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Bank of London & The Middle East

Pillar 3 Disclosure 2019

Contents

1. Executive Summary

1.1 Introduction

This document comprises BLME Group's Pillar 3 disclosures on capital and risk management as at 31 December 2019 and has the following two principal purposes:

- to meet the regulatory disclosure requirements under the Capital Requirements Regulation (EU) No 575/2013 ("CRR"), Part 8 – Disclosure by institutions and the rules of the Prudential Regulation Authority ("PRA") set out in the Public Disclosure section of the PRA Rulebook and as the PRA has otherwise directed; and
- to provide useful information on the capital and risk profile of the BLME Group.

The Group (BLME) comprises Bank of London and The Middle East plc (the "Bank") its main operating entity and Walbrook Asset Finance Ltd ("WAF").

The principal activities of the Bank provide 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 clients.

The principal activities of WAF provide Asset Finance for businesses including Operating Leases, Finance Leases and Hire Purchase arrangements.

Details on the scope of consolidation are provided in Section 2.8 of this document. Additional relevant information may be found in the 2019 BLME Holdings plc Annual Report and Accounts.

1.2 Table 1: Location of Pillar 3 disclosures within Annual Report and Pillar 3 Report

Pillar 3 disclosure topic	CRR Article	Annual Report	Pillar 3
Scope of disclosure requirements	431	Not mentioned	Section 2
Non-material, proprietary or confidential information	432	Not mentioned	Section 2.5
Frequency of disclosure	433	Not mentioned	Section 2.2
Means of disclosure	434	Not mentioned	Section 2.2
Risk management objectives and policies	435	Note 38	Sections 6 & 7
Scope of application	436	Note 1 & 2	Section 2
Own Funds	437	Note 38	Section 3; Appx 1 & 2
Capital requirements	438	Note 38	Section 4
Exposure to Counterparty Credit Risk	439	Note 38	Section 8
Capital buffers	440	Note 38	Section 5
Indicators of global systemic importance	441	Not mentioned	Section 2.5
Credit Risk adjustments	442	Note 15	Section 8.5 – 8.17
Unencumbered assets	443	Not mentioned	Section 10
Use of ECAIs	444	Note 38	Sections 8.18 - 8.23
Exposure to Market Risk	445	Note 38	Section 12
Operational Risk	446	Note 38	Section 14
Exposures in equities not included in the trading book	447	Not mentioned	Section 11
Exposure to profit rate risk on positions not included in the trading book	448	Not mentioned	Section 13
Exposure to securitisation positions	449	Not mentioned	Section 2.5
Remuneration policy	450	Note 14	Section 15
Leverage	451	Note 38	Section 16
Use of the IRB Approach to Credit Risk	452	Not mentioned	Section 2.5
Use of Credit Risk Mitigation techniques	453	Note 38	Section 9
Use of the Advanced Measurement Approaches to Operational Risk	454	Not mentioned	Section 2.5
Use of Internal Market Risk Models	455	Note 38	Section 2.5

1.3 Summary of key metrics

At the end of 2016 BLME established a Wealth Management focussed strategy to deliver sustainable performance and create long-term value for our shareholders. The progress in implementing this strategy has had a positive impact on the Bank's financial performance as evidenced in our sustained profitability and a Balance Sheet that has grown to £1.5bn.

The UK Countercyclical Capital Buffer (CCyB) rate was increased by the Financial Policy Committee (FPC) from 0% to 0.5% on 27 June 2018 and again from 0.5% to 1% on 27 November 2018. Based upon year end UK exposures, BLME's institutional specific CCyB was 0.91%. The buffer was reduced to 0% on 11th March 2020 as part of the coordinated response to the economic shock from Covid-19. Other national authorities also determine the appropriate CCyBs that should be applied to exposures in their jurisdiction, however based upon current exposures none of these apply to BLME.

On 1 January 2018, IFRS 9 transitional capital arrangements were implemented by Regulation (EU) 2017/2395. BLME elected not to apply the transitional arrangements, which allow for the transitional relief on the "day 1" impact on adoption of IFRS 9 (static element) and for the increase between "day 1" and the reporting date (modified element), and discloses only fully loaded ratios.

A summary of the changes in our key capital ratios are given in the following table.

1.4 Table 2: Key ratios

Available capital	31/12/2019 £m	31/12/2018 £m
Common Equity Tier 1 (CET 1)	221	215
Tier 1	221	215
Total regulatory capital resources	221	215
Risk-weighted assets	1,466	1,245
	%	%
Common Equity Tier 1 ratio (%)	15.07%	17.24%
Tier 1 ratio (%)	15.07%	17.24%
Total regulatory capital ratio	15.07%	17.24%
	£m/%	£m/%
Leverage ratio exposure measure	1,649	1,356
Leverage ratio	13.40%	15.83%
Liquidity coverage ratio (%)	261.23%	184.86%
Net stable funding ratio (%)	112.48%	104%
Total capital requirement (Pillar 1 + Pillar 2A)	149	127

1.5 Key matters arising during the period

A new subsidiary, Walbrook Asset Finance Ltd (Walbrook), was established by BLME Holdings plc as a sister company to the Bank. On 1 July 2019 Walbrook began trading as part of the Group, with the funding requirements to service and grow the leasing client base facilitated by the Bank's Treasury division as part of its role of managing the Group liquidity requirements.
Walbrook operates as a separate company with its own Board and Committee structures.

2. Scope of the application and disclosure policy

2.1. Background

The Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) (collectively CRD IV), which implement Basel III within the European Union, came into force on 1 January 2014. CRDIV, which is enforced in the UK together with local implementing rules and guidance, by the Prudential Regulation Authority (PRA), has the objective to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of overspill from the financial sector into the wider economy.

CRD IV also sets out disclosure requirements relevant to banks and building societies under CRR Part Eight. These are known as Pillar 3 disclosures because they complement the minimum capital requirements in Pillar 1 and the supervisory review and evaluation process in Pillar 2. The Pillar 3 disclosures are aimed at promoting market discipline by providing information on risk exposures and the management of those risks.

The Bank uses the standardised approach to calculating Pillar 1 capital requirements, using the capital risk weighting percentages set out under CRD IV.

2.2. Frequency and means

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. The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements: BLME does not currently meet any of the indicators included within EBA Guidelines Title V – Considerations regarding the need to assess the disclosure of information more frequently than annually.

The capital position of BLME has remained consistently strong throughout 2019. There have been no changes to the relevant characteristics of the Bank's business (such as scale of operations, range of activities, presence in different countries, involvement in different financial sectors, and participation in international financial markets and payment, settlement and clearing systems) to impact the capital position.

This document, in conjunction with the 31 December 2019 Annual Report and Accounts (available on the Bank's website), represents the Group's annual public Pillar III disclosure for the financial year ended 31 December 2019.

2.3. Reporting

Capital is reported on a monthly basis within the Bank's management performance reporting suite. Specific analysis of capital by business stream is included within the reports as appropriate.

A range of Key Risk Indicators are routinely monitored by management to ensure appropriate actions can be taken should triggers be breached.

2.4. Disclosure process and governance

BLME applies the Basel 3 capital framework for our risk exposures on the basis of the "Standardised Approach" for measuring Credit Risk and Market Risk and the "Basic Indicator Approach" for Operational Risk. For purposes of Article 431 CRR, we have adopted a formal risk disclosure policy aiming to support a conclusion that our risk disclosures are in compliance with the applicable legal, regulatory and accounting risk disclosure standards and are compiled based upon a set of internally defined principles and related processes. Senior representatives and subject matter experts from Finance and Risk assume responsibility for our risk disclosures and govern our respective risk disclosure processes. Based upon our assessment and verification we believe that our risk disclosures presented throughout this Pillar 3 report in conjunction with the Annual Report 2019 appropriately and comprehensively convey our overall risk profile and that no material disclosures have been omitted from this document.

2.5. Table 3: Pillar 3 disclosure topics where disclosures are omitted due to reasons of there being no values to report; immaterial values; or confidentiality

Pillar 3 disclosure topic	CRR Article	Management Comment
Indicators of global systemic importance	441	BLME is not identified as an institution of Global Systemic Importance
Exposure to securitisation positions	449	BLME does not have exposures to securitisation positions and does not securitise any assets on the balance sheet
Use of the IRB Approach to Credit Risk	452	BLME calculates own funds requirements in accordance with the Standardised Approaches to Credit Risk
Use of the Advanced Measurement Approaches to Operational Risk	454	BLME measures Operational Risk according to the Basic Indicator Approach
Use of Internal Market Risk Models	455	BLME calculates own funds requirements in accordance with the Standardised Approaches to Credit and Market Risk and the Basic Indicator Approach to Operational Risk
Wrong way risk	439	BLME enters into very limited Sharia'a compliant trading book activities (primarily "Profit Rate Swap" and "FX" contracts), accordingly it has negligible exposure to wrong way risk.

2.6. Location and verification

These disclosures have been reviewed and approved by the Board Committee on 18 March 2020. The disclosures are not subject to external audit except where they are also included as accounting disclosure requirements in the Annual Report and Accounts. To the best of our knowledge, the Pillar 3 disclosures have been prepared in accordance with our Pillar 3 Disclosure Policy and the internal controls framework described within it.

2.7. Declaration

The Board of Directors is committed to a strong culture of risk management in order to protect the Group's market reputation and its ongoing sustainability. It has established governance and management structures, monitoring procedures and reporting for each type of risk that the Group is exposed to. These risks are principally Credit Risk, Market Risk, Liquidity Risk, Operational Risk and Conduct Risk.

The responsibility for identifying and managing the principal risks ultimately rests with the Board of Directors. The Board has ultimate responsibility for setting the strategy, Risk Appetite and control framework.

The Board considers that, as at 31 December 2019, it had in place adequate systems and controls with regard to its risk profile and strategy and the credit, operational and prudential risks were within BLME's risk tolerances.

In accordance with Part VIII of the CRR and the Group's Pillar III disclosure policy, the Directors have considered the adequacy of the Pillar III disclosures and are satisfied that they convey the risk profile comprehensively. The disclosures of risk management objectives and procedures within this Pillar III document are detailed further within the Risk Management Report of the Annual Report and Accounts.

2.8. Table 4: Accounting and regulatory scopes of consolidation - Entities

The differences between accounting and regulatory scopes of consolidation are briefly described below; full detail of the consolidation for accounting purposes is laid out in note 33 within the Annual Report and accounts:

<table>
<tr><th rowspan="3">Entity name</th><th rowspan="3">Method of accounting consolidation</th><th rowspan="3">Basis of accounting consolidation</th><th colspan="4">Regulatory treatment of exposure</th><th rowspan="3">Description of the entity</th></tr>
<tr><th colspan="2">Consolidation</th><th rowspan="2">Risk weighted credit exposure</th><th rowspan="2">Risk weighted temporary equity investment</th></tr>
<tr><th>Full</th><th>Proportional</th></tr>
<tr><td>Bank of London and The Middle East plc</td><td>Full</td><td rowspan="7">Ownership of share capital</td><td>x</td><td></td><td></td><td></td><td>Credit Institution</td></tr>
<tr><td>Walbrook Asset Finance Ltd</td><td>Full</td><td></td><td></td><td>x</td><td></td><td>Financial institution (unregulated)</td></tr>
<tr><td>BLME Holdings Employee Benefit Trust</td><td>Full</td><td>x</td><td></td><td></td><td></td><td>Employee benefit trust</td></tr>
<tr><td>Aspenway Limited Jersey</td><td>Full</td><td></td><td></td><td></td><td>X</td><td rowspan="3">The provision of Sharia'a Compliant real estate investment and financing arrangements</td></tr>
<tr><td>AQ1 Limited Jersey</td><td>Full</td><td></td><td></td><td></td><td>X</td></tr>
<tr><td>Waterfront Holdings Limited Jersey</td><td>Full</td><td></td><td></td><td></td><td>X</td></tr>
<tr><td>MKL Construction Equipment Finance Ltd</td><td>Proportional</td><td></td><td></td><td>x</td><td></td><td>Leasing company</td></tr>
</table>

The following dormant companies are consolidated for both accounting and regulatory purposes:
Renaissance Trade Finance Ltd
Renaissance Property Finance Ltd
BLME Limited
Global Liquidity Solutions Ltd
BLME Holdco Limited
BLME Asset Management Ltd

There are no current, or foreseen: material; practical; or legal impediments to the transfer of capital resources or the repayment of liabilities between consolidated entities.

As of 31 December 2019, there was no capital shortfall at any of the companies included within the Bank's consolidation.

2.9. Table 5: Accounting and regulatory scopes of consolidation – Carrying values

The differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories:

	Carrying values within published financial statements £m	Carrying values under scope of regulatory consolidation £m	Carrying values of items £m				
Assets			Subject to Credit Risk framework	Subject to Counterparty Credit Risk framework	Subject to the Securitisation framework	Subject to the Market Risk framework	Not subject to capital requirements or subject to decution from capital
Cash and balances with banks	66.747	66.747	66.747				
Due from financial institutions	23.508	23.508	23.508				
Due from customers	14.081	14.081	14.081				
Investment securities	111.038	111.038	111.038				
Financing arrangements	847.880	847.880	847.880				
Finance lease receivables	417.970	417.970	417.970				
Operating lease assets	39.042	42.999	42.999				
Investments accounted for using the equity method	1.216	1.216	1.216				
Property and equipment	4.007	4.007	4.007				
Intangible assets	0.056	0.056					0.056
Asset held for sale	2.575	2.575	2.575				
Other assets (inc. inventory)	15.982	13.841	13.841				
Deferred tax assets	4.497	4.497	4.497				
Total assets	**1,548.598**	**1,550.414**	**1,550.358**				**0.056**

Liabilities							
Due to financial institutions	375.565	375.565					375.565
Due to customers	917.569	917.569					917.569
Profit rate swaps	1.196	1.196					1.196
Other liabilities	19.571	19.571					19.571
Current tax liability	1.219	1.219					1.219
Total liabilities	**1,315.120**	**1,315.120**					**1,315.120**

2.10. Table 6: The main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Carrying values of items £m				
		Items subject to:			
	Total	Credit Risk framework	Securitisation framework	Counterparty Credit Risk framework	Market Risk framework
Asset carrying value amount under scope of regulatory consolidation	1,550.414	1,550.414			
Liabilities carrying value amount under regulatory scope of consolidation					
Total net amount under regulatory scope of consolidation	1,550.414	1,550.414			
Off-balance sheet amounts	113.975	105.073		8.902	
Differences in valuations					
Differences due to different netting rules, other than those already included	32.450	32.450			
Differences due to consideration of provisions					
Differences due to prudential filters					
Exposure amounts considered for regulatory purposes	**1,696.840**	**1,687.938**	**0.000**	**8.902**	**0.000**

3. Own funds

3.1. Total available capital

At 31 December 2019 and throughout the year, BLME complied with the capital requirements in force as set out by European and national legislation.
BLME has adopted the Standardised Approach to credit and Market Risk under the Directive.
For Operational Risk BLME applies the Basic Indicator Approach.
All disclosures are on an end point basis as BLME has no grandfathered Additional Tier 1 or Tier 2 capital which would be subject to the transitional provisions.

3.2. Reconciliation of statutory to regulatory capital

A table of own funds disclosure information is given at appendix 1 to this document.

3.3. Capital Instruments – main features and terms

A table detailing the main features and terms of the capital instruments issued by Bank of London and The Middle East plc, Walbrook Asset Finance Ltd and BLME Holdings plc is given at appendix 2 to this document.

3.4. Table 7: Prudential filters and deductions

Description	£m
Adjustments to CET1 in accordance with CRR articles 32 – 35	
Cash flow hedge reserve	0
	0
Adjustments to CET1 in accordance with CRR articles 36; 56 & 66	
Losses for the current financial year	0
Direct, indirect and synthetic holdings of own CET1 instruments	0
Intangible assets	0
	0
Items not deducted in accordance with articles 47,48,56,66,& 79	
None	0
	0

3.5. Restrictions applied to the calculation of own funds

There are no restrictions applied to the calculation of own funds.

3.6. Calculation of capital ratios

The capital ratio calculations do not include any elements calculated on a basis other than that laid down within the CRR legislation.

3.7. Transitional own funds disclosure

A table of transitional own funds disclosure information is given at appendix 3 to this document.

4. Capital requirements

4.1. Assessing the adequacy of internal capital to support current and future activities

In the first instance BLME 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 future years. This capital requirement assessment is subsequently referenced to and qualified by the Internal Capital Adequacy Assessment Process (ICAAP) which calculates internal (economic) capital for the following principal risk classes:-

- Credit Risk
- Market Risk (Trading Book and Banking Book)
- Liquidity Risk
- Operational Risk (including conduct and cyber risk)

The calculation of internal capital is the basis upon which BLME proposes its Pillar II Individual Capital Guidance requirement. In undertaking the ICAAP, BLME 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 group-wide and is coordinated by the Chief Risk Officer under the guidance of the Chief Executive Officer and is reviewed and endorsed by EXCO before being submitted to BRC for further review and recommendation to the Board. The latter is responsible for ensuring that the planned capital levels are sufficient to protect unsecured creditors from loss, having taken account of BLME'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 weekly and 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.

4.2. Table 8: Overview of Risk Weighted Assets (RWAs)

	£m		
	Risk weighted assets		Minimum capital requirements
	31/12/19	31/12/18	31/12/19
Credit Risk (excluding Counterparty Credit Risk) (CCR)	1,389.033	1,162.669	111.123
Of which standardised approach (SA)	1,389.033	1,162.669	111.123
Of which the foundation IRB (FIRB) approach			
Of which the advanced IRB (AIRB) approach			
Of which equity IRB under the simple risk-weighted approach or the IMA			
Counterparty Credit Risk	2.104	0.661	0.168
Of which mark to market	2.104	0.661	0.168
Of which original exposure			
Of which the standardised approach			
Of which internal model method (IMM)			
Of which risk exposure amount for contributions to the default fund of a CCP			
Settlement Risk			
Market Risk	3.730	3.993	0.284
Of which standardised approach	3.730	3.993	0.284
Operational Risk	71.388	77.763	5.711
Of which basic indicator approach	71.388	77.763	5.711
Amounts below the thresholds for deduction (subject to 250% risk weight)			
Total	**1,466.255**	**1,245.086**	**117.286**

5. Regulatory capital buffers

5.1. Introduction

5.1.1. Pillar 1

Under CRD IV, institutions are required to meet the following own funds requirements: CET1 ratio of 4.5%; Tier 1 ratio of 6% and a total capital ratio of 8%.

5.1.2. Pillar 2

The Pillar 2 framework includes an ICAAP carried out by firms to analyse and conclude on the additional amount of capital required and the regulatory review of that process, the Supervisory Review and Evaluation Process. Pillar 2A addresses risks to firms that are not adequately covered within Pillar 1. Pillar 2B addresses risks to which the firm may become exposed over a forward-looking planning horizon.

5.2. Capital Buffers

5.2.1. Capital conservation buffer

The capital conservation buffer is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. The requirement is set at 2.5%.

5.2.2. Countercyclical capital buffer (CCyB)

The countercyclical capital buffer requires institutions to hold additional capital to reduce the build-up of systemic risk during a positive credit cycle. Institution's specific rates are calculated as the weighted average of the countercyclical capital buffers that apply in those jurisdictions where the relevant credit exposures exist.

The UK CCyB rate was increased by the Financial Policy Committee (FPC) from 0% to 0.5% on 27 June 2018 and again from 0.5% to 1% on 27 November 2018. On 16 December 2019 the FPC announced that it is raising the level of the CCyB rate that it expects to set in a standard risk environment from in the region of 1% to in the region of 2% and that it will consult in 2020 on proposals to reduce minimum capital requirements in a way that leaves the overall loss-absorbing capacity in the banking systems broadly unchanged.
Other national authorities also determine the appropriate CCyBs that should be applied to exposures in their jurisdiction, however based upon current exposures none of these apply to BLME.
Based upon current UK exposures, BLME's CCyB is 0.91%.

5.3. Total loss absorbing capacity

The total loss absorbing capacity at 31 December 2019 is equal to the minimum capital requirement (i.e. Pillar 1 + Pillar 2A capital). The PRA does not require BLME to hold a MREL recapitalisation reserve.

5.4. Table 9: Geographical distribution of exposures

	£m											
	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
	Exposure value for				Exposure value for							
Jurisdiction	SA	IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	SA	IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
United Kingdom	1,338.030						98.803			98.803	1,235.034	1%
Kuwait	90.568						5.237			5.237	65.464	
United States	16.373						0.353			0.353	4.409	
Qatar	14.890						1.191			1.191	14.890	
Jersey	31.698						2.536			2.536	31.698	
Saudi Arabia	21.319						0.741			0.741	9.262	
Switzerland	6.476						0.518			0.518	6.476	
Abu Dhabi	1.197						0.069			0.069	0.865	
Bahrain	32.450						0.519			0.519	6.490	
Other UAE	5.583						0.447			0.447	5.583	
Ireland	1.363						0.109			0.109	1.363	
New Zealand	1.434											
Dubai	9.635						0.768			0.768	9.603	
Multilateral	67.907											
Total	**1,638.923**						**111.291**			**111.291**	**1,391.137**	

5.5. Table 10: Amount of institution-specific countercyclical capital buffer

	Total
Total risk exposure amount (£m)	1,465.596
Institution specific countercyclical capital buffer rate	0.91%
Institution specific countercyclical capital buffer requirement (£m)	13.267

6. Risk management objectives and policies

6.1. Statement and declaration

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.

The responsibility for identifying and managing the principal risks ultimately rests with the Board of Directors. The Board has ultimate responsibility for setting the strategy, Risk Appetite and control framework.

The Board considers that, as at 31 December 2019, it had in place adequate systems and controls with regard to its risk profile and strategy and the credit, operational and prudential risks were within BLME's risk tolerances.

Details of transactions between the group, affiliates and related parties are disclosed within note 31 of the Annual Report.

6.2. Structure and organisation of the risk management function

6.2.1. Attribution of responsibilities: BLME Board & Board Committees

6.2.1.1. BLME Board of Directors

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 BLME'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 and its committees have reviewed the Terms of Reference that govern: BLME's Board; Board committee; and executive committee structures, with a view to ensuring that BLME operates under the best practices for corporate governance.

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 business lines;
- 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 Scenarios Policy which defines the programme for the stress testing for the major categories of risk; and,
- sector based Risk Limits and Commercial Guidelines that define Credit Risk Appetite in terms of deal size, client rating, tenor, country risk and collateral considerations.

6.2.1.2. Board 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 ICAAP, Internal Liquidity Adequacy Assessment Process (ILAAP), Recovery and Resolution Pack (RRP) 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 ILAAP. Board Credit Committee is a sub-committee of BRC established to review and opine on decisions made by the Counterparty Credit Risk Committee (CCRC) that meet the 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 Executive Risk Committee which oversees the three sub-committees responsible for risk oversight (being Assets and Liabilities Committee (ALCO), Counterparty Credit Risk Committee (CCRC) and Executive Risk Committee (ERC)). The day-to-day independent oversight of risk is performed by BLME's Risk Department. This process is supported by the finance department's internal control role in monitoring adherence to risk limits, management action triggers and regulatory limits.

6.2.1.3. Board Audit Committee

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.

Board Audit Committee also provides guidance and recommendations to the Board on all matters affecting the accuracy and appropriateness of the Bank's Annual Report and Accounts, including the qualifications and role of its auditors, and the performance of the internal audit function. It works with the management and employees, along with 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.

6.2.1.4. Board Remuneration Committee (RemCo)

As a non-executive committee that reports to the Board, this body ensures employee, 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 into account prevailing market conditions, best market practice and regulatory compensation guidelines. RemCo has appointed Mercer as an independent professional advisor.

6.2.1.5. Board Nominations Committee (NomCo)

This non-executive committee is responsible for matters relating to the composition of the Board, including the appointment of new Directors, and makes recommendations to the Board as appropriate. NomCo identifies qualified candidates to be Directors through a robust and prudent process, with the use of external consultants as necessary.

6.2.1.6. Table 11: Board and committee meetings 2019

Committee	Board	BRC	Audit	RemCo	NomCo
No of meetings	9	6	4	7	5

6.2.2. Attribution of responsibilities: Executive Committees

6.2.2.1. The Executive Committee (EXCO)

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

6.2.2.2. Executive Risk Committee (ERC)

ERC is responsible for communicating the Risk Appetite, overseeing the design and implementation of the risk management framework (including setting risk limits), overseeing the measurement and monitoring of Market Risks across all asset classes and risk types in the Group's trading and banking book businesses. It also oversees the preparation and reporting of the ICAAP, ILAAP and Recovery and Resolution Plan (RRP) to BRC ensuring that management information is effective to support risk modelling, stress testing and the associated decision making.

6.2.2.3. Assets and Liabilities Committee (ALCO)

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

6.2.2.4. Counterparty Credit Risk Committee (CCRC)

CCRC is responsible for the approval of individual obligor risks using the Commercial Guidelines, as approved by ERC, that govern the Credit Risk Appetite of the Group. 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 Board Credit Committee for review where they are outside of stated Risk Appetite and/or meet other escalation criteria. This committee reports directly to ERC.

6.2.2.5. Wealth Management Investment Committee (WMIC)

WMIC provides input and oversight of the investment activities within BLME's Wealth Management business. These responsibilities, which take account of the Group's 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.

6.2.2.6. Change Implementation Committee (CIC)

CIC is responsible for overseeing all Bank wide strategic projects and new product development (once approved by the Product Committee) 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. CIC reports to EXCO.

6.2.2.7. Product Committee (PC)

Proposals for new products or material changes to existing products supported by EXCO are delegated to the PC for processing. The purpose of PC is to support product proposal sponsors to launch new products and execute material changes to existing products. The committee is also responsible for undertaking periodic risk-based reviews of BLME's existing products as recorded on the Product Register. In particular, the committee will balance the commercial aspirations of BLME with its regulatory responsibilities, risk management obligations, and obligations to its clients and the markets within which it operates.

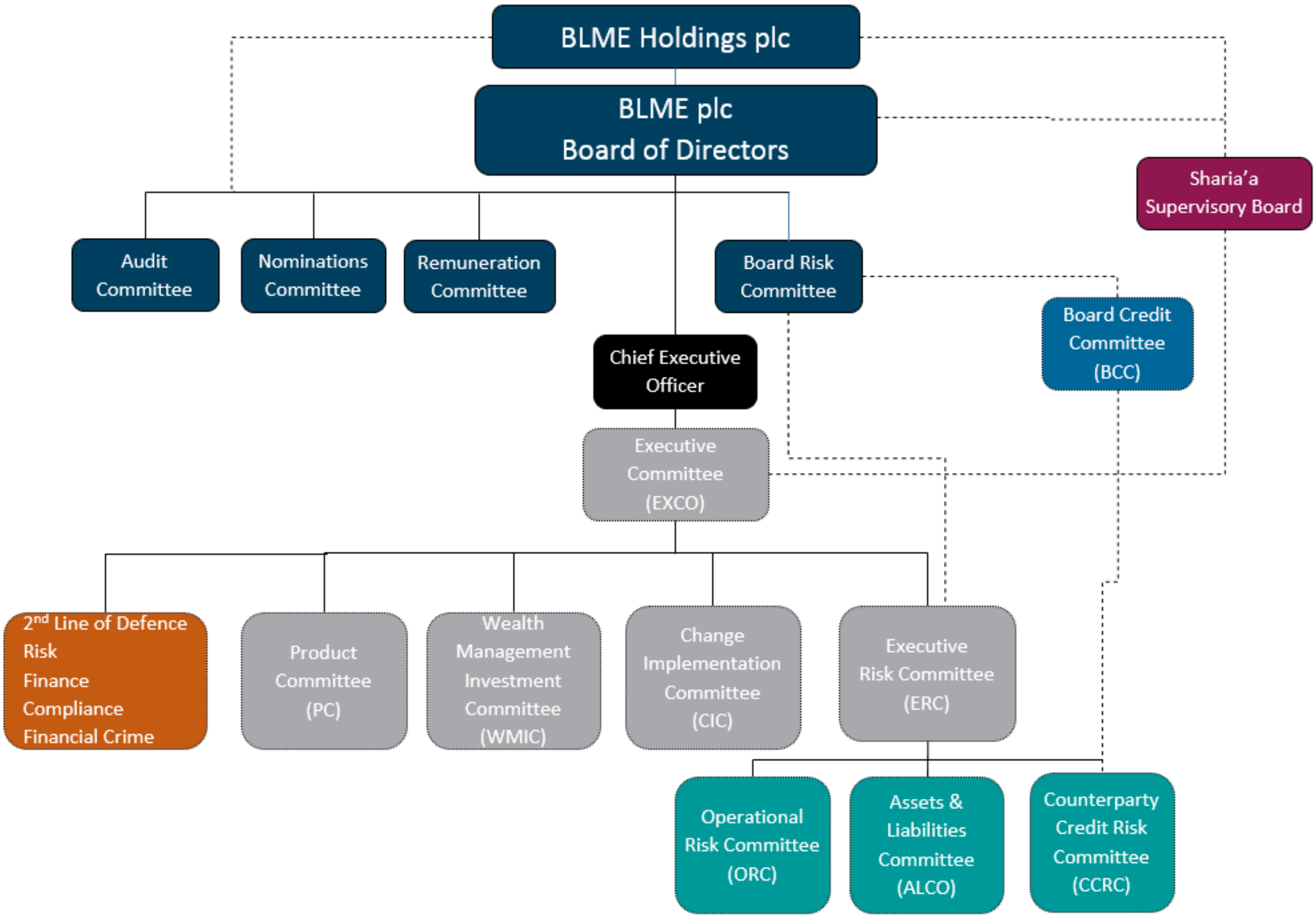
6.2.2.8. Operational Risk Committee (ORC)

The purpose of the Committee is to assist EXCO (via Executive Risk Committee) in fulfilling its oversight of responsibilities related to operational aspects of resource and cost allocations, alignment to transformation strategy, notable upcoming events and key challenges. The Committee also serves as the oversight body responsible for ensuring active engagement between departmental heads on Operational Risk issues affecting multiple areas of the Group.

6.2.2.9. Sharia'a Supervisory Board (SSB)

This independent body is responsible for ensuring that BLME's activities are in compliance with the principles of the 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 report and accounts. 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.

6.2.3. Chart 1: Governance structure



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").

Walbrook operates as a separate company with its own Board and Committee structures

6.2.4. Structure of key functions

6.2.4.1. Risk management

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

- Counterparty 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 capital risk, Market Risk, Liquidity Risk and Operational Risk and also assists the embedment of the risk management framework (RMF).

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 management of the Bank's regulatory and economic capital.

6.2.4.2. Risk categorisation

BLME's Pillar 1 risks cover:

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

In addition, within its regular ICAAP and ILAAP processes, BLME assesses and quantifies the risks not covered as part of Pillar 1 in line with the PRA/EBA requirements. 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.

6.2.4.3. Compliance

The Compliance Department, which reports to the CEO, is an independent function. 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;
- 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; and,
- is represented on committees which are key to the Compliance governance framework e.g. Product Committee.

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

6.2.4.4. Financial Crime

The Financial Crime unit is in place to ensure that the Group and its employees observe regulatory requirements and do not have any involvement in:

- receiving proceeds of crime;
- money laundering;
- fraud;
- bribery and corruption;
- tax evasion;
- cyber-crime; and,
- financing of terrorism.

6.2.4.5. Internal Audit

The Internal Audit function is outsourced to BDO who report directly to the Bank's Audit Committee. Under the oversight of the Audit Committee, BDO 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.

6.2.5. Liquidity Risk

Liquidity Risk is the risk that the Group, even if it has sufficient capital, does not have sufficient cash to meet its obligations as they fall due.

6.2.5.1. Strategies and processes in the management of the Liquidity Risk

Liquidity planning and strategy are evaluated as part of the overall annual budget process, within which detailed balance sheet and liquidity planning is undertaken for each business area. It is further documented in the annual ILAAP. The latter lays out the Group's liability gathering strategy, its internal prudential liquidity ratios and targets, and the stress testing results.

Due to the importance of the maintenance of adequate liquidity for the prudent management of BLME, the Board, represented by the Board Risk Committee ("BRC"), is significantly involved in the strategy and policy for the measurement, monitoring and management of Liquidity Risk, which is subject to review and updates on at least an annual basis. The Group's Liquidity Risk Management Framework and Internal Transfer Pricing Policy are appendices to this ILAAP document.

Following review by ALCO, ERC and BRC approves:

- Risk Appetite;
- the strategies, policies, processes and systems relating to the management of Liquidity Risk for BLME (including the Liquidity Risk Management Framework);
- the Recovery and Resolution Plans (including Liquidity Contingency Plan); and,
- the ILAAP.

Additionally, the Board reviews regularly:

- Liquidity Risk items submitted by the Chairman of the BRC;
- the funding strategy as updated from time to time (not less frequently than annually);
- the Recovery and Resolution Plans (including Liquidity Contingency Plan); and,
- the liquidity stress-testing methodology and scenarios.

6.2.5.2. Structure and organisation of the Liquidity Risk management function

Liquidity Risk is managed by the Treasury function which, in conjunction with Finance Department and Risk Management, ensures that BLME is compliant on an intra-day basis with its regulatory liquidity ratios.

6.2.5.3. Scope and nature of Liquidity Risk reporting and measurement systems

Daily reports are circulated to Senior Management showing BLME's actual and projected liquidity profile and 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.

ALCO reviews these liquidity measures and ratios on a monthly basis. These ratios also link into the Stress Testing and Scenarios 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.

6.2.5.4. Policies for hedging and mitigating Liquidity Risk

The KRIs and the respective limits are set with regard to the most material risks that BLME faces within each principal risk. For Liquidity and Funding Risk these are aligned to the key risk drivers as outlined in sections 6 and 10 of the ILAAP document. The key funding vulnerabilities exist due to the relatively small set of funding options available to an Islamic Finance institution. The KRIs therefore focus on the relative stickiness of these deposits as BLME uses the term nature of its deposits as a key risk mitigation to Liquidity and Funding risks, with KRIs for each of the main sources of funding for BLME in addition to the continuous monitoring of the key stress scenario results.

6.2.5.5. Adequacy of Liquidity Risk management arrangements

The Board considers that, as at 31 December 2019, it had in place adequate systems and controls with regard to its Liquidity Risk profile and strategy and that the prudential risks were within BLME's risk tolerances.

6.2.5.6. Risk profile statement

Liquidity Risk is assessed against a set of metrics and regulatory ratios to ensure that the liquidity profiles of BLME are prudently managed in unstressed and stressed conditions.

Any shortfall in liquidity, both in unstressed and stressed conditions, is immediately investigated in parallel with examining the actual and projected liquidity positions. Details of the processes and suite of management actions concerning liquidity are documented in the Recovery Plan, which also outlines the contingency funding, operational and communication plans in the event of a liquidity crisis event.

6.2.5.7. Table 12: LCR Metrics

The following table includes LCR outcomes as reported at the end of each calendar quarter of 2018

		31/03/2019	30/06/2019	30/09/2019	31/12/2019
21	Liquidity buffer (£m)	82.0	92.6	87.0	81.0
22	Total net cash outflows (£m)	42.0	29.4	72.8	31.0
23	Liquidity coverage ratio	195.2%	314.9%	119.5%	261.29%

6.2.5.8. LCR qualitative information

Management remains cognisant of the high degree to which the BLME continues to hold deposits from two Kuwaiti government entities who are long-standing shareholders in BLME. In recognition of this depositor concentration risk the Bank has successfully reduced this concentration from 75% in 2016 to less than 20% at 31 December 2019. BLME will continue to diversify its depositor base through a combination of increased retail fixed term and notice accounts, as well as gaining a wider range of wholesale interbank counterparties.

Derivative exposures and potential collateral calls are considered low risk due to the small number of hedging derivative contracts employed at 31 December 2019. In future years with a larger balance sheet and in an environment where market interest rates are expected to normalise, some fixed to floating rate swaps may be undertaken. In such circumstances collateralised support deeds will be used with full two-way margin obligations. In any case these risks are still expected to remain extremely small.

Currency mismatch in the LCR: There is no regulatory requirement for the Group to meet LCR on a material currency basis. It should of course be noted that due to the paucity of suitable Sharia'a compliant sterling denominated HQLA that in concert with a significant proportion of our liabilities being denominated in USD so too must our HQLA, where the AAA rated issuer Islamic Development Bank is the main constituent of our HQLA portfolio.

Treasury is the sole business unit within BLME providing the management of liquidity and Market Risk. Real-time access to pipeline funding requirements and the close proximity of asset generating areas to Treasury ensures that a regular and active dialogue between those sourcing liquidity and those utilising it is maintained at all times.

6.2.5.9. Table 13: 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 risks are managed through BLME committee and governance structures:-

Risk	Board Committee	Executive Committee	Sub Committee
Capital	Risk	ERC	ALCO
Credit		BCC/ERC	CCRC
Liquidity		ERC	ALCO
Market		ERC	ALCO
Operational		ERC	ORC
Financial Crime		EXCO	

6.2.5.10. Changes of the heads of internal control, risk management, compliance and internal audit

The following appointments have been made since the previous Pillar 3 document was published:

Name	Position	Effective date
Gareth Howells	Chief Risk & Compliance Officer	6 January 2020

6.3. The scope and nature of risk reporting and measurement systems

The Risk Management Framework lays out systematic processes to identify, evaluate, mitigate, report, and manage risk:

- Risk Identification - Ensure there is a clear definition of each risk entered into by the Group with an identified Risk Owner;
- Risk Assessment - Agree and implement appropriate, effective risk measurement and reporting standards for each identified risk. Set metrics together with reporting monitoring controls, processes and standards;
- Risk Mitigation - Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements. Ensure all frameworks and policies are regularly reviewed and kept relevant and up to date;
- Execution & Monitoring - The Second Line of Defence (2LoD) is responsible for monitoring the operation of the controls and adherence to risk direction and limits;
- Assurance – the Internal Audit function provides the Board with independent, objective assurance or advice on whether the risk management, control and governance processes are adequate and operating in line with expectations. Additional assurance is provided by external audit; and,
- Monitoring and Reporting – the second line of defence is responsible for monitoring the operation of the controls and adherence to risk direction and limits.

6.4. Risk management strategies

Risk strategies connect the Board’s plan and Risk Appetite with practical and detailed strategies, controls and limits to ensure that the business adheres to its Risk Appetite at all times. The strategies focus on how risks are managed within the Board appetite for Risk and set out:

- actions being taken to manage the risk considering both inherent risk and Board Risk Appetite;
- metrics used to measure risk;
- measurements used to judge success of actions taken; and,
- risks and challenges to delivering strategy

6.5. Policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

The Group has one transaction that has an associated guarantee that is utilised as credit mitigation for regulatory capital purposes the effect of which, in the context of its total assets, is not considered to be material to BLME’s capital requirement. There are further guarantees that are not recognised for regulatory Credit Risk Mitigation under CRDIV due to the small size of the transactions involved.

The Group benefits from no other forms of Credit Risk Mitigation for regulatory capital purposes.

7. Governance Arrangements

7.1. Table 14: External directorships

The number of external directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2019 are detailed below.

Name	Position	Number of Directorships or partnerships
Adel Abdul Wahab Al-Majed	Chairman	1
Giles Cunningham	C.E.O.	0
Chris Power	C.F.O. & C.O.O.	0
Bader Abdullah Al-Kandari	N.E.D.	2
Jabra Ghandour	N.E.D.	4
Joanne Hindle	N.E.D.	2
Calum Thomson	N.E.D.	7
David Williams	N.E.D.	0
Michael Williams	N.E.D.	0

The number of directorships shown excludes the Company and its subsidiaries and counts external directorships held within the same group of companies as a single directorship. Directorships of non-commercial organisations and advisory positions are excluded.

7.2. Recruitment of directors

Appointment of Executive Directors

New Executive Directors would be recruited on terms in accordance with the Remuneration Policy at that time. The Remuneration Policy balances the need to have appropriate remuneration levels with the ability to attract high-performing individuals to the organisation. In setting the remuneration package for a new Executive director, the Board Remuneration Committee will take into account market levels, the individual's knowledge and experience.

Appointment of Non-Executive Directors

New Non-Executive Directors would be recruited on terms in accordance with the approved Non-Executive Directors' Remuneration Policy at that time. The Board has delegated specific powers and authority to the Nominations Committee to lead the appointment process for Board vacancies. It is also responsible for keeping the size, structure and composition of the Board under regular review and for making recommendations to the Board for any changes necessary. The Nominations Committee also formulates succession plans for the Chairman and the Non-Executive Directors.

Before an appointment is made by the Board, the Nominations Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nominations Committee will:

- use open advertising, the services of external advisers or their own network of contacts to facilitate the search;
- consider candidates from a wide range of backgrounds; and
- consider candidates on merit and against objective criteria, including reference to the Financial Conduct Authority ("FCA") and PRA's "fit and proper" test and the competence and capability criteria set out as part of their approach to approving individuals. Care is also taken to ensure appointees have enough time available to devote to the position on an ongoing basis.

Responsibility for determining the individual remuneration and benefits package of each of the Group's Executive Directors and the Chairman lies with the Remuneration Committee. The remuneration of Non-Executive Directors is set by the Board. No Director or senior manager is involved in any decisions as to their own remuneration.

7.3. Diversity of the Board

The Group is committed to diversity and ensuring that all employees are offered equal opportunities throughout their career. Furthermore the Group ensures employees are not discriminated against, directly or indirectly, on the basis of age, ethnic or national origin, religion or beliefs, sexual orientation, gender, marital status or disability. This commitment applies equally to members of the Board. The Board strongly supports the principle of Boardroom diversity, of which gender is one aspect. However, the Board does not have a measurable target for gender representation or any other diversity element on the Board. The Bank wishes to maintain a balance on the Board and all Board appointments are made on merit, in the context of the skills, experience, independence, knowledge and culture.

8. Credit Risk

8.1. Operating limits

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 client 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 Commercial Finance and Wealth Management financing activities, and its Money Market 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 client and funding purposes. Credit limit structures exist for all of the aforementioned risks and these are monitored on a regular basis by Credit Risk Management Department.

Credit Risk limits are guided by the Risk Limits and Guidelines within the Bank's Risk Management Framework and specifically the Credit Risk Management Policy. These align strategic priorities with the Risk Appetite of the Bank such that a suitable level of portfolio diversification is achieved. Risk Limits and Commercial Guidelines also provide guidance on counterparty and collateral quality, industries, transaction criteria as well as pricing in line with the Bank's Risk Appetite.

The Group 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 predominantly through external tools provided by Moody's across Commercial and Real Estate transactions. ECAI (External Credit Assessment Institution) ratings, such as Moody's and Fitch, are utilised 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 and approved at CCRC prior to commitment.

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 Group's Stress Testing and Scenarios 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. The latter are presented to the ERC and BRC for monthly review as part of regular assessment of portfolio and collateral risks via the Bank's Key Risk Indicator reporting.

8.1.1. Residual value risk

Whilst not necessarily being Credit Risk related from a technical interpretation point of view, Residual value risk has been identified within the Credit Risk Capital component.

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.

8.2. Policies relating to risk mitigant assessments concerning counterparty risk

The Credit Risk Policy sets out principles and functional responsibilities in relation to the management of Credit Risk incurred at the Bank, its main operating entity and WAF.

This policy, owned by the Head of Credit, applies to all BLME employees, temporary staff, contractors, and third parties as related to the authorised use of BLME information, customer/client information and information covered under Non-Disclosure Agreements (NDAs).

The policy is part of the Bank's Risk Management Framework, which also includes the Bank's Risk Appetite Statement and underlying departmental procedures. The Credit Risk Policy ("CRP") is a key component that underpins the Bank's Risk Management Framework.

The purpose of the CRP is to provide policy guidance on how to manage identified Credit Risks through the following:

- ensuring effective governance, approval and management of Credit Risk at the Bank within the Risk Appetite delegated by the Board;
- developing policies relating to Credit Risk management and risk control that are aligned with and supportive of the business strategy;
- enforcing appropriate collateral and risk mitigation techniques in the assessment, approval and on-going management of Credit Risks;
- promoting the objective and consistent identification, measurement, reporting and control of all material Credit Risks within the Bank's businesses;
- emphasising the imperative for compliance with all applicable laws and regulations within each of the countries where the Bank operates;
- achieving maximum efficiency in the management and planning of both regulatory and economic capital in relation to Credit Risk;
- defining such roles and delegate such responsibilities as required in achieving these objectives;
- highlighting potential Sharia'a Board requirements through the Credit process; and,
- reflecting the Risk Appetite and Strategy of the Board.

This policy is subject to all the laws, rules and regulations that BLME is governed by.

8.3. Policies relating to wrong way risk exposures

Wrong way risk is defined as the risk that occurs when the exposure to one counterparty increases at the same time as that counterparty's credit worthiness decreases. Counterparty credit worthiness is monitored through a four step customer classification, which groups exposures into the following categories: Normal; Monitor; Credit Watch List; and, Asset Recovery Unit.

Derivative contracts entered into by BLME are limited to profit rate basis and foreign exchange contracts and consequently very little exposure to wrong way risk exists.

8.3.1. Table 15: PRS & FX contract exposure

	£m		
	Gross positive fair value	Net derivative credit exposure	Risk weighted exposure
Profit rate contracts			
Interbank	0.551	0.551	0.275
Other			
Foreign exchange contracts			
Interbank	8.153	8.153	1.631
Other	0.197	0.197	0.197
Total	**8.350**	**8.350**	**1.828**

Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements; BLME currently benefits from no such arrangements.

8.4. Downgrade of own credit rating

BLME has no External Credit Assessment Institution rating.

8.5. Past due and impaired transactions

The CCRC meets on a monthly basis to assess the 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.

- 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

8.6. Allowance for Specific and Collective Credit Risk adjustments

The Group 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 Group 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 relevant Business Unit/Department before being referred to the Audit Committee and the Board for ultimate approval.

8.7. Table 16: Performing and non-performing exposure analysis

	£m												
	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to Credit Risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and < = 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures			
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne exposures
Debt Securities	83.605							0.004					
Financing arrangements	1,476.486	0.018						8.920					
Off balance sheet exposures	105.139							0.066					
Derivatives & LST	8.902												

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8.8. Table 17: Total and average net amount of exposures

The total amount of exposures after accounting offsets and without taking into account the effects of Credit Risk Mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes:

	£m	
	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	41.505	49.969
Regional governments or local authorities	0.685	0.841
Public sector entities		
Multilateral development banks	67.907	61.441
International organisations		
Institutions	0.551	13.715
Corporates	1,147.609	1,012.775
Retail		
Secured by mortgages on immovable property	118.502	89.904
Exposures in default	2.131	3.249
Items associated with particularly high risk	173.732	181.643
Covered bonds		
Claims on institutes and corporates with a short term credit assessment	75.701	94.842
Collective investments undertakings		
Equity exposures	31.698	33.555
Other exposures	36.818	39.930
Total	**1,696.840**	**1,581.865**

8.9. Table 18: Breakdown of net exposure amounts by geographical classification and exposure class

The geographic distribution of the exposures, broken down in significant areas by material exposure classes

	£m					
	UK	Other Europe	Middle East	USA	Other countries	**Total**
Central governments or central banks	24.705		15.366		1.434	**41.505**
Regional governments or local authorities	0.685					**0.685**
Public sector entities						
Multilateral development banks*					67.907	**67.907**
International organisations						
Institutions	0.551					**0.551**
Corporates	981.434	6.476	157.450	0.886	1.363	**1,147.609**
Retail						
Secured by mortgages on immovable property	117.330		1.172			**118.502**
Exposures in default	0.372		1.759			**2.131**
Items associated with particularly high risk	173.404			0.328		**173.732**
Covered bonds						
Claims on institutes and corporates with a short term credit assessment	59.966		0.576	15.159		**75.701**
Collective investments undertakings						
Equity exposures	0.000	31.698				**31.698**
Other exposures	36.818					**36.818**
Total	**1,395.266**	**38.174**	**176.323**	**16.373**	**70.704**	**1,696.840**

*Exposure to Islamic Development Bank a Multilateral Development Bank hosted in Saudi Arabia

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8.10. Table 19: Breakdown of net exposure amounts by industrial classification and exposure class

The distribution of the exposures by industry type, broken down by exposure classes

	£m																				
	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accomodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical services	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Financial and Insurance Activities	Internal & other exposures	**Total**
Central govt or banks												0.6		22.8	13.5	3.8			0.7		**41.5**
Regional govt or local authorities														0.7							**0.7**
MDBs														67.9							**67.9**
Institutions																			0.6		**0.6**
Corporates	3.2	9.9	75.9	1.3	15.2	125.0	136.1	51.8	2.3	22.0	249.7	13.7	177.8	0.0	6.2	1.3	4.9	5.5	214.5	31.1	**1,147.6**
Secured by mortgages on immovable property											61.1								16.0	41.3	**118.5**
Exposures in default			0.0			1.8	0.0	0.2			0.0		0.2								**2.1**
Items associated with particularly high risk						95.1				0.0	78.3									0.3	**173.7**
Claims on institutes and corporates with a short term credit assessment																			75.7		**75.7**
Equity exposures																			31.7		**31.7**
Other exposures			0.8				3.2	16.0					0.7							16.2	**36.8**
Total	**3.2**	**9.9**	**76.7**	**1.3**	**15.2**	**221.9**	**139.3**	**68.0**	**2.3**	**22.0**	**389.1**	**14.3**	**178.7**	**91.4**	**19.7**	**5.1**	**4.9**	**5.5**	**339.2**	**88.9**	**1,696.8**

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8.11. Table 20: Breakdown of net exposure amounts by residual maturity

The residual maturity breakdown of all the exposures, broken down by exposure classes

	£m						
	On demand	<= 1year	>1year <=5 years	>5 years	No stated maturity	Past due	Total
Central governments or central banks	0.718	0.731	39.542	0.514			**41.505**
Regional governments or local authorities			0.685				**0.685**
Public sector entities							
Multilateral development banks*		20.846	47.061				**67.907**
International organisations							
Institutions			0.551				**0.551**
Corporates		649.699	435.295	56.946		5.670	**1,147.609**
Retail							
Secured by mortgages on immovable property		118.496				0.006	**118.502**
Exposures in default	0.005	0.833	1.278			0.014	**2.131**
Items associated with particularly high risk		114.086	48.505			11.140	**173.732**
Covered bonds							
Claims on institutes and corporates with a short term credit assessment	67.379	8.322					**75.701**
Collective investments undertakings							
Equity exposures			31.698				**31.698**
Other exposures	0.025	16.839	12.855	7.099			**36.818**
Total	**68.127**	**929.853**	**617.471**	**64.559**		**16.830**	**1,696.840**

*Exposure to Islamic Development Bank a Multilateral Development Bank hosted in Saudi Arabia

8.12. Table 21: Credit quality of exposures by exposure class and instrument

	£m						
	Gross carrying values of		Specific Credit Risk adjustment	General Credit Risk adjustment	Accumulated write-offs	Credit Risk adjustment charges for the period	**Net values**
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks		41.557	0.052				**41.505**
Regional governments or local authorities		0.686	0.000				**0.685**
Public sector entities							
Multilateral development banks*		67.910	0.003				**67.907**
International organisations							
Institutions		0.551					**0.551**
Corporates		1,150.934	3.325				**1,147.609**
Retail							
Secured by mortgages on immovable property		118.586	0.085				**118.502**
Exposures in default	7.233		5.102				**2.131**
Items associated with particularly high risk		174.150	0.418				**173.732**
Covered bonds							
Claims on institutes and corporates with a short term credit assessment		75.706	0.005				**75.701**
Collective investments undertakings							
Equity exposures		31.771	0.072				**31.698**
Other exposures		36.818					**36.818**
Total	**7.233**	**1,698.669**	**9.062**				**1,696.840**

*Exposure to Islamic Development Bank a Multilateral Development Bank hosted in Saudi Arabia

8.13. Table 22: Credit quality of exposures by industry type

	£m						
	Gross carrying values of						
	Defaulted exposures	Non-defaulted exposures	Specific Credit Risk adjustment	General Credit Risk adjustment	Accumulated write-offs	Credit Risk adjustment charges for the period	**Net values**
Agriculture, forestry and fishing		3.214	0.006				**3.207**
Mining and quarrying		9.938	0.029				**9.909**
Manufacturing	0.009	77.262	0.592				**76.680**
Electricity, gas, steam and air conditioning supply		1.302	0.008				**1.293**
Water supply		15.203	0.032				**15.172**
Construction	6.618	220.551	5.295				**221.875**
Wholesale and retail trade	0.033	139.627	0.354				**139.306**
Transport and storage	0.205	67.991	0.219				**67.977**
Accommodation and food service activities		2.349	0.063				**2.286**
Information and communication		22.083	0.062				**22.021**
Real estate activities	0.150	389.957	0.963				**389.144**
Professional, scientific and technical activities		14.312	0.033				**14.279**
Administrative and support service activities	0.217	179.071	0.630				**178.658**
Public administration and defence, compulsory social security		91.450	0.011				**91.439**
Education		19.759	0.039				**19.719**
Human health services and social work activities		5.098	0.017				**5.081**
Arts, entertainment and recreation		4.929	0.006				**4.923**
Other services		5.522	0.026				**5.496**
Financial and Insurance Activities		339.866	0.630				**339.237**
Internal Assets and Households		89.184	0.046				**89.138**
Total	**7.233**	**1,698.669**	**9.062**				**1,696.840**

8.14. Table 23: Credit quality of exposures by geography

	£m						
	Gross carrying values of						
	Defaulted exposures	Non-defaulted exposures	Specific Credit Risk adjustment	General Credit Risk adjustment	Accumulated write-offs	Credit Risk adjustment charges for the period	Net values
United Kingdom	0.614	1,398.357	3.705				**1,395.266**
Kuwait		90.947	0.375				**90.572**
Bahrain		32.450					**32.450**
Jersey		31.770	0.072				**31.698**
Saudi Arabia	6.618	20.040	4.867				**21.791**
United States		16.375	0.002				**16.373**
Qatar		15.098	0.004				**15.095**
Dubai		9.645	0.010				**9.635**
Switzerland		6.486	0.010				**6.476**
Other UAE		5.590	0.007				**5.583**
New Zealand		1.435	0.000				**1.434**
Ireland		1.367	0.003				**1.363**
Abu Dhabi		1.199	0.002				**1.197**
Other*		67.910	0.003				**67.907**
Total	**7.233**	**1,698.669**	**9.062**				**1,696.840**

*Exposure to Islamic Development Bank a Multilateral Development Bank hosted in Saudi Arabia

8.15. Table 24: Ageing of past due exposures

	£m Gross carrying values					
	<=30 days	>30 days <=60 days	>60 days <=90 days	>90 days <=180 days	>180 days <=1 year	**>1 year**
Financing arrangements	7.798	0.017	0.001		2.925	6.414
Debt Securities						
Total	**7.798**	**0.017**	**0.001**		**2.925**	**6.414**

8.16. Table 25: Changes in the stock of general and specific Credit Risk adjustments held against financing arrangements and debt securities that are defaulted or impaired

	£m	
	Accumulated specific Credit Risk adjustment	**Accumulated general Credit Risk adjustment**
Opening balance	8.053	3.872
Increases due to amounts set aside for estimated financing arrangements losses during the period	3.241	0.710
Decreases due to amounts reversed for estimated financing arrangements losses during the period	-6.045	-1.215
Decreases due to amounts taken against accumulated Credit Risk adjustments		
Transfers between Credit Risk adjustments		-0.211
Impact of exchange rate differences	0.173	
Business combinations, including acquisitions and disposals of subsidiaries		
Other adjustments		0.484
Closing balance	**5.422**	**3.640**
Recoveries on Credit Risk adjustments recorded directly to the statement of profit or loss		
Specific Credit Risk adjustments directly recorded to the statement of profit or loss		

8.17. Table 26: Changes in the stock of defaulted and impaired financing arrangements and debt securities

	£m **Gross carrying value defaulted exposures**
Opening balance	**16.263**
Financing arrangements and debt securities that have defaulted or impaired since the last reporting period	0.464
Returned to non-defaulted status	
Amounts written off	
Other changes	-9.495
Closing balance	**7.233**

8.18. Use of External Credit Assessment Institutions (ECAI Ratings)

Credit ratings are determined by either of Moody's Credit Edge, Moody's Risk Calc, Moody's CRE Modeal and 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 either Moody's Credit Edge, Moody's Risk Calc or BLME Internal Rating Methodology depending upon sector and approved at CCRC prior to commitment.

BLME follows the association of the external rating of each nominated ECAI with the credit quality steps prescribed in Part Three, Title II, Chapter 2 of the Capital Requirements Regulation [(EU) 575/2013].

8.19. Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book

If available, an issue rating by a nominated ECAI for the exposure in question is used. An issuer rating is used if no other rating is available. In all other cases, the exposure is regarded as non-rated for the calculation of the risk-weighted exposure values. The risk weight is determined if one or several ratings are available from nominated ECAIs pursuant to Art.138 CRR.

8.19.1. Table 27: The level and extent of the use of ECAI ratings as at 31 December 2019.

Exposure class	**Exposure value**	**Of which rated**
Central governments or central banks	41.505	17.728
Regional governments or local authorities	0.685	
Multilateral development banks	67.907	67.907
Institutions	47.544	47.544
Corporates	1,074.661	34.702
Secured by mortgages on immovable property	118.502	
Exposures in default	1.659	
Items associated with particularly high risk	150.395	
Claims on institutes and corporates with a short term credit assessment	67.548	67.548
Equity exposures	31.698	
Other exposures	36.818	
	1,638.923	**235.428**

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8.20. Table 28: Breakdown of regulatory exposure values by risk weight

	£m																		
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	350%	370%	1,250%	Other	Deducted	**Total**	**Of which unrated**	**RWA Total**
Central governments or central banks	26.139				15.366												**41.505**	**23.777**	**3.073**
Regional governments or local authorities					0.685												**0.685**	**0.685**	**0.137**
Multilateral development banks*	67.907																**67.907**		
Institutions							47.544										**47.544**		**24.047**
Corporates					32.450		1.264			1,040.947							**1,074.661**	**1,039.960**	**1,011.273**
Secured by mortgages on immovable property						118.502											**118.502**	**118.502**	**40.957**
Exposures in default										1.013	0.646						**1.659**	**1.659**	**1.983**
Items associated with particularly high risk											150.395						**150.395**	**150.395**	**225.592**
Claims on institutes and corporates with a short term credit assessment					66.072		1.476										**67.548**		**15.583**
Equity										31.698							**31.698**	**31.698**	**31.698**
Others	0.025									36.793							**36.818**	**36.818**	**36.793**
Total	**94.072**				**114.574**	**118.502**	**50.284**			**1,110.451**	**151.041**						**1,638.923**	**1,403.495**	**1,391.137**

*Exposure to Islamic Development Bank a Multilateral Development Bank hosted in Saudi Arabia

8.21. Table 29: CCR exposure by approach

The following table details the Bank's exposure to Counterparty Credit Risk which occurs on derivative transactions undertaken. For BLME this exposure is derived from the small number of profit rate swap transactions that are undertaken to manage profit rate exposure and Foreign Exchange contracts which are transacted in accordance with business requirements or at the request of our customer base.

	£m						
	Notional	Replacement cost / current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market							
Original exposure	8.902					8.683	2.104
Standardised approach		3.375			1.4		
IMM (for derivatives & SFTs)							
Of which securities financing transactions							
Of which from derivatives and long settlement transactions							
Of which from contractual cross-product netting							
Financial collateral simple method (for SFTs)							
Financial collateral comprehensive method							
VaR for SFTs							
Total	**8.902**	**3.375**	**0**		**1.4**	**8.683**	**2.104**

8.22. Table 30: CCR exposure by regulatory portfolio and risk

	£m																	
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	350%	370%	1,250%	Others	Deducted	**Total**	**Of which unrated**
Central governments or central banks																		
Multilateral development banks																		
Institutions							0.551										0.551	
Corporates										0.197							0.197	**0.197**
Secured by mortgages on immovable property																		
Exposures in default																		
Items associated with particularly high risk																		
Claims on institutes and corporates with a short term credit assessment					8.153												8.153	
Other exposures																		
Total					**8.153**		**0.551**			**0.197**							**8.902**	**0.197**

8.23. Table 31: CVA capital charge

	£m	
	Exposure value	RWAs
Total portfolios subject to the advanced method		
(i) VaR component (including the 3× multiplier)		
(ii) SVaR component (including the 3× multiplier)		
All portfolios subject to the standardised method	8.153	1.286
Based on the original exposure method		
Total subject to the CVA capital charge	**8.153**	**1.286**

8.24. Table 32: Breakdown of exposures by qualifying and non-qualifying CCP

	£m	
	EAD post CRM	RWAs
Exposures to QCCPs (total)		
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which		
(i) OTC derivatives		
(ii) Exchange-traded derivatives		
(iii) SFTs		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Prefunded default fund contributions		
Alternative calculation of own funds requirements for exposures		
Exposures to non-QCCPs (total)		
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which		
(i) OTC derivatives		
(ii) Exchange-traded derivatives		
(iii) SFTs		
(iv) Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin		
Prefunded default fund contributions		
Unfunded default fund contributions		

9. Credit Risk Mitigation

9.1. Policies and processes for, and an indication of the extent of, on and off balance sheet netting
The Group has one transaction that has an associated guarantee that is utilised as credit mitigation for regulatory capital purposes the effect of which, in the context of its total assets, is not considered to be material to BLME's capital requirement. BLME currently benefits from no legally enforceable netting agreements.

9.2. Policies and processes for collateral valuation and management
BLME has secondary credit exposure as the Commercial Finance and Wealth Management financing transactions are secured on assets. The Group monitors the composition of these portfolios, within which the collateral assets are subject to regular assessment and review by professional valuation agents.

9.3. Main types of collateral taken
This section describes the types of collateral BLME accepts. In general terms BLME has no restriction on the types of collateral that can be accepted within the confines of:

- UK Regulatory requirements (transposed from the CRR)
- UK and/or local legal jurisdictional requirements
- Sharia'a law

9.3.1. <u>Guarantees</u>
Guarantees are legal relationships between the guarantor and finance provider (the Bank), through which the guarantor assumes the responsibility to fulfil the obligor's obligations. In order to be considered appropriate for Credit Risk Mitigation purposes, the guarantees must satisfy the conditions under articles 194, 203 and 204 of the CRR.

i. Personal guarantee
When taking a personal guarantee, an individual agrees to be responsible, or responsible to a certain pre-determined limit, for the financial obligations of a debtor or obligor to a financier in the event that the debtor or obligor fails to pay an amount owing under the finance agreement

ii. Corporate guarantee
When taking a corporate guarantee, a company agrees to be held responsible, or responsible to a certain pre-determined limit, for completing the duties and obligations of a debtor to a finance provider in the event that the debtor fails to fulfil the terms of the facility.

iii. Credit institution guarantee
When taking a credit institution guarantee, a credit institution agrees to be responsible, or responsible to a certain pre-determined limit, for completing the duties and obligations of a debtor to a finance provider in the event that the debtor fails to fulfil the terms of the facility. Such guarantees may take the form of a formal bank guarantee or a Standby Letter of Credit (SBLC).

9.3.2. <u>Tangible collateral</u>
In the case of tangible collateral, the Group acquires rights over a tangible asset which belongs to the obligor or the guarantor. The main types of tangible collateral BLME accepts include, but are not limited to:

- mortgages or fixed charges over land/buildings;
- chattel mortgages & fixed charges over leased assets (plant/machinery);
- fixed charges or pledges over cash deposits;
- fixed charges or pledges on bonds, Sukuk or listed stocks/shares;
- share pledges over private company shares;

- fixed charges or pledges over intellectual property;
- floating charges over receivables or stock;
- debentures;
- other floating charges; and,
- general letters of pledge, incorporating a pledge over goods.

The value of tangible collateral may fluctuate due to legal reasons, emergencies (natural disasters, etc) and others. The value of collateral must therefore be assessed frequently.

Mortgages/Fixed Charges over land/buildings

A fixed charge is a charge or mortgage secured on particular property, e.g. land and buildings, a ship, piece of machinery, a deposit account, shares or intellectual property such as copyrights, patents, trademarks, etc.

Chattel Mortgages & Fixed Charges over Leased Assets (Plant/Machinery)

A chattel mortgage is a mortgage over moveable property. Typically this would be taken over vehicles or plant/machinery that is not physically fixed in place.

Fixed charges or pledges over cash deposit

English law regards a cash deposit as a debt payable by the account bank to the account holder. It is common to grant security over that debt by charging or assigning the deposit in favour of the finance provider.

Fixed charges or pledges on bonds, Sukuk or listed stocks/shares

A charge or pledge over specific assets, generally taken as part of an overall security package or as primary security for Wealth Management leveraged financing. The specific underlying assets may vary, but include (without limitation) the following:

Sovereign, municipal, Corporate bonds or Sukuk;
Shares, either in Corporates or in Funds or Unit Trusts; and,
LME Warrants

Share Pledges over Private Company shares

These pledges are generally taken in circumstances when the GRoup is providing sole banking facilities to a company or is dealing with a single asset holding SPV. This is to ensure that the Group is able to take full ownership of the company in the event of insolvency, thereby facilitating the potential sale of the company as an entity, rather than requiring repossession of the underlying asset.

Fixed charges or pledges over intellectual property

This is an asset class discouraged by BLME however security can be taken over intellectual property by means of legal mortgage or fixed or floating charges. It is unusual for a legal mortgage to be taken over intellectual property (“IP”) given that if this were taken, it would then have to give an exclusive licence back to the mortgagor immediately in order for the IP to be used in the business. While a legal mortgage is viewed as the most robust form of security, a properly drafted, executed and perfected legal charge over IP provides the most important benefits.

IP includes, but is not limited to, brands, patents, design rights, copyrights and trademarks.

Floating Charges

A floating charge is a particular type of security available only to companies. It is an equitable charge on (usually) all the company's assets, both present and future, occasionally the charge is over just a class of the company's assets, such as its stock or receivables. This particular type of charge should be considered as of a secondary nature.

Debentures

In the UK, a mortgage debenture is the most usual form for securing borrowing by a company. A debenture allows for a fixed charge over fixed assets such as land/buildings and a floating charge over stocks and receivables.

Other floating charges

It is possible to take specific floating charges, for instance over stock or receivables only, outside of a standard debenture.

General letters of pledge, incorporating a pledge over goods and Trust Receipts

A General Letter of Pledge (also known as a General Letter of Hypothecation and Pledge) is possessory security over goods. It is not a charge. The existence of a pledge is dependent on possession of the underlying goods through either physical or constructive means via documents of title.

9.4. Main types of guarantor and credit derivative counterparty and their creditworthiness

The Group has one transaction with an associated guarantee that is utilised as credit mitigation; the guarantee is provided by a Financial Institutions with an ECAI rating of A-.

9.5. Market or Credit Risk concentrations within the Credit Mitigation taken

There are no material market or credit concentrations within the Credit Risk Mitigation taken.

9.6. Table 33: CRM techniques – Overview

	£m				
	Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Securitisation framework	Counterparty Credit Risk framework	Market Risk framework
Debt Securities	83.601				
Financing arrangements	1,301.520	166.045	118.502	47.544	
Total exposures	**1,385.121**	**166.045**	**118.502**	**47.544**	
Of which defaulted	2.131				

Table 34: Credit Risk exposure and CRM effects

	£m					
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA Density	
	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWAs	RWA density
Central governments or central banks	41.505		41.505		3.073	0.22%
Regional governments or local authorities	0.685		0.685		0.137	0.01%
Multilateral development banks*	67.907		67.907			
Institutions		0.551	47.544		24.047	1.73%
Corporates	1,089.199	58.410	1,041.656	33.006	1,011.273	72.69%
Secured by mortgages on immovable property	118.502		118.502		40.957	2.94%
Exposures in default	1.188	0.943	1.188	0.472	1.983	0.14%
Items associated with particularly high risk	127.814	45.918	127.814	22.580	225.592	16.22%
Claims on institutes and corporates with a short term credit assessment	67.548	8.153	67.548		15.583	1.12%
Equity	31.698		31.698		31.698	2.28%
Other exposures	36.818		36.818		36.793	2.64%
Total	**1,582.865**	**113.975**	**1,582.865**	**56.058**	**1,391.137**	**100%**

*Exposure to Islamic Development Bank a Multilateral Development Bank hosted in Saudi Arabia

10. Unencumbered assets

BLME does not enter into collateralised or asset-backed contracts and none of its assets are encumbered.

10.1. Table 35: Assets

	£m			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution			**1,583**	
Equity instruments				
Debt securities			84	84
Other assets			1,499	1,499

11. Table 36: Exposure to equities not included in the trading book

			£m	
Accounting portfolio	Objective	Status	Balance sheet value	Fair value
A.F.S.	Capital gain	Unlisted		

A small portfolio of unlisted equity investments is subject to third party valuations.
The amounts of total unrealised gains or losses and latent revaluation gains or losses are considered to be immaterial to regulatory capital levels.
There were no material cumulative realised gains or losses arising from sales and liquidations during the period.

12. Exposure to Market Risk

12.1. 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 book and currency rate movements in FX activities. The Group has a very small level of equity risk from its portfolio of private equity and venture capital investments.

FX activities are subject to relatively small position limits as dealing is primarily focused on facilitating client transactions. The most significant form of Market Risk is rate re-price risk, which arises from the cumulative mismatch between the re-pricing dates of a) the Group's profit rate bearing assets and liabilities b) the investment of the Group's capital and reserves and c) the Profit Rate Swaps transacted to mitigate the re-pricing risk. These risks are managed by Treasury under the guidance of ALCO by way of "Operating Risk Limits" that define the maximum risk positions by currency and by tenor expressed in basis point sensitivity (PV01) terms. Compliance with dealing limits is reported to management on a daily basis and reviewed at monthly ALCO meetings. Market Risk limits/metrics are monitored and reported to ERC on a monthly basis and to BRC quarterly.

FX risk at BLME emanates mostly from any mismatch in unhedged customer forward business. The individual transactions are usually of a very small size and, as such, may not always reasonably be matched in the marketplace, nevertheless, grouping such transactions does allow a large degree of matching and leaves only a small residual FX risk. In regard to Spot FX risks BLME has limited Risk Appetite for (all) FX risk and has implemented small nominal countervalue-based Net Open Position Limits within its Operating Risk Limits. The adherence to these 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.

The Capital Requirement for Position, FX and Commodities Risks as at 31 December 2019 was £298k

12.2. Table 37: Market Risk under the standardised approach

	£m	
	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)		
Equity risk (general and specific)		
Foreign exchange risk	3.730	0.298
Commodity risk		
Options		
Simplified approach		
Delta-plus method		
Scenario approach		
Securitisation (specific risk)		
Total	**3.730**	**0.298**

13. Exposure to profit rate risk on positions not included in the trading book

In the financing operations, profit rate risk arises as a result of the financing partly having different profit-rate fixing periods than the funding. Profit rate risk is mainly managed by means of profit rate swaps. Profit rate risks principally emanate from the following sources:

- asset and liability rate reset mismatches from Commercial Finance and Wealth Management financing;
- asset and liability rate reset mismatches from money market and liquidity management activities; and,
- strategies used to hedge the Group's capital and reserves.

A table disclosing the impact of an increase/decrease of 100 basis points in profit rates at 31 December 2019 is shown within note 38.a.ix.c.i. of the financial statements

14. Exposure to 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. The Group includes conduct, reputational and cyber-crime risk within Operational Risk. 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 (utilising specialist external support when appropriate) is conducted on all new documentation (core agreements, contracts and legal documentation); existing documentation is reviewed on a rotational basis.
- 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, which provides an overview of BLME's operations;
- a committee structure to facilitate the support of business areas and development of the new business initiatives within a robust and integrated operational framework; and,
- 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 Group operates and reports to the PRA using the Basic Indicator Approach, under which a prescribed percentage of its 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 2a ICAAP process, Risk and Control Self-Assessments (RCSAs) are produced by each department (First Line of Defence) at least annually. The RCSA process documents the risk profile for each department and provides a quantification of the potential annual loss and the probability of occurrence of each risk on an inherent basis i.e. before controls, as well as assessing the design and effectiveness of controls, and therefore the residual risk profile. Each RCSA is challenged at a workshop attended by stakeholders in the departmental assessment before presenting at the Operational Risk Committee (ORC) for a final challenge, review and validation.

In order to arrive at the Pillar 2a Operational Risk capital requirement, the individual RCSA outputs are exported into Excel. The Excel feed features details of the risk assessment's residual exposure and likelihood at a departmental level. These provide input to a range of Operational Risk stress scenarios that quantify the unexpected losses associated with tail risks.

15. Remuneration Policy

The following disclosures are those applicable to BLME as a proportionality level 3 firm (i.e. total assets < £15bn)

15.1. Decision making process/body

BLME has an established Remuneration Committee (RemCo) which meets regularly to consider the overall reward framework across the Group. 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 Group. 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 employees, including all employees in positions of significant influence and those having an impact on our risk profile (Material Risk Takers). Remco receives input from the Chief Risk Officer, the Chief Compliance Officer and independent external remuneration advisors at the time of the assessment of annual salary and bonus awards.

During 2018 the RemCo 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.

The members of RemCo during 2019 were Sheikh Abdullah Jaber Al-Ahmed Al-Sabah, Michael Williams, Calum Thomson, David Williams and Joanne Hindle.

RemCo received independent advice on executive remuneration issues from Mercer during 2019. Benchmarking to market of the Bank's salaries was conducted by independent remuneration advisors.

15.2. 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 and delivery of key strategic objectives. 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's remuneration policy is designed to reflect the extent to which 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.

15.3. Table 38: Remuneration of senior management and members of staff whose actions have a material impact on the risk profile of the institution

	Total	Management body	Senior management	Other
Number of MRTs	34	10	10	14
Fixed:		**£m**		
Cash based	4.0	1.1	1.7	1.2
Share based	0	0	0	0
Total fixed pay	4.0	1.1	1.7	1.2

Variable:	**£m**			
Cash	1.0	0.5	0.3	0.2
Deferred cash*	0.7	0.5	0.1	0.1
Share based payment charges**	0.9	0.2	0.6	0.1
Total variable pay	2.6	1.2	1.0	0.4
Grand Total	6.6	2.3	2.7	1.6

* Accounted for in 2018 but deferred over 3 years

** Reflects accounting charges relating to share based awards in 2018 and prior years

15.4. Table 39: Analysis of remuneration by business area

		£m			
		Wealth Management	Commercial Finance	Central Functions	Total
Aggregate remuneration expenditure	2018	1.0	1.1	4.6	6.7
	2019	1.1	1.0	4.5	6.6

16. Table 40: Leverage

The following leverage ratio calculations are disclosed in accordance with EBA and PRA guidance and on a fully phased in basis.
BLME has no fiduciary assets and accordingly does not report any fiduciary items as derecognised from the calculation of the leverage ratio.
The ratio has remained consistent throughout 2019 and in accordance with Bank Risk Appetite; there has been no requirement to manage excessive levels of leverage.

	Basel Leverage ratio	UK Leverage Ratio
31 December 2019	13.40%	13.40%

UK Leverage metric: BLME has no claims against central bank entities that would be excluded in the calculation of a UK Leverage ratio.