

BACB



البنك التجاري العربي البريطاني

BRITISH ARAB COMMERCIAL BANK plc
YOUR PARTNER IN ARAB FINANCE WORLDWIDE

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

Financial Highlights

12 months ended/as at 31st December Thousands of Pounds Sterling (unless otherwise stated)	2009	2008	2007	2006	2005
Profit before provisions	34,311	32,757	19,910	19,859	34,148
Profit before tax	4,855	31,932	21,435	20,364	43,274
Profit after tax	3,092	22,458	14,821	14,031	31,347
Dividends declared	† 0	7,000	6,500	7,000	25,100
Earnings per share (p)	2.88	20.92	13.12	12.43	27.76
Dividends per share (p)	0.00	6.52	5.76	6.20	22.23
Shareholders' Funds	169,273	175,413	169,118	159,123	172,545
Total Assets	3,302,692	3,093,327	2,527,602	2,472,830	2,189,838
Capital / Risk Weighted Assets	# 18%	16%	15%	17%	17%
Dollar / sterling exchange rate					
Year end	\$1.61	\$1.46	\$2.01	\$1.96	\$1.73
Average	\$1.56	\$1.83	\$2.01	\$1.85	\$1.82
Numbers of Shares (Actual)	107,376,684				

† Dividends are accounted for in the year in which they are paid, not the year in respect of which they are declared.

Unaudited. For the years to 31 December 2007 Risk weighted assets were determined using Basel 1 weighting rules. From 1 January 2008 the Group has determined this value by reference to the total Pillar 1 capital requirement.

In this document the bank's name is shortened to "BACB" in narrative text. The expression "the Bank" refers to the parent company, British Arab Commercial Bank plc, while the expression "the Group" refers to the parent company and its subsidiaries. See Note 1.

SHAREHOLDERS

HSBC BANK MIDDLE EAST LIMITED	48.93%
LIBYAN FOREIGN BANK	26.29%
BANK AL-MAGHRIB	8.26%
BANQUE EXTÉRIEURE D'ALGÉRIE	8.26%
CENTRAL BANK OF EGYPT	8.26%
	100.00%

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BOARD OF DIRECTORS

Mr Andrew Dixon OBE Chairman

Appointed a director of the Bank on 28 February 1998 and Chairman on 30 June 2003.
Chairman of Management Committee and Compensation Committee.

Dr Khaled Zentuti Vice Chairman

Appointed 22 July 2004. Member of Management Committee and Compensation Committee.

Mr Abdel Salam El Anwar

Appointed 5 March 2010.

Dr Mohamed Bait-Elmal

Appointed 21 July 2006. Member of Audit & Risk Committee.

Mr Simon Cooper

Appointed 31 October 2009.

Mr Robert Douglas Dowie

Appointed 24 April 2009. Member of Audit & Risk Committee. Independent non-executive.

Mr Robert Gray

Appointed 1 April 2005. Chairman of Audit & Risk Committee.

HE Abdellatif Jouahri

Appointed 23 April 2003. Member of Audit & Risk Committee.

Dr Khaled Kagigi

Appointed 25 February 2006. Member of Audit & Risk Committee.

Mr Christopher Keirle

Appointed 1 January 2000. Member of Management Committee.

Mr Mohamed Loukal

Appointed 26 May 2005. Member of Management Committee and Compensation Committee.

Mr Youssef Nasr

Appointed 22 May 2007. Member of Audit & Risk Committee. Ceased to be a director 31 October 2009.

HE Dr Farouk El-Okdah

Appointed 31 December 2003.

Mr Michael Parr Chief Executive

Appointed 27 September 2002. Member of Management Committee and Compensation Committee.

EXECUTIVE MANAGEMENT

Michael Parr	CHIEF EXECUTIVE
Sharef Shalabi	DEPUTY CHIEF EXECUTIVE & GENERAL MANAGER (Member of Management Committee)
Layth Al Falaki	HEAD OF RISK MANAGEMENT & COMPLIANCE
Jon Bowen	TREASURER
David Crew	HEAD OF HUMAN RESOURCES
Crispian Denby	CHIEF FINANCIAL OFFICER & COMPANY SECRETARY
Rollo Greenfield	CHIEF OPERATING OFFICER
Malcolm Himsworth	HEAD OF INTERNAL AUDIT
George Kimber	ASSISTANT GENERAL MANAGER – HEAD OF INSTITUTIONAL & CORPORATE BANKING

CHAIRMAN'S STATEMENT

BACB's core trade and payments businesses delivered record results in 2009, coupled with a further year of strong treasury earnings. These very satisfactory operating results were marred by loss provisions made and net profit after tax was therefore reduced to £3.1m compared with £22.5m in the previous year. However, with a cost to operating income ratio of 34%, BACB's underlying core businesses remain strong and I am optimistic that shareholders will see improved results in 2010.

BACB's core business geographies remained unchanged, and I am pleased to report that new sub-Saharan markets are producing satisfactory profits. Our term lending book is being permitted to decline in part owing to a lack of suitably priced transactions being available in the market, although average spreads are improving with opportunities to make trade related short term advances at increased margins.

As referred to above, BACB has a vibrant and profitable payments business and the Bank successfully introduced e-payments via the Bank's electronic transfer system BACB-e. Work continued on a new exposure measurement system enhancing BACB's risk management and reporting structures, which will be complete in 2010. BACB's control environment was further improved by an addition to the senior management team of a new Head of Internal Audit.

I referred last year to the possibility of stronger regulation in response to the large bank rescues and cost to tax payers in various countries including the UK. In addition to new capital requirements, new rules are being introduced restricting exposures and demanding significant liquidity buffers, irrespective of bank size and business model.

I believe that the risk mentioned in my 2008 Chairman's Statement of smaller banks suffering disproportionately from this new wave of regulation has if anything intensified, with a concomitant reduction in the attractiveness of London for smaller institutions as a banking investment location.

In spite of the challenges presented by some of our geographies and at home, BACB's staff have worked tirelessly to produce an outstanding result at the operating level, and I join with all Directors to thank them for their efforts and commitment to the Bank.

Andrew Dixon, OBE
Chairman

OPERATING AND FINANCIAL REVIEW

RESULTS (AUDITED)

The Group performed strongly in 2009 at the Operating (pre-impairment provision) level:-

	2009	2008
	£'000	£'000
Banking Services	4,035	5,999
Trade Finance	19,641	13,781
Lending	8,365	7,825
Treasury	18,193	18,448
Other	1,511	5,885
Total operating income	<u>51,745</u>	<u>51,938</u>
General and administrative expenses	<u>(17,434)</u>	<u>(19,181)</u>
Net operating income	<u>34,311</u>	<u>32,757</u>
Cost / Income ratio	34%	37%

Net operating income in sterling was ahead of that achieved in 2008. However, 80% of the Group's total operating income arises in currencies other than sterling (2008: 72%), and profits in 2009 did benefit from the weakening of sterling against the dollar and the euro with the result that revenues arising in those currencies were crystallised into higher amounts of sterling. The average exchange rate at which dollar revenues were crystallised in 2009 was \$1.56 (2008: \$1.83) while the average euro rate was €1.12 (2008: €1.25). At constant 2008 exchange rates, revenues in 2009 would have been 9.6% below the previous year.

The Group continued to focus on its core business, which is the provision of trade service facilities and correspondent banking products to banks and corporates in the countries of the Arab Mediterranean and North African region. These countries are undergoing significant economic development, and the Group is adapting its services as the needs of its customers change. In particular, the Group is increasingly focusing on its ability to access the international capital markets through its position in the world's leading financial centre in London for the benefit of its clients. The Group enjoyed further success in these segments in 2009 with good growth in trade finance revenues, and a repeat strong performance from the Treasury.

Interest earnings were lower than in 2008 in part as the very wide credit spreads which became available at end 2008, and into 2009 abated, but more significantly as benchmark interest rates fell to historic low levels across developed markets. As interest rates fall the gap between the average rate achieved on the placement of assets, and the rate paid for liabilities becomes squeezed, resulting in a reduction of net interest. Net interest income fell by 12% from £27,138,000 in 2008 to £23,900,000 in 2009.

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The decline in banking services net income arose despite acquisition of a number of new customers, and good growth in transactions. These successes were undermined by lower interest income as spreads on deposit balances were lower as explained above.

Trade finance recorded a record year. Turnover of new business was a little lower than in 2008 in part because lower commodity prices reduced the value of individual shipments. However, business undertaken was of better quality overall, including longer dated transactions such that the average balance of risk assumed outstanding in 2009 was higher than in 2008.

Lending income was ahead on conversion into sterling, but was lower in underlying currency terms. The Group has largely stood aside from new lending since the onset of the credit crisis in mid-2008, and more recently as it has reacted to new liquidity regulation in the UK. Longer dated loan balances have therefore declined, resulting in reductions in income. However, such new lending as has been undertaken has been achieved at improved pricing, with the result that the average margins being achieved across the book have improved.

As with lending, Treasury earnings have benefited in sterling terms, and underlying currency revenues were somewhat lower than in 2008. As a net placer of funds in professional markets the Group was not adversely affected by the very disrupted markets which arose in 2008, and persisted into 2009. These disrupted markets gave rise to opportunities which the Group was able profitably to exploit, but this effect receded as the year progressed. The Group was however able to continue to develop its position as a trusted and respected counterparty for customers in its area of specialisation with the result that flows of customer type business were strong throughout the year.

Other earnings comprise mainly earnings on free capital net of infrastructure costs not allocated to the other operating segments (see also Note 35). Earnings on free capital were lower as placements made before the onset of the credit crisis at the then prevailing much higher interest rates matured, and were rolled over at the much lower rates which have persisted throughout 2009. In addition, the cost of subordinated debt capital, and the costs of securing funding to maintain the Group's strong liquidity position, have increased.

General and administrative expenses were 9% lower than in 2008, mainly on reduced performance related remuneration. Average staff numbers in place rose from 141 to 144. This increase would have been higher but for a small number of redundancies made during the year. The cost/income ratio remained conservative by comparison with peer institutions across Europe.

Regrettably the good operating performance achieved in 2009 was undermined by a small number of impairments. The total impairment charge of £29,456,000 was made up of net new specific impairments of £31,527,000, and a release of collective impairment of £2,071,000.

At end 2009 seven facilities were determined to be impaired comprising exposures of £38,275,000. Total specific impairments were £35,101,000; a coverage ratio of 92%. (2008: two facilities amounting to £3,456,000 for which specific impairments were £3,456,000; a coverage ratio of 100%).

Of the five new impaired facilities arising in 2009, four related to commercial exposures to two Gulf based groups. The Group's involvement is by way both of participation in

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syndicated facilities alongside other regional and international banks, and by way of bi-lateral engagements. Considerable uncertainty surrounds the outcome of these cases and impairment provisions have been raised at a high level in view of the difficulty in establishing recovery prospects at this stage.

The remaining new impairment facility relates to a loan to a separate Gulf based finance company currently facing financial difficulties. The outcome of these difficulties is also uncertain, and the Group has exercised its judgments in determining the amount of impairment provision arising.

Certain other Gulf based borrowers were facing difficulties at the year-end, though at the time of preparation of this review none were regarded as being impaired. At 31 December 2009 a payment of £558,000 due from one of those borrowers in respect of a syndicated loan, the Group's share of which totalled £6,694,000 would have been overdue had payment not been deferred with the agreement of the lenders.

The Group's statement of financial position does not include assets characterised as being in portfolios with large numbers of individually insignificant claims that share common features. Instead the Group's statement of financial position comprises a smaller number of individually significant claims, many of which are of short contractual maturity. In light of the various issues set out above the Group's management undertook a comprehensive review of all of the outstanding credit exposures at 31 December 2009. This review did not uncover other facilities which could be regarded as being impaired or possibly impaired. Accordingly, and in the context of the undiversified nature of the Group's claims, it was concluded that no collective impairment existed at the year-end. In the light of this conclusion, the collective impairment provision was reduced to zero.

Assets held on an Available for Sale ("AFS") basis increased in value during the year, and a gain before tax of £6,689,000 was recognised through the AFS reserve. Debt securities held on this basis comprise Certificates of Deposit, listed Eurobonds issued by well-rated institutions (some of which have been guaranteed by OECD governments) or OECD government securities. The Group does not hold debt securities that had become impaired as a result of the credit problems which emerged in the market in 2007, and holds no debt securities subject to valuation by reference to significant non-observable inputs (level 3 valuations: see Note 6).

Group statement of financial position totals reported in sterling rose during the year. Increased customer deposit balances resulted in increased professional market placement and investment activities. Commercial term lending balances fell as new lending activity was curtailed.

	2009 £'000s	2008 £'000s
Professional market placements and debt securities	2,673,281	2,134,546
Commercial term lending	538,174	808,909
Other	91,237	149,872
Balance sheet footings	3,302,692	3,093,327
Contingent liabilities	227,739	275,850
Other commitments	791,741	915,317

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The Group benefits from large deposits placed with it by its customers, both by way of current accounts in the Banking department, but also as term deposits in the Treasury. These deposits are placed in professional markets on similar terms, or else used to purchase liquid debt securities. Their overall impact is to make the Group a placer of funds in professional markets, and to secure the Group's liquidity position. The total amount of the deposits can fluctuate over time. Since placements are on similar terms, the net effect is that balance sheet totals can rise and fall without materially impacting the Group's overall liquidity position.

Capital Adequacy

At 31 December 2009 and throughout the year the Group complied with the capital requirements that were in force as set out by the Financial Services Authority ("the FSA").

The Group's regulatory capital base at 31 December was as follows:

	2009	2008
	£'000s	£'000s
Tier 1 Capital	167,702	168,195
Tier 2 Capital	59,792	68,093
Total eligible capital at 31 December	<u>227,494</u>	<u>236,288</u>

The amounts of regulatory capital shown above differ from the balances shown in the Group's statement of financial position in light of adjustments in respect of certain reserves, which arise on the application of IFRS. They also differ from the amounts reported to the FSA as at 31 December as the total above includes the retained profits for 2009 which cannot be included in the amounts reported to the FSA until such time as the financial statements for the subject year are approved.

Tier 1 capital comprises share capital and reserves (as adjusted). Tier 2 capital comprises mainly subordinated debt. The reduction in Tier 2 capital above arises mainly on exchange revaluation.

Under the new capital adequacy rules applicable from 1 January 2008, the Group adopted the Standardised Approach to Credit Risk and the Basic Indicator Approach to Operational Risk. Counterparty Credit risk ("CCR") is measured using the CCR mark-to-market method, and Market Risk is determined using the standard Position Risk Requirement ("PRR") rules. In the opinion of the Group's directors, the amount of capital required by the Group is the same as the amount required by the Bank.

BACB's overall minimum capital resource requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk, for market risk and for counterparty credit risk.

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The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1 at 31 December 2009¹.

	2009	2008
	£'000	£'000
Credit Risk	101,299	114,816
Market Risk		
Interest Rate PRR	113	198
Foreign Exchange PRR	58	278
	171	476
Counterparty risk capital component	1,530	1,768
Operational Risk	5,910	4,755
Total Pillar 1 capital requirement	108,910	121,815
Capital in place	227,494	236,288
Excess of capital in place over minimum requirement under Pillar 1	118,584	114,473

PRR - Position Risk Requirement

The Group undertakes an internal assessment of the amount of capital which it requires to support its activities (the ICAAP Process). This assessment has identified a number of other risks faced by the Group which do not attract capital under the Pillar 1 rules. The Group has allocated additional capital for these Pillar 2 risks ("the Pillar 2 capital requirement") totalling £45,271,000¹ at 31 December 2009 (2008: £47,111,000¹). The total capital requirement of the Group is determined as the sum of the Pillar 1 and the Pillar 2 capital requirements.

The policy of the Group is to maintain a degree of headroom above the total required capital level (Pillar 1 plus Pillar 2). A minimum margin of 10% will be maintained at all times and the actual headroom of £73,313,000¹ at 31 December 2009 leaves some scope to accommodate growth in risk weighted assets ("RWAs") as part of the Group's overall growth strategy.

The FSA has imposed an Interim Capital Guidance ("ICG") requirement on the Group pending its review of the Group's own assessments. The ICG requirement is somewhat higher than the assessment set out above, and the Group is managing its capital in accordance with this latter requirement pending completion of the FSA review process. The Group was in compliance with the ICG requirement throughout the year.

The Board's policy is to grow capital resources organically through profit retentions.

RWAs fell during the year despite the overall increase in balance sheet totals. Professional market placements generally attract lower risk weightings than term lending, and the lower average weighting attaching to assets reflects a change in the balance between these two categories during the year.

Further information regarding the Group's approach to risk management, and its capital adequacy are contained in the unaudited disclosures made under the requirements of Basel II Pillar 3 (the Pillar 3 disclosures). These disclosures will be published on the Group's website shortly after approval of these financial statements at www.bacb.co.uk.

¹ Unaudited

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Liquidity

Liquidity emerged as a major area of regulatory focus during 2009. During the year the FSA engaged in a major consultation with the industry, culminating in the issue of new regulatory rules embodied within their Policy Statement 09/16: “Strengthening liquidity standards”.

The Group’s Executive Management participated extensively in the consultation process with a view to ensuring that the new requirements were fully understood and embedded into the Group’s business model.

The new requirements encompass four principal concepts (as they affect the Group).

- Self-sufficiency. Entities are required to maintain all their liquidity resources within designated liquidity groups defined around management, legal entity and geographic boundaries. The Group operates as a single entity in the UK, and this requirement therefore has little practical effect for it.
- Systems and Controls framework. The new requirements set out the FSA’s comprehensive expectations regarding systems and controls which the FSA required to be in place by 1 December 2009. These requirements detail requirements under a number of headings including involvement of the governing body (board of directors), stress testing and contingency funding plans.
- Quantitative requirements. Banks will be expected to make changes to balance sheet structures including the establishment of portfolios of high quality liquid assets (termed the Liquid Asset Buffer), and the determination of maturity transformation in the light of liquidity risk tolerance, itself informed by the results of the stress tests. The FSA will agree a transition period of a number of years during which these requirements will be complied with.
- Reporting requirements. New and more demanding reporting requirements will be introduced in 2010.

Systems and Controls requirements

The Group has undertaken a “gap analysis” of the Group’s controls and procedures against the new requirements. New reporting systems and Management Information has been developed, and a full engagement with the governing body undertaken. Stress tests have been carried out, and new methods for measuring and controlling liquidity risk have been developed in the light of the results of those tests. During 2010 the Group expects to have a dialogue with the FSA regarding the proportionality of the application of their new requirements to a smaller institution. The Group will also need to test their conclusions concerning liquidity risk tolerance against those of the FSA.

Quantitative Requirements

As noted above, the Group has undertaken liquidity stress tests at 31 December 2009. These tests envisage both a market wide and idiosyncratic (specific to the Group) stress. The stress tests comprise an initial 14 days extreme stress event, followed by a further 2½ months recovery period. Based on these tests, the Group’s governing body has determined the minimum level of liquid assets which need to be held in order to assure the Group’s ability to

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continue to meet its obligations throughout the three month stress period. At 31 December 2009 holdings of liquid assets exceeded the minimum assessed requirement.

The Group's governing body has also agreed limits for longer dated maturity transformation (with which the Group is currently in compliance), and other measurement metrics designed to give early warning for possible future deteriorations in the Group's liquidity position.

Overall liquidity risk declined during the year as term lending balances were reduced, thus reducing the extent of maturity transformation in the Group's statement of financial position. At 31 December 2008 loans and advances to customers and banks with a residual maturity of over one year amounted to £573,878,000. By 31 December 2009 this total had fallen by £133,728,000 to £440,150,000.

Reporting requirements

The Group is confident that it will be able to comply with the new reporting requirements which will be introduced during 2010. Investment made by the Group in data warehouse and financial reporting systems in previous years has meant that access to detailed data on a timely basis can be relatively easily accommodated.

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MANAGEMENT REVIEW (UNAUDITED)

Banking

The Group continued to consolidate its position as a leading provider of financial services to the banking and corporate sectors in Arab and African markets. This success is the result of several decades' relevant product placement and promotion coupled with steadfast commitment to superior service standards at a time of mounting competition in the region. For the second time in three years, a major USD correspondent awarded its coveted STP Excellence Award to the Group, reflecting excellent underlying message accuracy.

The sustained fall in global interest rates had a detrimental effect on the Group's ability to earn margin from clients. However, transaction based revenues were strongly ahead with underlying transaction growth of 22%. Most notable were the repetitive payroll and supplier processing segments where several new clients were won, leading to volume growth of over 35% in the year under review.

Given careful planning and forward communication, the PSR (as the UK's implementation of the European Payment Services Directive is known) was rolled out with minimal client impact, as were the changes to global payment processing protocols relating to cover payments.

Trade Finance

BACB's Trade Services activity generated record revenue in 2009, posting a 21% increase on the results achieved in 2008 (in dollar terms). This was accomplished despite a marginal contraction in business volumes by value, and was due to several factors including an increase in the average life of transactions, and pricing generally remaining firm in BACB's principal markets. At the year-end, outstanding trade-related contingent items were slightly lower than in the previous year, and totalled £1,019,480,000 against £1,191,167,000.

BACB experienced strong demand for its services from core markets, especially in North and sub-Saharan Africa where governments continued to pursue substantial infrastructure spending plans. BACB continued to support international contractors and their bankers to facilitate bond issuance into its niche markets. The strategy of careful expansion into selected tropical African countries also started to yield positive results, making a notable contribution to Trade Services volumes and income for the first time.

Despite persisting global economic uncertainty, prospects appear to be positive in many of BACB's main markets, where ongoing state-sponsored infrastructure spending is anticipated, and imports of soft commodities will continue to be necessary. These factors are expected to produce substantial opportunities in 2010 for BACB to provide secure terms for international exporters.

Commercial Term Lending

Balances declined during 2009 with only modest amounts of new lending undertaken, with the result that repayments exceeded new additions.

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	2009 £'000	2008 £'000
Short term commercial advances	13,936	120,367
Project finance	159,776	167,524
Agency guaranteed loans	34,238	49,487
Asset and Islamic finance	71,767	115,748
Other trade and term loans	254,721	358,076
Impaired loans	35,963	0
Impairments	(32,227)	(2,293)
Total commercial term lending	<u>538,174</u>	<u>808,909</u>
Comprising:		
Loans and advances to banks	58,012	107,231
Loans and advances to customers	512,389	703,971
Impairments	(32,227)	(2,293)
	<u>538,174</u>	<u>808,909</u>

Total commercial term lending reduced by £270,735,000 in the year. A number of loans previously recorded in the “other trade and term” category became impaired during the year as explained above.

The book comprises facilities to Middle East and North African (“MENA”) borrowers, and includes oil, gas and power related project financings, loans to sovereign related institutions together with holdings of sovereign paper. In addition the Group continued to make available short term trade related discountings and refinancing facilities to both exporters and importers in support of the Group’s trade finance business. Given the short term nature of these facilities, and in light of the reduced volume of new lending, this category showed the largest reduction during 2009.

The majority of the Group’s loan facilities are structured on a conventional interest bearing basis, but a proportion is structured in an Islamically acceptable manner.

Average margins on new lending undertaken during 2009 were higher than in earlier years. In addition, some margin re-sets on existing lending took place, with the result that the overall average margin on the book increased in 2009.

Treasury

The momentous events of the previous year continued to impact the markets during 2009, with the first quarter characterised by further panic, and the rest of the year spent in gradual recovery, as various Government stimuli around the world took effect. Against this background, the Group’s Treasury team were able to take advantage of opportunities that arose from the high levels of volatility, and continued strong customer flows, in particular during the first half of the year. By contrast, the second half was characterised across most markets with lower volumes, and lower volatility. The Group was affected by this change, with more confident customers having less need to hedge, and reduced opportunities in proprietary trading. Despite the slowdown, however, the income for the year was significantly above the targets set at the end of 2008, and only just short of the record levels seen the previous year.

The Group’s naturally liquid position enabled it to capitalise on the many arbitrage opportunities that continued to arise in the money markets. Bond markets recovered well

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during the year, and investors saw large numbers of new issues brought to market, as companies and institutions restructured their balance sheets. The Group was able to capitalise on this trend, adding more clients for its fixed income, custody and trading business lines, all of which recorded record income and volumes.

The Treasury team was also successful in securing new longer term funding from customers as the Group sought to reduce liquidity risk.

Risk Management and Compliance

A lack of liquidity in the Gulf emerged during 2009 giving rise to a number of credit problems in the region. Accordingly, a key focus of the Group's risk management team during 2009 was the work-out of these problem credits. In addition, the volatility which had emerged in the credit crisis in the second half of 2008 continued into 2009, albeit to a lesser degree, and so treasury and market risk remained a key focus of management's attention with frequent reviews of counterparties and exposures being undertaken.

The processes utilized to manage credit risk are subject to continual evolution as best practice develops, and in the light of experience. A new credit risk exposure management system commenced parallel running in December 2009 with the final cut-over into the live environment scheduled for Q1 2010 which will improve the quality, accessibility and detail of data and Management Information available to staff responsible both for assuming and controlling those risks. A project to redesign the real-time intra-day commercial exposure approval system is also expected to be completed by the end of 2010.

The management of legal, regulatory and reputational risk continued to be a major focus for the Group. Strong controls and oversight were exercised in this area and no regulatory or compliance breaches occurred during the year. 2009 saw a significant increase in the number and scope of new regulatory proposals and requirements posing challenges to the Group in keeping pace with the developments, and ensuring that appropriate and proportionate responses were formulated. This work will continue in 2010.

The Group's comprehensive anti-money laundering ("AML") and transactional due diligence processes continued to be strengthened. Staff training is a key defence in this risk area and the Group continued to ensure that training levels were well above the regulatory minimum requirement.

Information Management

The Information Technology and Communications department was active in 2009 responding to several key business and regulatory initiatives. The Group's past investment in data warehouse technology again paid dividends, as there was no significant technology spend required in implementing enhanced liquidity reporting requirements in the light of new regulatory requirements. As planned, the revision to the Group's credit exposure management system was also in parallel running by year-end. A securities trading module was added to the Group's core banking system to facilitate a significant pick-up in execution and custody services for central and commercial banks plus the growing number of sovereign wealth funds in the Group's core geographies, though completion of the implementation project will not take place until 2010.

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Once again there was no significant system downtime in the year and resources have been carefully managed to ensure that expenditure on IT and Communications remains appropriate to meet all regulatory and business needs of the Group whilst remaining at the lower end of industry norms.

Internal Audit

With an increasing emphasis on governance the Group created the new Executive Management position of Head of Audit to strengthen the department and to provide the necessary independent challenge and assurance at senior levels and the Board. The Head of Audit reports to the Chairman of the Audit & Risk Committee and day-to-day to the Chief Executive.

Facilities Management

The Group takes seriously its responsibilities for health and safety, both for its employees and third parties. The Group is also committed to reducing the environmental impact of its operations, both through recycling and waste minimisation, and reduced energy consumption. In January 2010 the Group received a runner-up Platinum award in its category in the City Corporation Clean City Award competition for its efforts in this area during 2009. In 2005 and 2007 the Group had secured the overall premier “Chairman’s Cup” award in this competition.

Human Resources

The total staffing establishment (being the total number of staff positions, whether filled or not) fell during 2009 from 146 at the start of the year to 143 by the year-end with a small number of positions made redundant at the mid year. Despite this, the average establishment, together with the average number of staff actually in place, was a little higher than the previous year.

The Group continued to benefit from a pattern of low turnover levels with the result that experienced staff have been retained, ensuring consistent delivery of high levels of service to its customers. An emphasis on internal training and development, together with a reliance on superior technology, also ensures that the Group is able to grow its business without a commensurate increase in headcount.

Staff remuneration within the banking industry, and in particular the performance related element was the subject of public debate and regulatory focus during 2009. Within the Group remuneration policies were reviewed to ensure that they remained consistent with the latest FSA guidance and effective risk management practices.

During the year the bonus schemes operating within the Group were revised, with awards being closely linked to shareholder return, but with non-financial performance metrics (such as risk management) taken fully into account. The Group also introduced deferred awards linked to longer-term corporate performance.

British Arab Commercial Bank plc

Corporate Governance and Committee Structure

During the year the Bank changed its corporate status from that of a “Private” company to that of a “Public” company. The Bank’s name was therefore changed removing the description “Limited”, replaced by “plc”. The purpose of this change was to facilitate the issue of listed debt securities should the Bank or the Group wish to do so in the future. It is not currently intended that shares in the Bank will become listed.

As an unlisted company, the Group is not obliged to follow the recommendations set out in the various codes on Corporate Governance which are mandatory for listed companies, and in particular the various principles and requirements set out in the Combined Code on Corporate Governance. However, the Group’s directors recognise that these codes represent best practice for UK companies, and they have accordingly sought to incorporate the recommendations into the Group’s corporate governance arrangements where appropriate.

In this regard, and in the light of an increasing recognition of the importance of governance issues, the Bank appointed Mr R D Dowie to serve in the Board as an Independent Non-Executive Director (“INED”) during 2009. Mr Dowie brings to the Board the benefit of many years’ experience working in the banking sector, with particular knowledge of Arab markets.

The Group’s constitution is set out in the Articles of Association of the Bank, and in an agreement between the shareholders of the Bank (“the Shareholders’ Agreement”). These documents and agreements provide that certain shareholders of the Bank may appoint directors in accordance with their shareholdings. They also provide for the appointment of the Chairman and the Chief Executive, and for the formation of certain committees to oversee the day to day running of the Group.

Decisions on matters of strategic significance or high importance can only be taken by the Board. For the avoidance of doubt, the Board has drawn up a Schedule of Reserved Matters listing specified matters which must always be referred to them for review and approval.

The Board has appointed a number of committees consisting of certain directors and senior executives. The following are the principal committees:

Management Committee

Chaired by the Chairman, this committee carries the authority of the Board other than for a number of specified matters requiring consideration by the full Board. The Management Committee meets 4 times a year, and exercises the powers and authorities of the Board in so far as they concern the management and day-to-day running of the Group in accordance with the policies and directions determined by the Board. Directors participating in Management Committee are regarded by the Group as being Executive Directors. The Chief Executive serves as a member of this committee, together with his deputy.

Credit Committee

The Board has delegated authority to approve the granting of credit applications to the Chief Executive (CEO) subject to certain limits. The CEO is authorised to delegate up to 80% of these limits to certain senior executives subject to notification to the Board. Applications

British Arab Commercial Bank plc

above those limits must be referred to the Credit Committee for their consideration and approval. The Credit Committee comprises the directors who serve on Management Committee other than the Chairman and the Chief Executive. The Committee does not meet, but instead considers applications as they arise. Decisions of the committee must be unanimous to be valid.

Audit & Risk Committee (formerly Audit Committee)

Directors not involved in the Management Committee are regarded by the Group as being non-Executive Directors, and are eligible to sit on the Audit & Risk Committee. The Committee meets four times a year to consider the Group's financial reporting, the nature and scope of audit reviews, and the effectiveness of the systems of internal control, compliance and risk management. The Group's external auditors, together with the senior financial, compliance and audit executives attend meetings of Audit & Risk Committee.

During 2009 the committee was renamed as above, and its terms of reference were expanded to encompass a wider focus on risk issues. In part this reflected the recommendations set out in the Walker Review published during the year which made recommendations regarding corporate governance in banks.

Compensation Committee

The Compensation Committee meets as required to agree the remuneration and employment policies of the Group.

Executive Management

Led by the Chief Executive and his Deputy, Executive Management comprises the executive managers identified on page 2 who are responsible for the day-to-day operations and management of the Group. Reporting to the Chief Executive, these managers have authority delegated by the Board in writing to enter into transactions, and to extend credit (within authorised limits) in the ordinary course of the Group's business. The Executive Management has itself constituted a number of sub-committees to manage particular aspects of the Group's business, including Asset and Liability Committee (ALCO), Risk Committee and Systems Steering Committee. Other managers and staff within the Group carry authority to bind the Group under "A and B Signature Authority" arrangements handed down by the Board.

The Head of Audit is a member of Executive Management but with limited delegated authorities due to the independent nature of the role.

British Arab Commercial Bank plc

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

In respect of the annual report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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DIRECTORS' REPORT

for the year ended 31 December 2009

The directors present their annual report and the audited financial statements for the year ended 31 December 2009. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

Activities

The Group is authorised under the terms of the Financial Services and Markets Act 2000 and is regulated by the Financial Services Authority.

The Group continued to transact its international banking business in the areas of treasury markets, commercial and correspondent banking and medium-term lending. Substantially all of the Group's activities are conducted through the parent company ('the Bank') and the Bank's subsidiary has been established solely for the purpose of issuing debt securities.

Financial risk management objectives and policies

The Group is subject to various operational and market risks in its day-to-day operations.

The Group's objectives and policies with regard to financial risk, including the policy for hedging, are set out in Note 4 to the financial statements and an indication of the exposure to financial risk is provided both there and in Notes 5, 20, 32 and 33.

Results

The profit after taxation for the year amounted to £3,092,000. The Directors recommend that no dividend be paid (*2008: 6.519p per ordinary share amounting to £7,000,000*) and that the profit is retained in the Profit and Loss account.

Going concern basis of accounting

These Financial Statements have been prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. Information relevant to this assessment regarding the Group's principal activities, strategic direction and challenges and uncertainties are described in the Operating and Financial Review on pages 4 to 16. That review includes a review of the income statement and financial position, and describes the Group's objectives, policies and processes for managing credit, liquidity and market risk. Further information regarding the risks assumed by the Group is set out in Note 4.

In addition, the Directors have considered future projections of profitability, cash flows and capital resources in making their assessment.

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DIRECTORS' REPORT

for the year ended 31 December 2009 (continued)

Business review

Commentary on the Group's financial performance in the year is provided in the Operating and Financial Review set out on pages 4 to 16 (the 'Results' section has been audited except where clearly marked).

Company name and number

On 2 June 2009 the company was re-registered as a public company at which point its name was changed from British Arab Commercial Bank Limited to British Arab Commercial Bank plc. The company number is 1047302.

Charitable donations

Charitable donations during the year amounted to £10,000.

Directors and their interests

A list of the directors who served during the year is shown on page 2. None of the directors holds or has held shares in the Group. All of the directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Directors' representation

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they each are aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

KPMG Audit Plc was appointed to act as the Group's auditors for the year ended 31 December 2009.

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be presented at the forthcoming annual general meeting.

Crispian Denby
Secretary
By order of the Board
5 March 2010

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INDEPENDENT AUDITORS' REPORT

to the members of British Arab Commercial Bank plc

We have audited the financial statements of British Arab Commercial Bank plc for the year ended 31 December 2009 set out on pages 22 to 87. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

British Arab Commercial Bank plc

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INDEPENDENT AUDITORS' REPORT (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Furneaux

Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

London

5 March 2010

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	2009	2008
Interest and similar income	7	55,755	126,810
Less: Interest expense and similar charges	7	(31,855)	(99,672)
Net interest income		23,900	27,138
Fee and commission income	8	21,335	15,346
Less: Fee and commission expense	8	(1,242)	(1,164)
Net fee and commission income		20,093	14,182
Net trading income	9	7,818	9,838
Gains less losses from available for sale financial assets		0	551
Other operating (loss)/income		(66)	229
Total operating income		51,745	51,938
General administrative expenses	10	(17,434)	(19,181)
Net charge for impairment losses on loans and advances	11	(29,456)	(825)
		(46,890)	(20,006)
Profit before income tax		4,855	31,932
Income tax expense	12	(1,763)	(9,474)
Profit for the year		3,092	22,458
Other comprehensive income			
Actuarial (losses) / gains on pension fund		(8,737)	356
Change in fair value of available for sale financial assets		6,689	(3,944)
Change in fair value of available for sale financial assets transferred to income statement		0	144
Effective portion of changes in fair value of cash flow hedges		260	1,312
Change in fair value of cash flow hedges transferred to income statement		(1,312)	174
Income tax on other comprehensive income		868	601
Other comprehensive income for the period, net of tax		(2,232)	(1,357)
Total comprehensive income for the period		860	21,101

All of the profit for the financial year and the prior year was derived from continuing activities.

The Notes on pages 26 to 87 form part of these financial statements.

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STATEMENTS OF FINANCIAL POSITION

As at 31 December 2009

	Note	Group 2009	Bank 2009	Group 2008	Bank 2008
Assets					
Cash, notes and coin		378	378	223	223
Debt securities	14	1,063,983	1,070,169	895,652	902,137
Loans and advances to banks	15	1,605,480	1,605,480	1,273,786	1,273,786
Loans and advances to customers	16	587,420	587,420	859,224	859,224
Equity shares and investments	17	7,022	7,022	5,005	5,005
Shares in group undertakings	18	0	1	0	1
Property, plant and equipment	19	9,638	9,638	10,251	10,251
Intangible assets	19	991	991	879	879
Derivatives	20	12,565	12,565	17,072	17,072
Prepayments, accrued income and other debtors	21	15,215	15,215	27,765	27,765
Net pension asset	26	0	0	3,470	3,470
Total assets		3,302,692	3,308,879	3,093,327	3,099,813
Liabilities					
Deposits from banks	22	2,050,657	2,050,657	1,527,449	1,527,449
Other deposits	22	885,804	885,809	1,148,571	1,148,576
Debt securities in issue	23	117,636	0	133,092	3,000
Other liabilities, accruals and deferred income	24	10,332	134,156	18,208	155,152
Deferred taxation	25	340	339	683	579
Derivatives	20	6,795	6,795	21,838	21,838
Corporation tax payable		1,365	1,365	3,298	3,298
Net pension liability	26	1,981	1,981	0	0
Subordinated liabilities	27	58,509	58,509	64,775	64,775
		3,133,419	3,139,611	2,917,914	2,924,667
Called up share capital	28	79,453	79,453	79,453	79,453
Capital redemption reserve	29	4,104	4,104	4,104	4,104
Other reserves	29	85,716	85,711	91,856	91,589
Capital and reserves attributable to the Group's equity holders	29	169,273	169,268	175,413	175,146
Total liabilities and equity		3,302,692	3,308,879	3,093,327	3,099,813

The Notes on pages 26 to 87 form part of these financial statements.

Signed:

A Dixon OBE
Chairman

Dr K Zentuti
Vice Chairman

MJ Parr
Director and Chief Executive

5 March 2010

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STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2009

Group	Share capital	Reserves attributable to equity holders					Total
		AFS reserve	Cash flow hedging reserve	Capital redemption reserve	Retained earnings	Total reserves	
Balance at 1 January 2008	83,557	(671)	(122)	0	86,354	85,561	169,118
Share repurchase	(4,104)	0	0	4,104	(8,306)	(4,202)	(8,306)
Profit for 2008	0	0	0	0	22,458	22,458	22,458
Other comprehensive income / (expense) for 2008	0	(2,763)	1,067	0	339	(1,357)	(1,357)
Dividend relating to 2007	0	0	0	0	(6,500)	(6,500)	(6,500)
Balance at 31 December 2008	79,453	(3,434)	945	4,104	94,345	95,960	175,413
Profit for 2009	0	0	0	0	3,092	3,092	3,092
Other comprehensive income / (expense) for 2009	0	4,816	(757)	0	(6,291)	(2,232)	(2,232)
Dividend relating to 2008	0	0	0	0	(7,000)	(7,000)	(7,000)
Balance at 31 December 2009	79,453	1,382	188	4,104	84,146	89,820	169,273

Bank	Share capital	Reserves attributable to equity holders					Total
		AFS reserve	Cash flow hedging reserve	Capital redemption reserve	Retained earnings	Total reserves	
Balance at 1 January 2008	83,557	(671)	(122)	0	86,354	85,561	169,118
Share repurchase	(4,104)	0	0	4,104	(8,306)	(4,202)	(8,306)
Profit for 2008	0	0	0	0	22,197	22,197	22,197
Other comprehensive income / (expense) for 2008	0	(2,769)	1,067	0	339	(1,363)	(1,363)
Dividend relating to 2007	0	0	0	0	(6,500)	(6,500)	(6,500)
Balance at 31 December 2008	79,453	(3,440)	945	4,104	94,084	95,693	175,146
Profit for 2009	0	0	0	0	3,290	3,290	3,290
Other comprehensive income / (expense) for 2009	0	4,880	(757)	0	(6,291)	(2,168)	(2,168)
Dividend relating to 2008	0	0	0	0	(7,000)	(7,000)	(7,000)
Balance at 31 December 2009	79,453	1,440	188	4,104	84,083	89,815	169,268

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STATEMENTS OF CASH FLOW

For the year ended 31 December 2009

	Group 2009	Bank 2009	Group 2008	Bank 2008
Net cash flow from operating activities				
Profit before taxation	4,855	5,130	31,932	31,569
Adjustments for:				
Loan impairment losses	29,456	29,456	825	825
Provisions utilised	0	0	(1,388)	(1,388)
Depreciation and amortisation	1,159	1,159	1,130	1,130
Loss on sale of fixed assets	4	4	1	1
Non-cash items included in net profit	30,619	30,619	568	568
Loans, advances and other debt securities other than cash and cash equivalents	291,928	292,315	(44,085)	(50,578)
Other debtors and prepayments	15,469	15,469	15,994	15,994
Change in operating assets	307,397	307,784	(28,091)	(34,584)
Customer accounts and deposits by banks	447,971	447,971	(34,353)	(34,353)
Debt securities in issue	(3,000)	(3,000)	(106,698)	(106,698)
Other liabilities	(24,035)	(24,697)	331	469
Change in operating liabilities	420,936	420,274	(140,720)	(140,582)
Tax paid	(5,292)	(5,292)	(8,134)	(8,134)
Net cash from (used in) operating activities	758,515	758,515	(144,445)	(151,163)
Cash flow from investing activities:				
Purchases of equity shares and investments	(1,906)	(1,906)	(2,276)	(2,276)
Proceeds on sale of fixed assets	2	2	4	4
Purchase of tangible assets	(214)	(214)	(434)	(434)
Purchase of intangible assets	(450)	(450)	(326)	(326)
Net cash used in investing activities	(2,568)	(2,568)	(3,032)	(3,032)
Cash flows from financing activities:				
Dividends paid	(7,000)	(7,000)	(6,500)	(6,500)
Issue of subordinated debt	0	0	34,280	34,280
Purchase of own issued debt securities	0	0	(6,718)	0
Share repurchase	0	0	(8,306)	(8,306)
Net cash flows (used in)/from financing activities	(7,000)	(7,000)	12,756	19,474
Net decrease in cash and cash equivalents	748,947	748,947	(134,721)	(134,721)
Cash equivalents at the beginning of the year	1,220,596	1,220,596	1,066,985	1,066,985
Effect of exchange rate change on cash and cash equivalents	(82,820)	(82,820)	288,332	288,332
Cash and cash equivalents at the end of the year	1,886,723	1,886,723	1,220,596	1,220,596
Cash and cash equivalents comprise:				
Cash, notes and coin	378	378	223	223
Loans and advances to banks of original maturity three months or less	1,513,404	1,513,404	1,076,812	1,076,812
Certificates of deposit and other debt securities of three months original maturity or less	372,941	372,941	143,561	143,561
	1,886,723	1,886,723	1,220,596	1,220,596

British Arab Commercial Bank plc

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. General information

British Arab Commercial Bank plc ('the Bank') is a public company, limited by shares. The Bank was incorporated in England and Wales on 23 March 1972 as UBAF Limited. The Bank's name was changed to UBAF Bank Limited on 4 January 1977, and to British Arab Commercial Bank Limited on 4 March 1996. On 2 June 2009 the company was re-registered as a public company, and its name changed to the current style. The Bank's registered office (and principal place of business) is situated in England, and is currently at 8-10 Mansion House Place, London EC4N 8BJ.

The consolidated financial statements of the Group for the year ended 31 December 2009 comprise the Bank and its subsidiaries (together referred to as 'the Group').

The Group carries on the business of international banking, and its worldwide activities are regulated by the Financial Services Authority.

The financial statements were authorised for issue by the board of directors on 5 March 2010.

2. Basis of preparation

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and effective for the Group's reporting for the year ended 31 December 2009. IFRS comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

The financial statements have been prepared in the Group's functional and presentation currency, sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held at fair value through the profit and loss account, financial instruments classified as being available-for-sale and the defined benefit pension fund.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 6.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Effective 1 January 2009 the Group has changed its accounting policies in the following areas:-

i. Determination and presentation of operating segments

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is presented to executive management and the board of directors. This change in accounting policy is due to the adoption of IFRS8, *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS14, *Segment Reporting*.

Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. The change in accounting policy only impacts presentation and disclosure aspects of these financial statements.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly to make decisions about resources allocated to the segment, and to assess its performance, and for which discrete financial information is available. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the costs of support functions not directly aligned to a particular component.

ii. Presentation of financial statements

The Group applies revised IAS1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it is also in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.

The Group has also applied *Improving Disclosures about Financial Instruments (Amendments to IFRS7)* issued in March 2009 which requires enhanced disclosure about fair value measurements and liquidity risk in financial instruments. The amendments require that fair value measurement disclosures use a three level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately together with changes in valuation techniques from one period to another. The definition of liquidity risk has been amended and is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii. Associates

Associates are those entities in which the Group has significant influence, but no control over the financial and operating policies.

In the opinion of the Directors, the Group has no Associates.

iii. Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Under section 408(3) of the Companies Act 2006 the Bank is exempt from the requirements to present its own income statement.

b) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in *Interest and similar income* and *Interest expense and similar charges* in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts. Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

c) Fee and commission income

The Group earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- i. if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of securities);
- ii. if the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, documentary credit confirmation fees, custody and banking service fees); and
- iii. if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan origination fees) and recorded in interest income (See Note 3b).

The Group provides certain guarantee facilities which are dependant on uncertain future events.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

These facilities include surety, fidelity, performance, bid and advance payment bonds. In each case, the guarantees given by the Group are covered by matching counter-indemnities provided by a third party. Fees and commissions arising from the provision of such services are recognised rateably over the period for which the service is provided.

d) Foreign currencies

The Directors regard Sterling as the currency of the primary economic environment in which the Bank operates. Accordingly, Sterling is regarded as being the functional currency of the Bank, which is also the reporting currency of the Group.

Transactions in foreign currencies are recorded in sterling at the rate of exchange prevailing at the end of the month in which the transaction arose. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction.

e) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences. Interest received on securities held for dealing purposes, and associated funding costs, are included within Interest and similar income, and Interest expense and similar charges.

f) Income tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantially enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to set off exists.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

Deferred tax relating to actuarial gains and losses arising from post-employment benefit plans which are recognised directly in equity, is also credited or charged directly to equity.

Deferred tax relating to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

g) Derivatives and hedge accounting

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative.

In the normal course of business, the fair value of a derivative on initial recognition is considered to be the transaction price (i.e. the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a trading profit or loss on inception of the derivative. If observable market data is not available, the initial increase in fair value indicated by the valuation model, but based on unobservable inputs, is not recognised immediately in the income statement but is recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the inputs become observable, or when the transaction matures or is closed out.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract, the embedded derivative meets the definition of a derivative, and the combined contract is not designated at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are intended to be settled on a net basis, and assets and liabilities are realised and settled simultaneously.

The method of recognising fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. Where derivatives are designated as hedges, the Group classifies them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge'). Hedge accounting is applied to derivatives designated as hedging instruments provided certain criteria are met.

Hedge accounting

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks. Interest on designated qualifying hedges is included in Net interest income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement in Interest and similar income, together with changes in the fair value of the asset or liability or portfolio thereof that are attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the residual period to maturity. Where the adjustment relates to the carrying amount of a hedged available-for-sale equity security, this remains in equity until the disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Hedge effectiveness testing

To qualify for hedge accounting, IAS39 requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted by the Group for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80% to 125% for the hedge to be deemed effective.

Derivatives that do not qualify for hedge accounting

All gains and losses arising from changes in the fair value of any derivative that does not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in Interest and similar income.

h) Financial assets

The Group has classified its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management has determined the classification of its investments at 1 January 2005, and thereafter on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

- i. Financial assets at fair value through profit and loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.
- ii. Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods or services to a debtor with no intention of trading the receivable.
- iii. Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

The Group's management has not identified any assets as falling within this category.
- iv. Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets held to maturity and available-for-sale are recognised on settlement date, being the date on which the Group makes payment to receive the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. Derivatives and financial assets at fair value through profit and loss are recognised on trade date, being the date on which an irrevocable commitment to enter into a contract is executed.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in income to the extent that the change in value arises from a fair value hedging relationship (Note 3g) with the balance recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit and loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j) De-recognition of financial assets and liabilities

Financial assets are de-recognised when the rights to receive cash flows from the assets have expired; or where the Group has transferred its contractual right to receive the cash flows of the financial assets and either:

- i. substantially all the risks and rewards of ownership have been transferred; or
- ii. substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are de-recognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expires.

k) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. A financial asset or a portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or portfolio of financial assets that can be reliably estimated. Objective evidence that a financial asset or portfolio of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- i. significant financial difficulty of the issuer or obligor;
- ii. a breach of contract, such as default or delinquency in interest or principal payments;
- iii. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- v. the disappearance of an active market for that financial asset because of financial difficulties; or
- vi. observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; or
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a portfolio of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Once a financial asset or portfolio of similar assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the portfolio and their magnitude). These estimates also take into account the extent to which individual assets within the portfolio have been subjected to specific review. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

Available-for-sale assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

l) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation calculated on a straight line basis to write off the assets over their estimated useful lives as follows:

Long leasehold premises and improvements	
Leasehold improvements	10 years
Leasehold premises	50 years
Other assets	
Equipment	3 or 5 years
Motor vehicles	5 years
Furniture, fixtures and fittings	10 years

Leasehold premises and leasehold land (see Note 3n) comprises the Bank's principal office in London. All property plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

m) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, including directly incurred internal costs. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

The capitalised cost of computer software is amortised over 3 or 5 years. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals are determined by comparing proceeds with

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

carrying amount. These are included in the income statement.

n) Prepayments and accrued income

The cost of leasehold land is amortised as a rental prepayment over the life of the lease (147 years and 1 month) on a straight-line basis. At 31 December 2009, the lease had 137 years and 2 months remaining.

o) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include unrestricted highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash, notes and coin, treasury bills and other eligible bills, professional market placements to banks, and certificates of deposit.

p) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

Where the Bank enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Bank considers these to be insurance arrangements and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make a payment under the guarantee.

q) Employee benefits

The Group provides both a defined benefit and a defined contribution pension plan for its staff. In each case, the assets of the schemes are held separately from those of the Group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, and where the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The net asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to retained earnings. Other gains and losses are taken to the income statement.

For the defined contribution plan, the Group pays contributions to the HSBC Defined Contribution Retirement Benefit Scheme. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group adopted the requirements of IFRIC 14 from 1 January 2009 though it had no impact on the financial statements at that time.

r) Debt securities in issue

Debt securities in issue are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in net trading income.

s) Share capital

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

t) Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other segments. All operating segments are reviewed regularly by the Group's Executive Management to make decisions about resources to be allocated to the segment, and to assess its performance, and for which discrete financial information is available.

u) Earnings per share

The Group presents earnings per share data for its ordinary shares by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding in the period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

4. Risk management

The Group has an established risk management culture, long-standing written policies and procedures, and follows a documented control framework, the maintenance of which falls within the general responsibility of the Group's Audit & Risk Committee, a sub-committee of the Board of Directors ("the Board").

The Board has overall responsibility for the determination of the risk appetite of the Group. They determine the high level risk framework, monitor the utilisation of limits and the operation of the control processes. Risks are measured, controlled and limited through clear governance structures, supported by written policies and procedures.

A key element within these controls are the Internal Audit and the Risk Management departments.

The Internal Audit department undertakes an ongoing risk based review programme covering all areas of the Group's operations. The Head of Internal Audit reports to the Audit & Risk Committee and to the Chief Executive.

The Risk Management department is responsible for identifying, monitoring and managing the risks faced by the Group. The department is also responsible for the implementation of appropriate policies and monitoring programmes to manage the Group's exposure to potential losses arising in all areas of risk. RMD also has responsibility for review and amendment of the Group's internal credit gradings, market and operational risk management practices.

The principal risks faced by the Group are described below, together with details of how these risks are managed (which have not changed significantly during the year), and quantitative information indicates the amounts of such risks at the reporting date. The amounts at the reporting date are indicative of the amounts of such risks which have been experienced throughout the period.

CREDIT RISK

The Group is exposed to credit risk in its on and off-balance sheet activities, and in its daily settlements. The Group manages credit risk by establishing country and individual counterparty limits and limits for closely related counterparties, based upon an independent assessment by the Group's Risk Management and Institutional & Corporate Banking departments of relevant political, economic and financial information. Once approved, such limits are subject to annual credit review by these departments and submitted for re-approval under delegated credit authorities.

The Group takes cash collateral and employs other credit mitigants in appropriate circumstances. The Group ensures that relevant documentation for such facilities is in place and has obtained opinions from external legal counsel that such documentation is legally enforceable in all relevant jurisdictions. At 31 December 2009 the value of cash collateral held by the Group on terms under which set off can be applied in the event of default by the counterparty was £239,380,000 (2008: £402,005,000). Collateral may also be taken in the form of personal guarantees given by individuals associated with the obligating counterparty, but no value is ascribed in these circumstances.

The Group is a third-party member of the Continuous Linked Settlement (CLS) system, which eliminates counterparty settlement risk on eligible trades.

The Group also employs a credit grading system, to facilitate monitoring of the quality of the overall portfolio and individual segments thereof, including movements in the portfolio over time. Credit risks assessed in accordance with that methodology were as follows:

British Arab Commercial Bank plc

and its subsidiary companies

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Group 31 December 2009	Contingent liabilities and other commitments	Cash, loans and advances, debt securities and derivatives	Maximum exposure to credit risk	Cash collateral	Net credit exposure
Low	106,683	2,508,733	2,615,416	(12)	2,615,404
Satisfactory	647,804	367,819	1,015,623	(99,533)	916,090
Fair	254,415	348,206	602,621	(139,782)	462,839
Watchlist	10,578	10,960	21,538	(53)	21,485
Substandard	0	0	0	0	0
Doubtful	0	38,275	38,275	0	38,275
Less: impairments	0	(35,101)	(35,101)	0	(35,101)
Loss	0	0	0	0	0
Total credit exposures	1,019,480	3,238,892	4,258,372	(239,380)	4,018,992
Group 31 December 2008					
Low	196,508	2,012,079	2,208,587	0	2,208,587
Satisfactory	631,242	562,225	1,193,467	(172,668)	1,020,799
Fair	351,966	416,476	768,442	(229,337)	539,105
Watchlist	11,451	0	11,451	0	11,451
Substandard	0	0	0	0	0
Doubtful	0	3,456	3,456	0	3,456
Less: impairments	0	(3,456)	(3,456)	0	(3,456)
Loss	0	0	0	0	0
Total credit exposures	1,191,167	2,990,780	4,181,947	(402,005)	3,779,942

British Arab Commercial Bank plc

and its subsidiary companies

All amounts in £'000s unless otherwise stated

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Bank 31 December 2009	Contingent liabilities and other commitments	Cash, loans and advances, debt securities and derivatives	Maximum exposure to credit risk	Cash collateral	Net credit exposure
Low	106,683	2,514,920	2,621,603	(12)	2,621,591
Satisfactory	647,804	367,819	1,015,623	(99,533)	916,090
Fair	254,415	348,206	602,621	(139,782)	462,839
Watchlist	10,578	10,960	21,538	(53)	21,485
Substandard	0	0	0	0	0
Doubtful	0	38,275	38,275	0	38,275
Less: impairments	0	(35,101)	(35,101)	0	(35,101)
Loss	0	0	0	0	0
Total credit exposures	1,019,480	3,245,079	4,264,559	(239,380)	4,025,179
Bank 31 December 2008					
Low	196,508	2,018,564	2,215,072	0	2,215,072
Satisfactory	631,242	562,225	1,193,467	(172,668)	1,020,799
Fair	351,966	416,476	768,442	(229,337)	539,105
Watchlist	11,451	0	11,451	0	11,451
Substandard	0	0	0	0	0
Doubtful	0	3,456	3,456	0	3,456
Less: impairments	0	(3,456)	(3,456)	0	(3,456)
Loss	0	0	0	0	0
Total credit exposures	1,191,167	2,997,265	4,188,432	(402,005)	3,786,427

The Group's Risk Committee, of which the Chief Executive, Deputy Chief Executive and other executive managers are members, meets quarterly to consider high-level policies and country limits, whilst a monthly Credit Forum provides more regular opportunities to review credit exposures and to serve as an additional point of reference and challenge regarding the assumption of additional credit and country risk.

The Group provides facilities to 461 counterparties encompassing exposure to 63 countries and territories (2008: 514 counterparties in 58 countries). Regional concentrations of credit risk arising from operations were as follows:

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	Contingent liabilities and other commitments	Cash, loans and advances, debt securities and derivatives	Total
		31 December 2009	
Group			
United Kingdom	44,503	1,480,647	1,525,150
Other European Union	137,497	971,917	1,109,414
Middle East and Africa	754,799	620,944	1,375,743
Other Countries	82,681	200,485	283,166
Impairments	0	(35,101)	(35,101)
Maximum exposure to credit risk	1,019,480	3,238,892	4,258,372
		31 December 2008	
<i>United Kingdom</i>	<i>60,119</i>	<i>1,315,149</i>	<i>1,375,268</i>
<i>Other European Union</i>	<i>191,340</i>	<i>700,833</i>	<i>892,173</i>
<i>Middle East and Africa</i>	<i>834,898</i>	<i>825,586</i>	<i>1,660,484</i>
<i>Other Countries</i>	<i>104,810</i>	<i>154,962</i>	<i>259,772</i>
<i>Impairments</i>	<i>0</i>	<i>(5,749)</i>	<i>(5,749)</i>
Maximum exposure to credit risk	1,191,167	2,990,780	4,181,947
		31 December 2009	
Bank			
United Kingdom	44,503	1,486,834	1,531,337
Other European Union	137,497	971,917	1,109,414
Middle East and Africa	754,799	620,944	1,375,743
Other Countries	82,681	200,485	283,166
Impairments	0	(35,101)	(35,101)
Maximum exposure to credit risk	1,019,480	3,245,079	4,264,559
		31 December 2008	
<i>United Kingdom</i>	<i>60,119</i>	<i>1,321,634</i>	<i>1,381,753</i>
<i>Other European Union</i>	<i>191,340</i>	<i>700,833</i>	<i>892,173</i>
<i>Middle East and Africa</i>	<i>834,898</i>	<i>825,586</i>	<i>1,660,484</i>
<i>Other Countries</i>	<i>104,810</i>	<i>154,962</i>	<i>259,772</i>
<i>Impairments</i>	<i>0</i>	<i>(5,749)</i>	<i>(5,749)</i>
Maximum exposure to credit risk	1,191,167	2,997,265	4,188,432

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By industry, concentrations of credit risk were as follows:

	Group 2009	Bank 2009	Group 2008	Bank 2008
Financial institutions (including central banks)				
Banks	3,295,866	3,302,053	2,870,320	2,876,805
UK building societies	138,662	138,662	43,782	43,782
Multilateral financial institutions	10,381	10,381	22,062	22,062
Other financial intermediaries	48,982	48,982	80,606	80,606
	3,493,891	3,500,078	3,016,770	3,023,255
Corporates				
Commodities	8,022	8,022	56,305	56,305
Construction and engineering	85,967	85,967	110,550	110,550
Energy	275,041	275,041	411,695	411,695
Non-bank credit grantors	73,444	73,444	139,411	139,411
Transport and storage	86,083	86,083	47,863	47,863
Other	174,561	174,561	279,128	279,128
	703,118	703,118	1,044,952	1,044,952
Public administration	96,464	96,464	125,974	125,974
Impairments	(35,101)	(35,101)	(5,749)	(5,749)
Maximum exposure to credit risk	4,258,372	4,264,559	4,181,947	4,188,432

Maximum exposure to credit risk comprises:

	Group 2009	Bank 2009	Group 2008	Bank 2008
Cash, notes and coin	378	378	223	223
Debt securities	1,063,983	1,070,170	895,652	902,137
Loans and advances to banks	1,605,480	1,605,480	1,273,786	1,273,786
Less bills discounted (Notes 15 & 16) *	(30,934)	(30,934)	(55,177)	(55,177)
Loans and advances to customers	587,420	587,420	859,224	859,224
Derivatives (Note 20)	12,565	12,565	17,072	17,072
	3,238,892	3,245,079	2,990,780	2,997,265
Contingent liabilities (Note 30)	227,739	227,739	275,850	275,850
Other commitments (Note 31)	791,741	791,741	915,317	915,317
	1,019,480	1,019,480	1,191,167	1,191,167
	4,258,372	4,264,559	4,181,947	4,188,432

* Note: Bills discounted represent a pre-payment of Group obligations and therefore do not give rise to credit risk.

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MARKET RISKS

Banking and trading

As part of its banking activities, and for the purpose of providing efficient services to its customers, the Group holds and issues financial instruments including derivative contracts. The Group's objectives in holding such instruments, or entering into such contracts, may either be characterised as being in pursuance of its principal banking activities, or as a trading activity carried on as an adjunct to its banking activities.

The Group's trading activities are accounted for on a mark-to-market basis, and financial assets, financial liabilities and derivatives which form part of such activities are accounted for at fair value through the profit and loss account. In identifying activities to be accounted for on this basis, the Group takes into consideration the following factors:

- The Group's motive for trading that instrument, and in particular where the purpose is to sell or repurchase in the short term, or
- where the instruments formed part of a portfolio for which there is evidence of a recent actual pattern of short term profit-taking, or
- where it is a derivative other than a financial guarantee contract, or a designated and effective hedging instrument.

The Group's trading activities are limited to transactions in financial instruments, mainly comprising the trading of foreign exchange and debt securities. Market risk is primarily to exchange and interest rates. Exposures to those markets, together with a description of the risk management policies arising from both banking and trading activities are set out below. Market risk exposures are measured and monitored daily and are formally reviewed monthly by the Group's Asset and Liability Committee.

Exchange rate risk

The Group makes loans, and takes deposits, in a number of currencies. Payments made on behalf of customers in one currency may be met from balances held in another currency. Further, the Group is active in the international foreign exchange markets, both for own account trading, and for the management of Group assets and liabilities. Note 33 sets out the concentrations of currency assets and liabilities in the Group's statement of financial position.

The Group manages its exposures to foreign exchange risk by way of limits on the size of permitted positions, both intra-day and overnight. Overnight positions are protected by stop-loss orders placed with reputable correspondent banks. The size of the position limits is consistent with the amount of profit that the Group is prepared to place at risk in the foreign exchange markets.

The Group's overall net short position at 31 December 2009 (being the sterling equivalent value of all the currencies where the currency obligations were higher than currency receivables) was £557,000 (2008: £3,520,000). Were these currencies to strengthen by 5% against the remaining currencies, then the Group would lose £28,000 (2008: £176,000). Positions as determined daily were as follows:

	2009	2008
	£	£
Maximum	6,485	8,725
Minimum	187	358
Average	1,271	3,261

Interest rate risk

The Group is exposed to changes in interest rates in various currencies arising from gaps in the future dates of repricing of assets, liabilities and derivative instruments. The Group manages that risk by calculating sensitivity of changes in the present value of committed future cash flows to a 0.01% change

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in interest rates using a methodology called the Present Value of a Basis Point ('PVBP'). Limits are placed on the overall amount of calculated PVBP, and the size of those limits is consistent with the amount of profit that the Group is prepared to place at risk in the interest rate market. The Group considers the impact of changes in future interest rates on its future income streams by reference to these interest rate gaps.

As at 31 December 2009, PVBP amounted to £8,393 (2008: £9,236). PVBP (calculated on a daily basis) was as follows:

	2009	2008
	£	£
Maximum	16,468	16,864
Minimum	5,254	2,561
Average	9,625	9,421

Hedges

Derivative contracts are used in both the banking and trading books to modify market risk exposures in the light of perceptions about future movements in those markets. In the banking book, in particular, derivative contracts are used to reduce market risk exposure arising from banking book positions, which in the absence of those contracts, would result in unwanted exposures, or excesses to market risk limits. Such contracts are described as hedges. Hedge transactions are documented as such at inception, and the positions being hedged are clearly identified at the outset. Hedge accounting is applied in accordance with IAS39, and hedges are not generally entered into which would not qualify as such in accordance with the rules in that standard, although certain contracts which had previously been regarded as hedges were found, on transition to IFRS, not to qualify as such in accordance with the rules in IAS39. The majority of derivative hedges are designated as fair value hedges (see also Note 3g).

The repricing characteristics of the Group's statement of financial position are set out below:

Group 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Debt securities	433,139	447,393	117,690	65,202	0	559	1,063,983
Loans and advances to banks	1,497,165	69,639	8,169	27,994	0	2,513	1,605,480
Loans and advances to customers	233,936	183,208	160,343	9,656	0	277	587,420
Other assets	0	0	0	0	0	45,809	45,809
Total assets	2,164,240	700,240	286,202	102,852	0	49,158	3,302,692
Deposits from banks	1,708,960	322,908	18,789	0	0	0	2,050,657
Other deposits	723,015	123,432	18,994	20,363	0	0	885,804
Debt securities in issue	0	117,636	0	0	0	0	117,636
Subordinated liabilities	0	17,017	41,492	0	0	0	58,509
Other liabilities and shareholders' funds	0	0	0	0	0	190,086	190,086
Total equity and liabilities	2,431,975	580,993	79,275	20,363	0	190,086	3,302,692
Derivatives (at contract value)							
Receivable	133,926	93,654	20,684	24,772	0	0	
Payable	18,579	35,693	123,166	95,598	0	0	
Overall gap	(152,388)	177,208	104,445	11,663	0	(140,928)	
Reverse Cumulative gap	140,928	293,316	116,108	11,663	0	(140,928)	

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Group 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Debt securities	192,454	283,138	365,258	53,065	0	1,737	895,652
Loans and advances to banks	1,080,312	122,337	36,375	34,762	0	0	1,273,786
Loans and advances to customers	425,979	280,843	141,757	10,645	0	0	859,224
Other assets	0	0	0	0	0	64,665	64,665
Total assets	1,698,745	686,318	543,390	98,472	0	66,402	3,093,327
Deposits from banks	1,111,050	387,679	28,720	0	0	0	1,527,449
Other deposits	655,451	108,263	384,857	0	0	0	1,148,571
Debt securities in issue	0	3,000	130,092	0	0	0	133,092
Subordinated liabilities	0	18,838	45,937	0	0	0	64,775
Other liabilities and shareholders' funds	0	0	0	0	0	219,440	219,440
Total equity and liabilities	1,766,501	517,780	589,606	0	0	219,440	3,093,327
Derivatives (at contract value)							
Receivable	179,206	137,616	50,668	36,356	0	0	
Payable	143,411	109,399	53,677	97,359	0	0	
Overall gap	(31,961)	196,755	(49,225)	37,469	0	(153,038)	
Reverse cumulative gap	153,038	184,999	(11,756)	37,469	0	(153,038)	

Bank 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Debt securities	433,139	453,579	117,690	65,202	0	559	1,070,169
Loans and advances to banks	1,497,165	69,639	8,169	27,994	0	2,513	1,605,480
Loans and advances to customers	233,936	183,208	160,343	9,656	0	277	587,420
Other assets	0	0	0	0	0	45,810	45,810
Total assets	2,164,240	706,426	286,202	102,852	0	49,159	3,308,879
Deposits from banks	1,708,960	322,908	18,789	0	0	0	2,050,657
Other deposits	723,020	123,432	18,994	20,363	0	0	885,809
Debt securities in issue		0	0	0	0	0	0
Subordinated liabilities	0	17,017	41,492	0	0	0	58,509
Other liabilities and shareholders' funds	0	123,824	0	0	0	190,080	313,904
Total equity and liabilities	2,431,980	587,181	79,275	20,363	0	190,080	3,308,879
Derivatives (at contract value)							
Receivable	133,926	93,654	20,684	24,772	0	0	
Payable	18,579	35,693	123,166	95,598	0	0	
Overall gap	(152,393)	177,206	104,445	11,663	0	(140,921)	
Reverse cumulative gap	140,921	293,314	116,108	11,663	0	(140,921)	

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<i>Bank 31 December 2008</i>	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Non- interest bearing</i>	<i>Total</i>
<i>Debt securities</i>	192,454	283,138	371,743	53,065	0	1,737	902,137
<i>Loans and advances to banks</i>	1,080,312	122,337	36,375	34,762	0	0	1,273,786
<i>Loans and advances to customers</i>	425,979	280,843	141,757	10,645	0	0	859,224
<i>Other assets</i>	0	0	0	0	0	64,666	64,666
<i>Total assets</i>	1,698,745	686,318	549,875	98,472	0	66,403	3,099,813
<i>Deposits from banks</i>	1,111,050	387,679	28,720	0	0	0	1,527,449
<i>Other deposits</i>	655,456	108,263	384,857	0	0	0	1,148,576
<i>Debt securities in issue</i>	0	3,000	0	0	0	0	3,000
<i>Subordinated liabilities</i>	0	18,838	45,937	0	0	0	64,775
<i>Other liabilities and shareholders' funds</i>	0	0	130,092	0	0	225,921	356,013
<i>Total equity and liabilities</i>	1,766,506	517,780	589,606	0	0	225,921	3,099,813
<i>Derivatives (at contract value)</i>							
<i>Receivable</i>	179,206	137,616	50,668	36,356	0	0	
<i>Payable</i>	143,411	109,399	53,677	97,359	0	0	
<i>Overall gap</i>	(31,966)	196,755	(42,740)	37,469	0	(159,518)	
<i>Reverse cumulative gap</i>	159,518	191,484	(5,271)	37,469	0	(159,518)	

Non-interest bearing items comprise share capital, accumulated impairments, tangible and intangible assets and other sundry debtors and creditors not subject to interest. Such net non-interest bearing liabilities are used to fund the Group's assets by way of internal placements, and give rise to a structural interest rate position. Gap limits available to the Group's dealers for the management of interest rate risk in the banking book are stated net of these placements.

A simultaneous increase in interest rates of 0.5% in all currencies, and in all maturities on 1 January 2010 would reduce the present value of the gaps in the banking book by £421,000. However, earnings from the financial assets associated with the non-interest bearing liabilities would increase during 2009 by £635,000 (2008: a 0.5% increase in interest rates would have reduced the present value of the gaps by £459,000, but earnings in 2009 would have been increased by £276,000).

Derivatives include interest rate and currency swap transactions, the purpose of which are to reduce economic exposure to interest rate risk, whether formally qualifying as hedges or otherwise. The purpose of such hedges is to ensure that longer dated interest rate repricings, such as typically arise from fixed rate loans or deposits, are converted into shorter periods as can be accommodated within the gap limits.

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OTHER RISKS

Liquidity management

The Group is exposed to the risk that it will be unable to meet its obligations as they fall due, arising from the differing maturity profiles of its assets and liabilities. The Group controls that risk by placing limits on the mismatch of maturity dates, and by holding stocks of liquid assets which could be sold at short notice if the need arose. The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The table is derived from an analysis of principal amounts starting from the carrying values of those assets and liabilities at 31 December, and excludes cash flows arising from interest payments or receipts. Management ignores interest flows in the daily management of liquidity risk on the grounds that inflows and outflows will normally result in a net inflow in each maturity timeband, the amount of which is expected to be small in relation to maturing principal amounts.

Group							
At 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Debt securities	369,780	391,243	166,928	136,032	0	0	1,063,983
Loans and advances to banks	1,495,145	65,306	12,128	31,665	1,236	0	1,605,480
Loans and advances to customers	97,928	22,525	59,718	167,284	239,965	0	587,420
Other assets	0	0	0	0	0	45,809	45,809
Total assets	1,962,853	479,074	238,774	334,981	241,201	45,809	3,302,692
Deposits from banks	1,708,041	323,827	18,789	0	0	0	2,050,657
Other deposits	721,157	62,397	18,994	83,256	0	0	885,804
Debt securities in issue	0	117,636	0	0	0	0	117,636
Subordinated liabilities	0	0	0	0	30,965	27,544	58,509
Other liabilities and shareholders' funds	0	0	0	0	0	190,086	190,086
Total equity and liabilities	2,429,198	503,860	37,783	83,256	30,965	217,630	3,302,692
Net liquidity gap	(466,345)	(24,786)	200,991	251,725	210,236	(171,821)	

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<i>Group</i>							
<i>At 31 December 2008</i>	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Undated</i>	<i>Total</i>
<i>Debt securities</i>	144,429	222,226	361,687	167,310	0	0	895,652
<i>Loans and advances</i>							
<i>to banks</i>	1,071,048	93,843	47,542	61,353	0	0	1,273,786
<i>Loans and advances</i>							
<i>to customers</i>	170,297	82,669	96,023	180,634	331,894	(2,293)	859,224
<i>Other assets</i>	0	0	0	0	0	64,665	64,665
<i>Total assets</i>	1,385,774	398,738	505,252	409,297	331,894	62,372	3,093,327
<i>Deposits from banks</i>	1,111,050	387,679	28,720	0	0	0	1,527,449
<i>Other deposits</i>	655,451	108,263	384,857	0	0	0	1,148,571
<i>Debt securities in issue</i>	0	3,000	0	130,092	0	0	133,092
<i>Subordinated liabilities</i>	0	0	0	0	34,281	30,494	64,775
<i>Other liabilities and</i> <i>shareholders' funds</i>	0	0	0	0	0	219,440	219,440
<i>Total equity and</i> <i>liabilities</i>	1,766,501	498,942	413,577	130,092	34,281	249,934	3,093,327
<i>Net liquidity gap</i>	(380,727)	(100,204)	91,675	279,205	297,613	(187,562)	

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Bank							
At 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Debt securities	369,780	397,429	166,928	136,032	0	0	1,070,169
Loans and advances to banks	1,495,145	65,306	12,128	31,665	1,236	0	1,605,480
Loans and advances to customers	97,928	22,525	59,718	167,284	239,965	0	587,420
Other assets	0	0	0	0	0	45,810	45,810
Total assets	1,962,853	485,260	238,774	334,981	241,201	45,810	3,308,879
Deposits from banks	1,708,041	323,827	18,789	0	0	0	2,050,657
Other deposits	721,162	62,397	18,994	83,256	0	0	885,809
Debt securities in issue	0	0	0	0	0	0	0
Subordinated liabilities	0	0	0	0	30,965	27,544	58,509
Other liabilities and shareholders' funds	0	123,824	0	0	0	190,080	313,904
Total equity and liabilities	2,429,203	510,048	37,783	83,256	30,965	217,624	3,308,879
Net liquidity gap	(466,350)	(24,788)	200,991	251,725	210,236	(171,814)	

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<i>Bank</i>							
<i>At 31 December 2008</i>	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Undated</i>	<i>Total</i>
<i>Debt securities</i>	144,429	222,226	361,687	173,795	0	0	902,137
<i>Loans and advances</i>							
<i>to banks</i>	1,071,048	93,843	47,542	61,353	0	0	1,273,786
<i>Loans and advances</i>							
<i>to customers</i>	170,297	82,669	96,023	180,634	331,894	(2,293)	859,224
<i>Other assets</i>	0	0	0	0	0	64,666	64,666
<i>Total assets</i>	1,385,774	398,738	505,252	415,782	331,894	62,373	3,099,813
<i>Deposits from banks</i>	1,111,050	387,679	28,720	0	0	0	1,527,449
<i>Other deposits</i>	655,456	108,263	384,857	0	0	0	1,148,576
<i>Debt securities in issue</i>	0	3,000	0	0	0	0	3,000
<i>Subordinated liabilities</i>	0	0	0	0	34,281	30,494	64,775
<i>Other liabilities and shareholders' funds</i>	0	0	0	136,948	0	219,065	356,013
<i>Total equity and liabilities</i>	1,766,506	498,942	413,577	136,948	34,281	249,559	3,099,813
<i>Net liquidity gap</i>	(380,732)	(100,204)	91,675	278,834	297,613	(187,186)	

The methodology for analysing cash flows into time bands as set out above is similar to that used by the Group's Management for the monitoring and control of its daily liquidity requirements except that the Group regards its holdings of debt securities as being immediately available funds on the grounds that they can be sold into deep and liquid markets at short notice. In addition, certain liabilities are regarded as having a longer term maturity than their contractual terms imply in the light of their behavioural characteristics.

The manner in which the Group is managing its liquidity is changing. Further details in this regard are set out in the Operating and Financial Review.

In the tables above, the inclusion of interest cash flows in respect of liabilities would result in a restatement of the cash outflows as shown below. In these tables interest on perpetual liabilities is included to its next rollover, whereas for other liabilities interest is included at all payment dates to final maturity. In the case of floating rate liabilities, it is assumed that interest payable in future periods will be at the same rate as is applying in the current period:

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For the year ended 31 December 2009

Group At 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Deposits from banks	1,710,152	323,216	18,938	0	0	0	2,052,306
Other deposits	421,029	363,819	20,173	84,170	0	0	889,191
Debt securities in issue	0	117,945	0	0	0	0	117,945
Derivatives	2,543	476	2,475	1,439	0	0	6,933
Subordinated liabilities	0	683	1,068	5,044	33,486	27,544	67,825
Total cash outflows	2,133,724	806,139	42,654	90,653	33,486	27,544	3,134,200

Group At 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Deposits from banks	1,112,139	393,423	30,355	0	0	0	1,535,917
Other deposits	656,060	109,594	391,216	0	0	0	1,156,870
Debt securities in issue	0	3,706	1,853	130,710	0	0	136,269
Derivatives	5,458	11,251	2,910	2,352	0	0	21,971
Subordinated liabilities	0	768	2,014	7,471	41,942	30,494	82,689
Total cash outflows	1,773,657	518,742	428,348	140,533	41,942	30,494	2,933,716

Bank At 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Deposits from banks	1,710,152	323,216	18,938	0	0	0	2,052,306
Other deposits	421,034	363,819	20,173	84,170	0	0	889,196
Deposits from subsidiaries	0	124,131	0	0	0	0	124,131
Debt securities in issue	0	0	0	0	0	0	0
Derivatives	2,543	476	2,475	1,439	0	0	6,933
Subordinated liabilities	0	683	1,068	5,044	33,486	27,544	67,825
Total cash outflows	2,133,729	812,325	42,654	90,653	33,486	27,544	3,140,391

Bank At 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
Deposits from banks	1,112,139	393,423	30,355	0	0	0	1,535,917
Other deposits	656,060	109,594	391,216	0	0	0	1,156,870
Deposits from subsidiaries		617	1,853	137,566	0	0	140,036
Debt securities in issue	0	3,089	0	0	0	0	3,089
Derivatives	5,458	11,251	2,910	2,352	0	0	21,971
Subordinated liabilities	0	768	2,014	7,471	41,942	30,494	82,689
Total cash outflows	1,767,332	506,768	429,329	152,764	41,942	30,494	2,928,629

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Operational risk

Operational Risk is defined as:

“The risk of loss resulting from inadequate or failed processes, people and systems, or from external events”.

The operational risks facing the Group have been carefully analysed and risk management policies, procedures and controls are in place to minimise their impact. These procedures and controls are documented in formal procedure manuals, accessible by all staff and are regularly updated. Overall management of operational risk falls within the responsibility of the Bank’s Risk Management department.

Key elements of the control environment are the strict segregation of duties, clearly defined authority levels and expenditure controls and strict safeguards over the integrity of and access to all types of confidential data. Secure offsite storage arrangements for key magnetic data and paper records are in place.

Underpinning the Group’s operational controls is the existence of an independent Internal Audit function together with contingency planning and disaster recovery arrangements that include the availability of a “warm” site where replicated systems and office facilities are available. These arrangements are the subject of regular testing in accordance with documented procedures.

Semi-annual reviews of potential areas of operational risk are undertaken by departmental managers and following analysis of the results, issues arising are reported to the Group’s Audit & Risk Committee. In addition, a reporting system is in place to capture and analyse instances of operational loss “near misses” which are similarly reported to Audit & Risk Committee. Where control weaknesses are identified as a result, changes to procedures are made.

To assist with the identification of operational risk in specific transactions, a predictive model has been developed that is currently undergoing live testing.

Operational losses are closely monitored and reported to the Group’s Asset and Liability Committee (“ALCO”).

Operational losses in 2009 amounted to £32,000 (2008: £18,000).

Reputational risk

Reputational risk is recognised as a key risk area and policies are in place to minimise the potential impact. These include comprehensive Know Your Customer (KYC) requirements, environmental, defence and sectoral lending policies and a risk based due diligence programme. Electronic transaction screening and a behavioural monitoring system are also in place to prevent inadvertent involvement in money laundering, terrorist financing or fraud.

Other risks

The Group is exposed to a range of other operational risks. In each case various risk mitigation techniques are adopted to control the risk. These risks include the following:

- Legal risks. The Group enters into contracts both in the course of its ordinary business, but also as part of its banking activities. Specialist staff are employed to review and negotiate contract documents, and external legal counsel is also sought where appropriate.
- Settlement and confirmation risk. The Group seeks to employ, retain and train its staff to ensure that they are competent to carry out such procedures. Suitable computer systems to support such

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

operations are maintained, and operational procedures are documented, and subject to regular audit.

- Litigation risks. Disputes arise from time to time in the course of the Group's business. Such disputes are subject to early identification, and escalation to senior executives qualified to manage their resolution. External counsel's opinions and assistance is sought as required.
- Pension Fund Risk. The Group offers defined benefit pension arrangements to some of its staff. There are risks that the liabilities associated with these arrangements may be higher than expected, or that the assets may not grow as expected. The Group recognises that these are long term obligations, and seeks to manage the risks through the use of assumptions and investment strategies designed to reduce the various risks.

5. Fair values of financial assets and liabilities

The majority of the Group's financial instruments measured at fair value are valued using quoted market prices or market standard valuation techniques based on observable market data.

Observable market prices are not, however, available for many of the Group's financial assets and liabilities not measured at fair value. IFRS 7 requires that the fair values of such assets be estimated and disclosed, and the following table summarises the carrying amounts and estimated fair values of those financial assets and liabilities. Bid prices are used to determine fair values of assets, whereas offer prices are applied for liabilities.

The fair values set out below are based on indices for proxy assets and liabilities which are considered to be similar, but not identical, to those held by the Group. Further, these fair values have been determined using internal models, the results of which might not be equivalent to those which would be arrived at between willing buyer and willing seller.

Group and Bank (except as otherwise stated)	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, notes and coin	378	378	223	223
Loans and advances to banks	1,572,451	1,573,800	1,219,293	1,216,930
Loans and advances to customers	569,658	535,708	837,682	712,352
Prepayments, accrued income and other debtors	15,215	15,215	27,765	27,765
Financial liabilities				
Deposits from banks	2,050,657	2,050,639	1,527,449	1,531,080
Other deposits: Group	855,804	886,312	1,148,571	1,152,828
Other deposits: Bank	855,809	886,317	1,148,576	1,152,833
Debt securities in issue: Group	117,636	117,543	133,092	126,566
Debt securities in issue: Bank	0	0	3,000	3,026
Subordinated liabilities	58,509	52,335	64,775	43,979

Loans and advances to banks and customers

Loans and advances to banks includes professional market placements and other loans and advances, net of accumulated impairments.

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For the year ended 31 December 2009

The estimated fair value of professional market placements (which are for terms up to one year) is based on discounted cash flows using prevailing market interest rates for the relevant periods.

The estimated fair value of commercial term lending is derived by comparing the actual yields being received on loans advanced by the Group with observed yields from corporate and financial bond indices considered to be of similar credit quality and duration. At 31 December 2009 observed market yields for those indices were higher than those being achieved, and as a result the estimated fair market value of the loans at that date represents an overall discount to their carrying value as shown above. The Group has no current intention of disposing of any of these loans, and accordingly, in the opinion of the directors, the amount of the discount is not indicative of an impairment which should be recognised through the Group's accounts. Loans and advances which are impaired are stated at their book value without further adjustment.

Deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without a quoted market price is based on discounted cash flows using market interest rates for debts with similar remaining maturity.

The market interest and exchange rates as at year-end for the principal currencies in which the Group has assets and liabilities, and by reference to which assets and liabilities have been valued, were as follows:

	31 December 2009			31 December 2008		
	Sterling	US Dollars	Euro	Sterling	US Dollars	Euro
Interest rates						
3 month	0.53%	0.28%	0.49%	1.66%	0.54%	2.37%
6 month	0.58%	0.33%	0.56%	1.38%	0.67%	2.16%
1 year	0.88%	0.66%	0.89%	1.33%	0.84%	2.10%
5 year	3.54%	3.03%	2.86%	3.28%	1.98%	3.28%
Exchange rates	1.0000	1.6148	1.1210	1.0000	1.4586	1.0460

Debt securities in issue

The aggregate fair values of listed debt securities are calculated based on quoted market prices. Unlisted debt securities are valued by reference to discounted cash flows using market interest rates for debts with similar remaining maturity.

Subordinated liabilities

Subordinated liabilities represent perpetual obligations and include interest rate floor provisions. The obligations are not quoted, and a valuation has been estimated using discounted cash flow techniques based on yields observed in the market for perpetual instruments issued by other similar organisations with similar credit rating, adjusted to reflect the estimated value of the interest rate floor provisions, using option pricing models.

As other financial institutions use different valuation methodologies and assumptions in determining fair values, comparisons of fair values between financial institutions may not be meaningful and users are advised to exercise caution when using this data. In addition, the following table lists those financial instruments where the carrying amount is a reasonable approximation of fair value, for example, because they are either short term in nature or reprice to current market rates frequently.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Assets

Cash, notes and coin
Amounts included in Prepayments, accrued
income and other debtors

Liabilities

Amounts included in Other liabilities, accruals and
deferred income

6. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Valuation of Financial Instruments

The groups accounting policy on fair value measurements is discussed in Note 3h.

The Group measures fair values using the following fair value hierarchy that reflects the significance of inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category comprises instruments valued using reference to quoted market data such as yield curves.

Level 3: Valuation techniques using significant unobservable inputs. This category comprises unlisted equity investments valued by reference to published accounts or third party valuations.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cashflow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arms length.

The Group uses widely recognised valuation models in determining the fair value of common and more simple financial instruments such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which measurement is categorised.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Group	Level 1	Level 2	Level 3	Total
31 December 2009				
Debt Securities	201,345	862,638	0	1,063,983
Loans and Advances to Banks	33,029	0	0	33,029
Loans and Advances to Customers	14,666	3,096	0	17,762
Derivative Assets	0	12,565	0	12,565
Equity Shares and Investments	0	0	7,022	7,022
	<u>249,040</u>	<u>878,299</u>	<u>7,022</u>	<u>1,134,361</u>
Derivative Liabilities	<u>0</u>	<u>6,795</u>	<u>0</u>	<u>6,795</u>
Group	Level 1	Level 2	Level 3	Total
31 December 2008				
Debt Securities	192,282	703,370	0	895,652
Loans and Advances to Banks	54,493	0	0	54,493
Loans and Advances to Customers	14,686	6,856	0	21,542
Derivative Assets	0	17,072	0	17,072
Equity Shares and Investments	0	0	5,005	5,005
	<u>261,461</u>	<u>727,298</u>	<u>5,005</u>	<u>993,764</u>
Derivative Liabilities	<u>0</u>	<u>21,838</u>	<u>0</u>	<u>21,838</u>
Bank	Level 1	Level 2	Level 3	Total
31 December 2009				
Debt Securities	207,531	862,638	0	1,070,169
Loans and Advances to Banks	33,029	0	0	33,029
Loans and Advances to Customers	14,666	3,096	0	17,762
Derivative Assets	0	12,565	0	12,565
Equity Shares and Investments	0	0	7,022	7,022
	<u>255,226</u>	<u>878,299</u>	<u>7,022</u>	<u>1,140,547</u>
Derivative Liabilities	<u>0</u>	<u>6,795</u>	<u>0</u>	<u>6,795</u>
Bank	Level 1	Level 2	Level 3	Total
31 December 2008				
Debt Securities	198,767	703,370	0	902,137
Loans and Advances to Banks	54,493	0	0	54,493
Loans and Advances to Customers	14,686	6,856	0	21,542
Derivative Assets	0	17,072	0	17,072
Equity Shares and Investments	0	0	5,005	5,005
	<u>267,946</u>	<u>727,298</u>	<u>5,005</u>	<u>1,000,249</u>
Derivative Liabilities	<u>0</u>	<u>21,838</u>	<u>0</u>	<u>21,838</u>

There were no significant transfers of assets between levels during 2009, and no significant changes in valuation techniques.

Assets categorised as level 3 comprise the Group's investments in equity shares and investments. These assets are valued by reference to reports from fund managers, and from the audited annual reports of the companies in which the Group is invested. Details of these assets, together with movements in the year are set out in Note 17

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual loans and advances. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

At 31 December 2009 loans to seven customers were impaired (*2008: two loans*). The Group is not confident that any future cash flows will arise in respect of four of those loans (*2008: two loans*), and they are therefore considered to be fully impaired. Any cash flows which do arise in the future will be recognised in income on receipt. Some recoveries are anticipated in respect of the three remaining loans. If those recoveries are 10% lower than has been estimated, then the amount of the impairment which would have been charged in 2009 would have been increased by £317,000.

Pension fund

The Group assesses the value of its defined benefit pension fund assets and obligations in accordance with IAS19. The standard requires that certain assumptions be made which are set out in Note 26. The scheme actuary has estimated that the value of the scheme liabilities would increase by £3,000,000 if the discount rate were to be 5.20% rather than 5.70% (leaving all other assumptions the same) (*2008: scheme liabilities would increase by £2,900,000 if the discount rate were to be 5.9% rather than 6.4%*), and that the value of the scheme liabilities would increase by £300,000 if the rate of increase in salaries were to be 4.40%pa rather than 4.15%pa (leaving all other assumptions the same) (*2008: scheme liabilities would increase by £662,000 if the rate of increase in salaries were to be 4.25% rather than 3.75%*).

The mortality assumptions have been set in consultation with the actuary to the Scheme. The Scheme's membership is not sufficiently large to permit statistical analysis in the choice of table and therefore reflects the experience of other schemes in the finance sector in the UK, but with an additional allowance for further mortality improvement in the future. The assumption used is believed to be within the range used by similar companies. The life expectancy at age 60 assumed for members of the Scheme is dependant on their year of birth. For example, the life expectancy is 27.0/28.3 years for males/females who are 60 this year, rising to 27.6/29.0 years for males/females who are currently aged 50. This is based on the standard mortality table S1PMA "Light" with projections made on an individuals' year of birth and with allowance made for the Medium Cohort effect. As an illustration, applying a 1% p.a. minimum rate of mortality improvement to the above table increases the life expectancies above to 27.5/29.0 years for males/females aged 60 and 28.6/30.1 years for males/females aged 50. These would result in an increase in Scheme liabilities of £500,000. It is anticipated that the Scheme will continue to purchase annuities to match its pensioner liabilities at regular intervals so that the risk from further improvement in mortality is minimised.

The Group's Management is not aware of any other judgement areas that would materially affect the income statement.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

7. Net interest income

	Group 2009	Bank 2009	Group 2008	Bank 2008
Interest income				
Professional market placements	34,363	34,761	88,243	88,325
Loans and advances	21,387	21,387	38,225	38,225
Other	5	5	342	342
	<u>55,755</u>	<u>56,153</u>	<u>126,810</u>	<u>126,892</u>
Interest income comprises				
Interest arising on financial assets at fair value through the income statement	3,094	3,492	1,669	1,751
Interest recognised on impaired assets (Note 11)	119	119	33	33
Gains arising from the change in fair value of fair value hedges				
- on hedged instruments	217	217	2,703	2,703
- on hedged items attributable to the hedged risk	(330)	(330)	(2,921)	(2,921)
Cash flow hedge (losses)/gains removed from equity and recognised in income	(1,312)	(1,312)	174	174
Other interest	53,967	53,967	125,152	125,152
	<u>55,755</u>	<u>56,153</u>	<u>126,810</u>	<u>126,892</u>

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a loss of £505,000 in the year ended 31 December 2009 (*Year ended 31 December 2008: a profit of £254,000*).

Interest expense

Banks and customers	26,915	26,915	92,291	92,291
Debt securities in issue	1,796	1,919	4,743	4,781
Subordinated loans	3,144	3,144	2,638	2,638
	<u>31,855</u>	<u>31,978</u>	<u>99,672</u>	<u>99,710</u>

Interest expense comprises

Interest arising on financial liabilities at fair value through the income statement	0	0	1,800	1,800
Other interest	31,855	31,978	97,872	97,910
	<u>31,855</u>	<u>31,978</u>	<u>99,672</u>	<u>99,710</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

8. Net fee and commission income

	Group and Bank	
	2009	2008
Fee and commission income		
Safe custody	97	36
Trade services		
Guarantees	1,875	1,449
Other trade services income	17,272	12,108
Term lending (other than amounts which form part of the effective interest rate)	31	121
Banking payments and services	2,060	1,611
Other services	0	21
	<u>21,335</u>	<u>15,346</u>
Fee and commission expense		
Brokerage and other fees	<u>1,242</u>	<u>1,164</u>

9. Net trading income

	Group and Bank	
	2009	2008
Foreign exchange dealing	7,307	7,934
Other	511	1,904
	<u>7,818</u>	<u>9,838</u>

Foreign exchange dealing income includes gains and losses from spot and forward contracts, options and translated foreign currency assets and liabilities.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

10. Administrative expenses

	Group and Bank	
	2009	2008
Staff costs:		
Wages and salaries	6,014	5,628
Social security costs	864	1,029
Other pension costs:		
- Defined benefit scheme	454	444
- Defined contribution scheme	333	217
Directors' remuneration:		
Emoluments	718	636
Pension costs	29	54
Fees payable to the Bank's auditors for the audit of the Bank's annual financial statements	119	116
Fees payable to the Bank's auditors for other services :		
- The audit of the Bank's subsidiaries	4	4
- Other services pursuant to legislation	5	5
- Taxation advice	49	0
- All other services	69	68
Depreciation (including amortisation of intangibles)	1,159	1,130
Amortisation of prepaid rental on land	63	63
Loss on sale of tangible and intangible assets	4	1
Regulatory supervision fees	58	64
Other administrative expenses	7,492	9,722
	<u>17,434</u>	<u>19,181</u>

The average number of employees during the year was 144 (2008: 141).

The emoluments of the highest paid director were £316,000 (2008: £262,000) and the amount of his accrued pension as at balance sheet date was £nil (2008: £80,000) including that accrued prior to his service with the Group. Directors' remuneration includes amounts due in respect of pension contributions to a defined benefit scheme for one director (2008: one director).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

11. Impairment losses on loans and advances

The movements in impairment provisions were as follows:

Group and Bank	2009			2008		
	Individual	Collective	Total	Individual	Collective	Total
Balance at 1 January	3,456	2,293	5,749	2,748	1,534	4,282
Exchange translation and other movements	237	(222)	15	1,487	576	2,063
Effect of discounting (Note 7)	(119)	0	(119)	(33)	0	(33)
Provisions written off	0	0	0	(1,388)	0	(1,388)
Profit and loss account						
New allowances	31,767	0	31,767	767	183	950
Reversal of allowances no longer required	(240)	(2,071)	(2,311)	0	0	0
Recoveries of amounts written off in previous periods	0	0	0	(125)	0	(125)
	<u>31,527</u>	<u>(2,071)</u>	<u>29,456</u>	<u>642</u>	<u>183</u>	<u>825</u>
Balance at 31 December	<u>35,101</u>	<u>0</u>	<u>35,101</u>	<u>3,456</u>	<u>2,293</u>	<u>5,749</u>
Being impairments against						
Loans and advances to banks	14,506	0	14,506	0	0	0
Loans and advances to customers	<u>20,595</u>	<u>0</u>	<u>20,595</u>	<u>3,456</u>	<u>2,293</u>	<u>5,749</u>
	<u>35,101</u>	<u>0</u>	<u>35,101</u>	<u>3,456</u>	<u>2,293</u>	<u>5,749</u>

The Group is active in wholesale markets. Accordingly, its portfolio of financial assets comprises a relatively small number of individually significant claims, rather than a large number of individually insignificant claims as would be the case for similar companies acting in retail markets. This means that each claim due to the Group is subject to individual impairment review at the reporting date taking account of the factors described in Note 3k.

Collective impairments arise in respect of groups of exposures for which previous experience indicates that impairment has taken place at the balance sheet date, but whose existence has yet to emerge. In light of the extensive individual reviews, and based on previous experience, no evidence was detected that impairments existed at the balance sheet date requiring a collective impairment allowance.

At 31 December 2009 seven facilities comprising amounts due to the Group of £38,275,000 were determined to be impaired (2008: two facilities comprising £3,456,000 due to the Group). No collateral was held in respect of these facilities, but £2,900,000 was covered by personal guarantees issued by the owners of the borrowing companies (2008: £3,456,000 was covered by personal guarantees issued by the owners of the borrowing companies).

The Group holds financial assets due from one borrower that would have been past due or impaired had terms not been renegotiated. The amount of that asset was £6,694,000, and the amount which would have been due had terms not been renegotiated was £558,000 (31 December 2008: Nil).

At 31 December 2009, £18,000 was past due at the reporting date in respect of unimpaired financial assets (31 December 2008: Nil).

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12. Income tax expense

	Group 2009	Bank 2009	Group 2008	Bank 2008
Current tax:				
Total UK corporation tax charge	3,110	3,110	7,868	7,868
Less: Amounts dealt with through reserves	(1,899)	(1,899)	1,337	1,337
Current tax on items taken through the income statement	1,211	1,211	9,205	9,205
Adjustment in respect of previous periods	248	247	53	53
Deferred tax (Note 25)				
Origination and reversal of timing differences	(22)	56	212	111
Adjustment in respect of previous periods	0	0	(88)	(88)
Amounts associated with movements in the pension fund	326	326	92	92
	<u>1,763</u>	<u>1,840</u>	<u>9,474</u>	<u>9,373</u>

The charge for tax on the profit for the year is based on the average UK corporation tax rate of 28.0% (2008: 28.5%).

The tax charge for the period is higher than the standard rate of corporation tax in the UK as explained below:

	Group 2009	Bank 2009	Group 2008	Bank 2008
Profit on ordinary activities before tax	<u>4,855</u>	<u>5,130</u>	<u>31,932</u>	<u>31,570</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	1,360	1,437	9,097	8,994
Adjustment in respect of previous periods	248	247	53	53
Permanently disallowed items	89	89	346	346
Other items	66	67	(22)	(20)
UK Corporation tax charge	<u>1,763</u>	<u>1,840</u>	<u>9,474</u>	<u>9,373</u>

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Income tax recognised in other comprehensive income is made up as follows:

Group	2009			2008		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Actuarial (losses)/ gains on pension fund	(8,737)	2,446	(6,291)	356	(17)	339
Change in fair value of available for sale financial assets	6,689	(1,873)	4,816	(3,944)	1,078	(2,866)
Change in fair value of available for sale financial assets transferred to income statement	0	0	0	144	(41)	103
Effective portion of changes in fair value of cash flow hedges	260	(72)	188	1,312	(370)	942
Change in fair value of cash flow hedges transferred to income statement	<u>(1,312)</u>	<u>367</u>	<u>(945)</u>	<u>174</u>	<u>(49)</u>	<u>125</u>
	<u>(3,100)</u>	<u>868</u>	<u>(2,232)</u>	<u>(1,958)</u>	<u>601</u>	<u>(1,357)</u>
Dealt with as follows:						
Current tax		(1,899)			1,337	
Deferred tax (Note 25)		321			(719)	
Adjusted through pension fund liability		<u>2,446</u>			<u>(17)</u>	
		<u>868</u>			<u>601</u>	

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Bank	2009			2008		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Actuarial (losses)/ gains on pension fund	(8,737)	2,446	(6,291)	356	(17)	339
Change in fair value of available for sale financial assets	6,778	(1,898)	4,880	(3,953)	1,081	(2,872)
Change in fair value of available for sale financial assets transferred to income statement	0	0	0	144	(41)	103
Effective portion of changes in fair value of cash flow hedges	260	(72)	188	1,312	(370)	942
Change in fair value of cash flow hedges transferred to income statement	(1,312)	367	(945)	174	(49)	125
	<u>(3,011)</u>	<u>843</u>	<u>(2,168)</u>	<u>(1,967)</u>	<u>604</u>	<u>(1,363)</u>
Dealt with as follows:						
Current tax		(1,899)			1,337	
Deferred tax (Note 25)		296			(716)	
Adjusted through pension fund liability		<u>2,446</u>			<u>(17)</u>	
		<u>843</u>			<u>604</u>	

13. Consolidated profit dealt with in the accounts of British Arab Commercial Bank plc

£3,290,000 of the consolidated profit for the financial year (2008: £22,197,000) has been dealt with in the accounts of British Arab Commercial Bank plc.

14. Debt securities

Debt securities comprised marketable securities held for investment purposes.

	Group 2009	Bank 2009	Group 2008	Bank 2008
Unlisted certificates of deposit (CDs)	862,638	862,638	676,675	676,675
Unlisted CDs guaranteed by OECD Governments	0	0	26,695	26,695
OECD government securities	19,958	19,958	10,411	10,411
Other listed debt securities guaranteed by OECD Governments	69,684	69,684	59,241	59,241
BACB (Jersey) Ltd debt securities repurchased	0	6,186	0	6,485
Other listed debt securities	<u>111,703</u>	<u>111,703</u>	<u>122,630</u>	<u>122,630</u>
	<u>1,063,983</u>	<u>1,070,169</u>	<u>895,652</u>	<u>902,137</u>

Debt securities with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £89,438,000 (2008: £53,065,000).

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15. Loans and advances to banks

Loans and advances to banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £31,613,000 (2008: £34,763,000).

	Group and Bank	
	2009	2008
Professional market placements	1,526,044	1,086,771
Commercial term lending	58,012	107,231
Bills discounted	30,752	55,177
Overdrafts and other advances	5,178	24,607
Less: Provisions for impairments (Note 11)	(14,506)	0
	<u>1,605,480</u>	<u>1,273,786</u>

Professional market placements includes £nil (2008:£100,818,000) lent to other institutions against the security of OECD government debt securities by way of sale and repurchase transactions executed in accordance with market standard terms (reverse repo transactions).

16. Loans and advances to customers

Loans and advances to customers with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £9,584,000 (2008: £10,644,000).

	Group and Bank	
	2009	2008
Professional market placements to non banks	83,254	152,123
Commercial term lending	512,389	703,971
Bills discounted	182	0
Overdrafts and other advances	12,190	8,879
Less: Provisions for impairments (Note 11)	(20,595)	(5,749)
	<u>587,420</u>	<u>859,224</u>

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For the year ended 31 December 2009

17. Equity shares and investments

Equity shares comprise unlisted long-term participations of not more than 10% of the share capital of the following companies:

Banque d'Affaires de Tunisie:	2,474 ordinary shares of Tunisian Dinars 100
International Company for Leasing SAE:	1,296,000 ordinary shares of Egyptian Pounds 10

Investments comprise long-term participations in equity investment funds managed by third parties, whose purpose is to identify growing companies in the Arab Mediterranean region.

The movements on equity shares and investments were as follows:

	Group and Bank	
	2009	2008
Balance at 1 January	5,005	1,572
Exchange translation	(249)	96
Changes in fair value during the year	360	1,061
Additions	1,906	2,276
Balance at 31 December	<u>7,022</u>	<u>5,005</u>
Comprising:		
Equity shares	2,369	2,375
Equity investment funds	<u>4,653</u>	<u>2,630</u>
	<u>7,022</u>	<u>5,005</u>

18. Shares in Group undertakings

At 31 December 2009 the Bank owned 100% of the ordinary share capital of the following unlisted companies registered in England and Wales unless otherwise stated:

Company	Nature of Business	Accounting Date
BACB (Jersey) Limited (registered in Jersey)	Issuing listed securities on behalf of the Bank	31 December
BACB Pension Fund Trustees Limited	Dormant	31 December
UBAF Limited	Corporate trustee	30 September

The Group intends to liquidate BACB (Jersey) Limited during 2010 following repayment of debt securities in issue by that company, and discharge of all of its other liabilities. No significant costs are expected to arise on the liquidation of this company.

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19. Property, plant and equipment and intangible assets

Group and Bank	Property, plant and equipment			Intangible assets	
	Long leasehold premises and improvements	Other assets	Total	Computer software	Total
Cost					
Balance at 1 January 2009	14,561	2,683	17,244	3,174	20,418
Additions during the year	78	136	214	450	664
Disposals during the year	0	(168)	(168)	(37)	(205)
At 31 December 2009	<u>14,639</u>	<u>2,651</u>	<u>17,290</u>	<u>3,587</u>	<u>20,877</u>
Less: accumulated depreciation					
Balance at 1 January 2009	4,830	2,163	6,993	2,295	9,288
Charge for the year	593	233	826	333	1,159
Disposals during the year	0	(167)	(167)	(32)	(199)
At 31 December 2009	<u>5,423</u>	<u>2,229</u>	<u>7,652</u>	<u>2,596</u>	<u>10,248</u>
Net book value at 31 December 2009	<u>9,216</u>	<u>422</u>	<u>9,638</u>	<u>991</u>	<u>10,629</u>
Cost					
Balance at 1 January 2008	14,442	2,545	16,987	2,848	19,835
Additions during the year	119	315	434	326	760
Disposals during the year	0	(177)	(177)	0	(177)
At 31 December 2008	<u>14,561</u>	<u>2,683</u>	<u>17,244</u>	<u>3,174</u>	<u>20,418</u>
Less: accumulated depreciation					
Balance at 1 January 2008	4,242	2,098	6,340	1,990	8,330
Charge for the year	588	237	825	305	1,130
Disposals during the year	0	(172)	(172)	0	(172)
At 31 December 2008	<u>4,830</u>	<u>2,163</u>	<u>6,993</u>	<u>2,295</u>	<u>9,288</u>
Net book value at 1 January 2008	<u>10,200</u>	<u>447</u>	<u>10,647</u>	<u>858</u>	<u>11,505</u>
Net book value at 31 December 2008	<u>9,731</u>	<u>520</u>	<u>10,251</u>	<u>879</u>	<u>11,130</u>

Other assets comprise furniture, fixtures and fittings, office equipment and motor vehicles.

There were commitments for capital expenditure of £113,000 (2008: £178,000).

All the land and buildings are owned by the Group for the purposes of occupation in connection with its business.

The original cost of fully depreciated tangible and intangible assets still in use by the Group at year-end was £3,298,000 (2008: £1,311,000).

Additions to computer software include £34,000 (2008: £76,000) in respect of internal costs directly associated with the testing and implementation of purchased software applications.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

20. Derivatives

The following were outstanding for the Group and Bank:

	31 December 2009		
	Contract amount	Positive fair values	Negative fair values
Spot and forward foreign exchange contracts held for trading purposes	725,047	9,436	(1,616)
Interest rate swaps qualifying as fair value hedges	147,129	55	(2,565)
Interest rate swaps qualifying as cash flow hedges	29,500	1,394	0
Interest rate swaps at fair value through the profit and loss account	96,407	401	(1,453)
Interest rate floor contracts at fair value through the profit and loss account	125,751	118	0
Foreign exchange options at fair value through the profit and loss account			
Purchased	34,330	1,161	0
Sold	34,330	0	(1,161)
		<u>12,565</u>	<u>(6,795)</u>
		31 December 2008	
	Contract amount	Positive fair values	Negative fair values
Spot and forward foreign exchange contracts held for trading purposes	513,147	11,099	(15,012)
Interest rate swaps qualifying as fair value hedges	61,592	0	(2,634)
Interest rate swaps qualifying as cash flow hedges	39,500	2,613	0
Interest rate swaps at fair value through the profit and loss account	299,714	2,804	(3,819)
Currency swaps at fair value through the profit and loss account	460	0	(77)
Foreign exchange options qualifying as cash flow hedges			
Purchased	8,438	260	0
Foreign exchange options at fair value through the profit and loss account			
Purchased	124,393	296	0
Sold	124,393	0	(296)
		<u>17,072</u>	<u>(21,838)</u>

Foreign exchange contracts are agreements by which an amount of one currency is exchanged for a different amount of a different currency at a specified future date. The contract amount in the table above is the amount receivable.

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Interest rate swaps are agreements by which interest on an agreed amount is paid at various dates in the future on a specified basis, and in exchange interest is received on the same amount, but on a different basis.

Interest rate floor contracts are option contracts under which the buyer of the contract will receive the difference between a fixed rate of interest (the floor rate) and the periodic floating market rate, but only where that periodic market rate is below the fixed rate.

Foreign exchange options are agreements to enter into a foreign exchange contract at a rate which has been fixed at the outset, at a specified date in the future if the market rate ruling at a future date is more (or less) than the fixed rate.

Interest rate swaps qualifying as fair value hedges comprise synthetic alterations whereby interest bearing assets or liabilities with fixed or extended re-pricing periods have been converted into shorter re-pricing periods which can be more easily accommodated within the Group's risk management policies. Interest rate swaps qualifying as cash flow hedges comprise synthetic alterations of general floating rate inflows in respect of a pool of assets not matched by interest bearing liabilities. The purpose of the synthetic alterations is to stabilise those earnings by reducing the variability in the cash flows from the floating rate assets for periods of up to 3 years.

Interest rate swaps at fair value through the profit and loss account represent either speculative market positions or are hedges of economic exposure, but not qualifying for hedge accounting in accordance with IAS39. Interest rate floor contracts at fair value through the profit and loss account are regarded as being hedges of economic exposures, but do not qualify for hedge accounting in accordance with IAS39.

Foreign exchange options qualifying as cash flow hedges have been undertaken with a view to protecting the exchange rate at which foreign currency revenues expected to arise in 2009 will be crystallized into the Bank's functional currency. Foreign exchange options at fair value through the profit and loss account represent either contracts executed for customers against similar contracts with market counterparties, or else represent speculative market positions.

Derivatives entered into by the Group are in accordance with standard market terms.

21. Prepayments, accrued income and other debtors

	Group and Bank	
	2009	2008
Prepaid rental for land	8,636	8,699
Prepayments and accrued income	6,199	18,680
Other debtors	380	386
	<u>15,215</u>	<u>27,765</u>

The Group is obliged to pay ground rent in respect of its leasehold land interest over the remaining life of the lease; currently £160,000 p.a. (2008: £160,000 p.a.).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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22. Deposits

Deposits from banks with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £Nil (2008: £Nil) and other deposits with fixed interest rates (other than those with a single interest period less than 1 year) amounted to £ 20,363,000 (2008: £Nil).

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during 2009 (2008: Nil).

23. Debt securities in issue

	Group 2009	Bank 2009	<i>Group 2008</i>	<i>Bank 2008</i>
Certificates of deposit issued	0	0	3,000	3,000
\$200m Floating Rate Note due 2010	117,636	0	130,092	0
	<u>117,636</u>	<u>0</u>	<u>133,092</u>	<u>3,000</u>

The Bank's wholly owned subsidiary company, BACB (Jersey) Limited has issued US\$200,000,000 Guaranteed Floating Rate Notes due 2010. These notes are listed on the London Stock Exchange. Proceeds on issue have in turn been lent to the Bank by way of a promissory note. Notes with a face value of \$10,000,000 were purchased by the Bank during 2008 and have been deducted from the issued amount in the Group statement of financial position.

Debt securities in issue bear variable rates of interest.

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities in issue during 2009 (2008: Nil)

24. Other liabilities, accruals and deferred income

	Group 2009	Bank 2009	<i>Group 2008</i>	<i>Bank 2008</i>
Due to subsidiaries	0	123,828	0	136,948
Other liabilities	3,931	3,931	3,197	3,197
Accruals and deferred income	6,401	6,397	15,011	15,007
	<u>10,332</u>	<u>134,156</u>	<u>18,208</u>	<u>155,152</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

25. Deferred taxation

	Group 2009	Bank 2009	Group 2008	Bank 2008
Capital allowances in advance of depreciation	(592)	(592)	(681)	(681)
Unamortised balance of opening IFRS adjustments	723	723	868	868
Other short term temporary differences	(471)	(470)	(870)	(766)
	<u>(340)</u>	<u>(339)</u>	<u>(683)</u>	<u>(579)</u>
Balance at 1 January	(683)	(579)	160	160
Adjustments taken through reserves	321	296	(719)	(716)
Charge to income statement	22	(56)	(124)	(23)
Balance at 31 December	<u>(340)</u>	<u>(339)</u>	<u>(683)</u>	<u>(579)</u>

26. Pension fund

Defined benefit scheme

38 (2008: 44) of the Group's employees are members of the BACB Pension Scheme, which is a defined benefits scheme. The contributions are determined by a qualified actuary, based on triennial valuations using the Attained Age method. The scheme is closed to new entrants with the result that the overall age profile of the active membership is rising. This valuation method is designed to smooth contributions over the remaining working lives of the members. A full actuarial valuation was carried out at 31 December 2007. This valuation showed that the market value of the assets at that date was sufficient to cover 101.3% of the actuarial value of the future benefits that had accrued to members. The contributions to the scheme, which are met entirely by the Group, have been made at a rate of 38.0% of pensionable salaries (2008:32.1%). Contributions paid in the year ended 31 December 2009 amounted to £1,620,000 of which £846,000 was by way of ordinary contributions, and £774,000 was by way of special contributions (2008: Ordinary contributions £772,000). The Group expects to contribute £782,000 in the year commencing 1 January 2010.

The Scheme does not hold any securities issued by the Group, nor does it own any property occupied by the Group.

The assumptions in the 2007 valuation which had the most significant effect on the results of that valuation were those relating to the annual rate of return on investments and the annual rates of increase in salaries and pensions and were as follows:

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For the year ended 31 December 2009

Rate of increase in salaries	4.00%
Rate of increase in pensions in payment	3.25%
Discount rate: Pre-retirement liabilities	6.50%
Post-retirement liabilities	5.00%
Inflation assumption	3.25%
Mortality assumptions	
- Pre retirement	None
- Post retirement	PMA92/PFA92 Medium cohort 1% pa improvement underpin

The last full valuation of the scheme as at 31 December 2007 has been updated to 31 December 2009 by a qualified independent actuary, using approximate actuarial techniques and available information, and using the Projected Unit method as required by IAS19. The current service cost determined under this method is expected to rise in future years. The following major actuarial assumptions were made:

	At 31 December 2009	At 31 December 2008
Rate of increase in salaries	4.15%	3.75%
Rate of increase in pensions in payment	3.40%	3.00%
Discount rate	5.70%	6.40%
Inflation assumption	3.40%	3.00%
Mortality assumptions		
- Pre retirement (male/female)	<i>None</i>	<i>None</i>
- Post retirement (male/female)	<i>SIPM/FA "Light" Birth Year MC</i>	<i>SIPM/FA "Light" Birth Year MC</i>
Life expectancy from age 60 for non pensioner members		
now aged 50 (male/female)	27.6/29.0 years	27.6/29.0 years
Life expectancy for pensioner members now aged 60 (male/female)	27.0/28.3 years	27.0/28.3 years

Based on these assumptions, the assets in the scheme and the expected rate of return were:

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For the year ended 31 December 2009

	Long-term rate of return expected at 31 December 2009	Value at 31 December 2009	Long-term rate of return expected at 31 December 2008	Value at 31 December 2008
Equities	8.00%	6,019	7.50%	5,490
Corporate bonds	5.70%	1,001	6.40%	2,635
Index linked LDI	4.50%	9,133	n/a	0
Gilts / Leveraged LDI	n/a	0	6.00%	13,004
Absolute Return	8.00%	2,446	7.50%	2,019
Global Property	8.00%	213	6.90%	2,822
Commodities	8.00%	3,973	7.50%	2,242
Currency Fund	n/a	0	10.00%	1,244
Purchased annuities	5.70%	20,101	7.00%	12,679
Cash and other assets	4.00%	275	4.75%	212
Weighted average return	6.10%		6.84%	
Total market value of assets		<u>43,161</u>		<u>42,347</u>

The overall expected rate of return is determined by reference to market expectations for each class of asset. It is based upon a combination of historical analysis and the forecasts of market professionals.

Annuities have been purchased from prime insurance providers in respect of pensioners' liabilities with a view to reducing mortality risk in the fund. The terms of those annuities substantially mirrors the terms of the fund's obligations to the pensioner members, and the value of the annuities has been estimated using the same discount rates as has been used to calculate the associated liability. At 31 December 2009 a new annuity contract was in the course of settlement. The full value of that contract has been included above, and the amount of £4,390,000 due to the annuity provider which was unpaid at that date has been deducted from the value of the investments which were in the course of realisation.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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The pension cost for the defined benefit scheme was as follows:

	2009	2008
Analysis of defined benefit obligations		
Present value of funded obligations	45,912	37,527
Present value of unfunded obligations	0	0
Present value of defined benefit obligations	<u>45,912</u>	<u>37,527</u>
Fair value of plan assets	<u>(43,161)</u>	<u>(42,347)</u>
	2,751	(4,820)
Related deferred tax liability	<u>(770)</u>	<u>1,350</u>
Net liability / (asset) in balance sheet	<u>1,981</u>	<u>(3,470)</u>
Income statement impact		
Employer's current service cost	684	805
Expected return on pension scheme assets	(2,607)	(2,760)
Interest on pension scheme liabilities	2,377	2,399
Total included in employee benefits expense	<u>454</u>	<u>444</u>
Change in present value of defined benefit obligations		
Opening defined benefit obligation	37,527	41,792
Employer's current service cost	684	805
Interest on obligation	2,377	2,399
Actuarial losses / (gains) on obligations	6,791	(5,796)
Benefits paid	<u>(1,467)</u>	<u>(1,673)</u>
Present value of scheme liabilities at end of year	<u>45,912</u>	<u>37,527</u>
Change in fair value of plan assets		
Opening fair value of plan assets	42,347	45,928
Expected return on plan assets	2,607	2,760
Actuarial (losses) on plan assets	(1,946)	(5,440)
Contributions by plan employer	1,620	772
Benefits paid	<u>(1,467)</u>	<u>(1,673)</u>
Fair value of plan assets at end of year	<u>43,161</u>	<u>42,347</u>
Analysis of the amounts to be included in the consolidated statement of comprehensive income		
Net actuarial (losses) / gains recognised in the year	(8,737)	356
Net cumulative actuarial (losses) / gains	<u>(7,684)</u>	<u>1,053</u>

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History of experience gains and losses:

	2009	2008	2007	2006	2005
Difference between the expected and the actual return on scheme assets	(1,946)	(5,440)	1,190	(155)	3,245
Percentage of scheme assets	-5%	-13%	3%	0%	8%
Experience gains on scheme liabilities	(55)	14	426	0	(163)
Percentage of the present value of the scheme liabilities	0%	0%	1%	0%	0%
Total amount recognised in comprehensive income	(8,737)	356	4,369	(2,407)	(502)
Percentage of the present value of the scheme liabilities	-19%	1%	10%	-6%	(1%)

Defined contribution scheme

On 31 January 1998, the BACB Pension Scheme was closed to new entrants and employees recruited after that date have become members of the HSBC Defined Contribution Retirement Benefit Scheme. At 31 December 2009, 95 employees were members of that scheme (2008: 79 employees). Contributions to the HSBC Defined Contribution Retirement Benefit Scheme are made by both employer and employee in accordance with a fixed formula. In the year ended 31 December 2009, the Group paid £333,000 (2008: £217,000) by way of contributions into that scheme. There were no outstanding or pre-paid contributions to this scheme at 31 December 2009 (2008: £Nil).

27. Subordinated liabilities

At 31 December 2009 there were loans denominated in US Dollars to the Bank, subordinated in all respects to the claims of other creditors and repayable either on liquidation of the borrower, or if agreed with the lender, with express permission granted by the Financial Services Authority. All these loans qualify for inclusion in full in the Group's capital base and bear interest based on inter-bank offered rates for six month dollar deposits, save to the extent that some of the loans are subject to minimum rate provisions. Subordinated liabilities are made up as follows:

	Group and Bank	
	2009	2008
Upper tier 2 capital		
Perpetual subordinated loans issued *	27,544	30,494
Lower tier 2 capital		
Term subordinated liabilities due 2018	30,965	34,281
	<u>58,509</u>	<u>64,775</u>
* Amounts subject to minimum rate provisions	17,016	18,839

28. Called up share capital

Authorised share capital comprises 115,000,000 Ordinary Shares of £1 each, 140,000,000 Ordinary Shares of US\$1 each and 5,000,000 Deferred Non-Voting Shares of £1 each. Each paid up Ordinary £1

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share carries the same rights as each paid up Ordinary \$1 share. No rights attach to the Deferred Non-Voting shares until such time as they become paid up.

Issued share capital comprises:

	Group and Bank			
	Number of shares ('000)		Paid up amount	
	2009	2008	2009	2008
Ordinary Shares of £1 each fully paid	30,403	30,403	30,403	30,403
Ordinary Shares of US\$1 each fully paid	76,974	76,974	49,050	49,050
Deferred Non-Voting Shares of £1 each nil paid	5,000	5,000	0	0
	<u>112,377</u>	<u>112,377</u>	<u>79,453</u>	<u>79,453</u>

29. Capital and reserves attributable to the Group's equity holders

	Group	Bank	Group	Bank
	2009	2009	2008	2008
Called up share capital	79,453	79,453	79,453	79,453
Capital redemption reserve	4,104	4,104	4,104	4,104
Retained earnings	84,146	84,083	94,345	94,084
AFS Reserve	1,382	1,440	(3,434)	(3,440)
Cash flow hedging reserve	188	188	945	945
	<u>169,273</u>	<u>169,268</u>	<u>175,413</u>	<u>175,146</u>

Capital and reserves comprise:

The Capital Redemption reserve arose on the purchase and cancellation of issued share capital in 2008.

The Available For Sale ("AFS") reserve arises in respect of changes in the market value of assets categorised as being available for sale (Note 3h). The Cash Flow Hedging reserve arises from changes in the market value of derivatives which qualify as cash flow hedges (Note 3g).

Retained earnings, the AFS reserve and the cash flow hedging reserve are available for distribution subject to the maintenance of adequate capital resources.

The directors have not declared a dividend in respect of the profits for the year ended 31 December 2009 (2008: 6.519p per share amounting to £7,000,000).

30. Contingent liabilities

The Group and Bank extend guarantee facilities to customers including performance guarantees, bid and bail bonds, and other guarantees related to non-financial events. Such transactions amounted to £227,739,000 at 31 December 2009 (2008: £275,850,000).

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The Group and the Bank's practice is to extend such facilities against a counter indemnity. Accordingly, the Group and the Bank's risk in such transactions is a failure of the party providing the counter-indemnity, rather than that a loss arises as a result of a claim under the guarantee being called. No losses arose from such contracts in the year ended 31 December 2009 (2008: Nil).

The Bank has irrevocably and unconditionally guaranteed the obligations of its wholly owned subsidiary company, BACB (Jersey) Limited, to meet all payments of principal and interest under the Floating Rate Note issued by that company.

31. Other commitments

	Group and Bank	
	2009	2008
Other commitments comprise:		
Credit lines and other commitments to lend:		
under one year	3,494	4,089
over one year	11,380	60,619
Documentary credits and short-term trade-related transactions	761,294	813,916
Own acceptances	15,573	36,693
	<u>791,741</u>	<u>915,317</u>

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32. Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in Note 3 describes how the classes of financial instruments are measured, and how income and expense, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statements of financial position by the class of financial instrument to which they are assigned and therefore by the measurement basis.

Group 31 December 2009	Loans and receivables	Available for sale	At fair value through profit and loss	Derivatives designated as fair value hedging instruments	Derivatives designated as cash flow hedging instruments	Financial assets and liabilities at amortised cost	Total
Assets							
Cash, notes and coin	0	0	0	0	0	378	378
Debt securities	0	1,063,983	0	0	0	0	1,063,983
Loans and advances to banks	1,572,451	33,029	0	0	0	0	1,605,480
Loans and advances to customers	569,658	14,666	3,096	0	0	0	587,420
Equity shares and investments	0	7,022	0	0	0	0	7,022
Prepayments, accrued income and other debtors	0	0	0	0	0	15,215	15,215
Derivatives	0	0	11,116	55	1,394	0	12,565
Total financial assets	2,142,109	1,118,700	14,212	55	1,394	15,593	3,292,063
Total non-financial assets							10,629
Total assets							3,302,692
Liabilities							
Deposits from banks	0	0	0	0	0	2,050,657	2,050,657
Other deposits	0	0	0	0	0	885,804	885,804
Debt securities in issue	0	0	0	0	0	117,636	117,636
Other liabilities, accruals and deferred income	0	0	0	0	0	10,332	10,332
Derivatives	0	0	4,232	2,563	0	0	6,795
Subordinated liabilities	0	0	0	0	0	58,509	58,509
Total financial liabilities	0	0	4,232	2,563	0	3,122,938	3,129,733
Total non-financial liabilities							172,959
Total equity and liabilities							3,302,692

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Group 31 December 2008	<i>Loans and receivables</i>	<i>Available for sale</i>	<i>At fair value through profit and loss</i>	<i>Derivatives designated as fair value hedging instruments</i>	<i>Derivatives designated as cash flow hedging instruments</i>	<i>Financial assets and liabilities at amortised cost</i>	<i>Total</i>
Assets							
<i>Cash, notes and coin</i>	0	0	0	0	0	223	223
<i>Debt securities</i>	0	895,652	0	0	0	0	895,652
<i>Loans and advances to banks</i>	1,219,293	54,493	0	0	0	0	1,273,786
<i>Loans and advances to customers</i>	837,682	14,686	6,856	0	0	0	859,224
<i>Equity shares and investments</i>	0	5,005	0	0	0	0	5,005
<i>Prepayments, accrued income and other debtors</i>	0	0	0	0	0	27,765	27,765
<i>Derivatives</i>	0	0	14,199	2,873	0	0	17,072
Total financial assets	2,056,975	969,836	21,055	2,873	0	27,988	3,078,727
<i>Total non-financial assets</i>							14,600
Total assets							3,093,327
Liabilities							
<i>Deposits from banks</i>	0	0	0	0	0	1,527,449	1,527,449
<i>Other deposits</i>	0	0	0	0	0	1,148,571	1,148,571
<i>Debt securities in issue</i>	0	0	0	0	0	133,092	133,092
<i>Other liabilities, accruals and deferred income</i>	0	0	0	0	0	18,208	18,208
<i>Derivatives</i>	0	0	19,204	0	2,634	0	21,838
<i>Subordinated liabilities</i>	0	0	0	0	0	64,775	64,775
Total financial liabilities	0	0	19,204	0	2,634	2,892,095	2,913,933
<i>Total non-financial liabilities</i>							179,394
Total equity and liabilities							3,093,327

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Bank								
31 December 2009	Loans and receivables	Available for sale	At fair value through profit and loss	Derivatives designated as fair value hedging instruments	Derivatives designated as cash flow hedging instruments	Financial assets and liabilities at amortised cost	Total	
Assets								
Cash, notes and coin	0	0	0	0	0	378	378	
Debt securities	0	1,070,169	0	0	0	0	1,070,169	
Loans and advances to banks	1,572,451	33,029	0	0	0	0	1,605,480	
Loans and advances to customers	569,658	14,666	3,096	0	0	0	587,420	
Equity shares and investments	0	7,022	0	0	0	0	7,022	
Shares in group undertakings	0	0	0	0	0	1	1	
Prepayments, accrued income and other debtors	0	0	0	0	0	15,215	15,215	
Derivatives	0	0	11,116	55	1,394	0	12,565	
Total financial assets	2,142,109	1,124,886	14,212	55	1,394	15,594	3,298,250	
Total non-financial assets							10,629	
Total assets							3,308,879	
Liabilities								
Deposits from banks	0	0	0	0	0	2,050,657	2,050,657	
Other deposits	0	0	0	0	0	885,809	885,809	
Debt securities in issue	0	0	0	0	0	0	0	
Other liabilities, accruals and deferred income	0	0	0	0	0	134,156	134,156	
Derivatives	0	0	4,213	2,582	0	0	6,795	
Subordinated liabilities	0	0	0	0	0	58,509	58,509	
Total financial liabilities	0	0	4,213	2,582	0	3,129,131	3,135,926	
Total non-financial liabilities							172,953	
Total equity and liabilities							3,308,879	

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Bank				<i>Derivatives designated as fair value hedging instruments</i>	<i>Derivatives designated as cash flow hedging instruments</i>	<i>Financial assets and liabilities at amortised cost</i>	
31 December 2008	<i>Loans and receivables</i>	<i>Available for sale</i>	<i>At fair value through profit and loss</i>				<i>Total</i>
Assets							
<i>Cash, notes and coin</i>	0	0	0	0	0	223	223
<i>Debt securities</i>	0	902,137	0	0	0	0	902,137
<i>Loans and advances to banks</i>	1,219,293	54,493	0	0	0	0	1,273,786
<i>Loans and advances to customers</i>	837,682	14,686	6,856	0	0	0	859,224
<i>Equity shares and investments</i>	0	5,005	0	0	0	0	5,005
<i>Shares in Group undertakings</i>	0	0	0	0	0	1	1
<i>Prepayments, accrued income and other debtors</i>	0	0	0	0	0	27,765	27,765
<i>Derivatives</i>	0	0	14,199	2,873	0	0	17,072
Total financial assets	2,056,975	976,321	21,055	2,873	0	27,989	3,085,213
<i>Total non-financial assets</i>							14,600
Total assets							3,099,813
Liabilities							
<i>Deposits from banks</i>	0	0	0	0	0	1,527,449	1,527,449
<i>Other deposits</i>	0	0	0	0	0	1,148,576	1,148,576
<i>Debt securities in issue</i>	0	0	0	0	0	3,000	3,000
<i>Other liabilities, accruals and deferred income</i>	0	0	0	0	0	155,152	155,152
<i>Derivatives</i>	0	0	19,204	0	2,634	0	21,838
<i>Subordinated liabilities</i>	0	0	0	0	0	64,775	64,775
Total financial liabilities	0	0	19,204	0	2,634	2,898,952	2,920,790
<i>Total non-financial liabilities</i>							179,023
Total equity and liabilities							3,099,813

Of the total £14,212,000 (2008: £21,055,000) assets at fair value through the profit and loss account, £10,998,000 (2008: £14,199,000) represents financial assets and derivatives held for trading purposes, and £3,214,000 (2008: £6,856,000) financial assets designated as such at inception. Of the total £4,213,000 (2008: £19,204,000) liabilities at fair value through the profit and loss account, £4,213,000 (2008: £19,204,000) represents financial liabilities and derivatives held for trading purposes, and £Nil (2008: £Nil) financial liabilities designated as such at inception.

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33. Foreign currency assets / liabilities

Foreign currency assets and liabilities for the Group and the Bank were as follows:

Group 31 December 2009	Sterling	Dollars	Euro	Other currencies	Total
Total assets	829,471	1,626,562	748,108	98,551	3,302,692
Total equity and liabilities	(745,904)	(1,971,125)	(537,332)	(48,331)	(3,302,692)
Derivatives (at contract value)	(83,167)	344,266	(210,594)	(50,505)	0
Net exposures	400	(297)	182	(285)	
Contingent liabilities and other commitments	39,484	361,701	570,919	47,376	1,019,480
<i>Group</i> <i>31 December 2008</i>	<i>Sterling</i>	<i>Dollars</i>	<i>Euro</i>	<i>Other currencies</i>	<i>Total</i>
Total assets	694,077	1,769,980	523,902	105,368	3,093,327
Total equity and liabilities	(726,634)	(1,824,083)	(470,336)	(72,274)	(3,093,327)
Derivatives (at contract value)	32,593	54,190	(54,127)	(32,656)	0
Net exposures	36	87	(561)	438	
Contingent liabilities and other commitments	47,259	499,700	581,994	62,214	1,191,167
Bank 31 December 2009	Sterling	Dollars	Euro	Other currencies	Total
Total assets	829,472	1,632,748	748,108	98,551	3,308,879
Total equity and liabilities	(745,905)	(1,977,311)	(537,332)	(48,331)	(3,308,879)
Derivatives (at contract value)	(83,167)	344,266	(210,594)	(50,505)	0
Net exposures	400	(297)	182	(285)	
Contingent liabilities and other commitments	39,484	361,701	570,919	47,376	1,019,480
<i>Bank</i> <i>31 December 2008</i>	<i>Sterling</i>	<i>Dollars</i>	<i>Euro</i>	<i>Other currencies</i>	<i>Total</i>
Total assets	693,707	1,776,836	523,902	105,368	3,099,813
Total equity and liabilities	(726,264)	(1,830,939)	(470,336)	(72,274)	(3,099,813)
Derivatives (at contract value)	32,593	54,190	(54,127)	(32,656)	0
Net exposures	36	87	(561)	438	
Contingent liabilities and other commitments	47,259	499,700	581,994	62,214	1,191,167

The Group's policies for managing the risk of exchange revaluations on foreign currency assets and liabilities are explained in Note 4.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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34. Legal proceedings

The Group does not consider that the outcomes of any proceedings against it, either individually or in aggregate, are likely to have a material effect on its financial position.

35. Consolidated segmental report

The Group has five reportable segments as described below, which are the Group's principal operating departments. While sharing customers in common, the departments offer different products and services with different risk and operational characteristics. Internal management information is constructed to measure separately the operational and risk characteristics of these departments, together with the resources they consume, and the financial results which they produce. The following summary describes the operations of each of the Group's reportable segments:-

- **Trade Finance.** The provision of secured payment and other guarantee type facilities in support of the international trade ambitions of its customers represents the Group's principal franchise. The majority of these customers are located in the countries of North Africa and the Eastern Mediterranean which form the Group's geographic niche.
- **Banking Services.** The Group acts as an important banking correspondent for its customers providing tailored account and international payment services.
- **Lending.** The Group undertakes lending both in support of its customers ambitions, but also in support of projects or investments in the wider Arab world.
- **Treasury.** In addition to servicing the Group's own funding and market risk management requirements, the Treasury also provides access to the international financial markets for the Group's customers. The Treasury also assumes market risk by way of trading activities within agreed limitations.
- **Other.** This includes items not specifically allocated to segments. The principal item is the interest earned on assets which have been funded from non interest bearing sources such as equity capital (described as earnings on free capital), less the difference between the cost of deposits and other sources of longer term funding (such as issued subordinated debt), and the income earned from the assets funded by those sources (described as net infrastructure costs)

Information regarding the results of each reportable segment is included below. Performance is measured based on net segment profit as included in the internally generated management information utilised by the board of directors, and by executive management. Segment profit is stated after charging (or crediting) interest between the segments in respect of the segment assets or liabilities which either require or generate funding. There are no other significant transactions between segments.

Segment information regarding the Bank is not presented as such information is not distinguished in reporting to either the board of directors or to executive management.

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Group 2009	Trade Finance	Banking Services	Lending	Treasury	Other	Total
Net interest income	494	2,245	8,340	10,911	1,910	23,900
Net fee and commission income	19,147	1,790	25	(536)	(333)	20,093
Net trading income	0	0	0	7,818	0	7,818
Other operating expense	0	0	0	0	(66)	(66)
Total Operating income	19,641	4,035	8,365	18,193	1,511	51,745
Directly attributable segment expenses	(4,844)	(622)	(1,698)	(2,297)	0	(9,461)
Net charge for impairment losses	0	0	(31,527)	0	2,071	(29,456)
Net segment profit / (loss)	14,797	3,413	(24,860)	15,896	3,582	12,828
Common costs not attributable to segments						(7,973)
Profit before income tax						4,855

BALANCE SHEET

Segment assets	30,934	17,746	535,300	2,685,846	32,866	3,302,692
Segment liabilities	0	622,383	0	2,320,873	190,163	3,133,419
Contingent liabilities and other commitments	1,004,606	0	14,874	0	0	1,019,480

Group 2008	Trade Services	Banking	Lending	Treasury	Other	Total
Net interest income	224	4,564	7,711	8,933	5,706	27,138
Net fee and commission income	13,557	1,435	114	(323)	(601)	14,182
Net trading income	0	0	0	9,838	0	9,838
Gains less losses from available for sale financial assets	0	0	0	0	551	551
Other operating income	0	0	0	0	229	229
Total Operating income	13,781	5,999	7,825	18,448	5,885	51,938
Directly attributable segment expenses	(4,646)	(1,186)	(2,029)	(2,970)	0	(10,831)
Net charge for impairment losses	60	0	(702)	0	(183)	(825)
Net segment profit	9,195	4,813	5,094	15,478	5,702	40,282
Common costs not attributable to segments						(8,350)
Profit before income tax						31,932

BALANCE SHEET

Segment assets	55,177	33,709	805,453	2,151,618	47,370	3,093,327
Segment liabilities	0	594,515	0	2,103,343	220,056	2,917,914
Contingent liabilities and other commitments	1,126,459	0	64,708	0	0	1,191,167

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Substantially all of the assets of the Group are held in the United Kingdom. However, many of the Group's customers are domiciled overseas. Directors and executive management monitor the Group's sources of revenue by reference to the geographic location of the customer. The analysis of total operating income below is based on the location of the customer giving rise to the revenue. As for the segmental information shown above, customer income is stated after charging (or crediting) interest in respect of assets which either require or generate income. Geographic information for the Bank is not presented as such information is not distinguished in reporting to either the board of directors or to executive management.

Group	2009	2008
United Kingdom	14,725	13,884
Other European Union	2,031	2,184
Middle East and Africa	33,583	34,373
Other	1,406	1,497
	<u>51,745</u>	<u>51,938</u>

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36. Related parties

The Group regards the following as being related parties in accordance with IAS24:

- The Group's regulator regards Libyan Foreign Bank and the HSBC Group as being connected to the Group in view of the size of their shareholdings. The Group therefore considers these parties to be in a position to exert significant influence over the Group. The Group enters into commercial transactions in the ordinary course of business with its shareholders on an arm's-length basis.
- The Bank's wholly owned subsidiary, BACB (Jersey) Limited, is a related party under the terms of IAS24.
- Key management personnel, including the Group's directors, and identified Executive Managers.

Transactions with related parties were as follows:

	Nature of related party		
	Significant influence	Subsidiary company	Key management personnel
Balances at 31 December 2009			
Loans and advances	9,449	117,636	2
Deposits	817,591	117,636	0
Subordinated liabilities	52,839	0	0
Derivatives (contract amount)	11,672	0	0
Contingent liabilities and other commitments	32,283	0	0
Volumes executed during 2009			
Loans and advances	27,722,251	0	0
Deposits	19,725,253	0	0
Subordinated liabilities	0	0	0
Derivatives (contract amount)	7,058,769	0	0
Contingent liabilities and other commitments	25,817	0	0
Included in income statement			
Interest receivable	609	1,902	0
Interest payable	5,166	1,902	0
Fees and commissions receivable	913	0	0
Fees and commissions payable	280	0	0
Balances at 31 December 2008			
Loans and advances	101,942	130,092	3
Deposits	537,006	130,092	0
Subordinated liabilities	58,067	0	0
Derivatives (contract amount)	35,486	0	0
Contingent liabilities and other commitments	37,300	0	0
Volumes executed during 2008			
Loans and advances	16,299,515	0	0
Deposits	15,691,888	0	0
Subordinated liabilities	34,281	0	0
Derivatives (contract amount)	5,505,487	0	0
Contingent liabilities and other commitments	42,879	0	0
Included in income statement			
Interest receivable	102	4,182	0
Interest payable	15,364	4,182	0
Fees and commissions receivable	494	0	0
Fees and commissions payable	186	0	0

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In addition, the Group has entered into the following further related party transactions:

- d) The Group's Chief Executive is seconded from HSBC Group, and the Deputy Chief Executive from Libyan Foreign Bank. The full employment costs of £662,000 (2008: £645,000) for these long-term arrangements were met by the Group. Other executives are seconded from time to time by either party for varying periods. The costs of these secondments amounted to £310,000 (2008: £233,000).
- e) The Bank has issued undertakings in respect of the obligations of BACB (Jersey) Limited. In turn, that company has lent the proceeds arising on the issue of listed securities to the Bank by way of a promissory note, on terms which match those of the securities.
- f) Key management compensation:

	2009	2008
Attendance and standing fees	402	374
Salaries and other short term benefits	1,626	1,485
Post-employment benefits	404	363
	<u>2,432</u>	<u>2,222</u>

- g) At 31 December 2009 £2,000 was outstanding by way of interest free loans due from two Executive Managers of the Group, and no amount was outstanding from any director. (At 31 December 2008 £3,000 was outstanding by way of interest free loans due from one Executive Manager of the Group, and no amount was outstanding from any director).

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British Arab Commercial Bank plc
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