FitchRatings

Banks
Islamic Banks
United Kingdom

Bank of London and The Middle East plc

Update

Key Rating Drivers

Bank of London and The Middle East plc's (BLME)' Issuer Default Ratings (IDRs) reflect potential support from its parent, Kuwait's Boubyan Bank K.S.C.P. (BBY; A/Stable), 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.

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.

Integral to Parent's Strategy: BLME is key and integral to the group, building BBY's private banking and wealth management offerings mainly to group and broader Gulf Cooperation Council (GCC) clients. It therefore has 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.

Reputational Risk: 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.

Evolving Business Model: BBY acquired a majority stake (71.1%; previously 27.9%) in BLME in January 2020. BLME's core business is to provide wealth-management solutions to GCC clients, complemented by real-estate finance services. At end-2021, BLME accounted for about 8% of BBY's consolidated assets. BLME's business model continued to evolve in 2021 to converge towards BBY's own business model. BLME has divested some businesses that had been built up before BBY took control, while others are in the process of being exited.

Sound Asset Quality: Financing was about 56% of BLME's total assets at end-2021. The bank's impaired financing ratio reduced to 3.4% at that date (end-2020: 3.6%). The largest impaired exposures are adequately covered, either by reserves or collateral. Interbank placements were 31% of total assets and were mainly with highly rated counterparties.

Volatile Profitability: BLME's performance metrics have been unstable due to volatile financing impairment charges. The bank's business model transformation has resulted in loss of revenues, which contributed to the net loss posted in 2021. We expect profitability to improve with the stabilisation of the business model. In June 2022, BLME announced the decision to implement a controlled wind-down of the lease finance business, which will allow it to focus on wealth management and real estate finance.

Strong Capitalisation: At end-2021, BLME's Common Equity Tier 1 ratio of 24.5% was comfortably above the minimum regulatory requirement. Capital is being used to fund the bank's growth plans and our assessment is that capital ratios will reduce as the bank grows. Any capital needs will be addressed by BBY on an ongoing basis.

Stable Deposit Base: BLME is mainly funded by stable customer deposits (79% of total non-equity funding at end-2021). Funding is primarily composed of retail deposits sourced from the U.K. savings market, leading to a granular customer deposit base.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Shareholder Support Rating	a
Sovereign Risk (United Kingdom)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms Boubyan Bank at 'A'; Stable Outlook (March 2022)

Boubyan Bank K.S.C.P. (April 2022)

Kuwaiti Islamic Banks See Slower Growth, but Resilient Asset Quality (October 2021)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of BBY's ratings would trigger a downgrade of BLME's. BLME's ratings would also be downgraded if Fitch views the propensity of BBY or the Kuwaiti authorities to support BLME as diminishing. This would most likely be the result of a reduction in BLME's strategic role for BBY, in integration with BBY or in BBY's ownership stake. However, this is unlikely in the near term.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

BLME's IDRs could be upgraded if BBY's IDRs were upgraded.

Financials

Financial Statements

	31 Dec 2021		31 Dec 20	31 Dec 19	31 Dec 18
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(GBPm)	(GBPm)	(GBPm)	(GBPm)
	Audited -unqualified	Audited unqualified	Audited - unqualified	Audited -unqualified	Audited -unqualified
Summary income statement					
Net financing & dividend income	43	31.7	31.4	31.0	32.9
Net fees and commissions	-2	-1.8	-3.4	0.4	1.9
Other operating income	5	4.0	8.7	12.6	7.8
Total operating income	46	33.9	36.7	44.0	42.6
Operating costs	38	28.5	28.6	30.0	32.9
Pre-impairment operating profit	7	5.4	8.1	14.0	9.7
Financing & other impairment charges	17	12.5	7.5	1.7	2.0
Operating profit	-10	-7.1	0.6	12.3	7.7
Other non-operating items (net)	0	-0.1	0.7	-2.4	n.a.
Tax	-4	-2.9	0.4	1.2	-3.0
Net income	-6	-4.3	0.9	8.7	10.7
Other comprehensive income	0	-0.2	0.0	0.9	0.5
Fitch comprehensive income	-6	-4.5	0.9	9.6	11.2
Summary balance sheet					
Assets					
Gross financing	1,187	883.5	1,076.2	1,288.7	986.7
- Ow impaired	40	29.8	38.5	15.2	13.8
Financing loss allowances	21	15.4	15.3	8.8	14.7
Net financing	1,166	868.1	1,060.9	1,279.9	972.0
Interbank	644	479.2	339.6	23.5	8.0
Islamic derivatives	1	0.7	2.9	4.9	1.2
Other securities and earning assets	82	60.9	92.0	151.3	178.2
Total earning assets	1,893	1,408.9	1,495.4	1,459.6	1,159.4
Cash and due from banks	151	112.1	231.5	66.7	103.6
Other assets	37	27.9	16.5	22.3	9.9
Total assets	2,081	1,548.9	1,743.4	1,548.6	1,272.9
Liabilities					
Customer deposits	1,386	1,031.9	1,455.8	1,155.3	357.4
Interbank and other short-term funding	366	272.6	30.8	137.9	672.2
Other long-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Trading liabilities and Islamic derivatives	3	2.0	0.8	1.8	0.7
Total funding and Islamic derivatives	1,755	1,306.5	1,487.4	1,295.0	1,030.3
Other liabilities	17	12.7	21.7	20.1	14.5
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	309	229.7	234.3	233.5	228.1
Total liabilities and equity	2,081	1,548.9	1,743.4	1,548.6	1,272.9
Exchange rate		USD1 = GBP0.74438	USD1 = GBP0.745156	USD1 = GBP0.76211	USD1 = GBP0.78768

Source: Fitch Ratings, Fitch Solutions, BLME

Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	0.0	0.8	0.6
Net financing income/average earning assets	2.2	2.1	2.4	3.2
Non-financing expense/gross revenue	84.3	77.9	68.2	77.2
Net Income/average equity	-1.9	0.4	3.8	4.8
Asset Quality				
Impaired financing ratio	3.4	3.6	1.2	1.4
Growth in gross financing	-17.9	-16.5	30.6	31.2
Financing loss allowances/impaired financing	51.7	39.7	57.9	106.5
Financing impairment charges/average gross financing	1.3	0.6	0.2	0.2
Capitalisation				
Common equity Tier 1 ratio	24.5	15.9	15.1	18.0
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	14.1	13.1	15.0	17.8
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired financing/common equity Tier 1	6.3	9.9	2.9	-0.4
Net impaired financing/Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
Funding & Liquidity				
Gross financing/customer deposits	85.6	73.9	111.6	276.1
Liquidity coverage ratio	n.a.	n.a.	234.2	184.9
Customer deposits/total non-equity funding	79.1	97.9	89.3	34.7
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, BLME

Support Assessment

Shareholder Support	
Shareholder IDR	A
Total Adjustments (notches)	0
Shareholder Support Rating	a
Shareholder ability to support	
Shareholder Rating	A/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

We believe BBY would have a strong propensity to support BLME due to BLME's key role 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 because a default of BLME could negatively affect BBY's reputation, 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	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	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.

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