FitchRatings

Banks
Islamic Banks
United Kingdom

Bank of London and The Middle East plc

Key Rating Drivers

IDRs Equalised with Parent: Bank of London and The Middle East plc's (BLME) Issuer Default Ratings (IDRs) reflect an extremely high probability of support from its parent, Kuwait's Boubyan Bank K.S.C.P. (BBY; A+/Negative), if required. BLME's IDRs are equalised with BBY's, which are in turn based on potential support from the Kuwaiti authorities, given its key role for the parent as a strategically important subsidiary that provides BBY with access to the highly developed UK market. The Negative Outlook on BLME's Long-Term IDR reflects that on BBY's.

Integral to Parent's Strategy: BLME is viewed as a key and integral part of the group, building BBY's private banking and wealth management offerings, mainly to group and broader Gulf Cooperation Council (GCC) clients. It therefore plays a key role in executing BBY's strategic objectives.

Close Integration: BLME's strategy and risk management are highly integrated with those of BBY. Local management has reporting lines to the parent in Kuwait. BBY's chief executive is BLME's chairman and five of BLME's 11-member board currently represent BBY.

Other Support Factors: The equalisation of BLME's ratings with those of BBY also considers the very high reputational risk that a default of BLME would cause to BBY's franchise in light of the close links between the two entities.

Newly Established Subsidiary: BBY increased its stake in BLME from 27.9% to 71.1% in January 2020. This is BBY's first international acquisition. BLME's core business is to provide wealth management solutions to GCC clients, which is complemented by real-estate finance services. BLME accounted for 10% of BBY's consolidated assets at end-2020.

Evolving Business Model: BLME's business model is evolving to converge towards BBY's own business model. BLME has divested some businesses built up before BBY took control, commodity trade finance in particular, while others are now viewed as non-core, such as the leasing business.

Adequate Capitalisation: BLME's common equity Tier 1 ratio was 15.9% at end-2020, comfortably above the minimum regulatory requirement. Capital is being used to fund the bank's growth plans and we believe capital ratios will reduce as the bank grows. Any capital needs will be addressed by BBY on an ongoing basis.

No Viability Rating: Fitch Ratings does not assign a Viability Rating to BLME due to its high reliance on and close integration with BBY. We believe BLME's business is driven by, or related to, its parent. Its franchise cannot therefore be assessed meaningfully in its own right.

Rating Sensitivities

Rating Action on Parent: BLME's IDRs are sensitive to a change in BBY's IDRs.

Reduced Propensity to Support: BLME's IDRs would also be downgraded if Fitch believes BBY's propensity to support BLME is diminishing. This would most likely be the result of a reduction in BLME's strategic role for BBY, integration with BBY or ownership stake. This is unlikely in the near term.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Support Rating	1
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign- and Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Rates Bank of London and the Middle East Plc at 'A+'; Outlook Negative (June 2021)

Boubyan Bank K.S.C.P. (May 2021)

Fitch Ratings 2021 Outlook: Middle East Banks (December 2020)

Fitch Ratings 2021 Outlook: Gulf Cooperation Council Islamic Banks (December 2020)

Kuwaiti Banks' Asset Quality and Profitability Under Pressure (November 2020)

Analysts

Redmond Ramsdale
+44 20 3530 1836
redmond.ramsdale@fitchratings.com

Jamal El Mellali
+44 20 3530 1969
jamal.elmellali@fitchratings.com

Institutional Support			Value
Parent IDR			A+
Total Adjustments (notches)			+0
Institutional Support:			**A+**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation	✓		
Relative size		✓	
Country risks	✓		
Parent Propensity to Support			
Role in group	✓		
Potential for disposal	✓		
Implication of subsidiary default	✓		
Integration	✓		
Size of ownership stake		✓	
Support track record		✓	
Subsidiary performance and prospects		✓	
Branding			✓
Legal commitments			✓
Cross-default clauses			✓

Institutional Support Assessment

We believe BBY would have a strong propensity to support BLME due to the key role BLME plays for the group and this has a higher influence on our assessment. BLME helps the parent in building its wealth management and private banking franchise. BLME will also offer digital banking services, benefitting from BBY's support, advanced technology and expertise in Kuwait.

BLME's strategic objectives are a continuation of BBY's own objectives and its franchise, business model and risk management are highly correlated with those of the parent.

We also believe that a default of BLME would create a very high reputational risk for BBY's franchise given the close links between the two entities. This constitutes a strong incentive for BBY to support its subsidiary in case of need.

We believe the Kuwaiti authorities would not restrict support from BBY to BLME as a default of BLME could impact BBY's reputation and given some links between BLME and Kuwait via the state's indirect stake in the bank through government-related entities.

Environmental, Social and Governance Considerations

FitchRatings **Bank of London and The Middle East plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Bank of London and The Middle East plc has 1 ESG rating driver and 5 ESG potential rating drivers

- Bank of London and The Middle East plc has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating.
- Bank of London and The Middle East plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Bank of London and The Middle East plc has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices but this has very low impact on the rating.
- Bank of London and The Middle East plc has exposure to operational implementation of strategy but this has very low impact on the rating.
- Bank of London and The Middle East plc has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.
- Bank of London and The Middle East plc has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

			Overall ESG Scale
key driver	0	issues	5
driver	1	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality

E Scale
5
4
3
2
1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile

S Scale
5
4
3
2
1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	4	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy

G Scale
5
4
3
2
1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Islamic banks need to ensure compliance of their entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit. This results in a Governance Structure relevance score of '4' instead of a typical ESG relevance score of '3' for comparable conventional banks, which has a negative impact on the bank's credit profile in combination with other factors.

In addition, Islamic banks have an Exposure to Social Impacts score of '3' instead of a typical ESG relevance score of '2' for comparable conventional banks, which reflects the sharia limitations embedded in Islamic banks' operations and obligations, although this has a minimal credit impact on the entities.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.