the Bank is the business of banking and it is regulated by the Financial Conduct Authority and the Prudential Regulation Authority (the 'Regulators').

Following the removal of EU sanctions on 22nd October 2016, Bank Saderat PLC is no longer subject to an asset freeze and requires no licences from HM Treasury in the United Kingdom to deal with its funds and economic resources. The Bank was approved to resume normal business on 13<sup>th</sup> September 2018 and has started to rebuild its business gradually and profitably. The Bank's income has been significantly derived from its interbank placements, under existing business relationships, rather than from commercial activities. However, now the Bank has permission to resume normal business this balance will gradually change as commercial activity restarts.

## **Policy Statement**

### Basis of Preparation

CRD is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority. The rules include disclosure requirements known as 'Pillar 3' which apply to banks and building

societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. No material disclosures have been omitted and nor have any disclosures been omitted from this document for confidentiality purposes.

#### Frequency

The directors, having taken into account the size and complexity of the Bank's operations, believe that an annual disclosure is appropriate, and that these disclosures be made available on the Bank's website, [www.saderat-plc.com](http://www.saderat-plc.com). The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

This document, in conjunction with the 31st December 2018 Annual Report & Financial Statements represents the Bank's annual public Pillar 3 disclosure for the financial year ended 31st December 2018.

#### Verification

The Bank's Pillar 3 disclosures have been prepared in accordance with the CRD requirements and was reviewed and approved by the Board on 14th March 2019. The disclosures are not subject to external audit except where they are also included as accounting disclosure requirements in the Bank's Annual Report & Financial Statements.

#### Declaration

The Board is committed to a strong culture of risk management in order to protect the Bank's market reputation and its ongoing sustainability. It has therefore established governance and management structures, monitoring procedures and reporting for each type of risk that the Bank is exposed to. These risks are principally liquidity risk, interest rate risk, credit risk, foreign exchange risk and operational risk.

The responsibility for identifying and managing the principal risks rests with the Board which has ultimate responsibility for setting the strategy, risk appetite and control framework.

The Board considers that, as at 31st December 2018, it had in place adequate systems and controls with regard to its risk profile and strategy and the credit, operational and prudential risks were within the Bank's risk tolerances.

The Bank is required to ensure that its external disclosures portray its risk profile comprehensively. The directors have considered the adequacy of the Pillar 3 disclosures in relation to these requirements and are satisfied that they convey the risk profile of the Bank comprehensively. The disclosures of risk management objectives and procedures within this Pillar 3 document are detailed further within the Financial Risk Management note to the 31st December 2018 Annual Report & Financial Statements.

### **Risk Management Structure and Corporate Governance**

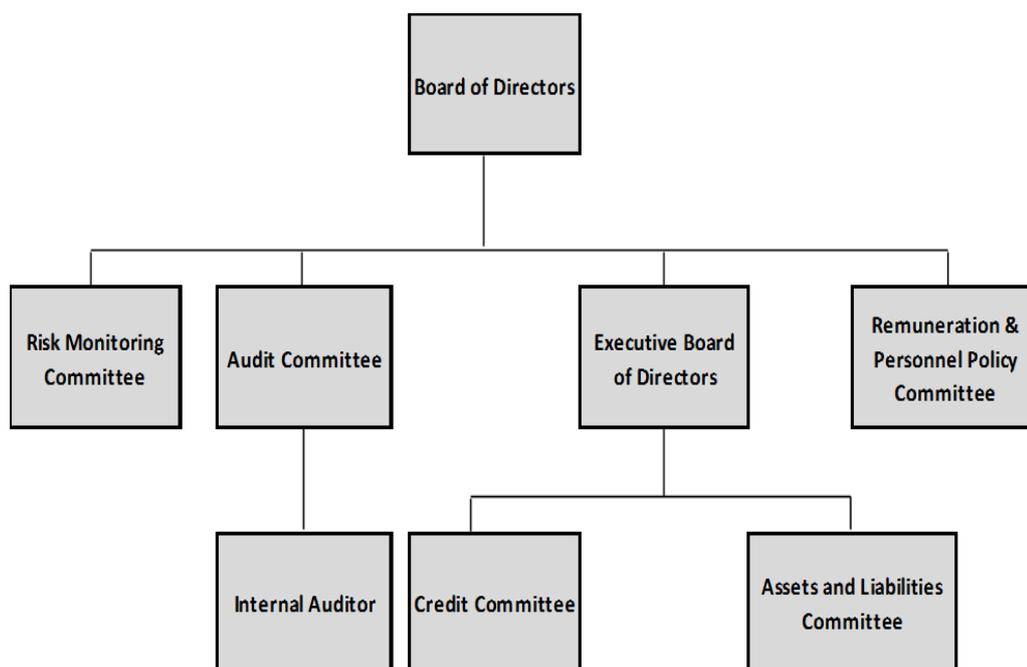
The objectives of the risk management regime within the Bank are firstly, to identify and measure all risks that the Bank is subject to and secondly, to ensure that control structures are in place to limit risks to levels that are commensurate with the level of capital held and thirdly, to identify, where appropriate, methods of mitigating risk. Where the risk management process identifies a risk that is unacceptable to the directors and it cannot be mitigated satisfactorily, the risk is avoided if possible. If a risk cannot be avoided, as it is inherent in the operations of the Bank, the directors allocate capital to cover the risk.

The activities of the Bank expose it to a variety of risks the most significant being liquidity risk, interest rate risk, credit risk, market risks, foreign exchange risk and operational risk. Strategic risk, including political risk and economic risk, is considered to be a type of operational risk. Operational risk also includes the risk of non-compliance with regulatory and legal requirements. These risks are measured and reported to senior management.

The Bank's risk management focuses on these major areas of risk:

- Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations from its financial liabilities as they become due.

- Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to changes in interest rates and is measured by analysing assets and liabilities into time bands according to their maturity or next interest repricing date, whichever is the earlier.
- Credit risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial loss. Credit risk arises principally from the Bank's lending book and from holding investments.
- Foreign exchange risk arises from the change in value, expressed in reporting currency, of assets and liabilities held in currencies other than the reporting currency, due to fluctuations in spot or forward exchange rates. The Bank does not take speculative positions in currencies and any net open positions arise in the ordinary course of business.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.



Authority flows from the Board of Directors and the above diagram shows the risk management and corporate governance structure. The main elements of risk governance are as follows:

**The Board of Directors (the 'Board')**

This is the primary governing body of the Bank. It approves the level of risk to which the Bank is exposed and the framework for reporting and managing risk. The Board is comprised of the non-executive, Iran based Chairman representing the principal shareholder, two UK based independent non-executive directors and the Managing Director. The Board meets four times a year.

The table below shows the number of directorships/partnerships held by the directors of the Bank.

Dr. Saydi	1
Mr. R J Speedy	Nil
Dr. D J Reid	Nil
Dr. H Borhani	Nil

The number of directorships shown above excludes the Bank and also counts external directorships held within the same group of companies as a single directorship in line with CRD. Directorships of non-commercial organisations are not included.

The Bank is committed to diversity and we work hard to ensure that all of our people are offered equal opportunities throughout their career with us. We are determined that nobody is discriminated against, directly or indirectly, on the basis of age, ethnic or national origin, religion or beliefs, sexual orientation, gender, marital status or disability. This commitment applies equally to members of the Board. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Board delegates authority for many of the ongoing operational decisions to:

#### **The Executive Board**

The Executive Board comprises the two UK based independent non-executive directors and the Managing Director. The Credit Committee and the Assets and Liabilities Committee report to the Executive Board which meets monthly, unless a Board meeting is being held.

#### **The Audit Committee**

The Audit Committee comprises the non-executive Chairman representing the principal shareholder and the two UK based independent non-executive directors. It is chaired by an independent non-executive director. It may be attended by the Managing Director, the Assistant Managing Director, the Financial Controller, the Internal Auditor and the External Auditor. The Audit Committee meets four times a year and reports directly to the Board. There is an opportunity at each meeting for the members to discuss any matter without executive management being present.

The Audit Committee is responsible for the assessment of the effectiveness of controls that are in place to mitigate risk and determines the risks to be assessed. It also oversees the Internal Audit function, receives internal audit reports and is responsible for approving the detailed audit plan and timetable. The Audit Committee also receives an annual report which is used to assure the Board that controls are adequate and appropriate.

#### **The Risk Monitoring Committee**

The Risk Monitoring Committee comprises the two UK based independent non-executive directors, the Managing Director, the Assistant Managing Director, the Chief Risk Officer and the Financial Controller. It meets twice a year and reports to the Board.

The Risk Monitoring Committee is charged with the responsibility of advising the directors on the nature and relative scale of the risks confronting the Bank, the appropriateness of the controls intended to manage those risks and whether the residual risk is within the parameters approved by the Board.

The Risk Monitoring Committee oversees the production of a Risk Register whereby each department analyses the risks to which it is subject, the mitigants and how the residual risk is managed. These departmental risks are then consolidated into a Bank Risk Register. The Risk Monitoring Committee also ensures that contingency plans are in place to achieve business continuity in the event of serious disruption to business operations.

#### **The Remuneration and Personnel Policy Committee**

The Remuneration and Personnel Policy Committee comprises the two UK based independent non-executive directors, the Managing Director, the Assistant Managing Director and up to two departmental managers (only one of which may vote). It is charged with the responsibility of advising the Board on matters related to remuneration, including the Bank's bonus and salary review policy. It also considers matters related to employment legislation, terms and conditions of employment, the staff handbook, disciplinary matters, staff complaints and the appeals process.

### The Credit Committee

The Credit Committee comprises the Managing Director, the Assistant Managing Director, the Financial Controller and the Operations Manager. Meetings are held as and when necessary. The Credit Committee receives annual reviews of outstanding borrowers and reports to the Executive Board.

### The Internal Assessment Criteria for Business Lending Purposes

The Board has approved an in-house developed rating system which is used as part of the determination as to whether the Credit Committee is able to approve a loan or advance, or whether higher level approval would need to be sought from either the Executive Board or the Board. It is also used when conducting annual reviews of borrowers to assess their on-going credit standing and to consider whether a loan or advance should be placed on a "watch list" due to a deteriorating assessment of the borrower. The system is based upon a points scoring method with points awarded against various criteria from an analysis of accounts and other information about the borrower. The sum of the points awarded determines the rating of each borrower from A (the highest) to D (the lowest). It is likely that any D rated borrowers would be in default resulting in the raising of a provision against the debt unless adequate security renders a provision unnecessary.

### The Assets and Liabilities Committee

The Assets and Liabilities Committee comprises the Managing Director, the Assistant Managing Director and the Financial Controller. Other heads of department are invited to attend from time-to-time. It meets once a month and reports to the Executive Board.

The Assets and Liabilities Committee monitors to ensure that the Bank's financial resources are being managed within the Bank's policy guidelines and the applicable regulatory framework and receives financial and statistical reports related to exposures, liquidity and capital adequacy.

## Capital Adequacy

The Bank's Tier 1 capital includes share capital, a general banking risk reserve and retained earnings (Tier 1 Capital). The Bank does not hold any Tier 2 or Tier 3 Capital.

At 31st December 2018, Tier 1 Capital comprised:

	€ 000s
Ordinary shares of €1 each	183,220
General Banking Risk Reserve	6,000
Retained Earnings	<u>1,511</u>
<b>Total Tier 1 Capital</b>	<b><u>190,731</u></b>

The Tier 1 Capital is comprised of issued and fully paid-up ordinary shares of €1 each, audited retained earnings to 31st December 2018 and a general banking risk reserve, which was raised to maintain the regulatory capital base and is not available for distribution.

The Board is responsible for ensuring that planned capital levels are sufficient to protect unsecured creditors from loss, having taken account of the Bank's risk appetite within the context of business strategy and plans, and having assessed the resilience of capital resources to extreme stress events and adverse scenario conditions.

The amounts used above for Capital Adequacy are the same as disclosed in the 31st December 2018 Financial Statements.

## Capital Requirement, Resources & Ratios

The Bank's capital requirement and resources at 31st December 2018, under the Basel III convention was:

	€000's	€000's
<b>Pillar 1</b>		
Risk Weighted Assets (RWAs)	211,266	
Minimum Capital Requirement at 8%		16,901
FX Position Risk	1,182	
Minimum Capital Requirement at 8%		95
Operational Risk using BIA	8,987	
Capital Requirement at 15%		719
<b>Total Risk Exposure Amount</b>	<b>221,435</b>	
<b>Pillar 2A</b>		
Settlement/Residual Risk		2,641
Market Risk		9,943
Concentration Risk (single name, country & sector)		13,799
Operational Risk		4,006
Interest Rate Risk in Banking Book		2,003
Collateral Risk		147
<b>Pillar 2B</b>		
Capital Conservation Buffer		4,173
PRA Buffer		3,834
<b>Total Capital Requirement</b>		<b>58,261</b>
Share Capital	183,220	
General Banking Risk Reserve	6,000	
Profit and Loss Account	1,511	
Common Equity Tier 1 Capital	190,731	
Tier 2 Capital	-	
<b>Capital Resources</b>		<b>190,731</b>
<b>Capital Ratios</b>		
Common equity Tier 1 capital ratio		82.7%
Tier 1 capital ratio		86.1%
Total capital ratio		86.1%
Capital Cover % over Pillar 1 and Pillar 2		327.4%

### Capital Planning Buffers

From 1st January 2016, requirements for capital buffers under CRD have changed and the previously imposed Capital Planning Buffer is replaced by Individual Capital Guidance (18% of RWA's) which is comprised of:

- 1) Pillar 1 minimum capital requirement - the methodology remains unchanged, as described on page 1 of this document
- 2) Pillar 2B capital comprising:
  - a) Countercyclical Capital Buffer = 10% of RWAs
  - b) Capital Conservation Buffer = X % of Total Risk Exposure Amount  
 Where: X = 1.875% in 2018  
 X = 2.5% Thereafter
- 3) PRA Buffer = 1.815% of RWAs in 2018  
 = 1.195% of RWAs thereafter

The result of this change is that the Bank's total capital requirement will increase as its RWAs increase.

### Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices will have an adverse effect on the Bank's financial condition or results. The Bank does not have a trading book, however any currency risk arising from the Bank's commercial banking and lending activities in the banking book is treated as though it was a trading book item and managed accordingly. It is the objective of the Bank to manage and control market risk exposures in order to optimise risk and return.

Market risk is reported to the Assets and Liabilities Committee, which in turn reports to the Executive Board and through them, to the Board.

### Interest Rate Risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to changes in interest rates.

The Bank is exposed to interest rate risk in the banking book due to mismatches between the repricing dates of assets and liabilities. This risk is monitored by the Assets and Liabilities Committee, reporting to the Executive Board and through them, to the Board.

### Pillar 2 Capital

Material residual interest rate mismatches at 31st December 2018 exist in Euros, Sterling, US Dollars and United Arab Emirates Dirhams for periods up to one year. Consolidated interest rate mismatches at 31st December 2018 were:

	Less than three months €000's	More than three months but less than six months €000's	More than six months but less than one year €000's	More than one year €000's	Undated Non- interest bearing €000's	Total €000's
<b>Assets</b>						
Cash and balances at central banks	-	-	-	-	1,657	1,657
Cash, loans and advances to banks and customers	133,847	66,399	8,891	7,368	(6,567)	209,938
Tangible fixed assets	-	-	-	-	12,585	12,585
Other assets	-	-	-	-	108	108
Prepayments and accrued income	-	-	-	-	385	385
<b>Total assets</b>	<b>133,847</b>	<b>66,399</b>	<b>8,891</b>	<b>7,368</b>	<b>8,168</b>	<b>224,673</b>
<b>Liabilities</b>						
Deposits by banks & customer accounts	32,211	-	-	-	-	32,211
Other liabilities	-	-	-	-	1,731	1,731
Shareholders' funds	-	-	-	-	190,731	190,731
<b>Total liabilities</b>	<b>32,211</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>192,462</b>	<b>224,673</b>
<b>Interest rate sensitivity gap</b>	<b>101,636</b>	<b>66,399</b>	<b>8,891</b>	<b>7,368</b>	<b>(184,294)</b>	<b>-</b>

Impairment provisions against loans and advances to customers are not interest bearing and are shown in the undated non-interest bearing column above.

The effect on net interest income of a 2% movement in interest rates across all currencies and all periods at 31st December 2018 was €943,369 (2017: €912,779). This calculation assumes that all interest rate gaps were closed in the market by taking deposits or placing amounts at interest rates 2% above or below the actual rate applied to each gap in each currency.

The directors also set aside €9m of capital within the Pillar 2 market risk to cover approximately two years of overhead expenditure to mitigate the impact of current, low market interest rates that do not allow the Bank to earn sufficient interest to cover its operating expenditure.

The Bank's exposure to interest rate risk is not expected to change significantly during the course of 2019.

## Foreign Exchange Risk

Foreign exchange risk arises from the change in value expressed in reporting currency, of assets and liabilities held in currencies other than the reporting currency, due to fluctuations in spot or forward exchange rates. Exposures are measured and monitored regularly and the position managed in terms of net exposure.

The foreign exchange position risk requirement in Pillar 1 is calculated by:

- calculating the net open position in each currency
- converting each such net position into base currency equivalent at spot rates of exchange
- calculating the total of all net short positions
- multiplying by 8%.

	US Dollar €000s	United Arab Emirates Dirhams €000s	Other Currencies €000s	Sterling €000s	Total €000s
<b>As at 31st December 2018</b>					
<b>Assets</b>					
Cash, loans and advances to banks	4,237	1,570	270	8,907	14,984
Loans and advances to customers	-	-	-	-	-
Other assets	-	-	-	53	53
Prepayments and accrued income	-	-	-	385	385
<b>Total assets</b>	<b>4,237</b>	<b>1,570</b>	<b>270</b>	<b>9,345</b>	<b>15,422</b>
<b>Liabilities</b>					
Deposits by banks	2,623	827	112	6,456	10,018
Customer accounts	1,400	17	3	1,201	2,621
Other liabilities	83	-	-	1,542	1,625
<b>Total liabilities</b>	<b>4,106</b>	<b>844</b>	<b>115</b>	<b>9,199</b>	<b>14,264</b>
<b>Net position</b>	<b>131</b>	<b>726</b>	<b>155</b>	<b>146</b>	<b>1,158</b>

The Bank's foreign exchange position risk requirement at 31st December 2018 was €94,554 (2017 €78,751).

There were no off-balance sheet positions.

## Pillar 2 Capital

As foreign exchange positions are deemed to be insignificant and it is expected that they will remain so for the foreseeable future, it is not considered necessary to hold additional capital to cover these positions, in excess of the position risk requirement included under Pillar 1.

## Credit Risk

Credit risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations to the Bank which may result in financial loss. Credit risk arises principally from the Bank's lending book. The Bank uses the Simplified Method of calculating its credit risk capital requirement using the standard risk weighting table.

Exposures at 31st December 2018	Carrying	Weighted	8% of
	Value	Under	Basel III
	€000's	Basel III	Weighted
		€000's	Asset
			€000's
Cash	1,657	-	-
Lending to Bank Saderat Group companies	44,618	44,618	3,569
Lending to Other Banks	150,129	132,275	10,582
Lending to Non-Banks	13,916	20,874	1,670
Other Assets	13,309	13,500	1,080
	<b>223,629</b>	<b>211,266</b>	<b>16,901</b>

The Pillar 1 capital required to support €211.26m of weighted exposures at 31st December 2018 amounted to €16.9m.

### Non-bank credit exposures by industrial sector at 31st December 2018.

	As at 31st December 2018			As at 31st December 2017		
	Outstanding	Limit	Capacity	Outstanding	Limit	Capacity
	€000's	€000's	€000's	€000's	€000's	€000's
Automotive	-	46,000	46,000	-	46,000	46,000
Transport	-	69,000	69,000	-	69,000	69,000
Metals	-	46,000	46,000	-	46,000	46,000
Construction	13,916	69,000	55,084	13,579	69,000	55,421
Food	-	46,000	46,000	-	46,000	46,000
Oil/gas/petroleum	-	138,000	138,000	-	138,000	138,000
Investment companies	-	92,000	92,000	-	92,000	92,000
	<b>13,916</b>	<b>506,000</b>	<b>492,084</b>	<b>13,579</b>	<b>506,000</b>	<b>492,421</b>

### Pillar 2 Capital

From the various risks attributed to credit, one has been identified as high risk to the Bank, this being a fall in the price of shares quoted on the Tehran Stock Exchange which are held as security for loans. The mitigant for this risk is that the Bank normally demands 200% cover for secured lending.

Medium risks relate to the deterioration of a counterparty's financial position, an illiquid market in the Tehran Stock Exchange, the inability to convert Iranian Rials into hard currency, a beneficiary being insolvent at the time of discounting a bill of exchange and the incorrect handling of a documentary credit.

Low risks include the inability of Iranian banks to pay; the insolvency of the borrower; the inability to enforce security claims due to defective documentation and a series of risks relating to internal procedural failures.

The Bank believes that sufficient mitigants are in place to cover the high and low credit risks but considers it to be prudent to hold additional Pillar 2 capital of 1.25% of risk weighted assets to cover the medium risk in this category. At 31st December 2018, this amounted to €2,640,828 (2017: €2,478,050).

### Concentration of credit risk

Concentration risk is a measure of the Bank's exposure to an individual counterparty, group of connected counterparties, industry sector or country. The Bank has significant concentrations of exposure to counterparties in the banking sector and to Iran.

The table below shows the Bank's geographic concentrations of credit risk as at 31st December 2018.

	Iran €000's	Germany €000's	United Kingdom €000's	Other €000's	Total €000's
Loans and advances to banks	122,515	39,873	23,584	10,050	196,022
Loans and advances to customers	13,916	-	-	-	13,916
	<b>136,432</b>	<b>39,873</b>	<b>23,584</b>	<b>10,050</b>	<b>209,939</b>

### Pillar 2 Capital

For prudence, additional capital of 1.25% of Iranian exposures has been allocated to compensate for the high concentration of assets in Iran. At 31st December 2018, this amounts to €2,084,916 (2017: €1,686,664).

There is significant overlap between Iranian exposures and banking sector exposures. Pillar 2A includes an add-on for the banking sector, so no capital is allocated beyond these amounts.

### Average exposure to credit risk by credit class

	Outstanding at 31.12.18 €000's	Average outstanding during 2018 €000's
Loans and advances to banks	196,022	198,750
Loans and advances to customers	13,916	13,827
	<b>209,939</b>	<b>212,577</b>

### Residual risk

All the identified residual risks are common to the credit risk items with the exception of a borrower failing to adhere to covenants and the inability to realise security should the borrower be unable to repay.

The Bank has a share secured loan of €11.5 million at 31st December 2018. The security margin of this type of facility is normally 200% of the drawn amount, although replacement to that level, should the share price fall, normally only takes place when the cover has fallen to 150%. Additional Pillar 2 capital of 1.25% of the share secured loan portfolio is deemed prudent to cover these risks and amounted to €146,827 at 31st December 2018.

In addition to the above loan, secured by Tehran Stock Exchange shares, the Bank has €2.4 million of exposures (net of impairment provision) to a customer which is guaranteed by a third party. Where collateral is provided by a third party, the third party becomes subject to the same annual credit review as the primary borrower. The Bank has the right to call on its security in the event of customer default on principal or interest repayments.

**Residual maturity.**

The residual maturity breakdown of all the exposures, excluding impairment provisions, analysed by class is as follows:

	Less than three months	Between three and six months	Between six months and one year	Between one and five years	Total
	€000's	€000's	€000's	€000's	€000's
Cash and balances at banks	1,657	-	-	-	1,657
Loans and advances to banks	121,330	66,200	8,493	-	196,022
Loans and advances to customers	12,517	199	398	7,368	20,483
	<b>133,847</b>	<b>66,399</b>	<b>8,891</b>	<b>7,368</b>	<b>216,505</b>

**Past due and impaired.**

A financial asset is past due when the counterparty has failed to make a payment when contractually due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants or legal proceedings.

	Less than one month		More than one month and less than three months		Over three months		Total
	Past Due Principal	Past Due Interest	Past Due Principal	Past Due Interest	Past Due Principal	Past Due Interest	
	€000's	€000's	€000's	€000's	€000's	€000's	
<b>By Industry Sector</b>							
Construction	-	-	-	-	10,684	867	11,551
	-	-	-	-	<b>10,684</b>	<b>867</b>	<b>11,551</b>

The carrying value of loans are secured as follows:

	By Shares Listed on the TSE*	By Guarantee	Total
	€000's	€000's	€000's
Construction	11,551	2,365	13,916
	<b>11,551</b>	<b>2,365</b>	<b>13,916</b>

The directors are of the opinion that should it be deemed necessary to realise the security, in all the above instances sufficient funds would be realised to repay the amounts outstanding.

On-going assessment is made to determine whether there is objective evidence that a specific financial asset or group of financial assets is impaired. Evidence of impairment may include past due amounts or other indications that the borrower has defaulted, is experiencing significant financial difficulty or where a debt has been restructured to reduce the burden to the counterparty. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is provided for.

The following impaired exposures and provisions against those exposures existed at 31st December 2018.

	<b>Impaired Exposure</b>	<b>Provisions</b>
	<b>€000's</b>	<b>€000's</b>
Non-performing loans and advances		
Loans and advances to customers - principal	8,621	(6,567)
Loans and advances to customers - interest	311	-
Other assets	220	(220)
Blocked funds	2,411	(2,411)
	<b><u>11,562</u></b>	<b><u>(9,198)</u></b>

Amounts are written off when collection of the loan or advance is considered to be impossible. On secured loans, any write off would take place only after ultimate realisation of collateral value. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

### Reconciliation of movements in provisions

	<b>2018</b>
	<b>€000's</b>
<b>At 1st January</b>	8,874
Exchange adjustments	106
Amounts written off in year	-
Reduction in provisions	217
<b>At 31st December</b>	<b><u>9,197</u></b>

### Operational Risk

Operational risk is the risk of loss to the Bank resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial loss through the implementation of controls, whilst avoiding procedures which inhibit efficiency and increase costs unjustifiably.

The Bank has elected to use the Basic Indicator Approach which is considered to be the most appropriate basis given the disproportionate cost of establishing more sophisticated methods of capturing the requisite data and devising an acceptable method of calculating operational risk capital. Under this approach, the operational risk capital is calculated by mapping the Bank's three year average net interest income and net non-interest income and applying 15% thereto, as in the following table.

	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>€000's</b>	<b>€000's</b>	<b>€000's</b>
Net interest income	5,313	5,262	3,797
Fees and commissions receivable	9	9	124
Fees and commissions payable	(6)	(8)	(211)
FX profits	17	52	23
	<b><u>5,332</u></b>	<b><u>5,314</u></b>	<b><u>3,732</u></b>
<b>Average</b>		<b><u>4,793</u></b>	
<b>15% thereof = capital requirement</b>		<b><u>719</u></b>	

Since its formation the Bank has not suffered any material operating loss and the directors consider that sufficiently robust operating procedures are in place to ensure that any operating loss that can reasonably be expected to occur in the foreseeable future would be more than adequately covered by the amount of capital allocated on this basis.

Operational risk is formally reviewed annually, when the Bank prepares its budget for the ensuing year. This review then encompasses the experience gained during the previous twelve months and also ensures that any risks associated with new areas of business, or changes in emphasis or scale of existing areas of business are incorporated in the risk review. The latest formal review took place in December 2018.

## Other Risks

The Bank has considered the following additional risks and the mitigants in place to ameliorate those risks in the context of providing additional Pillar 2 capital against Operational Risk.

- i. Strategic risk
- ii. Liquidity risk
- iii. Transactional risk
- iv. Settlement risk
- v. Regulatory risk
- vi. Reputational risk
- vii. Systemic risk
- viii. Pension risk

### i. Strategic risk

The following categories of strategic risk have been identified:

- a) Iran's inability to pay its debts due to low oil price or insufficient hard currency
- b) Difficulty in enforcing security in the Iranian courts
- c) Difficulty in obtaining and keeping clearing facilities due to international pressure on other banks

In a worst case scenario, investment of the Bank's free capital, together with a sensible programme of cost reduction, would allow the Bank to remain solvent.

The risk of loss due to difficulty in enforcing security in the Iranian courts is a type of credit risk, albeit a risk that could be triggered by political events and is therefore covered in the additional capital allocated for credit risk.

### ii. Liquidity risk

During the sanction period and since the removal of sanctions, the Bank has been highly liquid as assets existing at the date of sanctions mature into cash. This highly liquid position will not change significantly as the Bank gradually resumes business and operates normally. No additional capital is required, therefore, to support liquidity risk.

### iii. Transactional risk

With the exception of the risk that a borrower may not adhere to covenants in their facility, all other transactional risks are common with credit risks. The single highest risk is that of a fall in the price of shares on the Tehran Stock Exchange when such shares are held as collateral. This risk has been dealt with as a credit risk.

### iv. Settlement risk

Settlement risk may be divided into two elements: risks that relate to the failure of a payments system internally and risks of settlement failure due to sanctions, closure of correspondent accounts or the inability to access external payment systems. The Bank has been living for many years with the risk that payments may be disrupted and is therefore confident that internal payment procedures and controls

over systems are sufficiently robust to justify the conclusion that no additional capital is required to mitigate these risks beyond that already provided for operational risk.

v. Regulatory risk

The Bank has minimal retail business that could be subject to consumer protection legislation. The Board has adopted a series of policies designed to ensure that the Bank operates in accordance with its statutory obligations and has created a "culture of compliance" throughout the organisation to ensure that regulatory requirements are met. The Bank does not consider that the allocation of additional capital for regulatory risk is necessary.

vi. Reputational risk

These medium to low probability risks may be analysed into two areas reflecting the underlying reason from which reputational risk may arise:

- a) IT related risk such as data loss, internal or external hacking, defamatory e-mails or theft of confidential data.
- b) Internal failings with regard to staff matters, e.g. loss of personal data or failure to comply with employment legislation.

Reputational risk in respect of the above, is intangible and considered to be mitigated by having in place appropriate and robust procedures together with a high degree of management overview of operations. It is not considered that the allocation of additional capital is necessary to mitigate these risks.

vii. Systemic risk

The principal systemic risk to which the Bank is vulnerable is that of changes to Iranian laws that would prevent the Bank enforcing a claim for security in the event of default by a borrower. If Iranian law was changed, for example, to disallow shares being offered as security for external borrowing or exchange controls were imposed that prevented the conversion of Rials into hard currency then the Bank could experience difficulty in recovering funds.

There are two mitigating factors in place. Firstly, regardless of any legislative changes in Iran, a primary obligation would remain on the borrower to repay its indebtedness and secondly, it has been the Bank's policy to lend only to large, reputable, publicly owned companies.

It is not deemed necessary to allocate additional capital to cover systemic risk.

viii. Pension risk

The Bank is not vulnerable to pension risk.

With effect from 31st January 2002, the Bank's defined benefit pension scheme, the Iran Overseas Investment Bank PLC Retirement Benefits Scheme (the 'Scheme'), was closed and all active members became deferred pensioners.

The assets of the Scheme are nil having been used to settle the liabilities in respect of individual members' benefits by the purchase of deferred annuities from Legal & General Assurance Company, or by the payment of individual transfer values to another pension scheme or personal pension plan.

The final winding up of the Scheme is now complete, the liabilities have been discharged and final accounts have been prepared.

As the Scheme has been terminated, an indemnity has been given by the Bank to each trustee against any possible action by a Scheme member. The Bank has also become the sole corporate trustee of the Scheme.

The costs of providing pension benefits to staff under the defined contribution scheme are charged to the profit and loss account monthly.

## Remuneration

The Bank is a proportionality level 3 firm under the Regulator’s Remuneration Code and is required to provide disclosures of both quantitative and qualitative information about decision-making policies for remuneration and links between pay and performance. The following section of the Bank’s Pillar III disclosures reflects the requirements of the CRR Part 8 (Article 450).

The table below shows the remuneration awards made by the Bank in respect of 2018 and 2017 for employees who have been designated as individuals whose professional activities have a material impact on the risk profile of the Bank.

	2018	2018	2018	2017	2017	2017
	Senior	Other		Senior	Other	
	Management	Identified	Total	Management	Identified	Total
	€000s	€000s	€000s	€000s	€000s	€000s
Total remuneration	997	220	1,216	970	307	1,277
Number of Identified Staff	10	3	13	7	3	10

Total remuneration consists of base salary, allowances, pension contributions and discretionary bonus.

### Decision Making Process for Remuneration Policy

The Bank has an established Remuneration & Personnel Policy Committee which meets regularly to consider the overall reward framework across the Bank. Its recommendations are submitted to the Board which is responsible for approving remuneration policy and in doing so takes into account the pay and conditions across the Bank.

During 2018 the Committee has striven to ensure that remuneration is fair and transparent and that the Bank’s remuneration framework supports its business strategy whilst discouraging inappropriate risk taking and appropriately rewarding staff.

### Composition of the Remuneration & Personnel Policy Committee

The members of the Committee during 2018 consisted of the two UK based independent non-executive directors, the Managing Director, the Assistant Managing Director and the Financial Controller. One of the non-executive directors is the appointed chairman.

### Link between Pay and Performance

Total remuneration comprises salary, allowances, annual discretionary bonus and pension contributions. In determining the level of award of variable pay (annual bonus), the Bank has a policy to assess the extent to which objectives have been achieved. The Bank does not apply a formulaic approach on the grounds that this may encourage inappropriate risk taking. The annual bonus awarded to an individual is discretionary and is dependent on an individual’s performance.

The Bank’s remuneration policy is designed to reflect the extent to which its annual objectives have been met in the context of the risk appetite framework and competitive market practice.