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). BLME's IDRs are equalised with BBY's, which are 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, and related to, its parent; its franchise therefore cannot be assessed meaningfully in its own right.

Integral to Parent's Strategy: BLME is a key and integral part of BBY, by building the latter's private-banking and wealth-management offerings, mainly to group and broader Gulf Cooperation Council (GCC) clients. It is therefore key in executing BBY's strategic objectives. BLME accounted for about 7% of BBY's total assets at end-2023.

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

The equalisation of BLME's ratings with BBY's also considers the very high reputational risk that a default of BLME would cause for BBY's franchise due to close links between the two entities.

Evolving Business Model: BLME provides wealth-management solutions to GCC clients, complemented by real-estate finance services and digital-banking products through its digital bank, Nomo. BLME's business model is reshaping to be increasingly similar to BBY's as it finalises divestments of some businesses built up before BBY's acquisition. BLME began operations in Saudi Arabia in 1H23, and this will provide further growth opportunities.

Conservative Risk Profile: Risks associated with high levels of concentration at BLME are mitigated by good reporting, appropriate risk control tools and good-quality large exposures.

Recovering Financing Quality: Financing to customers made up about 68% of BLME's end-2023 total assets. The impaired financing ratio decreased to 6.4% (end-2022: 8.3%), due to recoveries and financing growth (2023: 6%). Financing reserve coverage is low (end-2023: 14%; end-2022: 17.8%) due to high good quality collateral coverage (end-2023: 99% of net financing).

Weak But Recovering Profitability: BLME turned profitable in 2023 (return on average assets: 0.3%; return on average equity: 2.4%) following two years of losses, mainly due to better cost efficiency with a 15% reduction in operating costs. Additionally, BLME had net financing impairment recoveries in 2023 (GBP0.6 million) versus charges in 2022 (GBP13.4 million).

Meanwhile, revenues increased by 5%, led by a 10bp higher net financing margin (2023: 2.6%). We expect profitability to continue in 2024 with business volume growth amid high profit rates, low impairment charges and cost efficiency.

Strong Capitalisation: BLME maintained solid core capital buffers with a common equity Tier 1 capital ratio of 20.5% (end-2022: 23%), well above its regulatory minimum requirement. We expect capital ratios to reduce as the bank grows, but BBY will address any capital needs.

Stable Deposits; High Liquidity: Customer deposits are BLME's main source of funding (99% of non-equity funding at end-2023). The bank focuses on retail deposits sourced from the UK savings market to achieve granularity in its deposit base. BLME's net stable funding (end-2023: 137%) and liquidity coverage (391%) ratios were well above regulatory minimum requirements.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Long-Term IDR (xgs)	BBB(xgs)
Short-Term IDR (xgs)	F2(xgs)
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 (March 2024)

Related Research

Majority of Fitch-Rated Islamic Banks Use Islamic Derivatives (July 2024)

EM Banks Tracker – End-2023 (June 2024)

Fitch Revises the United Kingdom's Outlook to Stable; Affirms at 'AA-' (March 2024)

Fitch Affirms Kuwait at 'AA-'; Outlook Stable (March 2024)

Boubyan Bank K.S.C.P. (February 2024)

Bank of London and The Middle East plc (January 2024)

EMEA Islamic Banks Outlook 2024 (December 2023)

Middle East Banks Outlook 2024 (December 2023)

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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 its 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 are upgraded.

Other Debt and Issuer Ratings

BLME's 'F1' Short-Term IDR is the lower of two options mapping to a 'A' Long-Term IDR. This is because a significant proportion of the Kuwaiti banking sector funding is related to the government, and distress for banks is likely to come at a time when the sovereign itself is experiencing some form of stress.

BLME's 'BBB(xgs)' Long-Term IDR (xgs) is aligned with BBY's Long-Term IDR (xgs). Its 'F2(xgs)' Short-Term IDR (xgs) is mapped to its Long-Term IDR (xgs).

BLME's Long-Term IDR (xgs) is sensitive to changes in BBY's Long-Term IDR (xgs).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end (USDm) Audited - unqualified	Year end (GBPm) Audited - unqualified	Year end (GBPm) Audited - unqualified	Year end (GBPm) Audited - unqualified	Year end (GBPm) Audited - unqualified
Summary income statement					
Net financing and dividend income	47	37.1	36.0	31.7	31.4
Net fees and commissions	1	0.4	-0.6	-1.8	-3.4
Other operating income	0	0.3	0.7	1.3	8.7
Total operating income	48	37.8	36.1	31.2	36.7
Operating costs	34	27.2	31.7	25.8	28.6
Pre-impairment operating profit	13	10.6	4.4	5.4	8.1
Financing & other impairment charges	-1	-0.6	13.4	12.5	7.5
Operating profit	14	11.2	-9.0	-7.1	0.6
Other non-operating items (net)	-4	-3.4	0.0	-0.1	0.7
Tax	3	2.5	-2.2	-2.9	0.4
Net income	7	5.3	-6.8	-4.3	0.9
Other comprehensive income	0	0.0	0.0	-0.2	0.0
Fitch comprehensive income	7	5.3	-6.8	-4.5	0.9
Summary balance sheet					
Assets					
Gross financing	1,294	1,022.2	962.5	883.5	1,076.2
- O/w impaired	82	64.9	79.4	29.8	38.5
Financing loss allowances	11	8.9	14.1	15.4	15.3
Net financing	1,283	1,013.3	948.4	868.1	1,060.9
Interbank	379	299.4	451.7	479.2	339.6
Islamic derivatives	0	0.3	0.6	0.7	2.9
Other securities and earning assets	104	82.1	37.0	61.0	92.0
Total earning assets	1,766	1,395.1	1,437.7	1,409.0	1,495.4
Cash and due from banks	96	76.0	135.3	112.1	231.5
Other assets	33	26.4	39.4	27.8	16.5
Total assets	1,896	1,497.5	1,612.4	1,548.9	1,743.4
Liabilities					
Customer deposits	1,581	1,249.0	1,323.9	1,031.9	1,455.8
Interbank and other short-term funding	9	7.0	51.0	272.6	30.8
Other long-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Trading liabilities and Islamic derivatives	0	0.0	1.1	2.0	0.8
Total funding and Islamic derivatives	1,590	1,256.0	1,376.0	1,306.5	1,487.4
Other liabilities	17	13.3	13.5	12.7	21.7
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	289	228.2	222.9	229.7	234.3
Total liabilities and equity	1,896	1,497.5	1,612.4	1,548.9	1,743.4
Exchange rate		USD1 = GBP0.789827	USD1 = GBP0.828638	USD1 = GBP0.74438	USD1 = GBP0.745156

Source: Fitch Ratings, Fitch Solutions, BLME

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%, annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.0	-0.9	-0.8	0.1
Net financing income/average earning assets	2.6	2.5	2.2	2.1
Non-financing expense/gross revenue	72.2	88.1	83.0	77.9
Net Income/average equity	2.4	-3.0	-1.9	0.4
Asset quality				
Impaired financing ratio	6.4	8.3	3.4	3.6
Growth in gross financing	6.2	8.9	-17.9	-16.5
Financing loss allowances/impaired financing	13.7	17.8	51.7	39.7
Financing impairment charges/average gross financing	-0.1	1.5	1.3	0.6
Capitalisation				
Common equity Tier 1 ratio	20.5	23.0	24.5	19.5
Tier 1 Capital Ratio	20.5	23.0	24.5	19.5
Total Capital Ratio	20.5	23.0	24.5	19.5
Tangible common equity/tangible assets	15.0	13.6	14.1	13.1
Net impaired financing/common equity Tier 1 capital	25.3	29.3	6.3	9.9
Risk weighted assets/ total assets	72.2	60.1	60.6	69.1
Funding and liquidity				
Gross financing/customer deposits	81.8	72.7	85.6	73.9
Liquidity coverage ratio	391.0	465.0	194.0	234.0
Customer deposits/total non-equity funding	99.4	96.3	79.1	97.9
Net stable funding ratio	137.0	143.0	n.a.	n.a.
Growth of Total Customer Deposits	-5.7	28.3	-29.1	26.0

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	Equalised
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 its 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 also offers 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 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 affect 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				Overall ESG Scale
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.	key driver	0	issues	5
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.	driver	1	issues	4
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.	potential driver	5	issues	3
Bank of London and The Middle East plc has exposure to operational implementation of strategy but this has very low impact on the rating.	not a rating driver	3	issues	2
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.		5	issues	1
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.				

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

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.

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

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.

As an Islamic bank, BLME needs to ensure the compliance of its operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and a sharia audit. This results in a Governance Structure relevance score of '4' for the bank, which has a negative impact on the bank's credit profile and is relevant to the rating in combination with other factors.

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

Except for the matters discussed above, 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. Fitch's ESG relevance scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG relevance scores, visit https://www.fitchratings.com/topics/esg.

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