PERSIA INTERNATIONAL BANK PLC
Authorised by the PRA and Regulated by FCA & PRA

PILLAR 3 DISCLOSURE

31 MARCH 2017

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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
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
COO	Chief Operating Officer
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 Systemically 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 Directors
LCC	Liquidity Crisis Committee
MC	Management Committee
MI	Management Information
NED	Non-Executive Directors
OFAC	Office of the Foreign Assets Control
O-SII	Other Systemically Important Institution
PIB	Persia International Bank
P&L	Profit and Loss
PRA	Prudential Regulation Authority
RAS	Risk Appetite Statement
RC	Risk Committee
RMF	Risk Management Framework
RRP	Recovery and Resolution Plan
RWAs	Risk Weighted Assets
SA	Standardized Approach
SREP	Supervisory Review and Evaluation Process
TRO	Tehran Representative Office
UN	United Nations

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1. INTRODUCTION

This document sets out the Pillar 3 disclosure (the 'document') for Persia International Bank plc ('PIB' / 'the Bank') as at 31 March 2017. PIB is a UK registered Bank, authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and PRA. Following the lifting of the European Union ('EU') /United Nations ('UN') and Office of the Foreign Assets Control ('OFAC') Sanctions on 16 January 2016, the Bank's business activity has been fully re-activated in November 2016.

This disclosure has been prepared to give information on the basis of calculating capital requirements and on the management of risks faced by the Bank. This document has been developed in accordance with the rules laid out in Part 8 of Capital Requirements Regulation ('CRR') and the related European Banking Authority ('EBA') guidelines. The Bank has also considered the UK regulation and the Basel Committee on Banking Supervision's Standards "Revised Pillar 3 disclosure requirements" published in January 2015.

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 jurisdictions. 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.

The Basel III Framework is structured around three pillars:

- Pillar 1: sets the minimum capital requirements for credit, market and operational risk
- Pillar 2: requires that each bank undertakes an Internal Capital Adequacy Assessment Process ('ICAAP') to assess its own risk profile and to determine the level of additional capital required over and above the Pillar 1 requirements, to cover risks either not covered, or not fully covered, by the Pillar 1 requirements (e.g. credit concentration risk), and factors external to the firm (e.g. external stresses and impact of the business cycle). The amount of any additional capital requirement is assessed by the PRA during its Supervisory Review and Evaluation Process ('SREP'), which is used to determine the overall capital resources required by a bank
- Pillar 3: aims to promote market discipline by enhancing the level of disclosure made by banks to their stakeholders, allowing them to assess a bank's key risk exposures and the adequacy of a bank's risk management process to mitigate these risks.

Pillar 3 complements Pillar 1 and Pillar 2.

Having taken into account the size and complexity of its operations, it is the Bank's policy to disclose the information as required by the Capital Requirements Directive IV ('CRD IV') on an annual basis.

The Bank may omit information it considers immaterial. PIB regards information as material if its omission or misstatement could change or influence the decision of a user relying on the information for the purpose of making economic decisions.

In addition, if the required information is judged to be proprietary or confidential, then the Bank may take the decision to exclude it from the disclosure. 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 with customers, suppliers or counterparties. In preparing this document the Bank has not excluded any information on the grounds of confidentiality.

This disclosure document forms part of the "Annual Report and Financial Statements" as at 31 March 2017 (the 'Report') and should be read in conjunction with it. The Bank's Pillar 3 disclosure is published on the Bank's website.

This Pillar 3 disclosure is not subject to external audit. The document has been approved by the Bank's Risk Committee on 31 July 2017 and by the Board of Directors ('the Board') on 7 August 2017.

1.1. Background

PIB was established in 2002 from a merger of the London branches of Bank Mellat and Bank Tejarat. The two shareholders of the Bank are Bank Mellat and Bank Tejarat ('the shareholder Banks') with equity holdings of 60% and 40% respectively. Since inception, PIB's business development was through a mixture of trade finance, syndicated and commercial loans, funded by a mixture of capital and deposits from its two shareholder Banks, the Central Bank of Iran ('CBI' / 'Bank Markazi'), correspondent banks, corporates (mainly Iranian) and a small proportion of retail customers. As a wholesale Bank, PIB aims to expand its presence in London and international markets with a focus on the above-mentioned activities.

Bank Mellat and Bank Tejarat are well established banks in Iran sharing between them a major portion of the foreign trade business. These two Banks are well rated in Iran in terms of customer base and domestic business volumes. They also have a strong network of branches in Iran. The overseas network of Bank Mellat includes 4 branches and 3 subsidiaries, while Bank Tejarat has 2 branches and one subsidiary. All these overseas branches/subsidiaries are located in Europe, the Middle East and the Asia Pacific area.

PIB provides banking services in London to these two Banks, enabling them to access the UK and international markets in the development of their global business and customer base. Thus, there is synergy and a symbiotic relationship between the shareholder Banks and PIB.

PIB has one branch in the Dubai International Financial Centre, which commenced operations in August 2005. The branch business was primarily trade finance with the interest focussed on the increasing trade between Iran and Dubai. The Head Office in London processes all of the branch deals and transactions. Following the lifting of the EU/UN and OFAC sanctions, PIB has started the process for re-activating this branch. The Bank also has a representative office in Tehran (Iran).

Initially, the funding of the Bank's resumed business derives mainly from its Own Funds and on deposits from the shareholders Banks. However, more reliance will be placed on other bank, corporates and retail deposits to provide a pool of funding to support credit exposure operations. The Bank's business model is liability driven. The loan book growth is balanced against the requirement to maintain a prudent liquidity profile.

PIB is classified as a 'Category 5' firm by the PRA, with practically no capacity to cause any disruption to the UK financial system. The PRA has assessed that PIB satisfies its statutory 'Threshold Conditions'. As a former 'C4' firm under FCA categorisation, PIB is classified as a 'flexible portfolio' firm and will be supervised through a sector-based approach, complemented by firm-specific engagement.

2. Risk Management Objectives and Policies

2.1. Risk Management Framework

The Bank has developed a Risk Management Framework ('RMF') in order to ensure sustainable business growth with stability and to promote a pro-active approach in managing risks associated with the business. The RMF is the overall approach, including policies, processes, controls and systems through which risk management is established, communicated and monitored. The RMF aligns with the institution's strategy. The RMF is formalised in the RMF policy which establishes a structured and disciplined approach to risk management. The Bank's RMF is composed of the following:

- Risk identification
- Risk appetite definition
- Risk assessment, measurement and mitigation
- Risk monitoring and reporting
- Stress testing.

All the information collected in the above-mentioned phases is considered in defining the new business objectives of the Bank. The RMF principles are integrated in everyday activities by the Bank.

PIB has also developed a Risk Appetite Statement ('RAS') which describes the process and the responsibilities in determining the risk appetite and defines the type and amount of risk that the Bank is prepared to accept in pursuit of its strategic objectives. The Bank has split its levels of risk appetite in four categories: Averse, Cautious, Ambitious and Aggressive. Additionally, the Bank has put in place policies and procedures to manage its activities ensuring they are run in a prudent manner in line with its risk appetite and its RMF.

The Board has primary responsibility for identifying the key business risks facing the Bank, approving the Bank's RMF policy and RAS.

The Bank has developed Early Warning Indicators ('EWIs') to monitor its activity as well as its adherence to the risk appetite set by the Board. The EWIs are integrated within the RMF and are consistent with the Recovery Plan ('RP') indicators.

PIB has developed a Risk Matrix which assesses the risks based on their potential severity of impact and their likelihood of occurring. The risk items in the Bank's Matrix are classified as per Pillar 1 and Pillar 2A risks, and further information is provided about the functions/products they are related to and the controls in place to manage them.

The Bank has put in place a set of robust Management Information ('MI') to support the Board and Senior Management in assessing how PIB is performing and if its activities are in line with the set objectives and risk appetites. This helps the decision making process of the Bank's management. Monitoring is a powerful management tool; it enables the Board and Senior Management to identify as early as possible current and upcoming risks that could undermine the achievement of the Bank's objectives. The output of the Bank's monitoring activity is summarised in the MI that PIB is producing on daily, weekly, monthly, quarterly, semi-annual and annual basis.

Through the above-mentioned reports, the Bank monitors and reviews the various internal and regulatory limits set in order to ensure its adherence to the business objectives and risk appetite. In case of any breaches in the limits, the escalation process to be followed is clearly defined in the specific policies covering the risk for which the breach is observed in.

Responsibility for risk management resides at all levels of the Bank from the Board and the Risk Committee to each employee. In line with this approach the Bank adopts the three lines of defence governance model which is outlined below:

- 1st line of defence: this comprises of the controls the Bank has in place to deal with the day-to-day business. Controls are built into systems and processes to appropriately mitigate risk. This is the responsibility of the relevant operating departments. The Bank's compliance with the above-mentioned processes is ensured by adequate managerial and supervisory controls in place
- 2nd line of defence: this comprises the committees and functions that are in place to provide an oversight of the effective operation of the internal control framework. These committees review the management of risk in relation to the particular risk appetite of the Bank, as determined by the Board. The effectiveness of the 2nd line is determined by the structure of committees charged with oversight, the committees' terms of reference, the competence of the members and the quality of the MI and reports that are considered by these oversight committees. The 2nd line is reinforced by the advisory and monitoring functions of risk management and compliance. Risk management defines and prescribes the financial and operational risk assessment processes for the business, maintains the risk registers and undertakes regular reviews of these risks in conjunction with line management. Compliance advises on all areas of regulatory principles, rules and guidance (including leading on any changes), and undertakes monitoring activity on key areas of regulatory risk. Effectively, this 2nd line of defence is attributable to the Executive Management of the Bank as a responsibility
- 3rd line of defence: this is made of the independent assurance provided by Board and the Audit Committee (and the Internal Audit function that reports to that Committee).

Internal Audit undertakes a programme of risk based audits covering all aspects of both 1st and 2nd lines of defence.

The Bank maintains a strong culture of control. The Bank's policies and procedures are designed to prevent irregularities arising from human error or misconduct, systems failure or inadequate procedures and controls. It is the responsibility of all management and staff to avoid placing the Bank at unnecessary and avoidable risks.

The Bank's Risk Committee and the Board are content that the risk management systems that are in place in the Bank are adequate given the size and complexity of the Bank's current operations, its risk profile and its strategy.

2.1.1. Material Risks for the Bank

2.1.1.1. Credit and Counterparty Risk

Credit and counterparty risk is the risk of loss due to the fact that a bank borrower or counterparty will fail to meet its contractual obligations, or the increased risk of default during the term of the transaction. This is the main risk for the Bank and the major source of capital requirement. PIB considers only those counterparties for business transactions who have integrity and are responsible in their dealings. The counterparties will be selected after their performance and trustworthiness is analysed, in order to ensure that the counterparty risk is minimal. All risk exposures incurred by the Bank are monitored and managed in a prudent manner to avoid or, where not possible, to contain over-exposure to, or dependence upon, any counterparty or group of connected counterparties, business sector or country. The lending rate is determined after adding the margin to the respective currency (market) interest rates (usually Euribor). The margin is market related, and depends on the credit worthiness of the counterparty. The large exposure[1] limit is 25% of PIB's Own Funds. The sum of the Bank's large exposures should not exceed 80% of PIB's aggregate exposures (total assets). PIB has defined internal approval limits for credit exposures and has formalised them in the Credit and Concentration Risk Policy Statement. It is the general policy of the Bank to collateralise commercial lending and the collateral is usually 2 times the value of the loan principal in the form of shares listed on the Tehran Stock Exchange. Unsecured lending should not exceed 40% of the Bank's total exposures. The risk appetite set for credit and counterparty risk is Cautious.

2.1.1.2. Market risk

PIB does not have a trading book. Market risk arises when open positions in currencies are maintained without hedging them against movements in Foreign Exchange ('FX') rates. PIB's active currency and liquidity resources are usually in EUR, its base currency of operation. Generally, the assets and liabilities in currencies are matched. PIB's policy is to not maintain open positions in currencies unless warranted by the situation. The Board has set an overall Net Short Open Position limit of 20% of Own Funds as well as Individual Net Short Open Position limits for EUR and GBP (€28m) and for other highly liquid currencies (€19m). PIB will not run interest rate mismatches between its assets and liabilities. Based on the above considerations the risk appetite set by the Bank for market risk is Averse.

2.1.1.3. Operational risk

Operational risk is the risk of losses arising from deficiencies or failures in internal processes, human factor or from external systems and events. This definition includes legal risks, but does not include strategic or reputational risks. In most financial institutions, these risks relate to a wide range of potential failures in a firm's activity: fraud, human errors and damage to operational capability of computer systems, loss of information, theft, fire and breaches of security (including cybersecurity). PIB is currently implementing a new core banking system and this will impact on all departments as PIB has to review all the processes in place to ensure that they are adequate to the Bank's needs and captured in its policies and procedures. Additionally, the Bank has been recently reactivated by the Regulators and it is recruiting new staff. The new employees, once hired, will need time to settle into the new environment and become fully operational. Another operational risk that PIB has taken into consideration is the non-compliance

[1] An exposure is classified as large exposure if it is above 10% of the Bank's Own Funds.

with regulatory and accounting requirements as there are new upcoming requirements (i.e. IFRS 9, FINREP etc.) the Bank has to comply with. As operational risk could be considered among the three major risks for the Bank and as PIB is calculating this risk using the Basic Indicator Approach, PIB considers allocating to it additional capital under Pillar 2. Based on the above considerations, the risk appetite for operational risk is Ambitious. Next year, once this period of transition is completed and the situation is normalised, the risk appetite will be reviewed and it is likely to be Cautious.

2.1.1.4. Concentration Risk

PIB's business is focused on the niche Iranian market. It is expected to have a huge concentration on Iran for the Money Market Placement as the Bank is still in the process of diversifying its portfolio. PIB has decided to limit its exposure to Iranian clients to 300% of its Own Funds. Even though the Bank has several measures in place to mitigate credit risk (i.e. limits, collaterals etc.), the risk appetite for concentration risk is Ambitious since the Bank does not plan to change its strategy of operating mainly in the niche Iranian market.

2.1.1.5. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner as and when they fall due. Being adequately liquid at all times is one of the threshold conditions for banks to operate in UK. Due to the significant amount of High Quality Liquid Assets ('HQLAs'), the liquid nature of the balance sheet and the size of the business volumes in relation to the capital and funding pattern, liquidity risk has not been considered material for ICAAP purposes. This does not mean that PIB considers liquidity risk unimportant. Indeed, the Bank has developed a Liquidity and Funding policy to manage liquidity and the risks related to it. A Liquidity Contingency Plan and the related Early Warning Indicators ('EWIs') have been developed. PIB produces an Internal Liquidity Adequacy Assessment Process ('ILAAP') document to apprise the Board of the Bank's on-going assessment and quantification of liquidity risks and how those risks are mitigated and how much current and future liquidity is required in relation to PIB's business plan. PIB's risk appetite for liquidity risk is Cautious.

2.1.1.6. Interest rate risk in the banking book

Since the Bank does not have a trading book, interest rate risk can arise only in the banking book. PIB has included this risk in the Pillar 2A risks, assessing the impact of a +/- 200 basis points parallel shift in the yield curve and covering this amount with Own Funds. The risk appetite for the interest rate risk on the banking book is Averse.

2.1.1.7. Business risk

Business risk means any risk to a firm arising from its remuneration policy and/or changes in its business, including the acute risk to earnings posed by falling or volatile income, and the broader risk of a firm's business model or strategy proving inappropriate due to macroeconomic, geopolitical, industry, regulatory or other factors. As the macroeconomic, geopolitical and PIB's contingent situation make it particularly difficult to assess the appropriateness of the Bank's strategy to such a complex environment (i.e. Brexit, political issues related to Iran etc.), the risk appetite for business risk is Cautious.

2.2. Risk Management Governance

The overall responsibility for monitoring and managing the Bank's risks is delegated by the Bank's Board to its Assets and Liability Committee ('ALCO') and the detailed management of risks is delegated to the Risk Committee ('RC').

The Chief Executive Officer ('CEO'), Chief Financial Officer ('CFO'), Chief Operating Officer ('COO') and the Chief Risk Officer ('CRO') join the two Independent Non-Executive Directors ('INED') of the Bank to constitute the Risk Committee ('RC') where an INED is the chairman of the RC. The RC normally meets on a quarterly basis and is responsible for evaluating the Bank's risk principles, risk policies, risk appetite and risk tolerance and makes appropriate recommendations to the full Board. The RC also monitors the effectiveness of the Bank's risk policies in practice.

The CRO is responsible for overall management of the risk controls, including the setting and managing of its risk exposures. The CRO designs, maintains and implements the risk management framework, including the risk appetite framework, for the Bank as well as promotes a sound risk culture within the firm.

2.2.1. The Board

The PIB board consists of seven directors of whom two are London based INEDs and two are non-executive directors ('NED') who represent the shareholder Banks. A list of the Board members of the Bank as at 31 March 2017 is provided below.

Name	Role
Mr. G. Penny (INED)	Chairman
Mr. H. Akhlaghi Feizasr (NED)	Vice-Chairman
Mr. M. R. Meskarian	Chief Executive Officer
Mr. M. A. Nasrollahi-Malek	Executive Director
Mr. R. Ajdari	Executive Director
Mr. D. R. Curtis	INED
Mr. M. E. Moghaddam Noudehi	NED (Deputy Chairman)

From 1st July 2017 Mr. G. Penny and Mr. D. R. Curtis will cease to be INEDs of the Bank and Mr. P. J. Quinn and Mr F. Shahmir will be the new INEDs of PIB. The new Chairman of the Board will be Mr. F. Shahmir, subject to the PRA's approval.

The full Board meets a minimum of four times in a year. The quorum for a board meeting is a minimum of four directors, out of which at least one must be INED. All decisions, when the quorum is set at four, should be unanimous. In a full board meeting all decisions are made on a majority of votes. The Chairman of the Board does not have the casting vote in the event of a tie on any resolution. The board structure and the business conduct ensure the independence of the Board, as no group can sway the decisions of the Board.

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, related provisions in the Companies Act 2006 and in compliance with current regulatory requirements of the PRA and FCA. In pursuit of its objectives, the Board defines the Bank's strategy, risk management framework and the management and organizational structure of the Bank. Establishing and monitoring Board level committees is part of the responsibilities of the Board. The Board is committed to ensure the independence of the Bank and to this extent develops a culture of good corporate governance and compliance.

The Board's main responsibilities are the following:

- Examining and approving annual financial statements for the Bank and deciding on the distribution of surpluses between retention in the Bank's business and dividend payments to the shareholders
- Appointing the CEO, CFO ,COO and other directors as required, and the CRO
- Approving authorization limits for the CEO and the terms of reference for all the Committees.
- Approving the Bank's Conduct of Business Policy, the one year budget plan and three year strategic plan
- Reviewing and approving all the policies of the Bank and other regulatory documents such as the ICAAP, ILAAP, Recovery and Resolution Plan ('RRP') and Pillar 3 Disclosure
- Approving the Bank's country and counterparty limits
- Ratifying the organisational structure and reporting structure of the Bank and its branches

- Recommending to the Annual General Meeting an approved firm of auditors to audit the Bank's accounts and appointing a Company Secretary
- Considering other issues referred to the Board by Management, the shareholder Banks and other stakeholders.

2.2.2. Board Committees

In order to assist it in discharging its responsibilities, the Board has constituted a number of committees with delegated powers to frame the relevant policies and implement them. Of these committees, the Audit Committee, Risk Committee and Remuneration Committee are the three Board level committees, each of which is headed by an INED of the Bank and reports to the Full Board.

2.2.2.1. Risk Committee ('RC')

This is a sub-committee of the Board. Its function is to oversee and monitor the risk profile of the Bank and to recommend an appropriate risk management framework for the Bank. This Committee is chaired by an INED and the members are the three Executive Directors (CEO, CFO, COO), the CRO and the other INED. It meets a minimum of four times in a year and the Credit Manager acts as the secretary to CR meetings. The Risk Committee reviews and recommends to the Board the broad parameters of the Bank's risk management strategy and assesses the following inherent risks of the Bank:

1. Risks emerging from analysis of the Balance Sheet
2. Pillar 1 Risks
3. Pillar 2 Risks
4. Compliance, operational and other risks.

The RC is also responsible for reviewing the Bank's policies and regulatory documents before submitting them to the Board for discussion and approval.

2.2.2.2. Asset and Liability Committee ('ALCO')

The members of the ALCO are the three Executive Directors, the CRO, one INED, the Financial Controller, the Operations Manager, the Treasury Manager and the Credit Manager.

The ALCO meets on a monthly basis and the Credit Manager acts as the secretary to ALCO meetings. The second INED and the Compliance Officer attend as invitees.

The ALCO main responsibilities are the following:

- Establishing the policy for the management of the Bank's balance sheet, monitoring its implementation and controlling the level of balance sheet risk
- Reporting to the Board the key elements of the balance sheet
- Monitoring and controlling the level of risks emerging from analysis of the Balance sheet, the Pillar 1 and Pillar 2 risks and other matters such as capital adequacy, funding requirements, liquidity and tax planning
- Reviewing the monthly management accounts and comparing them to the budget, regulatory requirements and new business (if any)
- Approving any new products for the Board's ratification.

2.2.2.3. Credit Committee ('CC')

The three Executive Directors constitute the CC and the Credit Manager is the secretary to the CC. The CC meets regularly, but a member may call for an ad-hoc meeting, when necessary. All decisions in the CC must be unanimous. The Bank's Credit Committee is accountable to the Board through the ALCO and has the responsibility to consider all credit applications from customers and counterparties within the prescribed limits. Any credit limit above €4m has to be approved by the Board. The CC also decides on the adequacy of provisions in respect of impaired assets and also any individual write off up to a limit of 1% of PIB's capital base, which must be approved by ALCO. Write offs above the limit of 1% of the Bank's capital base must be approved by the Board.

2.2.2.4. Management Committee ('MC')

The three Executive Directors of the Bank constitute the MC. Management Committee, which ensures the smooth day-to-day running of the Bank, implementing the Board's decisions and addressing all personnel matters. The Administration Manager prepares the minutes of the MC's meetings.

2.2.2.5. Audit Committee

Composed of two INEDS (one of whom is the Chairman), the Audit Committee meets a minimum of four times in a year. The Compliance Officer is the secretary to the Audit Committee. The three Executive Directors, the CRO, the Financial Controller and external and internal auditors attend the meeting by invitation. The Audit Committee is responsible for reviewing the financial reporting process, the system of internal control of management of financial and business risks, the audit process and the Bank's process for monitoring compliance with applicable laws and regulations in each location, and its own code of business conduct. The Chairman of the Audit Committee makes a report to the quarterly full Board meeting to present matters raised during the quarter and all actions taken by the Audit Committee.

2.2.2.6. Remuneration Committee

The Remuneration Committee is a committee of the Board and it is composed of the two INEDs, and it meets at least once a year. It advises the Board and the shareholders on the Bank's remuneration policy, and makes recommendations to the Board. It is also responsible for reviewing and monitoring that policy, to ensure that it complies with the law and relevant regulations (See Chapter 11 of this document).

2.2.2.7. Liquidity Crisis Committee ('LCC')

In the event of a liquidity crisis represented by a breach indicated by a liquidity Early Warning Indicator ('EWI'), the LCC has the responsibility of overseeing the management of the crisis. It is composed of the three Executive Directors (the CEO is the Chairman), the CRO, the Financial Controller, the Treasury Manager and the Compliance Officer (by invitation). The committee will meet according to the escalation process detailed in the Liquidity Policy. All meetings are minuted and the minutes will be reviewed by the RC at the next meeting.

2.2.2.8. Health And Safety Committee

The Health and Safety Committee is a working committee which reports to the MC and it is composed of the COO (who is the Chairman), the HR Manager, the Health & Safety Officer and the Compliance Officer. Its purpose is to review all Health and Safety issues affecting the Bank staff, visitors and building and recommending required remedial action. The committee meets on a quarterly basis and the minutes are taken by the Health and Safety Officer. A Health and Safety Report is prepared by the Health and Safety Officer for the Board each year, confirming that the Bank complies with the legislation and regulations and giving details of all health and safety issues considered and dealt with during the year.

2.2.2.9. New Products Committee

The New Products Committee was established under specific authority of the Board and recommends new products to the ALCO for approval. It is composed of the three Executive Directors (the CEO is the Chairman), the CRO and the Financial Controller. The committee meets as and when required and the minutes of the meetings are reviewed by the ALCO at the next monthly meeting.

3. Own Funds, Capital Requirements and Capital Buffers

3.1. Own Funds

The Bank's Own Funds management objectives are to comply with regulatory capital requirements at all times and to ensure that the Bank has sufficient capital to cover the risks of its business and to support its strategy. Capital adequacy and its effective management are crucial for the Bank to pursue its strategy in a prudent and viable manner.

PIB does not apply any filters and deductions to the capital described in the audited financial statements. However, the Banks' Own Funds are not the same as the Total capital in the balance sheet as the Tier 2 capital is capped at 1/3 of Tier 1 capital from 1 January 2017.

Values in € '000	Total capital 31/03/2017
Ordinary share capital	100,000
Retained earnings	5,499
Loss of the period	-1,648
Subordinated loan	46,500
Total capital	**150,351**

The Bank's Own Funds are €138.5m, of which €103.9 m are Common Equity Tier 1 ('CET1') capital. 75% of the Bank's Own Funds are represented by CET1 which is composed of ordinary share capital and retained earnings. The issued share capital of PIB is €100m and carries one voting right per share and doesn't carry any right to fixed income. The Tier 2 capital is €34.6m, consisting of floating rate notes, redeemable in 2043 and listed on the Luxembourg stock exchange. This is subscribed by the two shareholder Banks in proportion to their shareholdings (which have been specified in Chapter 1.1 of this document). PIB's existing capital structure and its retained earnings should be sufficient to support the projected business growth until the financial year 2018-19.

Own fund composition of the Bank as at 31 March 2017:

Own Funds items data (€ '000)	31/03/2017	
	Own Funds	% of Own Funds
Ordinary share capital	100,000	72%
Retained earnings	5,499	4%
Loss of the period	-1,648	-1%
CET 1 (Tier 1) capital	**103,851**	**75%**
Tier 2 capital	34,617	25%
Own Funds	**138,468**	**100%**

3.2. Capital Requirements

The overall responsibility for capital management resides with the Board. The responsibility for exercising oversight has been delegated to the Risk Committee (see Chapter 2.2.2.1) and to the ALCO (see Chapter 2.2.2.2), which in turn have delegated responsibility for the management and monitoring of the individual risks to the risk department. The purpose of this management and monitoring is to ensure that credit, market and operational risks in the Bank are maintained within the guidelines set by the Board.

The Bank undertakes an ICAAP which is an internal assessment of the Bank's risk profile, its capital needs and its risk management framework at least on an annual basis, or more frequently if required. The results of the ICAAP are formalised in the ICAAP document which includes an analysis of the material risks for the Bank, the current and forecast capital requirements and capital adequacy (in business as usual, and stressed, conditions) and describes the Bank's risk management framework (including risk appetite).

The ICAAP represents the Bank's views on the necessary Pillar 2A capital requirements which are the Bank's capital requirements for the risks that are not covered, or not fully covered, under Pillar 1. In completing the ICAAP assessment PIB considers as Pillar 2A capital requirement the higher of its own Pillar 2A assessment and the Individual Capital Guidance ('ICG') set by the regulators. The ICAAP provides information on Pillar 2B capital buffer requirements and it demonstrates that the Bank has sufficient Own Funds to fulfil its capital needs. The ICAAP document developed by the Bank has been approved by the Board.

The Bank's Capital Requirements are determined in accordance with the relevant CRR articles and EBA Technical Standards as well as with the rules defined in the PRA's prudential guidelines.

The Bank applies the Standardized Approach ('SA') to Credit Risk and Market Risk and the Basic Indicator Approach ('BIA') to Operational Risk for the calculation of Pillar 1 capital requirements.

The risk weighting of assets is review by the Risk Committee and the Board as part of the ICAAP document assessment, review and approval. Exposures to Iran in respect of financial institutions and corporate companies are risk weighted at 150%. Exposures to financial institutions in EU are mainly risk weighted at 20%. This is because these are exposures to highly rated financial institutions, or to unrated banks, incorporated in EU countries (i.e. Germany and France) with a high credit rating given by the External Credit Assessment Institutions ('ECAIs'). PIB uses the ECAIs ratings where such ratings exist and/or are available from the Banks' websites, to determine the risk weight to be applied to exposures to financial institutions.

The Bank's Pillar 1 Risk Weighted Assets ('RWAs') are €256.4m of which the main component is represented by RWAs related to credit risk (€243.3m). As per the CRR requirements, the minimum capital requirements is 8% of the risk weighted assets of credit, market and operational risks. Therefore, Pillar 1 capital requirement is €20.5m.

The Bank's Pillar 1 capital requirements are presented in the table below:

€ '000	31/03/2017	
	RWAs	Capital requirements
Credit and counterparty credit risk	243,264	19,462
Market risk	3,604	288
Operational risk	9,514	761
Total Pillar 1 risks	**256,382**	**20,511**

Focusing on stress tests, the CRO identifies the various stress scenarios and discusses them with the senior management and the concerned heads of the departments. This is to discuss the scope and possibilities of the scenarios and the likelihood of those scenarios materialising in a defined timeframe. The scenarios identified are challenged by the Risk Committee members and the possible outcomes are analysed. The CRO documents this process and then the scenarios and the stress factors are used to assess the Bank's resilience in terms of capital and liquidity needs. The results are analysed quantitatively and qualitatively in the Risk Committee meetings. In the full Board meeting, the scenarios and the test results are analysed, challenged and then approved.

3.3. Capital Buffers

The Bank calculates the CET1 capital ratio and the Total capital ratio as per the CRR requirements. As shown in the table below, the Bank is compliant with the regulatory limits set in CRR Article 92. As the Bank's Tier 1 capital is entirely made of CET1 capital, the Tier 1 and CET1 ratios are the same.

	31/03/2017
CET1 (and Tier 1) capital ratio (%)	40.51%
Total capital ratio (%)	54.01%

The Bank is not classified as a Global Systemically Important Institution ('G-SII'), and hence does not have a requirement to hold a G-SII buffer. The Bank is also not defined as an Other Systemically Important Institution ('O-SII') by the PRA and hence does not have a requirement to hold an O-SII buffer.

From 1 January 2016, the PRA buffer, expressed as a percentage of RWAs, has replaced the Capital Planning Buffer ('CPB'). The Bank is required to keep a PRA Buffer in excess of the ICG and CRD IV combined buffer. The PRA expects the PRA buffer to be met with at least 50% of CET1 capital by 1 January 2017.

The CRD IV buffer combines the Capital Conservation Buffer ('CCB') and Countercyclical Capital Buffer ('CCyB') and must be met with CET1 capital. The CCB has been introduced from 1 January

2016 and it follows a transitional pattern to its full implementation at 2.5% in 2019. In 2017 the CCB is at 1.250% of RWAs.

The CCyB requires firms to build up capital when aggregate credit growth is judged to be associated with a build-up of system-wide risk, to ensure the banking system has a buffer of capital to protect it against future losses. The buffer can then be drawn down to absorb losses during stressed periods. From 2016 firms have been required to calculate their firm-specific CCyB rate as a weighted average of the buffer rates applied to the jurisdictions to which they have a relevant credit exposure, subject to a maximum total of 2.5% of risk-weighted exposures.

The geographical distribution of the Bank's credit exposures relevant for the calculation of its CCyB is provided in Chapter 4.2 of this document. To date, among the jurisdictions to which the Bank has exposure, only Sweden has set a non-zero CCyB (2.0%). However, as the exposures are almost irrelevant, the CCyB applicable is still 0%.

4. Credit Risk

4.1. Qualitative Disclosure

A credit risk for the Bank in achieving its objectives is that counterparties to a transaction may fail in their obligation to repay, thereby diminishing the value of the Bank's asset portfolio. Credit risk exposures are controlled through close monitoring of positions and the credit ratings of counterparties (where available). Day-to-day management of credit risk is the responsibility of the credit department. The CC meets regularly (ideally once a week). It considers all new credit applications and has delegated powers to approve up to a limit of €4m, while any above this limit require Board approval. The credit exposure reports and credit committee minutes are reviewed in the monthly ALCO meetings. Additional information on the CC and the ALCO are provided in chapter 2.2.2 of this document.

The Bank normally takes legally enforceable security for the credit facilities which it grants. This may be:

1. Security over the customers' eligible assets on which charges can be created
2. Cash
3. Securities listed and traded in the Tehran stock exchange which are owned by the borrower customer or third parties
4. Corporate or bank guarantees.

The Bank uses the SA as described in the CRR to determine its regulatory capital requirement.

The credit portfolio of the Bank is simple, in that PIB does not have any complicated exposures to derivatives or other such complex credit instruments. Syndicated and bilateral loans to corporate customers and banks constitute the loan assets of the Bank.

The Bank uses collateral as one of its fundamental credit risk mitigation tools. Collateral is taken to provide additional security against exposures where it is considered appropriate and demonstrates the Bank's prudent approach to managing credit risk. Where listed shares or other securities are taken as collateral security, their market value is monitored on a weekly basis by the credit department. In the event of a breach of the required cover, the Bank may call for additional collateral or enforce the security and liquidate the collateral.

PIB is exposed to credit risk in its balance sheet loan assets. The risk is monitored by setting counterparty limits, industry sector limits and country exposure limits for counterparties. The relevant policy and procedure guidelines are documented in the Credit and Concentration Risk Policy Statement and procedures manual. The ALCO and Risk Committee reviews the policies and are responsible for the overall management of credit risk. PIB makes use of third party ratings, if necessary and if such ratings of the counterparties are available.

PIB's Dubai branch had and will have, once re-activated, limited credit extension limits which relate to short term (up to one year) trade finance discounting. Their credit approval process follows the London credit policy and procedures. All non-trade finance credit applications are recommended to London for approval, where they are subjected to the normal credit assessment procedures. The credit functions are centralised in London and hence credit risk is not seen to be increased proportionately by branch expansion.

The Bank's trade finance business is focused on PIB's niche market in Iran. Trade finance is a short term self-liquidating business, which generates fee income. The credit risk is relatively low. Under trade finance, PIB acts as the advising and/or negotiating bank on letters of credit ('L/Cs') that have been issued to finance exports and imports to Iran. This is a credit-risk free service, and requires no capital support. PIB also acts as a payment bank on instructions received from qualified Iranian banks. This is a risk free transaction as funds are paid out only when applicable funds are available in the accounts of these banks. PIB generally extends lines of credit to a list of counterparty banks for maintaining Nostro balances, Money Market and overnight placements. Bank lines are also utilised for discounting the L/Cs of the respective banks. Such discounts are for a maximum period of one year. A large proportion of this portfolio will be made up of the discounting of L/Cs' issued by Iranian banks including the two shareholder Banks. PIB acts as a guarantor to the importers and exporters of goods and services by providing guarantees that the beneficiary fulfils the contract and ship the goods. The guarantees issued are always secured, often being counter guaranteed by the beneficiaries' bankers, usually international banks, or by a deposit pledged for an amount equal to the value of the guarantee. This is virtually credit risk free as guarantees are issued against 100% security, if in the same currency, or 100% plus approved margin if in some other currency. Contingency risk capital will be allocated.

4.2. Quantitative Disclosure

SA – credit risk exposure as at 31 March 2017

To date PIB does not have any Off-balance sheet assets.

Asset Classes (€ '000)	31/03/2017	
	On-balance sheet amount	RWAs
Exposures to central governments or central banks	97,067	121,186
Exposures to regional governments or local authorities	39	8
Exposures to institutions	15,881	4,472
Exposures to corporates	54,288	79,215
Exposures in default	21,697	32,546
Exposures to institutions and corporates with a short-term credit assessment	173	52
Other items	8,598	5,785
Total	**197,743**	**243,264**

SA – exposures by asset classes and risk weights as at 31 March 2017

Asset classes (€'000)	**Assets split by the risk weight to be applied to them**									**RWAs**
	0%	**10 %**	**20%**	**35 %**	**50 %**	**75 %**	**100%**	**150%**	**Total**	
Exposures to central governments or central banks	16,276	-	-	-	-	-	-	80,791	97,067	121,186
Exposures to regional governments or local authorities	-	-	39	-	-	-	-	-	39	8
Exposures to institutions	-	-	14,262	-	-	-	1,619	-	15,881	4,472
Exposures to corporates	-	-	-	-	-	-	4,434	49,854	54,288	79,215
Exposures in default	-	-	-	-	-	-	-	21,697	21,697	32,546
Exposures to institutions and corporates with a short-term credit assessment	-	-	153	-	-	-	17	3	173	52
Other items	2,818	-	-	-	-	-	5,770	10	8,598	5,785
Total	**19,094**	**-**	**14,454**	**-**	**-**	**-**	**11,840**	**152,355**	**197,743**	**243,264**

Credit quality of assets as at 31 March 2017:

€'000		**Gross carrying values of**		**Allowances/ Impairment** (c)	**Net values** a + b - c
		Defaulted exposures (a)	**Non-defaulted exposures** (b)		
1	Loans	26,355	6,735	4,774	28,316
2	Debt securities	4,684	-	4,684	-
3	Off-balance Sheet	-	-	-	-
	Total	**31,039**	**6,735**	**9,458**	**28,316**

The definition for accounting purposes used by the Bank are the following:

- Exposures in default (past due): the exposures for which the instalments and related interests are not paid on the due dates
- Impaired assets: the exposures for which a provision has been recognised.

Changes in stock of defaulted loans and debt securities as at 31 March 2017

	Items (€'000)	**31 March 2017**	
1	**Defaulted loans and debt securities at end of previous reporting period**	**37,675**	**+**
2	Loans and debt securities that have defaulted since the last reporting	0	-
3	Returned to non-defaulted status	6,636	-
4	Amounts written off	0	-
5	Other changes	0	=
	Defaulted loans and debt securities at end of the reporting period	**31,039**	

The defaulted loans decreased by €6.6m due to loans returned to non-defaulted status. The loan portfolio's improvement is also confirmed by the fact that the Bank has released €1.4m provisions during the financial year 2016-2017.

Geographic distribution by Exposure Class

The table below shows the Bank's geographic concentration of credit risk as at 31 March 2017:

€'000	Iran	UK	Europe	Other	Total
Exposures to central governments or central banks	80,791	294	15,982	-	97,067
Exposures to regional governments or local authorities	-	39	-	-	39
Exposures to institutions	-	10	14,252	1,619	15,881
Exposures to corporates	49,854	423	-	4,011	54,288
Exposures in default	21,697	-	-	-	21,697
Exposures to institutions and corporates with a short-term credit assessment	-	-	86	87	173
Other items	30	4,401	-	4,167	8,598
Total	**152,372**	**5,167**	**30,320**	**9,884**	**197,743**

Exposure by industrial sectors as at 31 March 2017

€'000	31 March 2017
Banking and Financial Services	159,721
Manufacturing	15,220
Transport	9,261
Energy	4,010
Other sectors	971
Total	**189,183**
Other items	8,560
Total assets	**197,743**

Assets maturity profile as at 31 March 2017

Assets (€'000)	0 to 3 months	3 months - 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances at Central Banks	99,590					**99,590**
Loans and advances to banks	62,948					**62,948**
Loans and advances to customers	23,376	5,128	34			**28,538**
Other assets	1,997				4,670	**6,667**
Total assets	**187,911**	**5,128**	**34**		**4,670**	**197,743**

Liabilities and Capital (€'000)	0 to 3 months	3 months - 1 year	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to other banks	43,393					43,393
Customer accounts	1,534					1,534
Subordinated debt liabilities				46,500		46,500
Other liabilities	2,465					2,465
Total liabilities	**47,392**			**46,500**		**93,892**
Capital					103,851	103,851
Total liabilities and capital	**47,392**			**46,500**	**103,851**	**197,743**

5. Unencumbered Assets

The Bank does not have any encumbered assets since none of its assets is subject to any form of arrangement to secure, collateralise or credit enhance any transaction.

6. Market Risk

PIB does not have a trading book. The Bank's market risk arises when open positions in currencies are maintained without hedging them against movements in exchange rates. PIB's active currency and the liquidity resources are generally expressed in EUR, its base currency of operation. Generally, the assets and liabilities in currencies are matched.

PIB's policy is to not maintain open positions in currencies unless caused by temporary misalignment in the operations' settlements. Maximum tolerance for a single currency mismatch is 20% of the exposure to that particular currency. The interest rates for both its assets and liabilities are floating rates linked to the market rate of the respective currencies plus margin determined by the Bank for the particular counterparty. The market rate is usually Euribor for an interest period of 3 to 6 months. This is to avoid running any interest rate mismatches between its assets and liabilities.

The Market Risk exposure for PIB is due to open positions in currencies, primarily in GBPs, AEDs and to a small extent in other currencies. The exposures in GBPs are due to the fact that the majority of PIB's expenses are paid in this currency. The exposures in AEDs are due to the fact that the Banks owns a commercial property in Dubai International Financial Centre. This fixed asset in Dubai is valued in AEDs, the currency of purchase. However, in accordance with International Accounting Standards IAS 21, the value of the property is determined as on the date of transaction or valuation and therefore the value is not re-translated once again on the accounting dates. The remaining small proportion of the currency exposures are open positions in financial assets, the loss or gain of which is recognised in the Profit and Loss ('P&L') account. PIB values its open positions on a monthly basis on a fair value basis and adjusts for any gain or loss through the P&L account. The value of the open positions related to financial assets is considered for the RWAs.

The Treasury Manager is in charge of monitoring the above mentioned risks and limits and he reports daily to the Senior Management of the Bank. The escalation process in case of any breach in the limits has been included in the Treasury Procedures Manual. The most relevant MI related to market risk is the monthly Management Accounts documentation submitted to the ALCO.

As at 31 March 2017 the risk exposure amount for Foreign Exchange ('FX') risk is €3.6m; thus, the capital requirement is €288k.

7. Operational Risk

Operational risk is the risk of losses arising from deficiencies or failures in internal processes, human factor or from external systems and events. This definition includes legal risks, but does not include strategic or reputational risks.

Deficient operational control procedures may relate to account opening procedures, the input of customer details to computer systems, regulations and procedures for transferring information to the customer, balance verification procedures in customers' accounts, loan extension procedures, non-maintenance of separation between different functions, etc.

As PIB's is implementing a new core banking system, all the processes and procedures will be reviewed in the next months to ensure their adequacy and consistency with the new core banking system.

The Bank is currently developing a comprehensive Business Continuity/Disaster Recovery Plan which also includes the Dubai branch operations. The Tehran Representative Office ('TRO') is only an administrative office which liaises with Iranian banks, corporate customers and the Central Bank of Iran. Therefore, the TRO is not included in the Disaster Recovery Plan. The Disaster Recovery Plan incorporates an off-site location capable of continuing the Bank's minimum operations for a short period. Disaster Recovery procedures are in place and are reviewed and tested once a year. All data in the server are backed up on a daily basis and stored off-site.

The Dubai branch ledgers are maintained on the London ('Head Office') computer system with full back-up. The relevant Head Office departments have access to the branch ledgers and Head Office is able to monitor the business continuously and regularly.

The responsibilities of PIB' s committees have been extended to incorporate the branch business and activities. The Dubai branch and the TRO are in regular contact with the Head Office and both report formally to it each month with a detailed package providing operational information on business transactions, outstanding transactions, reconciliations, Anti-Money-Laundering ('AML') and any other relevant issues. The management responsibilities are therefore very clear within the Bank and the control structure is comprehensive.

The Bank has outsourced its Internal Audit function to a professional firm which reports to the Audit Committee. An adequate Internal Audit function is essential in monitoring and auditing the Bank's internal controls and monitoring systems and as a consequence is contributing to reducing operational risk.

The Bank follows the BIA for calculating RWAs for capital adequacy purposes. The Own Funds requirement for operational risk is calculated according to CRR Article 315 as 15% of the average over three years of the relevant indicator as described in CRR Article 316. Then the Own Funds requirement for operational risk, calculated following the process described above, is multiplied by 12.5 to arrive at the RWAs, which as at 31 March 2017 was €9.5m. Thus, the capital requirement is €761k.

8. Concentration Risk

As most of the Bank's business is concentrated with Iran there is a high concentration of geographical risk. There is also a high concentration of sectoral risk (finance sector), this is particularly due to the exposures to central banks.

PIB adheres to internal approval limits for credit exposures as stated in the Credit and Concentration Risk Policy Statement. It is the general policy of the Bank to collateralise commercial and project finance lending. However, the non-collateralised lending, in any case, should not exceed 40% of the Bank's total risk exposure. The group exposure limit is 25% of the Bank's eligible capital which is composed of the Bank's Tier 1 capital and Tier 2 capital capped at 1/3 of Tier 1 capital.

Limits for aggregate exposures to non-bank individual counterparties or groups of closely connected counterparties are capped at 25% of the Bank's eligible capital. All exposures to individuals of groups which are equal to or exceed 10% of eligible capital are categorised as large exposure and are monitored for their performance on weekly basis by the risk department and reviewed by the ALCO in its monthly meetings. All of these exposures are measured gross of any collateral.

Country exposures are monitored and managed to avoid over-exposure or concentration of cross-border claims on any individual country. Country exposure is defined as exposure arising from the nationality of counterparty or of a connected party. Country exposures are determined by country of incorporation, therefore, a money market deposit placed with the London branch of a foreign bank is considered a country risk exposure to the country of incorporation of the head office. Guarantees and other factors such as security that could transfer risk from a country other than that of a borrower should be taken into account in determining exposure. The aggregate country exposure limits are based on the Bank's total capital and have to be approved by the Board. The country exposure limits are included in the Treasury policy.

Transfer risk must also be monitored and managed. Transfer risk is defined as a risk that, due to local regulatory controls, entities physically located in a particular country are prevented from making cross-border payments. Transfer risk associated with an exposure is included at the time of approval within the interbank and non-bank country limits.

PIB will consider only those counterparties for business transactions who have integrity and are responsible in their dealings. The margin in a credit exposure must adequately compensate the risk associated with it. All risk exposures incurred by the Bank should be monitored and managed in a prudent manner to avoid over exposure to, or dependence on, any one counterparty or group of connected counterparties, business sector or country. PIB's strategy is to diversify its business in the future.

The most relevant Management Information related to concentration risk is contained in the monthly Management Reports submitted to the ALCO.

9. Interest Rate Risk in the Banking Book ('IRRBB')

Since the Bank does not have a trading book, interest rate risk can arise only in the banking book. The Bank's policy is to reduce this risk by using floating interest rate for assets and liabilities. PIB does not hold any derivative instruments for trading or hedging purposes.

The Bank's banking book exposures are primarily the loan book to both corporate and financial institutions, and PIB intends to hold them till maturity. The interest rates on assets and liability are floating rates and are generally matched except for brief overlapping periods. PIB absorbs these losses in the P&L account.

The treasury manager is responsible for monitoring this risk from an operational point of view. On a monthly basis the risk department assesses the present value of gaps in the assets and liabilities repricing, and the net present values of +/- 200 basis points parallel shift in the yield curve. Should any IRRBB arise or be likely to arise, the treasury and risk departments report this immediately to the ALCO.

PIB has included this risk in the Pillar 2A risks considering the impact on own fund requirements of a +/- 200 basis points parallel shift in the yield curve. The related negative impact is taken as RWAs for IRRBB.

10. Leverage Ratio

The CRD IV has introduced the requirement to calculate the Bank's leverage ratio. According to CRR Article 429 the Leverage Ratio is calculated by dividing the Tier 1 capital by the exposure values of all assets and off-balance sheet items not deducted when determining the Tier 1 capital and shall be expressed as a percentage. The minimum level of this ratio in the UK is 3%.

The Bank has calculated the Leverage ratio according to the related CRR Articles and the EBA guidelines. The Bank comfortably meets the minimum requirement with a ratio of 52.52% as at 31 March 2017.

11. Remuneration Policy

The Board's general policy is to offer remuneration which is sufficient to ensure that the Bank is able to attract and retain qualified staff to perform the functions of each role. To this end, the Bank's pays, so far as is reasonably possible, market rates of remuneration for all employment positions. The remuneration policy is integrated into the Bank's business and risk management framework and it is aligned with the Bank's objectives. The Bank has in place a Remuneration Policy which is approved by the Board and periodically reviewed.

Remuneration offered and paid by the Bank consists of the following elements:

1. Salary
2. Performance & profit related bonus
3. Membership of a defined contribution pension scheme
4. Benefits in kind.

1. **Salary**

   Salary makes up the largest part of staff remuneration. The level applied to each position reflects the responsibility which it carries and the related skills required. Other factors taken into account in determining appropriate remuneration at the level of the individual include performance in the post, commitment, attendance and, to a small extent, length of service, in so far as it reflects valuable experience. The salaries of the INEDs are reviewed as and when necessary by the Board. This is made by reference to the practice of other relevant banks in the City.

2. **Performance and profit related bonus (variable remuneration)**

   It has become the Bank's practice to pay part of employees' remuneration by way of performance and profit related variable remuneration. However, the award of any such variable remuneration is entirely at the discretion of the Board and it does not exceed 33% of the base salary. The level of performance and profit related variable remuneration depends upon the results of the performance assessment scores and the annual profits of the Bank as a whole, and it is determined by the Board, following the recommendation of the Remuneration Committee.

3. **Membership of a defined contribution pension scheme**

   The Bank has arranged for its staff non-contributory Group Personal Pension Plan schemes. This is a defined contribution pension scheme and the Bank makes contributions at rates of 7 - 20% of base salary, depending upon the age of the member.

4. **Benefits in kind**

   The Bank has arranged for its staff non-contributory life assurance and private health insurance schemes. This is provided to all the staff members. The private health insurance is available after the successful completion of the probationary period, if any. PIB also extends small subsidised loans to its permanent employees, in addition to offering an interest free season ticket loan.

The Board has delegated the on-going monitoring of the remuneration to the Remuneration Committee.

The Chairman of the Remuneration Committee is responsible for ensuring that the Remuneration Policy is kept up to date. Significant developments that may require an immediate change in the

Remuneration Policy are discussed with the CEO and any proposed changes are submitted to the Risk Committee and to the Board for its review and approval.

11.1. Quantitative Information

As at 31 March 2017 the average number of employees, including Executive Directors, was 43. All of them are eligible for variable remuneration awards in respect of their services during 2016-2017. The table below provides the number of employees in the respective business units.

Business unit	31 March 2017
	Employees
Banking operations	26
Trade finance	7
Administration	10
Total	**43**

PIB has identified 14 members of the Bank's employees as material risk takers[2]. No staff including the Executive Directors are paid over €632,911 or equivalent of £500,000. PIB pays no deferred remuneration, except Executive Directors' termination in payments, which are accrued each year at an agreed rate and payable when they leave the Bank. No deferred payments are considered in respect of the variable remuneration as no deferred payments have been made in financial year 2016-2017.

Employee	Fixed (£)	Variable (£)	Total (£)
Non-Material risk takers	£1,165,298	£8,668	£1,173,966
Material risk takers	£1,485,864	£14,493	£1,500,357
Total	**£2,651,162**	**£23,161**	**£2,674,323**

A further break-down of the material risk takers into business segments is not possible due to the size and scope of the Bank as this might otherwise reveal the confidential remuneration of individual staff. The variable remuneration does not include deferred payments.

[2] A material risk taker is an employee of a CRR firm whose professional activities have a material impact on the firm's risk profile, including any employee who is deemed to have a material impact on the firm's risk profile in accordance with criteria set out in articles 3 to 5 of the Material Risk Takers Regulation.