



BANK SADERAT PLC

Authorised by the PRA and regulated by the FCA & PRA

PILLAR 3 DISCLOSURES

31st December 2021

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ACRONYMS

Acronym	Definition
ALCO	Assets and Liabilities Committee
AML	Anti-Money Laundering
BIA	Basic Indicator Approach
CBI	Central Bank of Iran
CC	Credit Committee
CCB	Capital Conservation Buffer
CET1	Common Equity Tier 1
CCyB	Countercyclical Capital Buffer
CPB	Capital Planning Buffer
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EBA	European Banking Authority
ECAIs	External Credit Assessment Institutions
EU	European Union
EWI	Early Warning Indicator
G-SII	Global Systematically Important Institution
FCA	Financial Conduct Authority
HQLAs	High Quality Liquid Assets
L/C	Letter of Credit
ICAAP	Individual Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
ILAAP	Internal Liquidity Adequacy Assessment Process
INED	Independent Non-Executive Director
LCC	Liquidity Crisis Committee
MC	Management Committee
OFAC	Office of the Foreign Assets Control
PRA	Prudential Regulation Authority
RAS	Risk Appetite Statement
RC	Risk Committee
RMC	Risk Monitoring Committee
RMF	Risk Management Framework
RRP	Recovery and Resolution Plan
RWAs	Risk Weighted Assets
SA	Standardized Approach
TRO	Tehran Representative Office
UN	United Nations

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Introduction

This document is the Pillar 3 disclosures of Bank Saderat-plc (“the Bank”) as at 31 December 2021. The Bank is a UK registered Bank, authorised by the Prudential Regulation Authority (‘PRA’) and regulated by the Financial Conduct Authority (‘FCA’) and the PRA.

This document will provide information on the methodology used to calculate the capital requirements for the Bank’s business and the management of the risks faced by the Bank. The Bank has considered the following rules and guidelines in preparing this document.

1. Rules laid in part 8 of the Capital Requirements Regulation (‘CRR’)
2. Related European Banking Authority (‘EBA’) guidelines
3. Chapter 11 Disclosure (Pillar 3) of the PRA
4. Pillar 3 disclosure requirements issued by the Basel Committee on Banking Supervision (‘BCBS’)

The provision of meaningful information about common key risk metrics to market participants is an important aspect of a sound banking system. It reduces information asymmetry and helps promote comparability of bank’s risk profiles within and across jurisdiction. Pillar 3 of the Basel III framework aims to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank’s regulatory capital and risk exposures in order to increase transparency and confidence about a bank’s exposure to risk and the overall adequacy of its regulatory capital.

Basel III is implemented in the European Union (‘EU’) through the CRR and the Capital Requirements Directive (‘CRD’). The Pillar 3 disclosures constitute one of the basic requirements of Basel III

Pillar 1:

Pillar 1 sets out the minimum capital requirement for their credit, market and operational risk exposure.

Pillar2:

Under Pillar 2 banks are required to assess their own risk profile and determine the level of additional capital required over and above Pillar 1 requirements to cover risks not captured in Pillar1 This may be the credit concentration risk or business risks of the firm (external stresses and events, which impact the business cycle of the firm) and other risks identified by the Bank.

More specifically Pillar 2 is defined in Pillar 2A and 2B.

Bank Saderat PLC

Pillar 3 disclosures Continued

Pillar 2A

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 risk materialise, the loss or cost associated with that risk will not reduce the capital of the Bank to a level that cannot support the business. . The Prudential Regulatory Authority ('PRA') has advised the Bank, to have a minimum Capital add on of 9.17% of Risk Weighted Assets ('RWA') under Pillar 2A. The Bank has considered Pillar 2A at 13.90%, of RWA, which is above the minimum capital requirement advised by the PRA.

Pillar 2B

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 2B risks are captured in Capital Conservation Buffer, PRA Buffer and Countercyclical Buffer.

Pillar 3

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.

It is the Bank's policy to disclose the required information under Pillar 3 disclosures as required by the Capital Requirements Directive ('CRD IV'), on an annual basis. The Bank has taken into consideration, the size and complexity of the business it conducts and has refrained to make disclosures, which the Bank considers as immaterial. The Bank defines materiality, as that of its omission or disclosure can change or influence the decision of a user of the Pillar 3 disclosures, while making an economic decision. Also, from the Bank's perspective, if the required information is judged proprietary or confidential, then the Bank may take decision to exclude from the disclosures. The Bank defines proprietary information as that which, if shared would undermine its competitive position. The Bank defines information as confidential where there are obligations binding it to confidentiality arrangement with customers, suppliers or counterparties.

The disclosure document forms part of the "Annual Financial Statements" as at 31 December 2021 and should be read in conjunction with it. Bank's Pillar 3 disclosure document is published on the Bank's website.

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Pillar 3 disclosures Continued

The information contained in this disclosure has not been audited by the Bank's external auditors. However, this document is approved by the Board of Directors ("the Board") on 25 April 2022

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.

2. History of the Bank

Bank Saderat-plc ("the Bank") is a UK registered -Bank, with its principal activity in London and is regulated by the Financial Conduct Authority and Prudential Regulations Authority ("the Regulators")

Following the removal of EU sanctions on 22nd October 2016, the Bank resumed normal business on 13th September 2018 and has started to rebuild its business gradually and profitably. The Bank's income is significantly derived from its interbank placements and commercial banking activities. This mix of assets was expected to change, once the commercial lending activities pick up. Hitherto, this has not happened because of secondary US sanctions barring non-US companies from dealing with sanctioned Iranian-owned entities.

2.1 Policy Statement

Basis of Preparation

CRD IV 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 from this document.

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. 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 2021 Annual Report & Financial Statements represents the Bank's annual public Pillar 3 disclosure for the financial year ended 31st December 2021.

Verification

The Bank's Pillar 3 disclosures have been prepared in accordance with the CRD IV requirements and was reviewed and approved by the Board on 25 April 2022. The disclosures

Bank Saderat PLC

Pillar 3 disclosures Continued

are not subject to external audit except where they are also included as accounting disclosure requirements in the Bank's Annual Report & Financial Statements 2021.

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 rest with the Board which has ultimate responsibility for setting the strategy, risk appetite and control framework. The Board considers that, as at 31st December 2021, 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 2021 Annual Report & Financial Statements.

3 Risk Management Framework

The Risk Management Framework ('RMF') of the Bank is to ensure a sustainable business growth and a proactive approach to manage the risks that arise in the course of doing business. RMF consists of policies, controls, processes and systems through which the identified risks are communicated, monitored and managed.

The overall architecture of RMF is:

- Risk Appetite Statement ('RAS')
- Risk identification
- Risk assessment, measurement and mitigation
- Risk monitoring
- Stress testing
- Development of Risk Matrix and Risk Reporting

Bank's 'Risk Appetite Statement' describes the process of determining the risk appetite and defines the type of risk exposure that the Bank can consider and quantifies the amount, which the Bank is prepared to accept in pursuit of its business objectives. Where the risk management process identifies a risk that is unacceptable to the Bank and it cannot be

Bank Saderat PLC

Pillar 3 disclosures Continued

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 Bank allocate capital to cover the risk. In summary risks are categorised into various categories depending upon their impact on the business strategy of the Bank. RAS is approved by the Board and the business of the Bank is developed within the confines of RAS.

Responsibility for risk management resides across the Bank including the Board, the Risk Monitoring Committee and the individual departments. The Bank has developed the Early Warning Indicators ('EWIs') to monitor and to ensure functioning within the confines of RAS. The EWI indicators are consistent with Recovery Plan ('RP') indicators. The Bank has also in place a 'Risk Matrix', which assess the risks based on their severity of impact, should they materialise and which are based on the Pillar 1 and identified Pillar 2A risks. The Bank's policies and procedures are designed to prevent risk taking which is beyond the Risk Appetite of the Bank.

The Bank's Risk Monitoring Committee and the Board are content with the risk management systems in place in the Bank.

3.1 Material Risks for the Bank

3.1.1 Credit and counterparty risk

Credit risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations in a timely manner to the Bank, which may result in financial loss. Credit risk arises principally from the Bank's lending book and from holding investments. The Bank considers only those counterparties for business transactions, who are credit worthy and have integrity in their dealings.

All risk exposures of the Bank are monitored and managed conforming to the Large Exposures Policy ('LEP') of the Bank. The large exposure is an exposure to a client or group of connected clients, where its value exceeds 10% of the Eligible Capital ("EC") of the Bank.

The policy of the Bank is that the maximum exposure to a single counterparty or group of connected clients in total must not exceed 25% of the Bank's EC. Where a client is an institution or where a group of connected clients includes one or more institutions, that value shall not exceed 25 % of the Bank's Eligible Capital or EUR 150 million, whichever the higher, provided that the sum of exposure values, to all connected clients that are not institutions should not exceed 25 % of the institution's Eligible Capital. It is the policy of the Board that exposures over one year should not, in the aggregate, exceed 200% of Eligible Capital, within which aggregate exposures for Iranian risk over one year must not exceed 150% of Eligible Capital. The bank has also determined to collateralise commercial lending on its Iranian exposures, at 2 times value of the loan facility or by a suitable and acceptable 3rd party guarantee for the exposure amount.

Bank Saderat PLC

Pillar 3 disclosures Continued

3.1.2 Market Risk

Euro is the base currency of operation of the Bank. Market risk arises when open positions in other currencies are maintained, due to the necessity of the situation and such balances are exposed to movements in Foreign Exchange ('FX') rates, on valuation. Bank Saderat does not maintain a trading book.

3.1.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, fraud, people and systems, or from external events. The Bank has implemented a new core banking system and this will impact a wide range of activities of the Bank, in the short term. The policies and procedure manual has to capture the requirements under the new core banking system and the staff has to receive adequate training in all aspects of the software, which is continuing now. The Bank has implemented a new software for generating and submitting regulatory returns and this will also impact the operational risk framework. These Operational Risk are measured using the Basic Indicator Approach ('BIA') and considered under Pillar 1 & Pillar 2.

3.1.4 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations in a timely manner, on its financial liabilities as they become due.

3.1.5 Interest Rate Risk in the Banking Book

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.

3.1.6 Concentration Risk

The Bank's exposure to Iranian business is significant and will continue to be the same in the near future, as there is little scope to diversify the customer base at this stage. The Bank has limited its exposure to Iran to 300% of its own funds. Concentration of exposure to Iran is significant risk and captured under Pillar 2A for capital allocation

3.1.7 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. The Bank does not take speculative positions in currencies and any net open positions arise in the ordinary course of business.

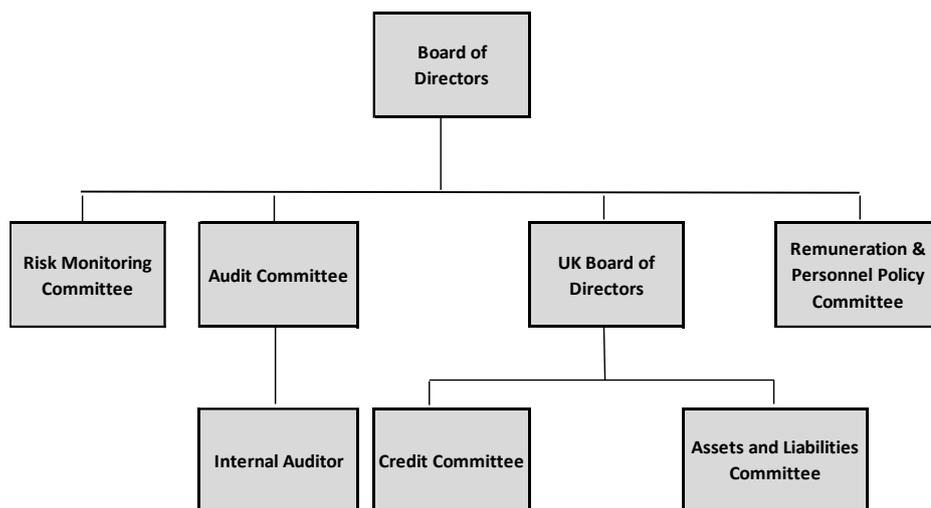
3.1.8 Business Risks

The Bank functions in a complex and restricted environment. Business risk arises from inappropriate responses to the emerging and prevailing issues and the strategy taken by the Bank. There are also issues arising out of Brexit, payment risk and sanctions risk, which are recognised and capital allocated accordingly.

Bank Saderat PLC
Pillar 3 disclosures Continued

3.2 Risk Management Governance

The overall responsibility for monitoring and managing the Bank’s risk is delegated by the Board to the Risk Monitoring Committee. The organogram below shows the risk management and corporate governance structure. The main elements of risk governance are as follows:



3.2.1 The Board of Directors (the 'Board')

Bank Saderat plc board 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 the risks. The Board structure constitutes of 3 non-executive directors and one Managing Director. The Chairman of the Board, based in Iran is a non-executive director, who represents the principal shareholder of the Bank. The other two are UK based independent non-executive directors (INED). The Board meets four times a year.

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

Name	Role	Number of directorships held
Dr. Saydi	Chairman	1
Mr. R.J. Speedy	INED	Nil
Dr. D.J.Reid	INED	Nil
Dr. H Borhani	Managing Director	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.

Bank Saderat PLC

Pillar 3 disclosures Continued

The Board determines the overall direction of the Bank, in accordance with the objectives set in the Articles and Memorandum of Association of the Bank. In pursuit of its objectives, the Board defines the Bank's strategy, risk management framework and the organizational structure of the Bank.

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.

Section 172

The Board recognises that the long-term success of our business is dependent on the way it works with a large number of important stakeholders. The Directors have had regard to the interests of all our stakeholders (including, for example, our clients, our people, our communities and our shareholders) while complying with their obligations to promote the success of the Company in line with section 172 of the Companies Act.

The Board has discussed these obligations throughout the year, including how stakeholder engagement is incorporated into our long-term decision-making with further details provided on pages 12 to 26. The Board's decision-making considers both risk and reward in pursuit of delivering long-term value for all of our stakeholders, and protecting their interests. Awareness and understanding of the current and the potential risks to the business, including both financial and non-financial risks, are fundamental to how we manage the business.

Further information on how risks are appropriately assessed, monitored, controlled and governed is provided in the Risk management section. During 2021, some of the Board's stakeholder engagement plans had to be altered to comply with COVID-19 restrictions. For example, the Managing Director of the Bank, continued to engage with employees during the 3 days in a week onsite and also through online channels – both directly and through the Head of the Human Resources.

Climate Change

The directors are aware of the expectations of the PRA to consider the implication of financial risk in their business composition due to 'climate change' and to embed the remedial measures to mitigate them. The board understands the importance and ramifications of global climate change and the impact it has on the stakeholders of the Bank and to that extent steer the Bank's operations in a sustainable way. The present commercial loans portfolio of the Bank is small, constituting 7.9% of the total assets of the Bank and the concentration of country exposure is to Iran, which is a petroleum exporting country and an oil-based

Bank Saderat PLC

Pillar 3 disclosures Continued

economy. The geographical and sector concentration risk of the commercial loans and money market placements have been considered and capital allocation increased to mitigate these risks. The Bank has determined that risks from climate change are not material to its operations, in the present context but notwithstanding this the Board continuously monitor its impact on the Bank's business model.

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

3.2.2 The UK Board

The UK Board comprises the two UK based independent non-executive directors (INEDs) and the Managing Director. The Credit Committee and the Assets and Liabilities Committee report to the UK Board, which meets four times a year.

3.2.3 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 Compliance Officer, 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.

3.2.4 The Risk Monitoring Committee

The Risk Monitoring Committee comprises the two UK based independent non-executive directors, the Managing Director and the Chief Risk Officer. 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, how it is mitigated and 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.

3.2.5 The Remuneration and Personnel Policy Committee

The Remuneration and Personnel Policy Committee comprises the two UK based independent non-executive directors, the Managing Director and the Bank's Chairman. It is charged with

Bank Saderat PLC

Pillar 3 disclosures Continued

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.

3.2.6 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 UK 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 UK 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.

3.2.7 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 UK 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.

4 Own funds Capital requirements and buffers

4.1 Own funds

The Bank's own funds, as at 31 December 2021 are €192.60m comprising the Tier 1 capital ('CET 1'), which includes share capital, the general banking risk reserve and retained earnings (Tier 1 Capital). The Bank does not hold any Tier 2 or Tier 3 Capital.

Bank Saderat PLC
Pillar 3 disclosures Continued

Own funds data	Own funds	% of Tier 1
€'000		capital
Ordinary share capital	183,220	95.13%
General Banking Reserve	6,000	3.12%
Retained Earnings	3,378	1.75%
Total Tier 1 capital	192,598	100.00%

The Tier 1 Capital is comprised of issued and fully paid-up ordinary shares of €1 each, audited retained earnings to 31st December 2021 and a general banking risk reserve, which was raised to maintain the regulatory capital base and is not available for distribution. The Bank does not apply any filters and deductions in the audited financial statements.

The Board, is overall responsible for the capital management of the Bank. The Board in turn has vested the 'Risk Monitoring Committee' and 'ALCO' to monitor and manage the identified risks. The Risk Monitoring Committee, in turn has delegated the responsibility for managing the individual risks to the Risk Department. This structure of management is to ensure that, the credit, market and operational risks in the Bank are managed within the overall guidelines of the Board and within the Risk Appetite Statement of the Bank. In the process, the Bank has assessed the resilience of the capital resources available, in extreme stress conditions and adverse events. The Bank's capital resources and retained earnings as at 31 December 2021, are sufficient to support the envisaged business growth in the year 2022. The amounts used above for capital adequacy are the same as disclosed in the 31st December 2021 Financial Statements.

Capital Requirement, Resources & Ratios:

The Bank's capital requirement and resources at 31st December 2021, under the Basel III convention

Bank Saderat PLC

Pillar 3 disclosures Continued

Bank Saderat PLC		31-Dec-21	
Basel III Pillar 3 Disclosures			
	Risk Exposure	Capital	
	€000's	€000's	
Pillar 1			
Risk Weighted Assets (RWAs)	220,810		
Minimum Capital Requirement at 8%		17,665	
FX Position Risk	722		
Minimum Capital Requirement at 8%		58	
Operational Risk using BIA	8,934		
Capital Requirement at 15%		715	
Total Risk Exposure Amount	230,466		18,437 pillar 1
Pillar 2A			
Settlement/Residual Risk @1.25% of RWA		2,881	
Concentration Risk (single name, country & sector) @6.82%of RWA		15,718	
Market Risk @0.125%		288	
Operational Risk @1.8% of RWA		4,148	
Interest Rate Risk in Banking Book @0.9% of RWA		2,074	
Sanctions Risk @1% of RWA		2,305	
Payment Risk @1.5% of RWA		3,457	
Brexit risk @0.5% of RWA		1,152	32,023 pillar 2a
Pillar 2B			
Capital Conservation Buffer		5,762	
PRA Buffer		2,927	
Countercyclical buffer 1% of RWA		2,305	10,994 pillar 2b
Total Capital Requirement (Pillar 1 and Pillar2a)		50,461	
Pillar 1+Pillar 2a+Pillar 2b		61,454	
Share Capital		183,220	
General Banking Risk Reserve		6,000	
Profit and Loss Account		3,378	
Common Equity Tier 1 Capital		192,598	
Tier 2 Capital		-	
Capital Resources		192,598	
Capital Ratios			
Common equity Tier 1 capital ratio		83.57%	
Tier 1 capital ratio		83.57%	
Total capital ratio		83.57%	
Capital Cover % over Pillar 1 and Pillar 2		313.40%	

The PRA requires Pillar 2A to be 9.24%. But as a prudential measure we have calculated it to be 13.90% after factoring Sanctions Risk, Payment Risk and Brexit risk at various levels.

4.3 Capital Buffers

The Bank calculates CET1 capital ratio and the Total Capital ratio as per the CRR requirements and is compliant with the regulatory limits set in CRR Article 92.

	31/12/2021
CET1 Capital ratio	83.57%
Total Capital ratio	83.57%

The Bank is neither a Global Systemically Important Institution ('G-SII'), nor Other Systemically Important Institution ('O-SII'). Therefore, the Bank is not required to keep G-SII or O-SII

Bank Saderat PLC

Pillar 3 disclosures Continued

buffers. The Capital Planning Buffer was introduced from 1 January 2016 and it comprises the following elements:

Capital Planning Buffer	31/12/2021	€ '000
Capital Conservation Buffer (CCB)	2.5% of Total Risk Weighted Assets	5,762
PRA Buffer	1.27% of RWA	2,927
Countercyclical Buffer (CCyB)	1% of RWA	2,305
Total Capital Buffer (Pillar 2B)		10,994

Countercyclical Buffer ('CCyB'), which was set to increase to 2% by December 2020 of the exposure to UK borrowers is now deferred and reduced to 0%, due to prevailing COVID-19 pandemic conditions. CCyB requires firms to build up capital when aggregate credit growth in a particular geographical country is judged to be associated with a build-up of system-wide risk and hence this capital buffer to cushion during stress periods. Under the PRA rule book, the Bank needs to consider the weighted average of CCyB pass through rates for its assets in different jurisdictions. The Bank has relatively limited exposure to the UK compared to its exposure to Iran. But the Iranian regulators have not advised of any CCyB buffer for the reason that Basel III is not yet fully implemented in Iran. However, the Bank decided to act prudently and introduced 1% of RWA as CCyB to cover exposure to Iran.

5 Qualitative & Quantitative disclosures

5.1 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. Credit Risk Exposure is disclosed in the Quantitative Disclosures below. The Bank believes that sufficient mitigations 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 (RWA) to cover the medium risk in this category. At 31st December 2021, this capital requirement amounted to €2,881k on the Iranian exposure (2020: €2,757k).

5.1.1 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, commercial sector and to Iran as a country. As a measure of prudence, additional capital of 6.82% of RWA has been allocated

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Pillar 3 disclosures Continued

to compensate for the high concentration of assets in Iran under Pillar 2A. At 31st December 2021, this capital amounts to €15,718k. 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.

6 Quantitative Disclosures (Credit)

6.1 Credit Risk Exposure as at 31 December 2021

Exposures at 31st December 2021	Carrying Value €000's	Weighted Under Basel III €000's	8% of Basel III Weighted Asset €000's
Cash	1,740	-	-
Lending to Bank Saderat Group companies	39,026	39,024	3,122
Lending to Other Banks	149,405	145,919	11,674
Lending to Non-Banks	17,529	22,377	1,790
Other Assets	14,201	13,491	1,079
	<u>221,901</u>	<u>220,810</u>	<u>17,665</u>

The Pillar 1 capital required to support €220.81m of risk weighted assets at 31st December 2021 is €17.67m.

6.1.1 Concentration of Credit Risk as at 31 December 2021

The table below shows the Bank's geographic concentrations of credit risk as at 31st December 2021.

	Iran €000's	Germany €000's	United Kingdom €000's	Other €000's	Total €000's
Loans and advances to banks	166,436	4,128	31,902	1,906	204,371
Loans and advances to customers	17,529	-	-	-	17,529
	<u>183,966</u>	<u>4,128</u>	<u>31,902</u>	<u>1,906</u>	<u>221,901</u>

6.1.2 Average exposure to credit risk by credit class as at 31/12/2021

	Outstanding at 31.12.2021 €'000	Average Outstanding during 2021 €'000
Loans & advances to banks	188,431	186,915
Loans and advances to customers	17,529	20,088
	<u>205,959</u>	<u>207,003</u>

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6.1.3 Non-bank credit exposures by industrial sector at 31st December 2021.

		As at 31st December 2021			As at 31st December 2020		
	Limit as % of EC	Outstanding	Limit	Capacity	Outstanding	Limit	Capacity
		€000's	€000's	€000's	€000's	€000's	€000's
Automotive	20%	-	38,530	38,530	-	38,366	38,366
Industrial	20%	-	38,530	38,530	-	38,366	38,366
Transport	30%	-	57,794	57,794	-	57,549	57,549
Utilities	30%	8,573	57,794	49,221	10,261	57,549	47,228
Metals	20%	-	38,530	38,530	-	38,366	38,366
Mining and Quarrying	20%	869	38,530	37,661	-	38,366	38,366
Telecommunications	20%	-	38,530	38,530	-	38,366	38,366
Construction	30%	8,087	57,794	49,708	12,933	57,549	44,616
Agriculture, Forestry, fishing and food	20%	-	38,530	37,661	-	38,366	38,366
Oil, Gas and petrochem	60%	-	115,589	115,589	-	115,099	115,099
Non-Bank financial institutions including investment cos and pension funds	40%	-	77,059	77,059	-	76,732	76,732
Real Estate (commercial)	30%	-	57,794	57,794	-	57,549	57,549
Whole and retail trade	20%	-	38,530	38,530	-	38,366	38,366
Services and other	20%	-	38,530	38,530	-	38,366	38,366
		17,529	732,062	713,664	23,194	728,195	705,001

Residual maturity.

The residual maturity breakdown of all the exposures, excluding impairment provisions, analysed by class is as follows as at 31 December 2021:

31st December 2021

	Less than three months	Between three and six months	Between six months and one year	Between one and five years	Total
Cash and balances at banks	1,740	-	-	-	1,740
Loans and advances to banks	121,307	58,161	8,963	-	188,431
Loans and advances to customers	3,870	597	1,797	11,266	17,530
	<u>126,917</u>	<u>58,758</u>	<u>10,760</u>	<u>11,266</u>	<u>207,701</u>

7. 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. In 2021 the Market Risk is recognised at 0.125% of RWA and is considered sufficient in the present situation. In the present context, we have recognised Sanctions risk, payment risk and Brexit risk as part of our risk profile faced by the bank.

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

7.1 Interest Rate Risk in the Banking Book

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 UK Board and through them, to the Board.

Material residual interest rate mismatches at 31st December 2021 exist in Euros, Sterling, US Dollars and United Arab Emirates Dirhams for periods up to one year. Consolidated interest rate mismatches at 31st December 2021:

The following show the interest rate gap as at 31 December 2021

	Less than three months €000's	More than 3 months but less than 6 months €000's	More than 6 months but less than 1 year €000's	More than one year €000's	Undated Non-interest bearing €000's	Total €000's
Assets						
Cash and balances at central banks	-	-	-	-	1,740	1,740
Cash, loans and advances to banks and customers	134,532	58,460	10,989	9,896	(7,916)	205,961
Tangible fixed assets	-	-	-	-	12,305	12,305
Other assets	-	-	-	-	303	304
Capital Work in Progress	-	-	-	-	521	521
Prepayments and accrued income	-	-	-	-	1,070	1,070
Total assets	134,532	58,460	10,989	9,896	8,024	221,901
Liabilities						
Deposits by banks & customer accounts	5,162	21,640	-	-	-	26,802
Other liabilities	-	-	-	-	2,501	2,501
Shareholders' funds	-	-	-	-	192,598	192,598
Total liabilities	5,162	21,640	-	-	195,099	221,901
Interest rate sensitivity gap	129,369	36,821	10,989	9,896	(187,075)	

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 2021 was €888k (2020: €1,047k). 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 Bank's exposure to interest rate risk is not expected to change significantly during the course of 2022. The capital allocation for interest rate risk is 0.9% of RWAs

8 Operational Risk

Operational risk is the risk of loss to the Bank resulting from deficiencies in internal 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. Deficient operational procedures may relate to account opening procedures, capturing of the incorrect data in the systems, balance verification procedures in customers' accounts, segregation of functions and such other related issues.

The Bank is implementing a new core banking system, which entails installation of a new software and hardware system in the Bank. The Bank is providing appropriate training in the new system to all staff members to ensure that the new core banking system is set up and appropriately managed.

The Bank has a Business Continuity Policy ('BCP') in place to maintain the Bank functions in the event of a disaster and no access to bank premises.

The Bank recognises the important role of 'Internal Audit' function to monitor the internal control systems and to this extent has outsourced the 'Internal Auditor' to a 3rd party service provider.

The Bank has elected to use the Basic Indicator Approach ('BIA') for quantifying the Operational Risk. 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, in accordance with CRR Article 315 as in the following table. The capital requirement for Operational Risk is €715k

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	€' 000	2019	2020	2021
31-Dec-21				
Net interest income		4,162	4650	5118
Fees and commissions receivable		58	8	20
Fees and commissions payable		(4)	(6)	(6)
FX Profits/(losses)		14	(55)	58
		4,230	4,597	5,190
Average		4,777		
15% thereof = capital requirement		715		8,934

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9 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%.

Net currency position analysis 31 December 2021

As at 31st December 2021	US Dollar	UAE Dirhams	Other Currencies	Sterling	Total
	€000s	€000s	€000s	€000s	€000s
Assets					
Cash, loans and advances to banks	4,420	82	363	9,726	14,591
Loans and advances to customers	-	-	-	-	-
Other assets	-	-	-	-	-
Capital Work in Progress	-	-	-	-	-
Prepayments and accrued income	32	-	-	105	137
Total assets	4,452	82	363	9,831	14,728
Liabilities					
Deposits by banks	2,701	3	119	6,858	9,681
Customer accounts	1,335	9	3	1,261	2,608
Other liabilities	71	-	28	2,157	2,256
Total liabilities	4,107	12	150	10,276	14,545
Net position	345	70	214	(445)	183

There were no off-balance sheet positions.

Impact on 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.

10 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.

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Past due impaired as at 31 December 2021

Industry sector	Less than one month		More than one month but Less than three months		Over three months		Total
	Past due	Past due	Principal €'00	Interest €'000	Principal €'000	Interest €'000	
	Principal €'000	Interest €'000					
Construction	-	-	-	-	10,984	724	11,708
Power	-	-	-	-	271	-	271
	-	-	-	-	11,255	724	11,979

The carrying value of loans are secured as follows:

	Secured by TSE shares	Secured by guarantees	Total
	€'000	€'000	
Construction	8,086,832	868,949	8,955,781
Power	-	8,574,064	8,574,064
	<u>8,086,832</u>	<u>9,443,013</u>	<u>17,529,845</u>

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 realise the carrying value of the loans. 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.

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.

10.1 Reconciliation of movements in provisions as at 31 December 2021

	2021 €000's
At 1st January 2021	10,360
Exchange adjustments	190
Interest suspense	(194)
Additional/ (Reduction) provision	308
At 31st December 2021	<u>10,664</u>

Operational risk is formally reviewed at quarterly intervals. This review then encompasses the experience gained during the previous quarter 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.

11 Other Risks

The Bank has considered the following additional risks and the mitigations 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.

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Pillar 3 disclosures Continued

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

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Pillar 3 disclosures Continued

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.

12 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 2021 and 2020 for employees who have been designated as individuals whose professional activities have a material impact on the risk profile of the Bank.

	2021 Senior Management	2021 Other Identified Staff	2021 Total	2020 Senior Management	2020 Other Identified Staff	2020 Total
	€'000	€'000	€'000	€'000	€'000	€'000
	€	€	€	€	€	€
Total remuneration	936	335	1,271	1,085	274	1,359
Number of Identified Staff	8	4	12	10	3	13

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.

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Pillar 3 disclosures Continued

During 2021 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 2021 consisted of the two UK based independent non-executive directors, the Managing Director and the Bank's Chairman. 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.