Pillar III Disclosures

31st December 2015

Pillar III Contents

1. Introduction

1.1 Bank of London and The Middle East plc (the "Bank" or "BLME")

The principal activities of BLME are providing Sharia'a compliant financing facilities and solutions for corporate clients; treasury services to financial institutions, organisations and corporate clients; and wealth management financing, investment and advisory services to a wide spectrum of customers.

2. Scope of Pillar III Application

2.1 Background

The European Union Capital Requirements Directive (the Directive) came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II framework. The Directive was updated by the CRD IV Basel III requirements which became effective from 1 January 2014.

Since its authorisation as a licensed financial institution in July 2007, BLME has adopted the Standardised Approach to credit and market risk under the Directive. For operational risk BLME operates under the Basic Indicator Approach.

The Directive's framework is structured around three pillars:

- Pillar I is the Bank's minimum capital requirements.
- Pillar II (supervisory review) requires the Bank to identify, via the Internal Capital Adequacy Assessment Process (ICAAP), any specific risks that may result in additional capital being held.
- Pillar III defines the disclosure rules that allow market participants to assess key pieces of information on the Bank's capital, risk exposures and risk assessment processes.

2.2 Policy Statement

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.blme.com. This document, in conjunction with the 31 December 2015 Annual Reports and Accounts, represents the Bank's annual public Pillar III disclosure for the financial year ended 31 December 2015.

BLME's Pillar III disclosures have been prepared under BIPRU 11 of the PRA Handbook and have been reviewed by the Board of Directors. The disclosures are not subject to external audit except where they are also included as accounting disclosure requirements in the Bank's Annual Report and Accounts.

The Board of Directors 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 credit risk, market risk, liquidity risk and operational risk.

2.3 Consolidation Basis

The differences between accounting and regulatory scopes of consolidation are described below:

a) BLME's investment in the Luxembourg SICAV, which it established, is fully consolidated in the Financial Statements but for regulatory supervision a qualifying portion is subject to credit risk weighting with the remainder deducted from regulatory capital.

b) IFRS 10 requires that Renaissance Asset Finance Ltd is consolidated (due to BLME's option to purchase) whereas the regulatory basis recognises BLME's lending exposure on a risk weighted basis as no equity participation is held.

c) There are two active structured entities (2014: five) that do not qualify as subsidiaries under UK law but which are consolidated under IFRS 10, the regulatory basis recognises BLME's lending exposures to these entities on a risk weighted basis.

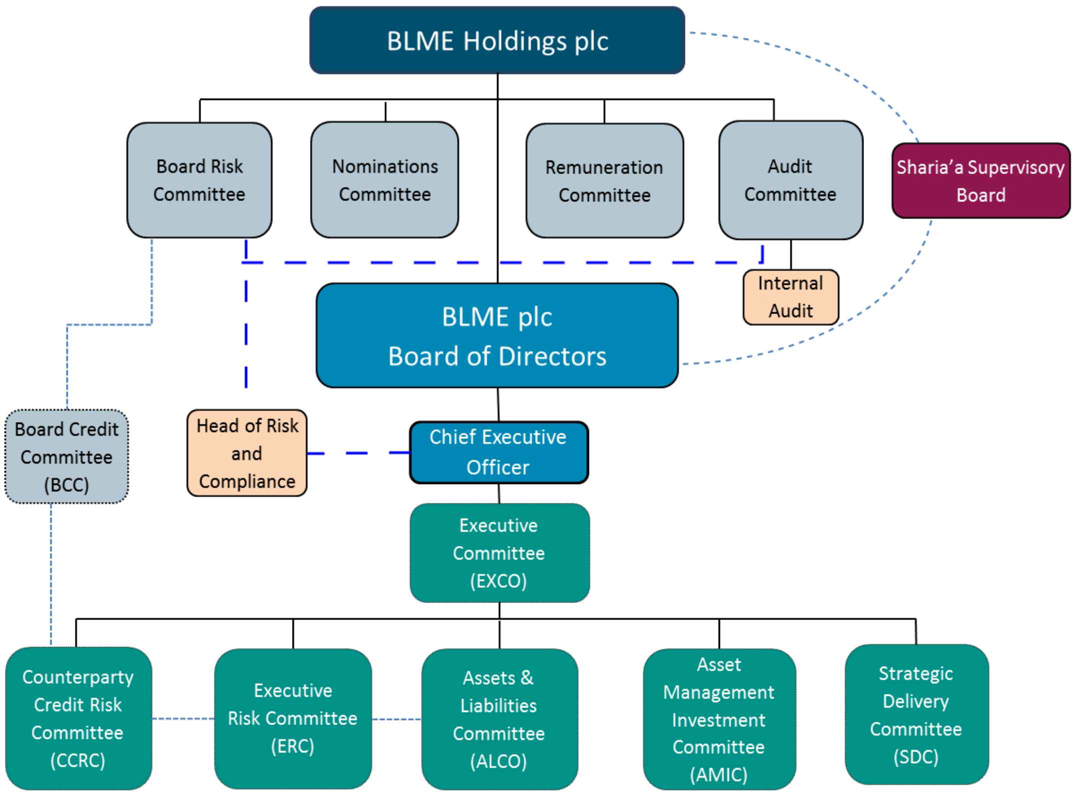
d) IFRS requires the consolidation of the assets of MKL Construction Equipment Finance Ltd (MKL) due to BLME's majority ownership; the regulatory basis recognises BLME's exposures to MKL on a risk weighted basis.

3 Risk Management Objectives and Policies

3.1 Risk Governance

The responsibility for the operating framework for risk governance rests with the Board of Directors. This extends to determining risk appetite in line with the Bank's strategy, establishing Board and executive committee structures to oversee risks, and ensuring that there is a clearly defined risk management structure with distinct roles and responsibilities that allow risks to be monitored, controlled and reported effectively. Risk governance is underpinned by ensuring that the Board and its committees are provided with transparent and risk sensitive reporting to facilitate their accountabilities and decision making. The Board has reviewed the Terms of Reference that govern BLME's Board, Board committee and executive committee structures with a view to ensuring that the Bank operates under the best practices for corporate governance as laid down in the recommendations of the Walker Report.

Board and Board Committees:



Note: The Group operates with a dual board structure with mirror image Audit, Nominations, Remuneration and Board Risk Committees for both BLME Holdings plc and Bank of London and The Middle East plc ("BLME plc").

During 2015 the committee structure overseeing risk governance was amended as follows:

a) July 2015 created BCC as a sub-committee of BRC.
b) June 2015 created SDC and incorporated the responsibilities previously held by the IT Committee.
c) December 2015 created ERC which will have oversight responsibility for Operations Committee
d) December 2015 expanded the terms of reference for ALCO and ceased the Investment Committee.

3.2 BLME Board of Directors

The Board is responsible for ensuring that an effective framework is in place to identify, monitor and report on the risks faced by BLME. At Board level BLME defines its risk philosophy using four main risk steering mechanisms:-

- A clear definition of Risk Appetite is set by Board Risk Committee and cascaded into operating procedures in relevant departments
- A risk categorisation that defines the governance of risk within BLME's committee structure. This provides a definition of the risk, the responsible committee and the regularity that the committees review each risk type. In addition, it includes an assessment of the materiality of each risk category, including the impact of any mitigating factors.
- A Stress Testing and Scenario Analysis Policy which defines the programme for the stress testing for the major categories of risk.
- Sector based Target Market Criteria that define credit risk appetite in terms of deal size, customer rating, tenor, country risk and collateral considerations.

3.3 Board Committee Structures

The following sections set out the Bank's principal governance structures. The Board and its committees meet on at least a quarterly basis.

3.3.1 Risk Committee (BRC)

BRC is a non-executive committee that is responsible for the oversight of the risk profile of the Bank and for providing guidance, advice and recommendations to the Board on credit, market, liquidity, direct investment and operational risks with a view to re-enforcing a culture that encourages good stewardship of risk. Within this mandate it reviews risk levels in consideration of the Group's overall risk appetite, market conditions and business strategy. It also overviews BLME's Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA) and assesses the adequacy of stress testing and risk policy.

Ultimate responsibility for risk rests with the Board which, with advice and recommendations from BRC, approves the risk appetite for each major class of risk in line with BLME's business model and strategic priorities and also approves the annual ICAAP and ILAA. Board Credit Committee (BCC) is a sub-committee of BRC established to review and agree decisions made by the Counterparty Credit Risk Committee (CCRC) that are outside of stated risk appetite and/or meet other escalation criteria.

The management of risk is delegated to the Chief Executive Officer who in turn delegates the day-to-day management of risk to the Executive Committee and, in particular, to the three committees of the Bank responsible for risk oversight (being ALCO, CCRC and ERC). The day-to-day independent oversight of risk is performed by the Bank's Risk Department. This process is supported by Finance Department's internal control role in monitoring adherence to risk limits, management action triggers and regulatory limits.

3.3.2 Audit Committee (AC)

This is a non-executive committee that meets at least quarterly and reports to the Board. It is responsible for reviewing any reports from management, the internal auditor and the external auditor regarding the accounts, the internal control systems and processes implemented throughout the Bank. It also provides guidance and recommendations to the Board on all matters affecting the accuracy and appropriateness of the Bank's financial statements, including the qualifications and role of its auditors, and the performance of the internal audit function. It works with the management and employees of the Bank, the auditors and other professional advisors to provide assurance that all statutory and regulatory reporting is submitted in an accurate and timely fashion. It also receives regular reports from Compliance, and the Audit Committee Chairman is responsible for apprising the Board of any relevant issues raised by Compliance.

3.3.3 Remuneration Committee (RemCo)

As a non-executive committee that reports to the Board, this body ensures that staff, management and executive compensation is appropriately aligned to business and individual performance, and is consistent with shareholder interests. It performs these duties within a framework that takes account of prevailing market conditions, best market practice and regulatory compensation guidelines. RemCo has appointed Kepler Associates as a professional advisor.

3.3.4 Nominations Committee (NomCo)

This Board committee reviews all matters affecting the composition and qualifications of the Board, and sanctions the appointment of Directors, Non-Executive Directors and experts to the Board and its committees.

3.4 Executive Committee Structures

3.4.1 The Executive Committee (EXCO)

The CEO is responsible for the executive management of the Bank. He is assisted by EXCO which ensures that all BLME internal committees are working effectively. EXCO is additionally responsible for the strategic, legal, reputational, regulatory and business affairs of the Bank, including its operational and financial performance. The CEO reports directly to the Board on behalf of EXCO.

3.4.2 Executive Risk Committee (ERC)

ERC is responsible for communicating the risk appetite, overseeing the design and implementation of the risk management policy (including setting portfolio limits), overseeing the measurement and monitoring of market risks across all asset classes and risk types in the Bank's trading and banking book businesses, overseeing the preparation and reporting of the ICAAP, ILAAP and RRP to BRC and ensuring that management information is effective to support risk modelling, stress testing and the associated decision making. Operations Committee now reports to ERC rather than directly to EXCO.

3.4.3 Assets and Liabilities Committee (ALCO)

ALCO is responsible for managing the balance sheet of the Bank, and the optimisation of the asset/liability structure and capital allocation. Within this, it is responsible for the operational and structural liquidity of the Bank, and its adherence to regulatory limits and prudential internal guidelines. It has responsibility for ensuring the adequacy of the Bank's policies and processes covering stress testing.

In the restructure of risk governance as from December 2015 ALCO is also responsible for the Banks investments, replacing the separate Investment Committee. ALCO reports directly to EXCO and indirectly to ERC.

3.4.4 Counterparty Credit Risk Committee (CCRC)

CCRC is responsible for the approval of individual obligor risks using the Target Market Criteria, as approved by ERC (was EXCO) that govern the credit risk appetite of the Bank. It also oversees country and sector risks and undertakes periodic reviews and assessments of portfolio, collateral, residual value and concentration risks. CCRC escalates matters to BCC for review where they are outside of stated risk appetite and/or meet other escalation criteria. This committee reports directly to EXCO and indirectly to ERC and BRC.

3.4.5 Asset Management Investment Committee (AMIC)

AMIC provides input and oversight of the investment activities within BLME's asset management business. These responsibilities, which take account of the Banks fiduciary responsibility to third party clients, include investment strategy and risk; fund management; trade execution; broker and counterparty risk; controls and regulatory compliance; and product development and marketing. This committee reports to EXCO.

3.4.6 Strategic Delivery Committee (SDC)

SDC is responsible for overseeing new products and strategic projects and ensuring that they are aligned with BLME's Board approved business strategy. It also oversees the allocation and prioritisation of resources and ensures that products and projects are in accordance with Sharia'a. SDC reports to EXCO.

3.5 Sharia' a Supervisory Board

This independent body is responsible for ensuring that BLME's activities are in compliance with the principles of Sharia'a. In this regard the Sharia'a Supervisory Board reviews relevant template documents and new deal structures and provides advice and guidance upon request from BLME's internal Sharia'a Compliance function. On an annual basis it conducts a Sharia'a audit of BLME's activities and reports to the Shareholders as part of the annual financial statements. Sharia'a compliance is the responsibility of all employees of BLME and is managed by the Sharia'a Compliance function that forms part of BLME's Legal Department.

3.6 Organisation of Risk Management

The Risk Management Department is an independent function. It is managed by the Head of Risk and Compliance and reports to the Chief Executive Officer with a reporting line also to the Board Risk Committee. The department is divided into two areas:-

- Credit Risk Management is responsible for the approval and review of individual obligor risks, the development of credit policy and the oversight of portfolio, country, sector, residual value and collateral risk concentrations.
- Risk Management Department covers market risk, liquidity risk and operational risk and also manages the Bank's Stress Testing and Scenario Analysis policy across all risk classes.

The New Product Approval process involves the assessment of the risks inherent in a new product and how these risks can be managed and mitigated. It covers the review and approval of all relevant risks, including legal, regulatory and Sharia'a aspects. The approval process involves and requires a formal sign off by all relevant back office and front office areas, including the Risk Management Department.

The Risk Management Department supports ALCO in the management of the Bank's regulatory and economic capital.

3.7 Compliance

Compliance is an independent function and facilitates the Regulatory Change Committee (RCC). It is managed by the Head of Risk and Compliance and reports to the Chief Executive Officer. Its role is to identify, manage and mitigate the risk of legal or regulatory sanctions and financial or reputational damage which could arise as a result of the Bank and/or its employees failing to comply with applicable rules, regulations, codes of conduct, and standards of good practice.
It seeks to make a significant contribution to the generation of business by promoting the culture and practice of compliance within the spirit of and by the letter of regulatory, ethical and Sharia'a requirements and standards. To fulfil these duties Compliance:

- is independent from the business activities;
- has direct access to senior management;
- has direct access to any director, officer or employee;
- has access to all relevant data and records; and
- will intervene in any transaction where it has reason to believe that a breach of legal, regulatory or Sharia'a requirements, or internal policies and standards, has occurred or may occur.

The Compliance function produces regular reports for the Executive Committee, the Audit Committee and the Board.

3.8 Internal Audit

The Internal Audit function is outsourced to PricewaterhouseCoopers (PwC) who report directly to the Bank's Audit Committee. Under the oversight of the Audit Committee PwC conduct a risk assessed programme of internal audits, assessments of audit findings and actions taken, and on a quarterly basis report key issues to the Audit Committee. BLME's nominated Head of Internal Audit assists the Audit Committee in managing the outsourced Internal Audit function by facilitating the internal coordination of resources and communication of the Internal Audit plan.

3.9 Risk Categorisation

BLME's Pillar 1 risks cover:

- Credit Risk, including Counterparty Risk
- Market Risk in the Trading Book
- Operational Risk

In addition, within its regular ICAAP and ILAA processes, BLME assesses a number of Business and Consequential Risks as part of determining its Pillar II capital requirement. The assessment of Business Risk includes Market Risk in the Banking Book, Concentration Risk and Liquidity Risk, whereas Consequential Risks cover Insurance Risk, Pension Obligation Risk, Residual Risk, Securitisation Risk and Group Risk. The risk evaluation also includes an impact analysis of a series of adverse market, political, regulatory, legal and reputational factors on the Bank's business model.

i. Credit Risk (including Counterparty Risk)

Credit risk is the principal risk to BLME. It is reported to the PRA for capital adequacy purposes using the Standardised Approach. Credit risk is the potential for loss caused by a customer or counterparty failing to meet its obligations on the date that they become due. This includes obligations under guarantees and letters of credit, as well as pre-settlement exposures under Islamic derivative contracts. Credit risks are managed by the Credit Risk Management Department which reports exposures to ERC and BRC on a quarterly basis by sector, region, country, rating and asset type. Large and concentrated exposures are also reported.

BLME's principal credit risks relate to its Corporate Banking, Private Banking, Investment Book and Money Market financing activities. By comparison, the Bank's limited foreign exchange activities give rise to relatively small amounts of settlement risk. In addition, BLME incurs some amount of pre-settlement risk as a result of undertaking Profit Rate Swaps to hedge fixed rate exposures and FX contracts for customer and funding purposes. Credit limit structures exist for all of the afore-mentioned risks, and these are monitored on a regular basis by Credit Risk Management Department.

Credit risk limits are guided by the Target Market Criteria (TMC) within the Bank's Credit Risk Management Policy manual. These align strategic priorities with the risk appetite of the Bank such that a suitable level of portfolio diversification is achieved. TMCs also provide guidance on counterparty and collateral quality, industries, transaction criteria as well as pricing in line with the Bank's risk appetite.

The Bank also monitors its portfolio in terms of industry, collateral type and country concentration, as well as residual value risk on Leases.

Credit ratings are determined by a combination of the BLME Internal Rating Methodology and a validation of major ECAI (External Credit Assessment Institution) ratings, such as Moody's and Fitch where such ratings exist. Where ECAI ratings are used and more than one such rating exists, the more conservative rating is adopted. This rating validation takes into account the transactional and collateral attributes of the credit proposal. Non-rated obligors are assessed using the BLME Internal Rating Methodology.

BLME's policy is to review all limits on at least an annual basis. BLME underpins its credit risk appetite by applying high levels of due diligence and rigorous adherence to Know Your Customers best market practice at the origination stage of new business. It also undertakes ongoing active risk management to keep abreast of developments within an obligor's business as well as the impact of any wider market events.

As an additional risk discipline, the Bank's Stress Testing and Scenario Analysis Policy requires at least semi-annual credit risk stress tests to be undertaken, and sets limits to measure the ability of BLME's capital resources to withstand a series of extreme credit shocks covering both portfolio and concentration risks. These are presented to the CCRC, ERC and BRC for review as part of regular assessment of portfolio and collateral risks.

Group Credit Risk Capital Requirement as at 31 December 2015

Exposure Class	**£000's**
Central governments or central banks	141
Institutions	1,997
Corporates	58,217
Retail Exposures	161
In default	2,355
Exposures associated with particularly high risk	25,458
Institutions and corporates with a short-term credit assessment	2,463
Equity exposures	5,044
Other items	1,782
Total Credit Risk Capital	97,618

Whilst not necessarily being Credit Risk related from a technical interpretation point of view, the following ancillary risk has been identified within the Credit Risk Capital component:-

Leasing
BLME carries residual value risk through its leasing activity. This risk is on the residual value of the underlying assets on Leases. BLME uses independent professional valuation agents to advise on the residual value of equipment and monitors the development of these values through the life of the leases. As part of its Residual Value management process, the portfolio of assets where BLME is potentially exposed to a fall in residual value is also monitored for concentrations in particular types of asset. Stress tests of residual value risk are also performed every six months. Overall, BLME takes a conservative stance to residual value risk, taking into consideration asset type, length of lease and the secondary market for equipment.

ii. Market Risk

Market risk is the potential for loss caused by adverse changes in market prices. In the case of BLME this applies to rate re-price risk in its Asset and Liability (ALM) book, currency rate movements in its FX activities, credit spread movements in its small Sukuk Trading Book and changes in net asset values of fund investments. With the exception of its seed capital in BLME funds, the Bank has a small level of equity risk from its modest portfolio of private equity and venture capital investments.

FX activities are subject to relatively small position limits as dealing is mostly focused on facilitating customer transactions. As a consequence, the most significant form of market risk is rate re-price risk. This arises from the cumulative mismatch between the re-pricing dates of a) the Bank's profit rate bearing assets and liabilities b) the investment of the Bank's capital and reserves and c) the Profit Rate Swaps (PRS) transacted to mitigate the re-pricing risk. The Treasury desk is responsible for managing these risks under the guidance of ALCO. This is accomplished by providing the Treasury desk with "Operating Risk Limits" that define the maximum risk positions by currency and by tenor. These limits are expressed in basis point sensitivity (PV01) terms, and are checked by the Finance Department on a daily basis in conjunction with Risk Management. Compliance with dealing limits is reported to management on a daily basis and reviewed at the monthly ALCO meetings. On an annual basis Risk Management provides BRC with a report on the development and use of all market risk limits.

The Bank's Stress Testing and Scenario Analysis Policy requires periodic stress testing of all market risks to be undertaken. Stress Test Guidance Parameters are set to measure the ability of BLME's capital resources to withstand extreme adverse changes in market rates. These are presented to ALCO, ERC and BRC on a semi-annual basis.

In BLME FX risk emanates mostly from spot deals (usually undertaken to fund and facilitate customer business) and from hedging foreign currency profits and losses. In view of the limited risk appetite for FX risk, BLME has implemented small nominal based Net Open Position Limits within its Operating Risk Limits. The adherence to limits is checked by the Finance Department, in parallel with Risk Management. Exceptions are reported to management on a daily basis and reviewed at the monthly ALCO meetings and quarterly BRC meetings.

Credit spread risk emanates from the modest Sukuk Trading business. The Operating Risk Limits for this activity include limits that cover portfolio size, maximum issuer capacities, rating based credit spread sensitivity limits and Management Action Triggers in respect of profits and losses. The monitoring of these limits is undertaken daily by the Risk Management Department.

Risk Management Department also undertakes a programme of regular stress testing in which the results are monitored against Stress Test Guidance Parameters. Exceptions are reported to management on a regular basis and reviewed at the monthly ALCO meetings and the quarterly Risk Committee meetings. BLME's capital adequacy reporting treats this risk as Banking Book capital as permitted by the PRA Handbook (BIPRU Section 1.2.17).

The Capital Requirement for Position, FX and Commodities Risks as at 31 December 2015 was £267k.

iii. Liquidity Risk

Liquidity risk is the risk that the Bank, even if it has sufficient capital, does not have sufficient cash to meet its obligations as they fall due. On a daily basis liquidity risk is managed by the Treasury desk who in conjunction with Finance Department and Risk Management ensure that BLME is compliant on an intra-day basis with its regulatory liquidity ratios. Daily reports are circulated to Senior Management showing BLME's actual and projected liquidity profile, and as confirmation that BLME is compliant with both its regulatory and internal liquidity limits. This assessment additionally takes account of the Bank's secondary market assets, which could be sold in extreme circumstances to provide emergency liquidity.

Liquidity planning and strategy are evaluated as part of overall annual budget process, within which detailed balance sheet and liquidity planning is undertaken for each business area. It is further guided by the annual ILAA process. The latter lays out the Bank's liability gathering strategy, and its internal prudential liquidity ratios and targets, as well the stress testing results that underpin its Individual Liquidity Guidance and the resultant Contingency Funding Plan. ALCO reviews these liquidity measures and ratios on a monthly basis. These ratios also link into the Stress Testing and Scenario Analysis Policy, particularly the ability of BLME to withstand and adapt to an extreme liquidity squeeze. Detailed liquidity reports and assessments are provided to ERC and BRC on a quarterly basis.

iv. Operational Risk

Operational risk is the potential for financial loss or damage to reputation resulting from failed or inadequate internal processes and systems, the actions of individuals or the impact of external events. To mitigate Operational Risk BLME has the following safeguards:-

- A detailed Business Continuity Plan.
- Conducts full and partial tests of the Disaster Recovery site.
- Utilises the secure SWIFT system for payment messages.
- Maintains comprehensive insurance policies.
- A legal review is conducted on all new documentation (core agreements, contracts and legal documentation) and existing documentation is reviewed on a rotational basis. These reviews utilise specialist external support when appropriate.
- Operates a New Product Approval process that ensures that all new products are reviewed and authorised by relevant business and support areas.
- Ensures that all departments have their own operating procedures and policies, and has an overall manual which provides an overview of BLME's operations.
- Operates a committee structure to facilitate the support of businesses and development of the new business initiatives within a robust and integrated operational framework.
- Operates with clearly defined and authorised delegated authorities.

BLME's Operational Risk Policy is founded on the Basel "Principle for the Sound Management of Operational Risk" guidelines that were issued in June 2011. The Bank operates and reports to the

PRA using the Basic Indicator Approach, under which a prescribed percentage of the Bank's historic revenues form the basis of BLME's Operational Risk Capital Adequacy reporting.

In parallel with issuing its Operational Risk Policy, Risk Management has implemented an internal Operational Risk Database to record, follow-up and report risk events and losses. Risk Management has also undertaken operational risk awareness training for all relevant staff.

As part of its PRA Pillar II ICAAP process, BLME's policy is to undertake an annual Operational Risk Assessment across all Front and Back Office functions. This process takes account of the seriousness of the loss potential, the probability of occurrence and the effect of any risk mitigation factors. By asking respondents to identify any further risk mitigating initiatives, BLME has a means of tracking key risks to ensure that these are optimally addressed. The results from this assessment are reported to ERC (via OPCO) and to EXCO, and are included within Risk Management's reporting to BRC.

v. Business and Consequential Risks

The management of Business and Consequential Risks is formally and principally undertaken within the ICAAP. On a more regular basis the following other risks are managed through the BLME committee and governance structures:-

RISK	Board Committee	Executive Committee(s) Sub-Committee(s)
Liquidity	Risk	ERC/ERC/ALCO
Market	Risk	ERC
Credit	Risk and Board Credit Committee	CCRC
Operational	Risk	OPCO
Legal	Risk	EXCO
Investment (Bank)	Risk	ALCO
Investment (Asset Management)	Risk	AMIC/EXCO
Compliance	Audit	EXCO/ERC/OPCO/RCC
Management	Board	EXCO
Governance	Audit	EXCO
Reputation	Board	EXCO
IT	Audit	SDC/EXCO
Sharia'a	Audit	SSB

4. Capital Resources

The amounts of regulatory capital shown below are based on the amounts reported to the PRA as at 31 December 2015 and differ from the balances shown in the Group's Annual Report and Accounts as the total below does not include adjustments arising from the annual audit process which were affected after regulatory submission deadlines.

The Group's capital resources are all components of Tier 1 and Tier 2 Capital. At December 31 2015 these were as follows:

	£000's	
Tier 1 capital		
Share Capital	48,933	
Share Premium	180,623	
Retained Earnings	14,462	
Total Tier 1 Capital	244,018	
Deductions from Tier 1 capital		
Unaudited current year result	-5,115	
Intangible Assets	-2,262	
Other Reserves	840	
Deferred tax	-1,843	
Total Tier 1 after Deductions	235,638	
Tier 2 Capital	3,146	Note 1
Total Tier 1 & 2 capital	238,784	
Deductions from Tier 1 & 2 Capital		
Financial Sector Entities	-34,494	Note 2
Total Capital Resources	204,290	

Notes:

1) This is the collective impairment provision, see the 31 December 2015 financial statements for full details.
2) The deduction from capital represents the value of the Banks investment in a Luxembourg SICAV Fund (which the Bank established); less an amount equal to 10% of the Tier 1 & 2 Capital, which is added to risk weighted assets, the balance being this deduction.

5. Capital Adequacy

5.1 Adhering to BIPRU Capital Requirements

In the first instance the Bank assesses the adequacy of its capital resources as part of its annual Budget and Business Planning process, where it looks at projected earnings, balance sheet growth and capital usage for the next 5 years. This capital requirement assessment is subsequently referenced to and qualified by the Bank's ICAAP. The ICAAP calculates BLME's internal (economic) capital for the following principal risk classes:-

- Credit risk
- Market risk (Trading Book and Banking Book)
- Liquidity risk
- Operational risk

The calculation of internal capital is the basis upon which the Bank proposes its Pillar II Individual Capital Guidance requirement. In undertaking the ICAAP, the Bank uses a number of economic risk methodologies and models that allow it to assess its internal capital requirements for all risk classes.

The ICAAP is undertaken companywide and is coordinated by the Head of Risk and Compliance under the guidance of the Chief Executive Officer and it is reviewed and endorsed by EXCO before being submitted to BRC for further review and recommendation to the full Board. The latter is responsible for ensuring that the planned capital levels are sufficient to protect unsecured creditors from loss, having taken account of the Bank's risk appetite within the context of business strategy and plans, and having assessed the resilience of capital resources to extreme stress events and adverse scenario conditions. The most recent ICAAP also takes account of the Basel III changes in respect of capital adequacy, liquidity, leverage and trading book treatment.

On a more routine level, BLME reports its capital adequacy to the PRA on a quarterly basis. For internal management purposes it is calculated daily, where it is used by Finance Department to present to EXCO the Bank's financial performance against budget. The Board reviews these financial and business performance indicators on a quarterly basis.

6. Credit Exposure

BLME's credit exposure arises principally through its lending activities to corporate entities and high net worth individuals, as well as to financial institutions through liquidity and investment activities. It should be noted that the large majority of BLME's lending to corporate entities and private clients is secured. These exposures are well distributed by economic sector and by geography. Geography is primarily determined by country of incorporation or by country of economic activity where this is more appropriate.

The following table shows these exposures net of any credit provisions.

Exposure by Economic Sector & Geographic Region as at 31 December 2015

	Total £m	Europe	Middle East	America	Asia
Central governments/central banks	**36**	**2%**	**1%**		
Multilateral developments banks	**105**		**8%**		
International organisations					
Institutions	**94**	**4%**	**1%**	**2%**	
Corporates	**1,052**	**66%**	**7%**	**2%**	**1%**
Real Estate	438	28%	4%	0%	
Transport, storage & communication	147	8%	2%	0%	
Wholesale / retail trade & repair of motor vehicles	146	11%			0%
Financial Leasing Corporates	72	5%			
Construction	40	3%			
Manufacturing	25	1%	1%		
Other(individually <1% of total exposures)	184	11%	1%	2%	1%
Equity Exposures	**28**	**2%**		**0%**	
Exposures in default	**21**	**1%**	**1%**		
Other items	**22**	**2%**			
Retail (secured by real estate collateral)	**3**	**0%**			
	1,361				

Average Exposure over four quarters in 2015 by Economic Sector

	£m
Central governments/central banks	**35**
Multilateral developments banks	**94**
International organisations	**17**
Institutions	**139**
Corporates	**1,023**
Real Estate	398
Transport, storage & communication	147
Wholesale/retail trade & repair of motor vehicles	139
Financial Leasing Corporates	74
Construction	39
Manufacturing	25
Other	201
Equity Exposures	**10**
Exposures in default	**22**
Other items	**29**
Retail (secured by real estate collateral)	**3**
	1,371

The credit exposure to financial institutions tends to be short term. Exposures to Corporate Banking and Private Banking customers are usually longer term, depending on the credit quality of the borrower and the quality of the collateral. A breakdown of residual maturity and exposure class is as follows:-

Exposure by Class and Maturity as at 31 December 2015

	< 12 mths £m	< 24 mths £m	<60 mths £m	> 5yrs £m	Past due £m	Total £m
Central governments/central banks			28	9		36
Multilateral developments banks	16	22	67			105
Institutions	90	0	3			94
Corporates	605	165	250	4	28	1,052
Equity Exposures	24	4				28
Exposures in default	17	1	3			21
Other items	15	0	7			22
Retail	3					3
	769	193	358	12	28	1,361

7. Quality of Credit Portfolio

All counterparties are assigned an annually reviewed credit rating by Credit Risk Management which must be approved by CCRC. Where available, the counterparty credit ratings of the 3 major External Credit Assessment Institutions (ECAI's), e.g. Fitch, Moody's etc. are used to supplement the Bank's Internal Rating Methodology.

Credit Exposure by Rating Band as at 31 December 2015

ECAI or BLME Equivalent	£m
AAA+ TO AA-	136
A+ TO A-	128
BBB+ TO BBB-	352
BB+ TO BB-	543
B+ TO B-	128
CCC+ AND BELOW	74
	1,361

Where more than one ECAI rating exists and the ratings differ (i.e. a split rating) BLME will assign the most conservative of the ratings. Where none of the three afore-mentioned ECAI ratings exist BLME assigns its own internal counterparty rating. Overall, 45% of BLME's credit exposure is investment grade or equivalent. Within this, 42% of the portfolio was directly rated by at least one of the ECAI, with the remaining 58% being mapped using internal ratings.

Risk weighted asset values under the Standardised Approach are calculated by reference to six credit quality steps under BIPRU 3. The table below shows the mapping from the ECAI ratings to the six credit quality steps:

	Credit Quality Step					
	1	**2**	**3**	**4**	**5**	**6**
Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below
Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below

The credit quality steps are then mapped to their relevant risk weightings, as follows:

	Credit Quality Step					
	1	**2**	**3**	**4**	**5**	**6**
Corporate	20%	50%	100%	100%	150%	150%
Institution - Maturity 3 months or more	20%	50%	50%	100%	100%	150%
Institution - Maturity 3 months or less	20%	20%	20%	50%	50%	150%
Sovereign	0%	20%	50%	100%	100%	150%

In accordance with the Standardised Approach all credit exposures without an ECAI rating (i.e. credits assigned a BLME Internal Rating) are mapped with a minimum risk weighting of 100%.

8. Counterparty Pre-Settlement Risk

Counterparty pre-settlement risk is very limited. It arises through a small number of Profit Rate Swaps transacted to hedge the fixed rate exposures in Banking Book transactions and a similar number of FX contracts undertaken for either funding purposes or on behalf of customers. In these hedging and funding strategies, BLME uses ECAI investment grade rated banks, for which BLME allocates separate sub-limits. BLME's assessment of pre-settlement risk takes account of the daily mark-to-market of these positions plus a conservative volatility add-on. The latter manages the risk that adverse future changes in market rates could result in higher counterparty risks. The exposures from these transactions are deemed to be immaterial for the purposes of this disclosure.

9. Secondary Credit Exposure through Collateral

BLME has secondary credit exposure as the Corporate Banking and Private Banking financing transactions are secured on assets. The Bank monitors the composition of these portfolios, within which the collateral assets are subject to regular assessment and review by professional valuation agents.

10. Credit and Dilution Risk

10.1 Impairment of Credit Risks

For credit risk management purposes:

- A credit asset is considered to be past due where repayment of either profit or principal is 90 days overdue and where Management is not aware of any specific event that might mitigate the impact of the non-payment.
- A credit asset is deemed to be impaired when repayment is more than 90 days in arrears, where collateral rights have been exercised or where Management considers the full and eventual repayment to the Bank to be at risk.

Every month the Credit Risk Management department meets with the Chief Financial Officer, Head of Asset Recovery, Head of Credit, Financial Reporting Manager and the Head of Financial Accounting and Reporting (meeting as the Credit Quality Review Meeting, CQRM) to assess performance of the credit portfolio. This assessment determines whether there is a need to reverse any accrued earnings; add any credit assets to the Credit Watch List; or establish specific impairment provisions. Any recommendations for credit provisions or write-offs are reported to CCRC and subsequently to the Audit Committee before being presented to the Board for final approval. In order to determine any requirement for a collective provision an industry standard modelling approach is used which utilises probability of defaults, loss given default and emergence periods.

10.2 Impairment Assessment and Provision at 31 December 2015

The Bank has an established Credit Impairment and Non-Accrual process to monitor impairment events that could lead to losses in its asset portfolio. This process covers specific loss events for individual exposures, as well as events that relate to collective losses on groups of homogenous assets with common credit characteristics that have yet to be identified and assessed individually for impairment. The Bank writes off a balance and any related provisions for impairment when the CCRC determines that the balance is uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the borrower's obligation can no longer be serviced, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The provision is recommended to the CCRC by the Chief Financial Officer (as chair of the CQRM) before being referred to the Audit Committee and the Board for ultimate approval. For the year ending 31 December 2015 BLME considered it prudent to take impairment charges totalling £23.4m which was partially offset by recoveries of £2.8m.

As at 31 December 2015	**£m**
Exposures considered impaired	81
Impairment provision	39

Past Due Amount by Sector and Geographic Region

	Total	**Europe**	**Middle East**
	£m		
Corporates	**28**	**97%**	**3%**
Real Estate	28	97%	3%
	28		

11. Analysis of Credit Exposures and Impairment

All credit exposures are considered for impairment on a specific basis.

12. Credit Risk Mitigation

The Bank has two transactions that have associated guarantees that are utilised as credit mitigation, the effect of which, in the context of its total assets, is not considered to be material to BLME's capital requirement.

13. Non-Trading Book Exposures in Equities

The Bank has only a small number of Private Equity and Venture Capital exposures, these are included as risk weighted assets in the calculation of capital resources.

14. Profit Rate Risk in the Banking Book

These risks principally emanate from the following sources:

- asset and liability rate reset mismatches from Corporate Banking and Private Banking lending.
- asset and liability rate reset mismatches from Investment Book activities.
- asset and liability rate reset mismatches from money market and liquidity management activities.
- strategies used to hedge the Bank's capital and reserves.

The 31 December 2015 sensitivity to a standard parallel 100 basis points increase/decrease in the yield curve across all currencies for the Bank's transactional risks was an increase/decrease in potential equity across all currencies over the term of the Bank's asset and liability re-price risk profile as detailed below.

Currency	**100bps increase £000's**	**100bps decrease £000's**
GBP	(4,017)	3,837
USD	1,857	(1,621)
EUR	(134)	141
Other	(92)	90
TOTAL	**(2,386)**	**2,447**

15. Securitisation

To date the Bank has not entered into any securitisation activities.

16. Remuneration

BLME 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 sections of BLME's Pillar 3 disclosures reflect the requirements of BIPRU 11.5.18R.

The following table shows the remuneration awards made by BLME in respect of 2015, and 2014 for employees, who have been designated as Code Staff (as defined in SYSC 19A. 3.4. R and 19A 3.6.G).

Analysis of Code Staff Remuneration

	2015 Senior Management £'000s	2015 Other Code Staff £'000s	2015 Total £'000s	2014 Senior Management £'000s	2014 Other Code Staff £'000s	2014 Total £'000s
Total remuneration	959	1,745	2,704	1,506	1,952	3,457
Number of Code Staff	4	10	14	3	5	8

Total remuneration consists of base salary, car allowance, pension contributions, discretionary annual bonus and IFRS 2 share scheme costs (which are amortised over the vesting period and therefore affect at least three accounting periods).

16.1 Decision Making Process for Remuneration Policy

BLME has an established Remuneration Committee (RemCo) which meets regularly to consider the overall reward framework across the Bank. Within the authority delegated by the Board, RemCo is responsible for approving remuneration policy and in doing so takes into account the pay and conditions across the Bank. This includes the terms of bonus plans, share plans, other long-term incentive plans and the individual remuneration packages of executive Directors and other senior Bank employees, including all employees in positions of significant influence and those having an impact on our risk profile (Code Staff).

There were seven meetings of the RemCo during 2015. During 2015 the Committee has striven to ensure that BLME's Remuneration and Benefits Policy is fair and transparent and that the Bank's remuneration framework supports our business strategy whilst discouraging inappropriate risk taking and appropriately rewarding staff. RemCo does not plan to materially amend the Remuneration and Benefits Policy or the framework that is currently in place. No Directors are involved in deciding their own remuneration.

i. Composition of the RemCo

The members of RemCo during 2015 were Neil Holden, Frank Vermeulen, Sheikh Abdullah Jaber Al-Ahmed Al-Sabah, Zeyad Al-Mukhaizeem and for part of the year Michael Williams. Neil Holden is the appointed chairman of RemCo.

ii. Role of the relevant stakeholders

RemCo received independent advice on executive remuneration issues from Kepler Associates during 2015. Benchmarking to market of the Bank's salaries was conducted by independent remuneration advisors.

16.2 Code Staff Criteria

The following groups of staff have been identified as meeting the PRA's criteria for Code Staff:-

- Senior Management whose roles are judged as falling within the PRA Code Staff definition.
- Staff performing a Significant Influence Function for the Bank.

- Specific roles whose professional activities either have a significant risk impact (e.g. front office roles) or cover control functions (e.g. Risk and Compliance).
- Any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile.

16.3 Link between Pay and Performance

Total remuneration at BLME comprises salary, car allowance, annual bonus, pension contributions and long-term incentives designed to reward performance. In determining the level of award of any component of variable pay (annual bonus and long-term incentives), the Bank has a policy to assess the extent to which performance has been achieved. BLME 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 dependent on the achievement of objectives. The pay-out levels depend on the performance of the Bank, of constituent business departments and of the individual.

BLME's remuneration policy is designed to reflect the extent to which the Bank's annual objectives have been met against the annual budget, the risk appetite framework and competitive market practice. The purpose of the existing Long Term Incentives has been to reward the creation of sustained growth in shareholder value and to encourage alignment with the interests of shareholders.

16.4 Long Term Incentives

BLME has an Approved Share Option Plan (ASOP) and an Unapproved Share Option Plan (USOP). Grants made under these schemes are made to eligible staff. In addition, BLME operates a Deferred Annual Bonus Scheme (DABS) under which any bonus in excess of a stipulated threshold is awarded in full or part as nil cost BLME share options. The ASOP, USOP and DABS schemes provide the main incentive tools to align the long term interests of Code Staff with those of shareholders. Options granted under these schemes vest over a three year period and are subject to good/bad leaver provisions.