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Bank of London & The Middle East

BLME Holdings plc

2017 Results

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Financial Performance & Key Performance Indicators

- In 2017 the Group drew a line under the legacy issues and transformed into a simpler and more efficient Bank. The Group returned to profitability, recording a record profit after tax of £5.7 million compared with a loss of £21.4 million in 2016.
- During 2017 BLME resolved several long standing issues as demonstrated in the one offs seen in the 2017 financial results:
  - £3.3 million received from an insurance claim albeit with cumulative £1.2 million in associated costs recognised, with £0.6 million in 2017.
  - Received net £3.3 million of recoveries from a number of impaired facilities
  - Write down of a legacy private equity shareholding by £2.0 million.
  - Recognised Fair Value hedge losses from prior years of £1.4 million.

Key performance indicators	2017	2016
Net operating profit / (loss) before tax	£5.8m	£(18.9)m
Profit / (loss) after tax	£5.7m	£(21.4)m
Post-tax return on equity	2.8%	(8.7)%
Cost income ratio	93%	103%
Non-performing Financing Assets to overall Financial Assets	5.5%	7.8%
Premier Deposit Accounts Balance	£249m	£188m
Number of depositors	3,204	2,485

BLME's Strategy

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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

Consolidated Income Statement

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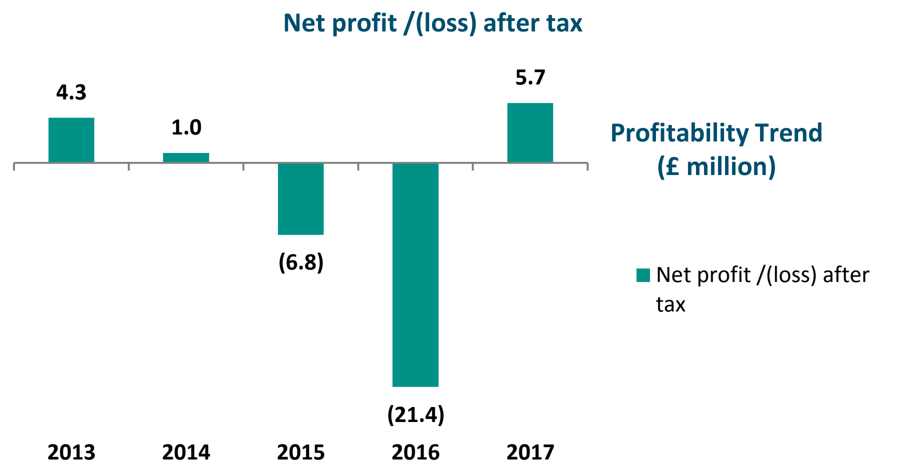
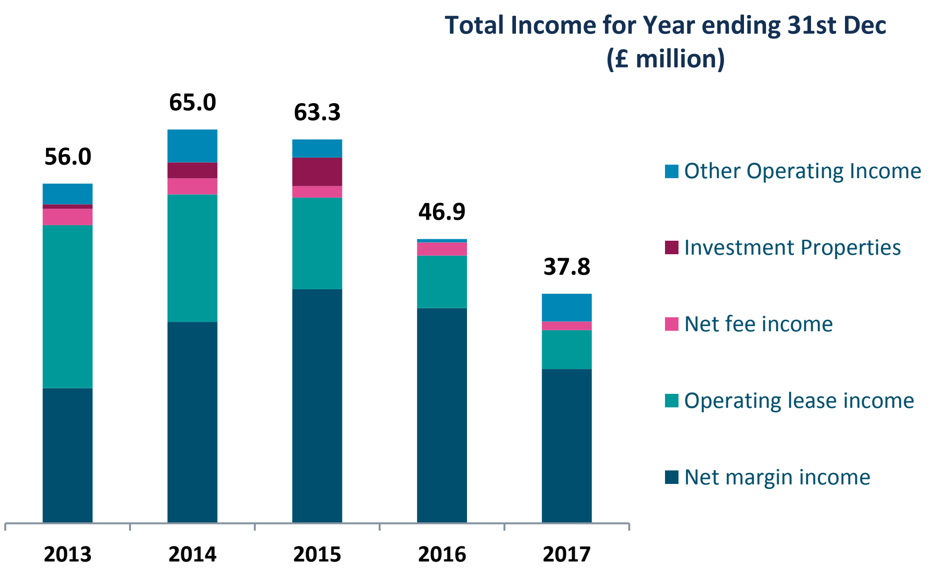
- BLME reported a record profit in 2017



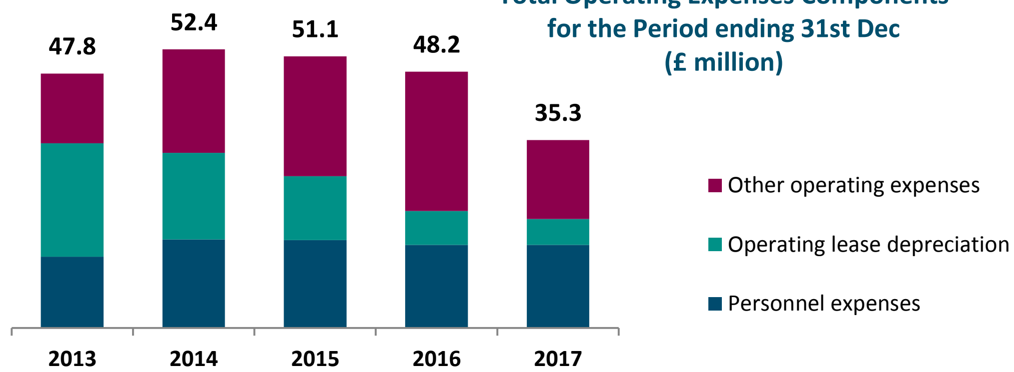
- Income has decreased due to the exit of non-core and higher risk business with a move towards a lower risk return portfolio of assets.
- During 2017 BLME adjusted the composition of the Bank's real estate portfolio to reflect our lower risk appetite.
- Operating lease income was down 26% to £6.4 million as the US leasing book continues to run off.
- Other Operating Income was enhanced by an insurance claim and partially offset by the write down in the Private Equity Portfolio.



Expenses and Efficiency

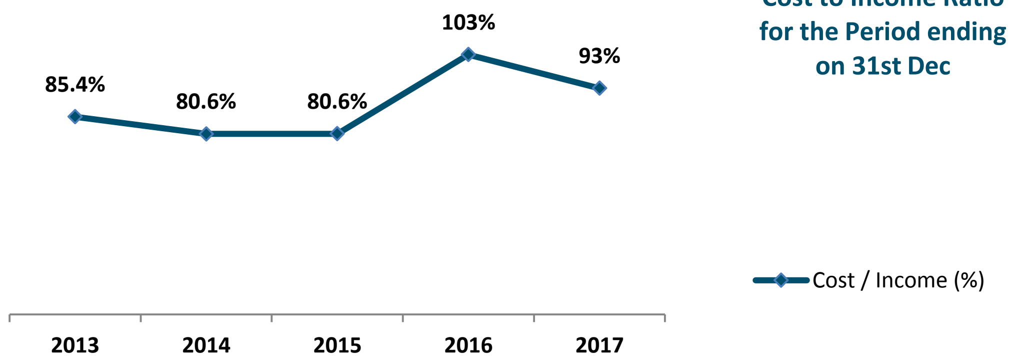
- Total costs were reduced by 27% from the prior year.
- Operating lease depreciation decreased as BLME reduced its exposure to the US leasing market.
- Overall Personnel expenses remain level with 2016 however fixed personnel costs are down 17%

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



- BLME's cost income ratio improved in 2017 from 103% to 93%. The Bank expects the cost income ratio to continue to improve.
- The cost income ratio calculation includes depreciation for operating leases

Cost to Income Ratio for the Period ending on 31st Dec



Consolidated Balance Sheet Assets

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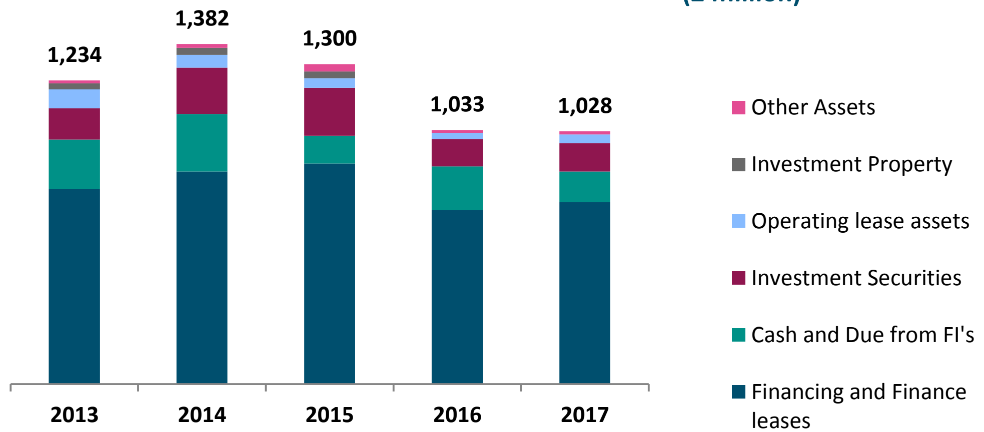
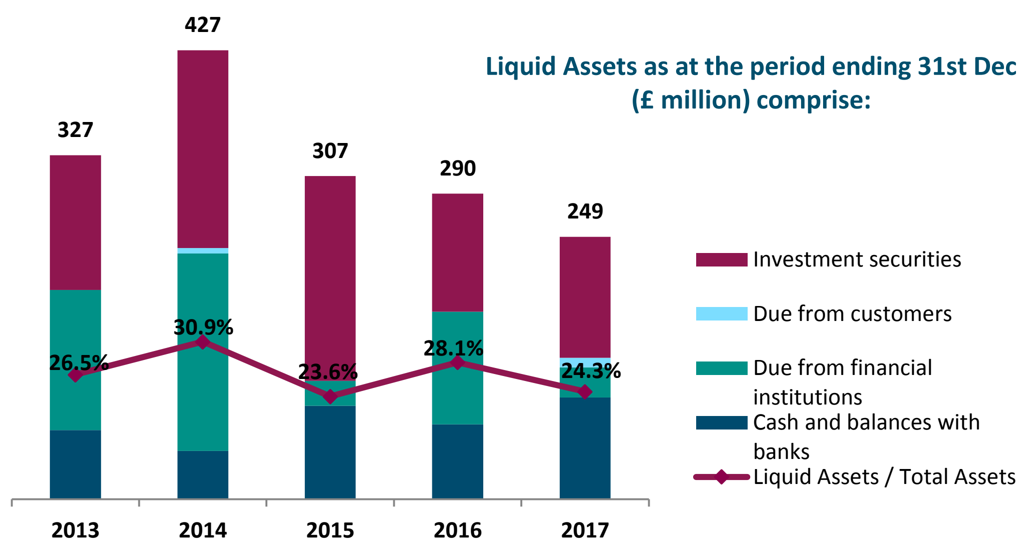
- Balance Sheet has remained stable at approximately £1 billion

Total Assets as at the period ending 31st Dec (£ million)



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

Liquid Assets as at the period ending 31st Dec (£ million) comprise:



Deposits and Liquidity

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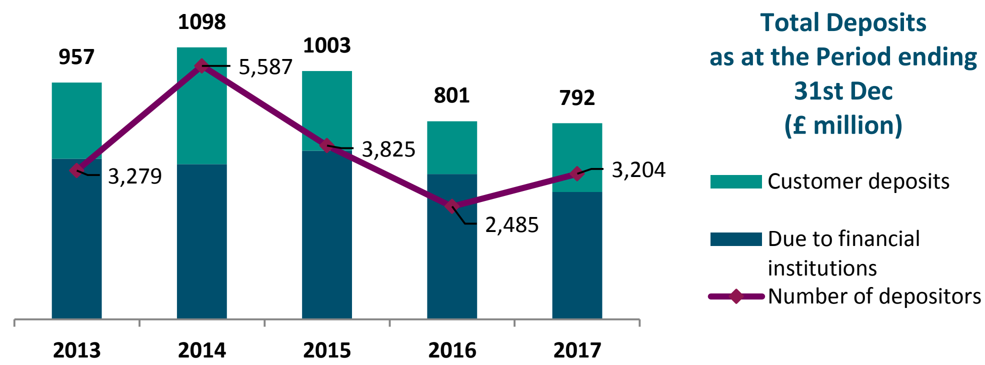
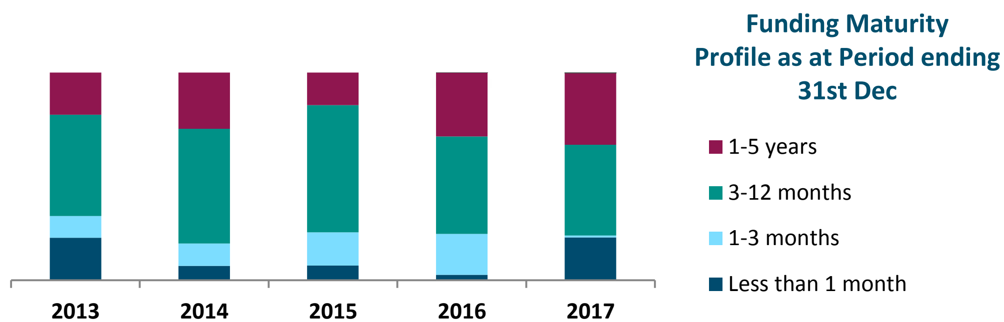
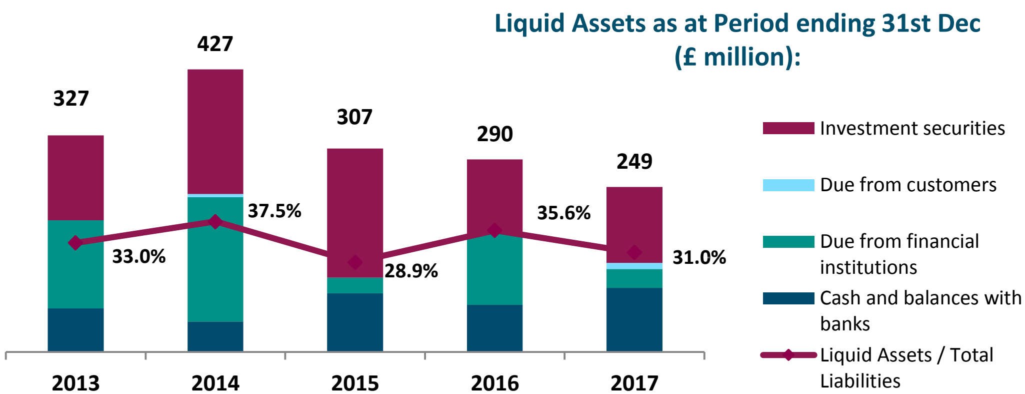
- The bank has diversified its depositor base.
- The number of depositors has increased by 29% to 3,204 in 2017 from 2,485 in 2016.



- BLME increased term deposits of more than one year as the Bank took advantage of record low rates.
- BLME also increased longer term deposits to reduce potential term mismatch risk.



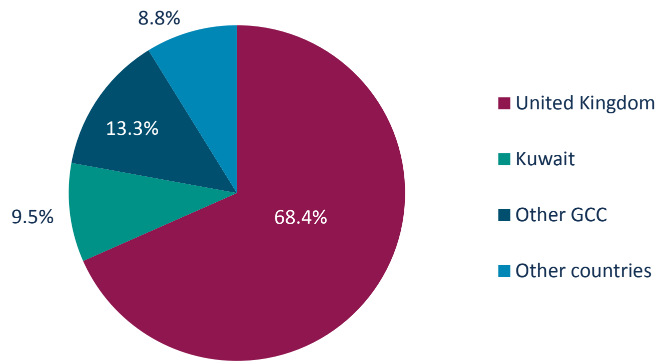
- The Bank of England plans to introduce Sharia'a compliant facilities. These facilities will provide an alternative to holding concentrated positions in the highest rated Sukuk.



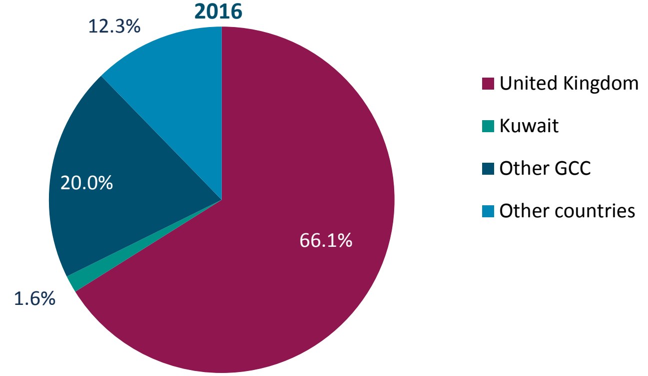
Credit Quality

Geographic Diversification

Credit exposure by Country of incorporation as at 31st Dec 2017

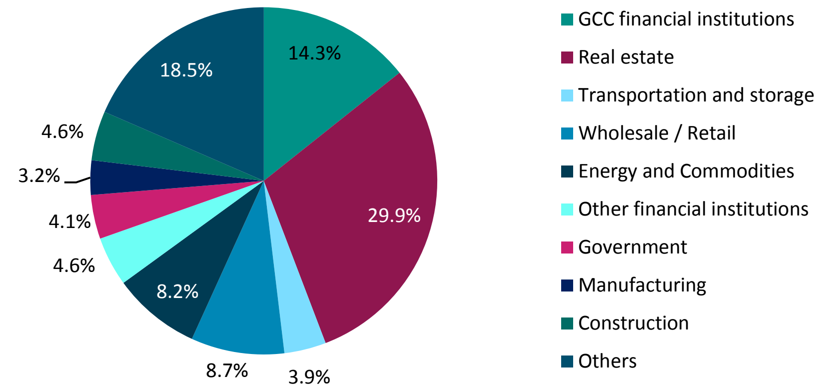


Credit exposure by Country of incorporation as at 31st Dec 2016

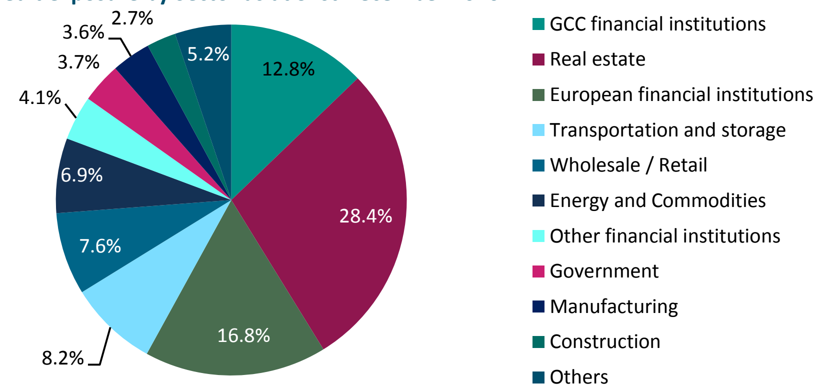


Sector Diversification

Credit exposure by Sector as at 31st December 2017



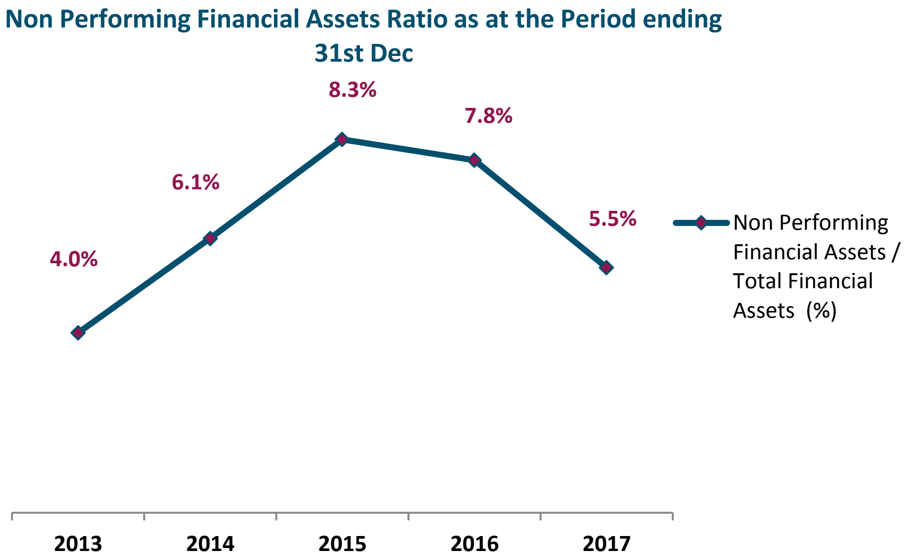
Credit exposure by Sector as at 31st December 2016



- UK exposure has increased to 68.4% (66.1%: 2016). BLME has seen an increase in exposure to GCC clients through real estate transactions which are not visible in this data.
- Kuwait and other GCC exposures have remained stable at 22.8% (21.6%: 2016)
- The largest sectorial exposures to GCC financial institutions and Real Estate together represent 44.2% (41.2%: 2016)
- Exposure to European financial institutions is almost Nil (16.8%: 2016) due to the Bank's renewed focus on the GCC.

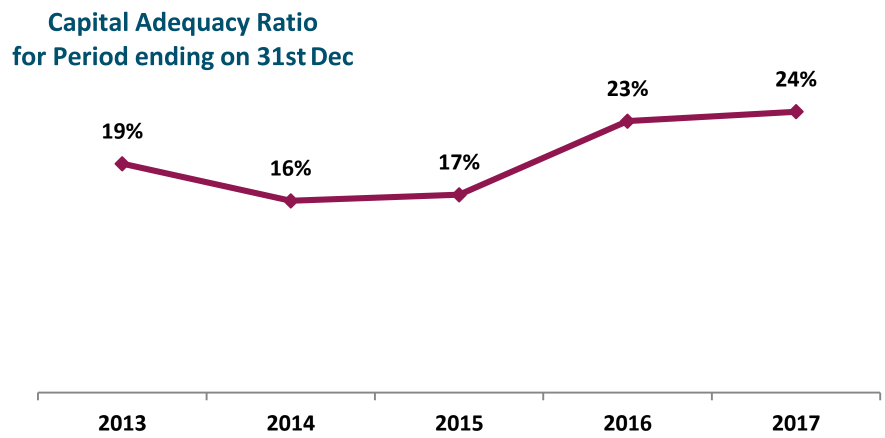
Credit Quality

- As BLME continues to improve credit quality the Group has seen an improvement in non-performing financial assets.
- The Bank has adjusted the financing portfolio to reflect a lower risk appetite which has also resulted in better quality of collateral against exposures.
- It is not expected that the move to IFRS 9 in 2018 will materially impact BLME and the Bank's impairment provisions.



Capital Adequacy

- The Bank's capital adequacy ratio has strengthened to 24% and remains in excess of the increased regulatory requirements.



- The Bank maintains a strong capital position

Pillar 1 Capital Requirements (£ million)	2013	2014	2015	2016	2017
Credit risk	79.3	93.3	97.6	76.8	75.4
Market risk – foreign exchange PRR	0.1	0.2	0.3	0.6	0.1
Counterparty risk capital component	0.2	0.3	0.1	0.1	0.1
Operational risk	7.3	5.4	6.4	6.9	7.0
Total Pillar 1 capital requirement	**87.0**	**99.2**	**104.4**	**84.4**	**82.6**
Total regulatory capital in place (after deducting material holdings)	191.8	189.2	204.3	219.1	223.7
Excess of capital in place over minimum requirement under Pillar 1	**104.9**	**90.0**	**99.9**	**135.9**	**141.1**

BLME’s 2018 Priorities

- **Customers first:**

BLME has invested in improving operations, addressing legacy issues and regulatory requirement over the past 18 months and is now re-focussing on our customers. The Bank’s customers are at the centre of BLME’s strategy, products and day-to-day operations. The Bank continues to identify ways to simplify its operating model.

- **Resilience and Consistency:**

When the Bank was launched eleven 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. BLME now applies a focussed business plan to clearly define 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 BLME’s customers it has increased its focus on new products and services for target customers. Several new products are in development and will be launched over the course of 2018 and 2019.

- **Controlled and Contained Costs:**

BLME has identified several areas of continued cost saving that will be implemented over 2018 and which will continue to lower the operating expenses of the Bank over the course of the year.

- **Enhanced Risk Management:**

The Bank has continued to enhance risk management through improved processes, new policies and procedures. BLME has reviewed and amended its risk appetite and is implementing appropriate risk management processes to manage the operational and conduct risks associated with expanding its wealth management business.

General Data Protection Regulation (GDPR) preparation has had a significant impact internally and BLME has invested in systems and resources to ensure that it is ready for 25 May 2018.

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Appendix
BLME Holdings plc
2017 Financial Results

Consolidated Income Statement

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For the year 1 January 2017 to 31 December 2017

	2017 £000	2016 £000
Income		
Income from financing and investing activities	41,708	54,995
Returns to financial institutions and customers	(16,284)	(19,530)
Net margin	25,424	35,465
Fee and commission income	1,909	2,687
Fee and commission expense	(494)	(520)
Net fee income	1,415	2,167
Net fair value losses on investments	(2,330)	(3,117)
Net fair value (losses) / gains on investment properties	-	(40)
Operating lease income	6,443	8,703
Other operating income	6,897	3,682
Total operating income	**37,849**	**46,860**
Expenses		
Personnel expenses	(15,647)	(15,465)
Operating lease depreciation	(4,858)	(6,366)
Other depreciation and amortisation	(1,517)	(1,522)
Other operating expenses	(13,324)	(24,783)
Change in third party interest in consolidated funds	-	(45)
Total operating expenses	**(35,346)**	**(48,181)**
Operating profit/(loss) before impairment charges	**2,503**	**(1,321)**
Net impairment credit/ (charge) on financial assets	3,305	(15,843)
Loss on disposal of group company	-	(1,720)
Net operating profit/ (loss) before tax	**5,808**	**(18,884)**
Tax expense	(75)	(2,499)
Profit/ (loss) for the year	**5,733**	**(21,383)**
Attributable to:		
Owners of the parent	5,284	(21,383)
Non controlling interest	449	-
	5,733	**(21,383)**
Earnings per share	**Pence**	**Pence**
Basic earnings per share	2.73	(11.07)
Diluted earnings per share	2.71	(11.07)

Consolidated Statement of Comprehensive Income

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For the year 1 January 2017 to 31 December 2017

	2017 £000	2016 £000
Income		
Profit / (loss) for the year	5,733	(21,383)
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	(46)	25
Foreign currency translation differences for fair value reserve	-	94
Fair value reserve recycled to the income statement	506	-
Cashflow hedging reserve recycled to the income statement	-	1,971
Unrealised (loss) / gain in fair value of available-for-sale financial assets taken to equity	(452)	231
Re-classification of fair value of hedging instruments	-	(1,193)
Income tax on other comprehensive income	(105)	(589)
Other comprehensive (expense) / income for the year net of income tax	**(97)**	**539**
Total comprehensive profit/ (loss) for the year attributable to equity holders of the Parent company	**5,636**	**(20,844)**
Attributable to:		
Owners of the parent	5,187	(20,844)
Non Controlling Interest	449	-
	5,636	**(20,844)**

Consolidated Statement of Financial Position

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As at 31 December 2017

	2017	2016*
	£000	**£000**
Assets		
Cash and balances with banks	96,780	71,152
Due from financial institutions	28,544	107,182
Due from customers	9,027	-
Investment securities	114,930	112,161
Financing arrangements	567,820	473,304
Finance lease receivables	170,546	232,701
Operating lease assets	34,922	24,361
Property and equipment	987	1,523
Intangible assets	837	1,693
Other assets	3,141	8,276
Total assets	**1,027,534**	**1,032,353**
Liabilities		
Due to financial institutions	514,392	586,964
Due to customers	277,341	213,804
Profit rate swaps	636	1,305
Third party interest in consolidated funds	-	433
Other liabilities	12,032	12,739
Current tax liability	251	-
Total liabilities	**804,652**	**815,245**
Equity		
Share capital	48,933	48,933
Merger reserve	-	-
Other reserve	15,226	15,226
Capital redemption reserve	50	50
Fair value reserve	(382)	(331)
Non Controlling Interest	280	-
Share-based payment reserve	1,911	1,604
Foreign currency translation reserve	(30)	16
Retained earnings	156,894	151,610
Total equity attributable to equity holders of the Parent company	**222,882**	**217,108**
Total liabilities and equity	**1,027,534**	**1,032,353**

*The merger reserve and retained earnings balances as at 31 December 2016 have been restated. Refer to Note 32 in the Annual Report and Financial Statements for the year ended 31 December 2017 for details.

Segmental Reporting

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For the year ended 31 December 2017

	Treasury Division £000	Commercial Finance £000	Wealth Management £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	459	12,828	12,137	-	25,424
Operating lease income	857	5,586	-	-	6,443
Net fee income	37	1,057	321	-	1,415
Net fair value losses on investments	(2,330)	-	-	-	(2,330)
Other operating income	1,745	5,135	17	-	6,897
Total operating income	**768**	**24,606**	**12,475**	**-**	**37,849**
Directly attributable segment expenses	(1,832)	(4,687)	(2,295)	-	(8,814)
Operating lease depreciation	-	(4,858)	-	-	(4,858)
Net impairment credit/(charge) on financial assets and operating	11	3,466	(172)	-	3,305
Change in third party interest in consolidated funds	-	-	-	-	-
Loss on disposal of group company	-	-	-	-	-
Net segment contribution	**(1,053)**	**18,527**	**10,008**	**-**	**27,482**
Common costs not directly attributable to segments					(21,674)
Net operating profit before tax					**5,808**
Reportable segment assets	**240,701**	**533,024**	**249,771**	**4,038**	**1,027,534**

For the year ended 31 December 2016

	Treasury Division £000	Commercial Finance* £000	Wealth Management* £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	682	32,140	2,643	-	35,465
Operating lease income	881	7,822	-	-	8,703
Net fee income	381	1,766	20	-	2,167
Net fair value losses on investments	(3,361)	-	244	-	(3,117)
Net fair value gains on investment properties	-	-	(40)	-	(40)
Other operating income	977	1,133	1,572	-	3,682
Total operating income	**(440)**	**42,861**	**4,439**	**-**	**46,860**
Directly attributable segment expenses	(2,144)	(9,594)	(4,937)	-	(16,675)
Operating lease depreciation	-	(6,366)	-	-	(6,366)
Net impairment credit/ (charge) on financial assets and operating leases	608	(15,868)	(583)	-	(15,843)
Change in third party interest in consolidated funds	-	(295)	250	-	(45)
Loss on disposal of group company	-	(1,720)	-	-	(1,720)
Net segment contribution	**(1,976)**	**9,018**	**(831)**	**-**	**6,211**
Common costs not directly attributable to segments					(25,095)
Net operating loss before tax					**(18,884)**
Reportable segment assets	**290,779**	**710,824**	**26,219**	**4,531**	**1,032,353**

*During the year ended 31 December 2017, the Real Estate business moved from Commercial Finance division to the Wealth Management division. The 2016 comparatives have not been re-presented.

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