BROADCASTLE BANK LIMITED

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PILLAR 3 Disclosures

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Annual Financial Statements

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1. Overview

1.1 *Background*

The European Union Capital Requirements Directive ("the Directive") came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules agreed by the G-10.

Implementation of the Directive in the UK was by way of rules introduced by the Financial Services Authority ("the FSA") The Basel II Framework is structured around three pillars: Pillar 1 (minimum capital requirements), Pillar 2 (supervisory review) and Pillar 3 (market discipline). The disclosure requirements of Pillar 3 are designed to promote market discipline by providing market participants with key information on a Firm's risk exposures and risk management processes. Pillar 3 aims to complement the minimum capital requirements described under Pillar 1 and the supervisory review process of Pillar 2.

Broadcastle Bank Limited ("BBL" or "the Bank") has adopted the Standardised Approach to credit risk.

1.2 *Basis and Frequency of Disclosures*

This disclosure document has been prepared by BBL in accordance with the requirements of Pillar 3. Unless otherwise stated, all figures are as at the 30 September 2010 and Pillar 3 disclosures will be updated annually. Future disclosures will be issued on an annual basis and published as soon as practicable.

1.3 *Scope*

BBL is a UK registered bank that is regulated by the FSA, has no subsidiaries and is a wholly owned subsidiary of Broadcastle Limited (BL), a non trading intermediary holding company whose ultimate parent is Siemens AG with no regulatory scope beyond BBL. BBL calculates and maintains regulatory capital ratios based on the UK Consolidated balance sheet (BBL & BL).

1.4 *Location and Verification*

These disclosures have been reviewed by the BBL's Audit & Risk Committee and are published on the corporate website (www.broadcastle.co.uk). The disclosures have not been subjected to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Banks Annual Financial Statements.

2. Risk Management Objectives and Policies

2.1 *Introduction and Governance*

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The policies are aligned with the established Siemens framework on which there is regular reporting. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees of the outsource service provider understand their roles and obligations.

The Board of Directors ("BoD") meets quarterly and consists of seven members one of whom is an independent non-executive director. The BoD is chaired by the Chief Executive Officer of Siemens Financial Services Commercial, Finance Europe and Asia Pacific ("CoFEA").

The Board has one principal committee namely the Audit & Risk Committee (ARC).

The ARC consists of four members one of whom is an independent non-executive director and is chaired by the Chief Financial Officer of Siemens Financial Services CoFEA. The quarterly meetings of the ARC are also attended by both internal and external auditors.

The function of the ARC is to encourage and safeguard the highest standards of integrity and includes, amongst other things, the approval and ongoing review of the adequacy, extent and effectiveness of the Internal Capital Adequacy Assessment ,Process ("ICAAP") that the Bank is required to have in place to meet FSA regulatory requirements in line with Basel II Accord before review thereof by the Board.

The directors of the company are responsible for oversight and approving the risk appetite. The Board monitors and manages the risks faced by the bank and assesses the capital requirements based on Management Information, Regulatory Reports and the review of the ICAAP.

The Bank out-sources all of its sales, front and back office, and all support operations including business continuity, to Siemens Financial Services Limited ("SFSL") and internal audit function to Siemens AG ("SAG"). These services are subject to a formal Outsourcing Agreements, having due regard of regulatory obligations, particularly in respect of "material outsourcing arrangements".

The Siemens AG group has an established internal audit function which has direct access to and is accountable to the ARC for the audit reviews it undertakes in respect of the Bank's activities.

In addition, BBL's external auditor, Ernst & Young LLP, undertakes a detailed review and assessment of BBL's risk assets as part of their annual audit process.

The risk infrastructure of BBL proved to be resilient throughout the recent market challenges.

2.2 *Risk management process*

Risk is inherent to the Bank's business and the ability to identify, control, monitor and mitigate each type of risk to which the bank is exposed is vital to ensure financial stability and future success. Principal risks to which the bank is exposed include Credit Risk, Operational Risk, Concentration Risk, Residual Risk and Interest Rate Risk in the leasing book.

As SAG has an SEC Listing a comprehensive programme is in place throughout all Group companies ensuring compliance with the requirements of the Sarbanes Oxley Act ("SOA"). Through this programme it has been necessary to identify all key financial risks in each business, fully document processes and controls relating to those risks and implement a rigorous testing regime of such controls. There is a requirement for documented annual review and testing, all of which are subject to both internal and external audit. There is also a requirement to undertake a similar process for all non SOA processes covering all other financial and non financial processes within the Bank. Additionally as part of the wider Siemens Group reporting a risk management framework and structure is in place which defines the principal risk categories and sets out the methodology for the identification, assessment, mitigation and reporting of risks. An enhanced Enterprise Risk Management framework was implemented during the year which follows the principles of the Group risk management framework.

Maintenance and review of the BBL's risk management policies and procedures are the responsibility of the Chief Financial Officer & Chief Risk Officer (Credit risk) under report to the ARC. Risk management policies place primary responsibility for the identification of risk lies with operational areas with oversight and governance being provided by the Compliance department. Operational processes are documented and subject to annual review and senior management approval. The BoD and ARC play an important role in the identification, monitoring and management of risk and through the review of risk management policies.

Internal Audit also has a significant role in the bank's risk management process by providing independent and objective assurance on the adequacy and effectiveness of the bank's risk management, control and governance processes, as designed and represented by management. It carries out an annual risk-based programme of work, which has been approved by the bank's ARC, designed to evaluate and improve the bank's risk management and control environment. The result of Internal Audit's work, including management's progress in addressing identified issues, is formally reported to the ARC.

In respect of all risks alluded to within this disclosure appropriate management information is provided on a quarterly basis to the BoD and more frequently to senior management.

3. Capital Resources

3.1 Total available capital

At 30 September 2010 and throughout the year BBL complied with the capital requirements that were in force as set out by the FSA.

BBL's regulatory capital base at 30 September 2010 was as follows:

	£'000
Tier 1 Capital	24,194
Tier 2 Capital	6,021
Total regulatory capital	***30,215***

The Bank has no Tier 3 Capital.

3.2 Tier 1 Capital

Tier 1 capital comprises equity shareholders funds.

3.3 Tier 2 Capital

Tier 2 capital comprises subordinated liabilities and allowance for collective impairment losses. Subordinated liabilities may not exceed 50% of Tier 1 capital and is amortised on a straight line basis over the last 5 years before maturity.

The floating rate subordinated loan of £6,000,000 (2009: £6,000,000) was issued on 30 September 2005 and is repayable on 30 September 2015 and is due to another group undertaking.

4. Capital Adequacy

4.1 Capital management

BBL has adopted the Standardised Approach to credit risk and Basic Indicator Approach to operational risk to calculate the Basel II Pillar 1 minimum capital requirement.

The adequacy of BBL's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the FSA in supervising banks.

BBL's policy is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The principal forms of capital are called up share capital, equity shareholders funds and subordinated debt.

The FSA supervises BBL and receives information on the capital adequacy. The FSA requires each bank to maintain an individually prescribed ratio of total capital to risk weighted assets taking into account both balance sheet assets and off-balance sheet transactions in the event that it gives rise to credit, foreign exchange or interest rate risk. BBL complied in full with the FSA's capital adequacy requirements during 2010 and 2009.

The risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantee.

4.2 Internal Capital Adequacy Assessment Process

BBL seeks to maintain profitability, a strong balance sheet in terms of low credit risk and strong collateral and asset positions and liquidity, such that in a severe and exceptional event, capital and retained reserves together with net positive cash flows are more than adequate to meet any losses and repayment of liabilities, whilst always meeting minimum regulatory ratio requirements.

4.3 Minimum capital requirement: Pillar 1 - ICAAP

The current principal activity remains as an asset backed funder for central and local government and public sector organisations, reflecting the low risk appetite supported in the main with low risk weighted assets under Pillar 1, and the bank has significant excess capital as can be seen in the tables below.

In addition, back to back loans are provided as part of the Bank's provision of internal treasury services to subsidiaries of SAG where local law requires lending to be undertaken by a bank. Lending to these subsidiaries is invariably backed by guarantees and cash collateral from SAG. Payments are made to the borrowing subsidiary only after funds are received from SAG. These transactions are hedged by the corresponding deposit from SAG (i.e. deposit and loan are in the same currency with the same repayment terms) resulting in no counterparty, credit, currency or interest rate risk to the Bank. This structure was agreed following a comprehensive review and advise of the robustness of the Credit Risk Mitigation methods from a third party professional advisor addressing the regulatory requirements stipulated in the FSA Handbook.

Subsequently, the intended structure received regulatory clearance from the FSA and facilitates off balance sheet treatment.

BBL's minimum capital requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk and market risk.

	£'000
Credit Risk	2,371
Market Risk	-
Operational Risk	895
Total Pillar 1 requirement	*3,266*
Capital in place	30,215
Excess of capital in place over minimum capital required under Pillar 1	**26,949**

The following table shows the Risk-weighted assets under Pillar 1, the Individual Capital Guidance (ICG) requirement notified by the FSA, surplus capital to the ICG requirement and the Solvency ratio at 30 September 2010.

	£'000
Risk Weighted Assets	29,642
ICG requirement – 199%	6,499
Surplus capital over ICG	23,716
Solvency ratio	925.14%

4.4 *Credit risk component*

As discussed under 4.3, the back to back loans do not pose a credit risk given robustness of the Credit Risk Mitigation methods and thus not included in calculating the credit risk component for Pillar 1.

The following table shows BBL's minimum capital requirement for credit risk under the standardised approach at 30 September 2010 (reflects Financial Statement position):

	Capital requirement £'000	*Exposure value £'000*
Central Governments or Central banks	-	10,469
Cash collateralised assets (on balance sheet)	-	1,789
Regional governments or local authorities	1,337	83,551
Administrative bodies & non-commercial undertakings	43	540
Institutions	3	83
Corporates	89	1,111
Other assets	899	11,239
Total	**2,371**	**108,782**

5. Sources of risk

5.1 *Credit risk*

Credit risk is the risk of loss arising as a result of the failure of counterparty to meet its contractual obligations.

Since “lending” (whether or not via leasing structures and whether or not collateralised via ownership or security interests in assets) represents the primary business activity of the Bank, the board considers that this is prima facie a material risk category.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Risk Department who are responsible for implementing the Bank Credit Policy which addresses:-

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk rating and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities.
- *Reviewing and assessing credit risk*. The Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Developing and maintaining the company’s risk ratings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the company in the management of credit risk.

Leasing exposures primarily consists of exposures to central and local government and public sector organisations.

All leasing activities are undertaken in the United Kingdom and accounts for 92% of the total assets of BBL (Loans and advances & Operating lease assets). Other assets are also UK based resulting in no exposures outside the UK.

Given the low risk leasing assets held by BBL a prudent approach has been adopted and it is assumed that the exposure value after credit risk mitigation for purposes of calculating the capital required, remains unchanged. The company has however mitigated this risk by seeking various forms of collateral and/or security through retention of the legal title to leased assets. In some cases further counterparty guarantees are obtained.

In line with the Siemens AG credit policy an internal rating is set for customers which is aligned to the S&P Ratings, Moody's Ratings and Fitch Ratings.

Using the S&P rating calibration, approximately 97% of customer exposures (excluding residual values) are of investment grade (rating of BBB- or better) and 3% are of a non-investment grade. Of the 3%, 64% represents customers for which no internal rating has been set.

Of the 97% investment grade customer exposures, 96% has a rating of AA or better further demonstrating the quality of the assets included within the BBL balance sheet.

5.2 *Market risk*

Market risk is the risk of loss due to adverse market movements in variables such as interest rates, prices, etc. The Bank has no trading book, and thus no Pillar I capital requirement for this risk. Its Treasury activities are restricted to limited cross border treasury activities via "internal" lending to Siemens group companies. The Board do not therefore consider Market Risk to be a material risk.

The bank has no intention within the time frame of the ICAAP (3 years) to engage in trading activities that would constitute a trading book.

5.3 *Liquidity risk*

Liquidity Risk is the risk that the Bank may not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

There are essentially three variations of liquidity risk: systemic or market-wide risk, institutional risk - the risk of a "run" - and asset liquidity risk, resulting in the inability to liquidate assets at fair value. Respectively with regards to these, the Bank has been unaffected by the recent crisis, perhaps in part because it is a component of the financial services arm of a large industrial corporation, and does not hold or rely upon significant quantities of liquid assets.

The FSA issued its policy document on 'strengthening liquidity standards' on 5th October detailing the requirements for liquidity governance to be in place by 1st December 2009. We have consulted with external regulatory advisors to assist us in implementing these requirements. In line with our implementation strategy various documents were submitted for Board review and approval in February and May 2010 including BBLs' first Liquidity Stress Testing document. A detailed analysis was performed to ascertain whether BBL met the criteria of a simplified firm as defined in BIPRU 12. Having satisfied the criteria a simplified firm waiver request was submitted and granted by the FSA in June 2010. The "switch on date" for BBL is thus 1 October 2010

As part of these new requirements the Bank is required to have in place appropriate systems and controls to manage it's liquidity risks which includes a stress testing regime and to undertake an annual review of it's compliance with the standards set out in BIPRU 12.3 – Liquidity Risk Management and 12.4 – Stress Testing & Contingent Funding which is documented in the Individual Liquidity System Assessment document.

In line with the funding strategy adopted for all wholly owned Siemens AG group companies funding is effected through the ultimate parent wherever/whenever possible. To this end Siemens AG has granted a committed Revolving Credit facility with a substantial portion of this facility being undrawn at 30 September 2010. The Board is of course aware that should the ultimate parent be faced with a market downturn, or a liquidity issue of its own, it may not be able to fulfil this commitment. The Board is however of the view that this is not of immediate material concern, as the holding company has a market capitalisation of Euro 68.1bn (as at 07/09/2010), and is currently rated A+. The Board remains fully aware of current global economic conditions, and keeps this aspect under close review. Should the overall position worsen materially or should any other adverse event or condition materialise, the Board would immediately review the implications and act accordingly. The current strength of the parent will be formally reviewed annually and as required in the event of any significant market changes or events. No collateral provision clauses are included in the facility agreement.

The Board considers that in light of the detailed requirements (including liquidity buffer requirement) set out in the new liquidity regulations and continued support from the ultimate parent undertaking no additional capital should be provided for liquidity risk.

5.4 *Operational risk*

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures to meet Sarbanes-Oxley and Siemens Internal Guidelines.
- requirements for the annual assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards

- risk mitigation, including insurance where this is effective

Compliance with Siemens and regulatory standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the company.

The Bank has adopted the Basic Indicator Approach for Operational Risk and allocates the required capital at 15% of income as defined in BIPRU.

For ICAAP purposes we have considered the risk categories and sub-categories in Annex 9 of Basel II to assist us in assessing the level of Operational Risk in Broadcastle. We conclude that with losses arising from Operational Risk occur in the primary "lending" portfolio as a result of deficiencies in leased equipment and/or deficiencies in vendor/supplier performance (in particular in relation to office technology equipment), which result in impairment to lease receivables which in turn result in write-offs. Net losses on the leasing portfolio for the financial year ended 30 September 2010 were £23,000 (2009: £320) – 0.03% (2009: 0.00%) of the portfolio.

Other than these losses, which are recognised as credit risk-related losses, there were no other losses during the year ended 30 September 2010 (2009: Nil). To date the position stands that neither BBL nor its outsourced service provider SFSL have incurred any other financial loss which can be attributed to operational risk. This in part is attributed to adoption of all applicable Siemens group disciplines including the ICS, and the SOA group-driven framework in place.

As previously mentioned, as part of the wider Siemens Group reporting a risk management framework and structure is in place which defines the principal risk categories and sets out the methodology for the identification, assessment, mitigation and reporting of risks – Enterprise Risk Management Framework (ERM). As part of the ICAAP process senior management review the risks included in the ERM framework to assess whether any additional capital should be provided for these risks. Following due review and consideration senior management do not consider it appropriate to provide additional capital for these risks.

It is acknowledged that Operational Risk pervades the Bank's operations whether outsourced or not, that outsourcing operations does not in itself avoid (or indeed in Broadcastle's case even mitigate) risk, and that Operational Risk therefore cannot be considered immaterial. However from an ICAAP standpoint we have compared the minimum BIA capital allocation of £895K (2009: £722k) with the losses detailed above totalling £23k (2009:£1K). Experience within the wider SFS UK operations is such that no financial losses have been incurred in respect of operational risks and it is therefore concluded that the development and assessment of Operational Risk scenarios would have no practical benefit to the management of risk within the Bank. The Board accept that should the bank's operations extend in a manner beyond those outlined in this document, that operational risk increases across a number of dimensions including the necessary technical skill sets, the management of the product range, documentation and legal risks. Product development or any activity which extends the product range of the Bank will cause the formal review of the extent of additional operational risks.

5.5 *Concentration risk*

We recognise that due to the nature of our business focus the Bank incurs material concentration risk in terms both of exposure to the UK public sector (also a business strategic risk) and exposure to the values of certain types of physical asset.

The Bank incurs some exposures above 10% of its LECB to local government bodies. At 30 September 2010 the aggregate sum of the three largest local authority exposures totalled £7.9m or 31% of its LECB.

Broadcastle in the context of concentration risk considers that large exposure risk is to an extent mitigated by the fact that each of these exposures to local government bodies (as the ultimate source of funds) is diversified through a range of providers of public infrastructure and services as the immediate lessees/obligors: schools, libraries, waste collection and disposal, and so on. Additionally the underlying equipment is of an infrastructural nature, i.e. its removal would significantly impair, and in some cases render impossible, the functioning of the service provider. It is partly in recognition of this (together with the low default risk inherent in UK local authority lending) that the Bank expresses its tolerance for these risks in terms of a risk appetite (per exposure to funding source) equivalent to 20% of its LECB. The Board remains alert in the present exceptional financial circumstances to any further deterioration in the financial position of local authorities.

Since the vast majority of our exposure to physical assets is by way of finance leasing to local government (i.e. the lease structure provides for the full amortisation of the asset cost, our funding costs and our profit margin – see Residual Risk at Section) we believe that our concentration risk in asset types would be triggered only by an unexpected event causing the inability or unwillingness of local authorities to meet their contractual obligations.

5.6 *Residual risk*

Residual risk means the risk that credit risk mitigation techniques used by a bank prove less effective than expected.

The Bank mitigates credit risk via ownership and security interests in various types of equipment.

As discussed above, losses resulting from flawed documentation or from leased equipment deficiencies or vendor/supplier deficiencies are recognised as credit risk-related losses and addressed as such from an ICAAP perspective.

A small part (approximately 5%) of the Bank's primary "lending" portfolio comprises operating leases, in which the Bank retains a residual exposure to the equipment after the lessee's minimum rental payment obligations have expired. The bank also has a low percentage of residual risk in certain finance leases (approximately 5%). The expectation (based on the lease structure and our experience of operating leasing in the local authority sector) is that the equipment will be re-leased, either to the original lessee or to a new lessee, or that the equipment can be sold to the original supplier or on the open market, all to the effect that the residual exposure will be repaid without loss of principal, interest or margin to the Bank. Additionally the bank has secured insurances or guarantees through third parties for an element of the assumed residual value for certain lease and equipment category types. Experience from the wider SFS UK operations to date consistently demonstrates that realised values exceed assumed values.

5.7 *Interest rate risk in the leasing book*

All leasing activities are currently undertaken at a fixed rate, as at 30 September 2010 these were 104.3% matched exceeding the targeted 95% matched position i.e. there is no material mismatch between the basis of the interest element of the asset repayment profile and that of the liability repayment profile.

We have applied the standard test of a 2% adverse shift across the yield curve to that part of the new business bookings that could potentially be vulnerable to interest rate increase that would not be immediately reflected in the leasing rate. We have ascertained that over a three year period the aggregated impact on our net interest income would be in the order of £1m.

As set out in the Policy statement: Stress testing and scenario testing (CP 08/24 & PS 09/20) effective December 2010, issued by the FSA larger, more complex firms should ensure they have systems to evaluate and manage interest rate risk and should include the ability to measure the exposure and sensitivity of activities, if material, to:

- Re-pricing risk
- Yield curve risk
- Basis risk
- Option risk

The Bank is not a large or complex firm as verified by the simplified ILAS waiver granted by the FSA. A brief description of the Bank's assessment of the above areas is detailed below.

- Yield curve risk, re-pricing risk and basis risk – Funding is effected through Siemens AG, the ultimate parent undertaking and all loans are granted using an agreed set of liquidity margins and spreads. These rates are taken into account when setting lease interest rates and as such no material risk exists. In addition the group operates a 95% matched funding ratio mitigating the risk that liabilities and assets mature in different periods.
- Option risk – All leasing quotations have to be accepted within a short time frame and these quotations include an option to re-price the lease subsequently. This risk is thus not considered to be material

5.8 *Reverse stress testing*

Policy statement: Stress testing and scenario testing (CP 08/24 & PS 09/20) effective December 2010 introduced a requirement for firms to explicitly identify and assess the scenarios most likely to cause its current business model to become unviable. Business plan should be assumed unviable at the point that crystallising risks cause the market to lose confidence in it, with the consequence that counterparties and other stakeholders are unwilling to transact with it or provide capital to the firm and, where relevant, existing counterparties may seek to terminate their contracts.

A firm should ensure survival long enough after the event for one of the following to occur:

- Market decides lack of confidence was unfounded
- Firm down-sizes and re-structures
- Firm is taken over or business is transferred in an orderly manner
- Public authorities take over the firm, or wind down the business in an orderly manner

The board has considered the above and concluded that the only scenario which could render the business model of the Bank unviable is the withdrawal of Siemens AG funding. If funding is withdrawn there would be an orderly wind down of the business. A review was undertaken to assess whether the Bank would be able to meet it's liabilities as they fall due in these circumstance and concluded that no additional capital is necessary to cover this risk.

5.9 *Other risks*

- Insurance risk – The Bank does not incur insurance liabilities in its business and therefore do not consider this to be a risk to BBL.
- Securitisation risk – The Bank does not participate in securitisation transactions and therefore do not consider this to be a risk to BBL.
- Business risk – Our business plan focuses on current core activities described in more detail above, namely leasing/lending to UK local government sector and intra-group treasury activities. It is certainly possible that, for example, geopolitical events might occur that would dramatically affect these core activities; however the Bank's vulnerability to "macro" trends or shocks arises from our focus on a relatively narrow range of activities and we believe that this vulnerability, and the corresponding need, if any, for "Pillar 2 capital", is comprehensively covered in our treatment of Credit Risk and Concentration Risk.
- Pension obligation risk - The Bank has no employees with all front and back office functions provided through the Outsourcing Agreement with SFSL and there are no pension liabilities arising through this agreement thus resulting in no risk to BBL
- Group risk - Senior management considered the key risks included in the Siemens AG annual report and concluded that these risk are either (i) not material in the Broadcastle context or (ii) already dealt with in other categories or (iii) that they are not subject to mitigation via the use of capital.

We have separately considered risks such as settlement risk, underwriting risk, transfer risk, country risk, compliance risk, reputation risk and key person risk during the preparation of the ICAAP, but concluded that these risks are either (i) not material in the Broadcastle context or (ii) already dealt with in other categories or (iii) that they are not subject to mitigation via the use of capital.

6. Equity investments and impairment provisions

The Bank has no equity investments.

Impairment provisions – Accounting policy:

Financial assets classified as loans, receivables and other assets, including held-to-maturity investments, are measured at amortised cost using the effective interest method less any impairment losses.

Collective allowances are calculated for incurred but not reported losses using modelled and tested expected loss rates based on the credit risk within the portfolio. Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for industry risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances

Specific allowances are calculated for individual customers with significant exposure that have been identified as high risk of incurred loss through the risk rating process and is based upon management's best estimate of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Risk function. Provisions have been deducted from appropriate asset values in the balance sheet fore calculation of capital disclosed in previous sections of this document.

An asset is considered past due when an obligor has failed to make a payment by the contractual due date. Past due exposures at the balance sheet date amounted to £3.5m *(2009: £11.5m)*.

The total impairment allowance of £26k *(2009: £8k)* reflects the low risk assets held on the balance sheet of BBL and was raised against loans and advances to customers of £8.3m *(2009: £3.5m).* Recoveries of impairment allowances amounted to £nil *(2009: £18k).*

Allowances for impairment

In thousand of £	2010	2009
Specific allowances for impairment		
Balance at 1 October	-	-
Impairment loss for the year:		
Charge for the year	-	-
Utilised in the year	-	-
Balance at 30 September	-	-
Collective allowances for impairment		
Balance at 1 October	8	12
Impairment loss for the year:		
Charge for the year	18	2
Utilised in the year	-	(6)
Balance at 30 September	26	8
Total allowances for impairment	**26**	**8**