

blme

بنك لندن والشرق الأوسط
Bank of London & The Middle East

BLME Holdings plc 2016 Results

15th March 2017



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BLME will be the UK's leading provider of Sharia'a compliant wealth solutions for GCC nationals

BLME's Aspirations

- To build a strong, established and respected wealth management brand across the GCC
- To become the UK partner of choice for GCC Islamic banks
- To deliver sustainable profitability and stable returns
- To provide excellent service to clients, demonstrated by long-term relationships and recommendations
- To create a culture that drives a well-governed, innovative and client-centric Sharia'a bank

Strategic Themes

- 1 **Develop new wealth management products and services** for GCC clients
- 2 **Build a robust GCC acquisition and distribution capability** by expanding BLME's presence in the region and leveraging Shareholder support
- 3 **Maximise efficiencies and reduce risk**, creating a streamlined business with less concentration risk ensuring our activities are strategically aligned and our funding strategy delivers competitive pricing
- 4 **Develop new income streams** aligned with the Bank's risk appetite by leveraging BLME's current capabilities including leasing and real estate finance, to drive higher fee income
- 5 **Build a high-performance culture** with a clear set of values and strong focus on customer service, innovation and risk management

- **Putting our customers first:**

BLME has invested in improving operations and addressing legacy issues over the past 18 months and must now re-focus on our customers. Our customers are at the centre of our strategy, products and day-to-day operations. We are working on simplifying the Bank's operating model.

- **Resilience and Consistency:**

When the Bank was launched ten years ago its risk appetite was less conservative than today and resulted in exposures to some asset classes which heightened the Bank's risk profile. Moving forward BLME will apply a focussed business plan to clearly defined target customers within a disciplined risk framework. This will create a more resilient bank with less volatility.

- **Product Development:**

In order to meet the needs of our customers BLME has to create new products and services for our target customers. Several new products are in development and will be launched over the course of 2017. We continue to collaborate with our customers to identify and fill gaps in our product and service offering.

- **Controlled and Contained Costs:**

We have identified several areas of cost savings that will be implemented in the first quarter of 2017 and which will lower the operating expenses of the Bank considerably over the course of the year.

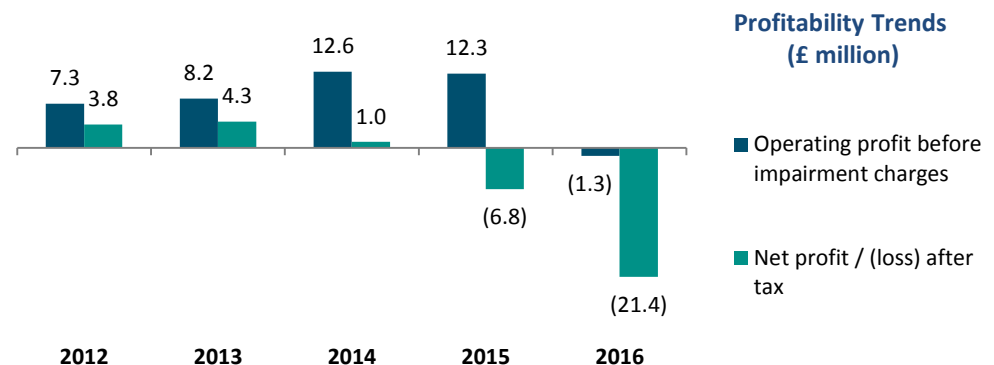
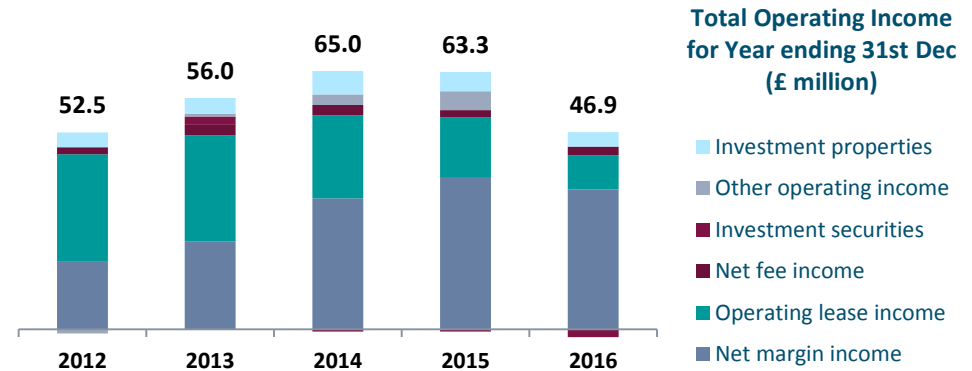
- **Enhanced Risk Management:**

The Bank's financial performance continues to reflect the impact of legacy issues. In response to the challenges created by the issues over the past 18 months a full review of our risk management framework and operations has been completed. The Bank has enhanced risk management through improved processes, new policies and procedures. We will continue this approach of continuous improvement and reflection on our risk management framework as we implement our new strategy. We have reviewed and amended our risk appetite as part of amending our strategy and are implementing appropriate risk management processes to manage the operational and conduct risks associated with expanding our wealth management business.

- In 2016 the Bank made progress in transforming BLME into a simpler and more efficient Bank. This progress has not yet been reflected in the financial performance of the Bank but has created a platform for sustainable growth
- BLME has identified seven new Key Performance Indicators. The Directors consider these performance indicators to provide the basis of a quantitative assessment of BLME's aspirations and the implementation of the Bank's strategy.
- These KPIs provide a transparent and clear measurement on the impact of BLME's performance

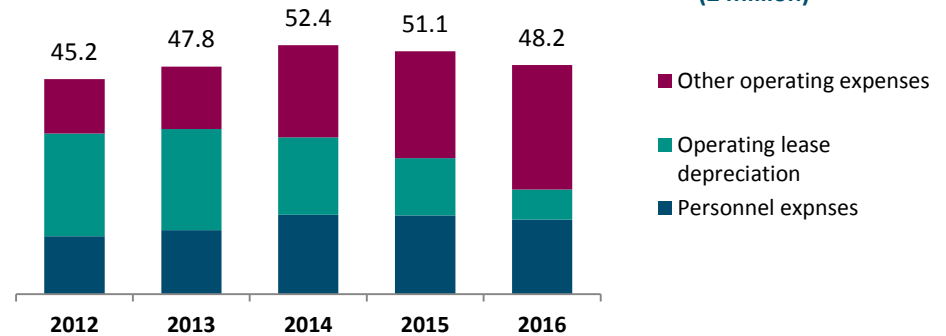
Key performance indicators	2016	2015
Net operating loss before tax	£(18.9)m	£(8.4)m
Loss after tax	£(21.4)m	£(6.9)m
Pre-tax return on equity	(8.7)%	(3.5)%
Cost income ratio (adjusted for operating lease depreciation)	103.3%	76.1%
Net fee income / total income	4.6%	3.0%
Development property as percentage of total property lending facilities	92.7%	71.5%
Deposits from primary depositor as percentage of total deposits	63.0%	56.9%

- Operating Income has decreased due to the exit of non-core and higher risk business lines.
- BLME is the process of rebalancing the Bank's property portfolio and is manging property development finance exposures down.
- Net margin income is down £4 million having de-risked the Bank's portfolio.
- Operating lease income is down 42% to £8.7 million as the US leasing book continues to run off.
- Net fee income is up 14% from £1.9 million to £2.2 million.
- The net impairment charge on financial assets is the main reason for the £21.4 million loss.
- A Deferred Tax write-off of £3.1 million, the £1.7 million deconsolidation of Renaissance Asset Finance and a £1.4 million loss arising from fair value movements in hedging instruments also impacted the performance of BLME.



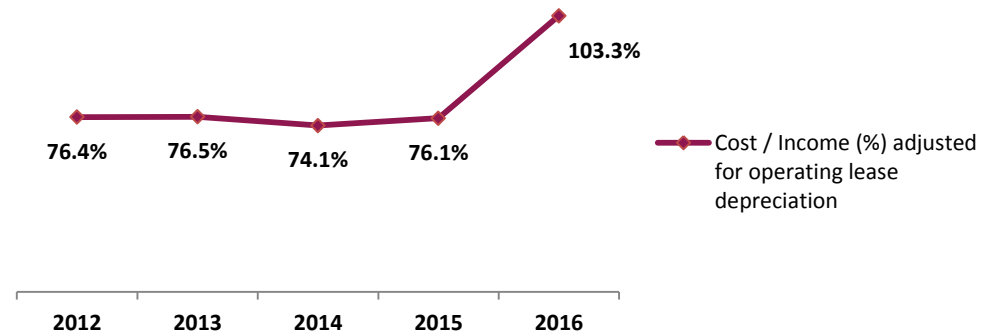
- Operating lease expenses continue to reduce as BLME exits the US leasing market.
- The downward trend in Personnel Expenses continued with a 5% reduction (2015: 0.8%).
- BLME has identified several areas of cost savings that will be implemented in the first quarter of 2017 and which will lower the operating expenses of the Bank considerably over the course of the year.
- BLME's cost:income ratio has been too high. This has arisen in clearing the legacy issues and by investing in risk management, corporate governance, compliance staff and operations and managing out impaired loans.

Total Operating Expenses Components for the Year ending 31st Dec (£ million)

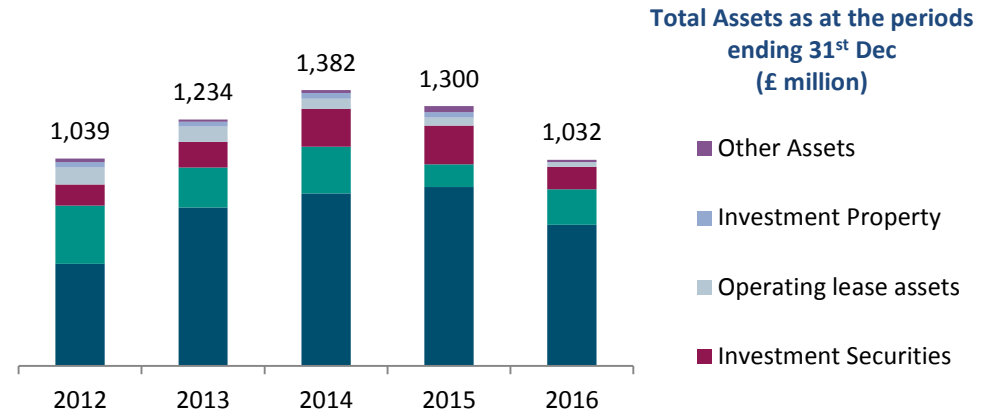


- Other operating expenses
- Operating lease depreciation
- Personnel expenses

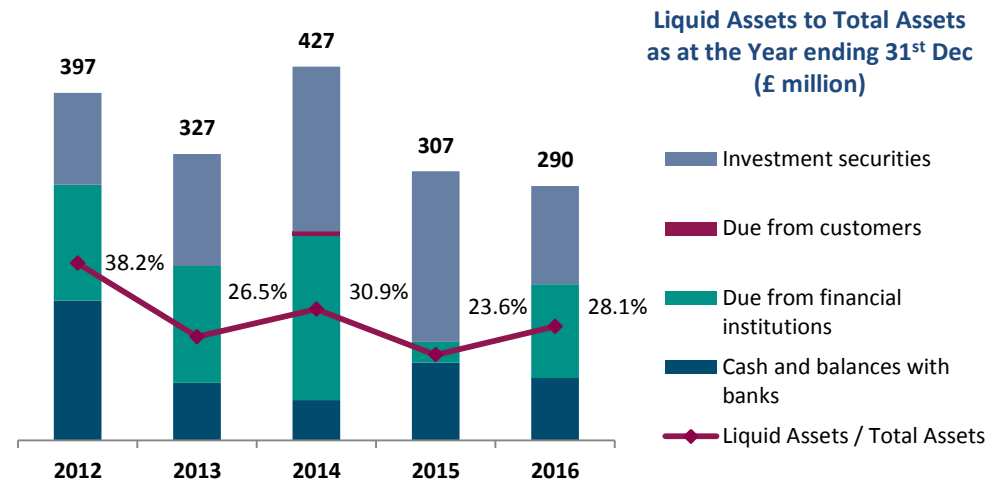
Cost:Income Ratio for the Year ending on 31st Dec



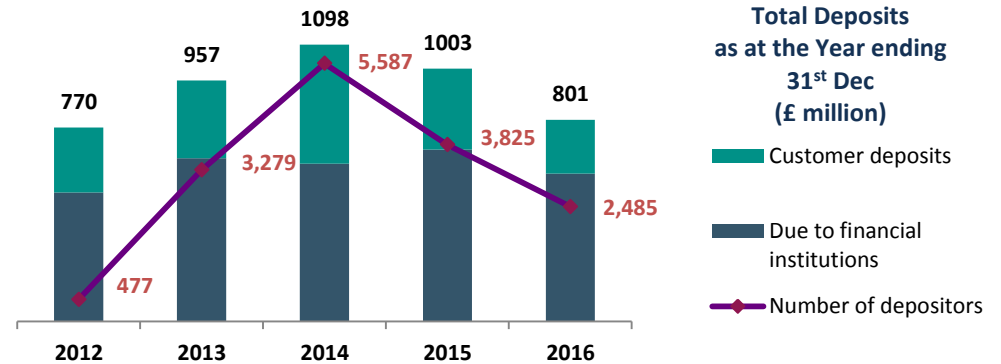
- Balance Sheet growth is no longer a strategic aim, having decided to exit non-core areas such as Islamic Capital Markets and US leasing and also higher risk business lines such as Acquisition Finance and ABL Finance.
- During 2016 there has been a focus on de-risking the Bank which has impacted the Bank's Total Assets.



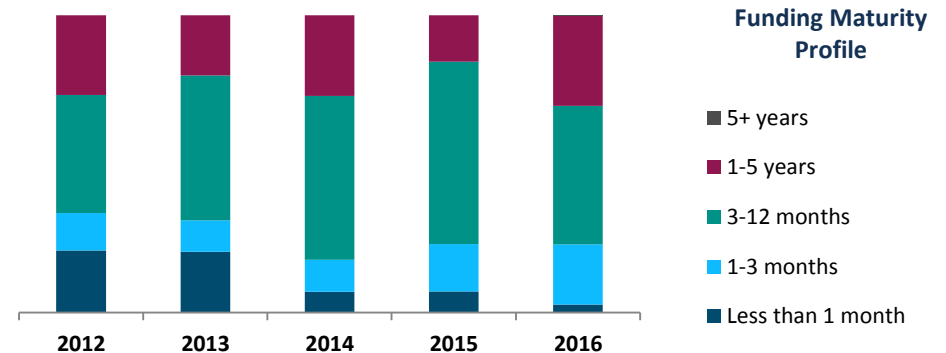
- The Bank's liquidity position leaves BLME well positioned to support growth, finance the new business pipeline and meet regulatory liquidity ratios.



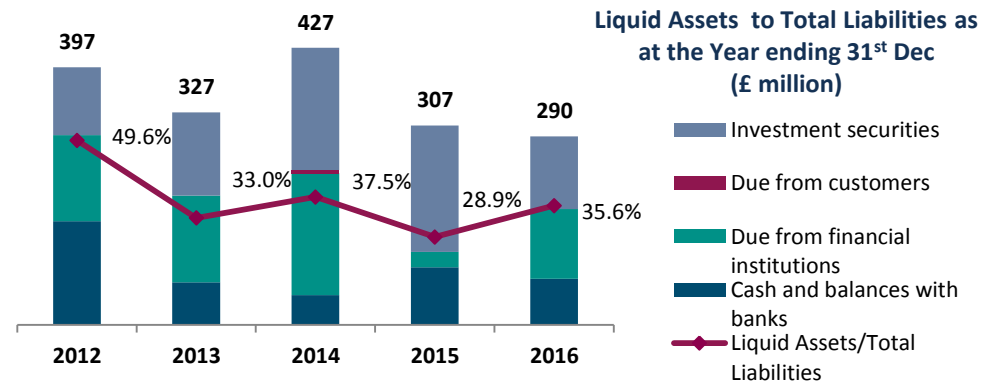
- Deposit levels leave BLME well positioned to support the business pipeline and the Bank's strategic aims whilst meeting regulatory liquidity ratios.
- Slower asset generation required less deposits. At the same time we used the opportunity to reduce reliance on Financial Institutions.



- Term deposits of more than one year picked up as we took advantage of record low rates and the need to reduce potential term mismatch risks.

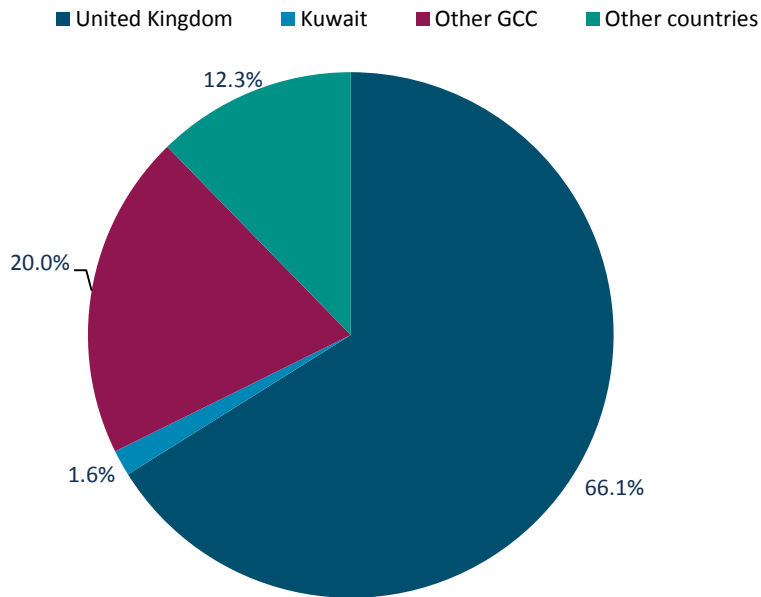


- As a result of the smaller balance sheet we reduced our fixed income investment securities holdings. We continue to look forward to the Bank of England introducing Sharia'a compliant facilities in future.



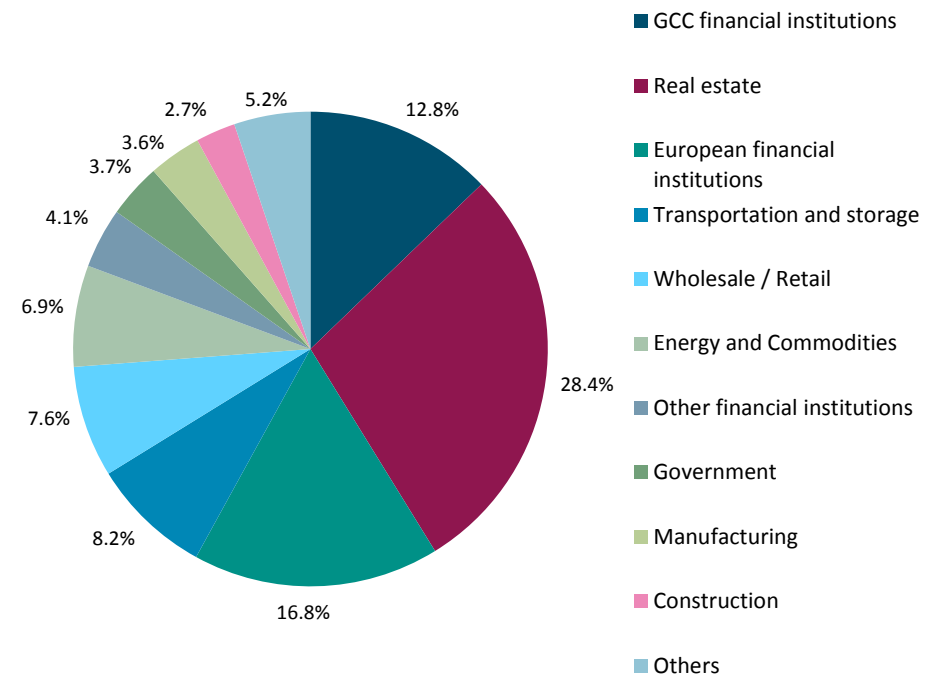
Geographic Diversification

Credit exposure by Country of incorporation as at 31 December 2016

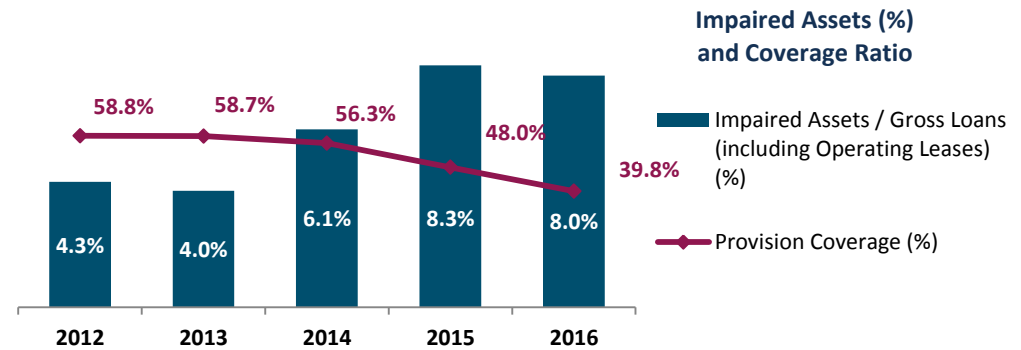


Sector Diversification

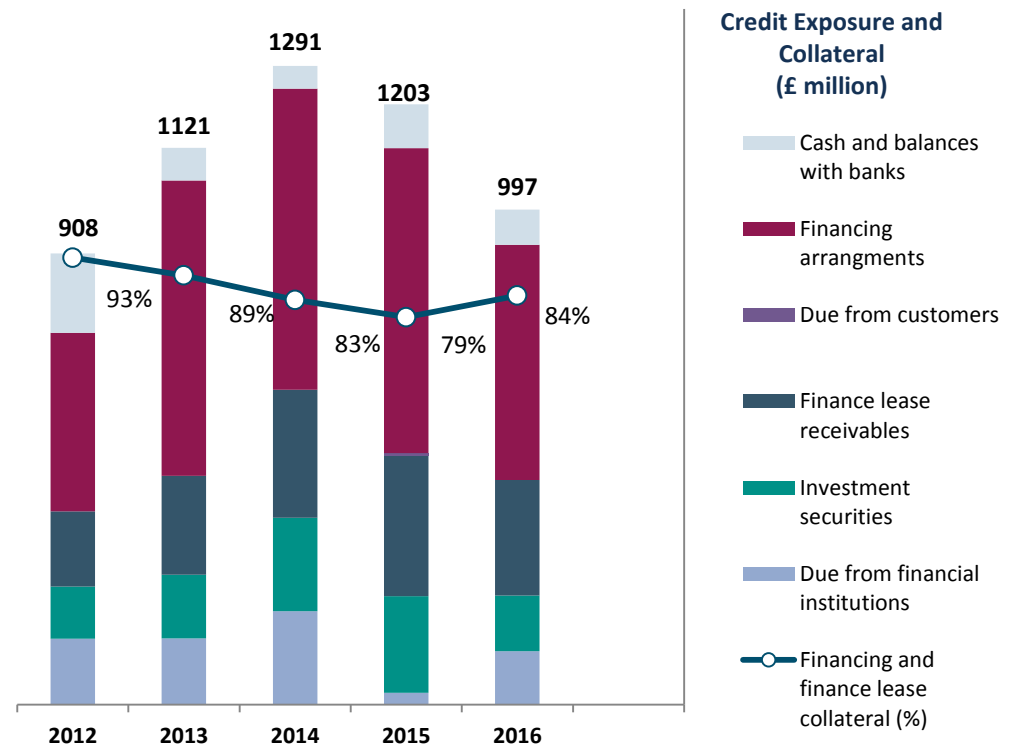
Credit exposure by Sector as at 31 December 2016



- The coverage ratio has reduced due to the write-off of legacy financing which had been fully provisioned.
- As a part of de-risking the Bank, we have continued to identify and provide against impaired assets within the Bank's legacy portfolio .

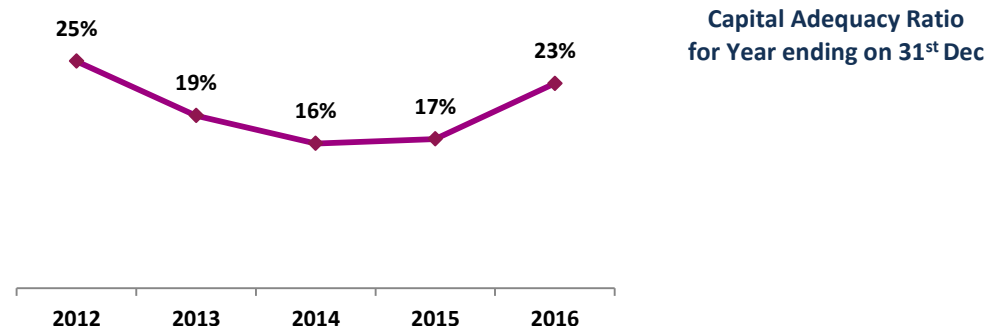


- BLME is an asset-based bank which is reflected in the collateral which represents 84% of the total of Financing Arrangements and Finance Lease exposure.
- This collateral backing has increased from 79% to 84% in 2016 in line with the quality of the remaining portfolio.



- BLME undertakes an annual Internal Capital Adequacy Assessment Process (“ICAAP”) which identifies and addresses risks faced by BLME which do not explicitly attract a capital requirement under the Pillar 1 rules.
- The PRA reviews BLME’s ICAAP assessment of its Pillar 2 capital requirement as part of the Individual Capital Guidance (“ICG”) process.
- The Capital Adequacy Ratio remains strongly in excess of regulatory requirements and is further evidence of the Bank de-risking.
- The closure of the Fixed Income funds and Light Industrial Building Fund previously managed by BLME Asset Management contributed to the improvement in Capital Adequacy Ratio. We expect this to reduce in future as we deploy funds to satisfy our growing new business pipeline.

Pillar 1 Capital Requirements (£ million)	2012	2013	2014	2015	2016
Credit risk	60.1	79.3	93.3	97.6	76.8
Market risk – foreign exchange PRR	0.0	0.1	0.2	0.3	0.6
Counterparty risk capital component	0.2	0.2	0.3	0.1	0.1
Operational risk	6.7	7.3	5.4	6.4	6.9
Total Pillar 1 capital requirement	67.0	87.0	99.2	104.4	84.4
Total regulatory capital in place (after deducting material holdings)	190.2	191.8	189.2	204.3	220.3
Excess of capital in place over minimum requirement under Pillar 1	124.2	104.9	90.0	99.9	135.9
Risk Weighted Assets (RWA)	751.3	990.8	1,165.9	1,220.2	959.5
RWA / Total Assets (%)	72.3%	80.3%	84.4%	93.8%	92.9%



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Appendix

BLME Holdings plc

2016 Financial Results



Consolidated Income Statement

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For the year 1 January 2016 to 31 December 2016	2016	2015
Income	£000	£000
Income from financing and investing activities	54,995	60,099
Returns to financial institutions and customers	(19,530)	(21,508)
Net margin	35,465	38,591
Fee and commission income	2,687	2,551
Fee and commission expense	(520)	(651)
Net fee income	2,167	1,900
Net fair value losses on investment securities	(3,117)	(1,922)
Net fair value (losses) / gains on investment properties	(40)	4,707
Operating lease income	8,703	15,131
Other operating income	3,682	4,925
Total operating income	46,860	63,332
Expenses		
Personnel expenses	(15,628)	(16,518)
Operating lease depreciation	(6,366)	(12,025)
Other depreciation and amortisation	(1,522)	(787)
Other operating expenses	(24,620)	(20,067)
Change in third party interest in consolidated funds	(45)	(1,673)
Total operating expenses	(48,181)	(51,070)
Operating (loss)/profit before impairment charges	(1,321)	12,262
Net impairment charge on financial assets	(15,843)	(20,659)
Loss on disposal of group company	(1,720)	
Net operating loss before tax	(18,884)	(8,397)
Tax credit / (expense)	(2,499)	1,547
Loss for the year	(21,383)	(6,850)

Consolidated Statement of Comprehensive Income blme

بنك لندن والشرق الأوسط
Bank of London & The Middle East

For the year 1 January 2016 to 31 December 2016

	2016 £000	2015 £000
Income		
Loss for the year	<u>(21,383)</u>	<u>(6,850)</u>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss if specific conditions are met:		
Foreign currency translation differences for foreign operations	25	53
Foreign currency translation differences for cash flow hedging reserve	(381)	(136)
Foreign currency translation differences for fair value reserve	94	
Changes in fair value of cash flow hedges taken to equity		535
Cash flow Hedging Reserve recycled to income statement	2,352	
Change in fair value of available-for-sale financial assets taken to equity	231	366
Reclassification of the FV of hedged item	(1,193)	
Income tax on other comprehensive income	(589)	(133)
Other comprehensive income for the year net of income tax	<u>539</u>	<u>685</u>
Total comprehensive loss for the year attributable to equity holders of the Parent company	<u><u>(20,844)</u></u>	<u><u>(6,165)</u></u>

Consolidated Statement of Financial Position

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بنك لندن والشرق الأوسط
Bank of London & The Middle East

As at 31 December 2016	2016	2015
Assets	£000	£000
Cash and balances with banks	71,152	88,732
Due from financial institutions	107,182	23,690
Investment securities	112,161	194,712
Financing arrangements	473,304	613,753
Finance lease receivables	232,701	282,607
Operating lease assets	24,361	39,641
Investment properties	-	26,790
Property and equipment	1,523	2,111
Intangible assets	1,693	2,262
Goodwill	-	4,769
Other assets	8,276	17,183
Current tax asset	-	717
Deferred tax assets	-	3,303
Total assets	1,032,353	1,300,270
Liabilities		
Due to financial institutions	586,964	681,597
Due to customers	213,804	321,473
Profit rate swaps	1,305	1,369
Third party interest in consolidated funds	433	42,694
Other liabilities	12,739	15,370
Total liabilities	815,245	1,062,503
Equity		
Share capital	48,933	48,933
Merger reserve	16,000	16,000
Other reserve	15,226	15,226
Capital redemption reserve	50	50
Fair value reserve	(331)	537
Cash flow hedging reserve	-	(1,382)
Share-based payment reserve	1,604	1,484
Foreign currency translation reserve	16	(9)
Retained earnings	135,610	156,928
Total equity attributable to equity holders of the Bank	217,108	237,767
Total liabilities and equity	1,032,353	1,300,270

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