

United Kingdom  
Credit Analysis

**British Arab Commercial Bank**

**Ratings**

	Current Ratings
<b>Foreign Currency</b>	
Long-Term IDR	A-
Short-Term IDR	F2
Individual Rating	B/C
Support Rating	2
<b>Sovereign Risk</b>	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

**Outlooks**

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

**Financial Data**

	31 Dec 08	31 Dec 07
<b>British Arab Commercial Bank</b>		
Total assets (USDm)	4,509.4	5,064.3
Total assets (GBPm)	3,093.3	2,527.6
Total equity (GBPm)	175.4	169.1
Operating profit (GBPm)	32.0	21.4
Published net income (GBPm)	22.5	14.8
Comprehensive income (GBPm)	23.2	14.1
Operating ROAA (%)	1.1	0.9
Operating ROAE (%)	18.6	13.0
Eligible capital/weighted risks (%)	12.2	14.1
Tier 1 ratio (%)	11.7	13.4

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**Rating Rationale**

- The ratings of British Arab Commercial Bank (BACB) reflect its comfortable liquidity and capitalisation, and ties with the HSBC group. They also take into account its specialised franchise, involvement in a few key markets (some of which are emerging economies with strained international relations) and the bank's relatively small size, as well as large concentrations in exposures and deposits and some deterioration in asset quality, although from sound levels.
- BACB's earnings are sensitive to the economic situation in the Middle East and North Africa (MENA) region and the USD/GBP foreign exchange rate as costs are mainly in GBP but revenues are mainly in USD and EUR. Fitch Ratings believes that 2009 will be a challenging year for BACB given higher expected loan impairment charges which could significantly affect profitability. Slower growth in some MENA economies is also expected to lower business growth, thereby dampening core bank revenues and increasing pressure on profitability.
- Credit is the most significant risk to which BACB is exposed, primarily relating to sovereigns, banks and large corporates in the MENA region. Due to the bank's in-depth knowledge of the region, asset quality has been good to date though impaired lending increased significantly in H109 to 5.1%. Borrower concentrations remain a concern.
- Market risk mainly arises from interest rate and FX risks but the bank has managed these prudently to date. Additionally, Fitch considers BACB's investment portfolio to be fairly low risk as it primarily consists of certificates of deposit (CDs) and highly rated senior issues of financial institutions.
- Short-term deposits from a limited number of clients, financial institutions and central banks in the MENA region represent the vast majority of the funding mix. However, core deposits have proved stable over time and during the recent international financial crisis, and liquidity is managed conservatively.
- Capital ratios were good with a total regulatory capital ratio of 16.4% and a Tier 1 ratio of 11.7% at end-2008, although this has to be viewed in the context of large borrower concentrations. BACB also uses the Internal Capital Adequacy Assessment Process (ICAAP) when assessing capital requirements.

**Support**

- BACB's main shareholders have demonstrated their commitment to the bank in the past, through their willingness to put up new capital and the provision, when required, of credit lines. Fitch believes there would be a high probability of further shareholder support, if necessary.

**Key Rating Drivers**

- A significant drop in the bank's asset quality leading to pressure on profitability and capital ratios would lead to downward pressure on the bank's ratings.

**Profile**

BACB is a niche London-based bank. Its core clients are sovereigns and banks in MENA, and OECD clients who have interests there. The bank provides trade finance, commercial lending, banking and treasury services. It is 48.9%-owned by HSBC Bank Middle East, a subsidiary of HSBC Group. Other shareholders are state-owned Arab institutional investors, the Libyan Foreign Bank being the largest with 26.3%.

- Niche bank providing financial services to MENA institutions
- Shareholder base helps to attract new business
- Efforts to diversify business activities though trade finance remains the core business

## Profile

Based in London, BACB was established in 1972. It is a specialised provider of short-term trade finance, commercial lending and international payment and treasury services to wholesale customers in the MENA region. The bank has representative offices in Algeria and Libya, and a wholly owned subsidiary in Jersey, through which it issues listed securities.

BACB operates as an autonomous entity, but nevertheless benefits from close ties with its shareholders. The two main shareholders are HSBC Middle East (HBME: rated 'AA-'/Outlook Stable, see separate Fitch report) and the Libyan Foreign Bank (LFB; 100% owned by the Libyan Central Bank) (Libya: rated 'BBB+'/Outlook Stable, see separate Fitch report) with stakes of 48.9% and 26.3%, respectively. Other shareholders include the central banks of Egypt and Morocco and Banque Extérieure d'Algérie (an Algerian state owned commercial bank) with about 8.3% each. BACB benefits from its Arab shareholders in developing client relationships in its key markets while HSBC provides the bank with network support. BACB's CEO is seconded from HSBC and the deputy chief executive is seconded from LFB. The deputy chairman of HBME is a director of the bank. The bank also added a new non-executive director in 2009. In April 2009, HSBC (through HBME) publicly announced that it might reduce its stake in BACB. These shares would have then been acquired by LFB. However, Fitch understands that discussions between the parties have terminated and BACB's management does not now expect any significant change in the shareholder structure.

## Strategy

BACB's core activity is trade finance, focused mainly on the countries of the MENA region, which have benefited considerably from the high oil prices of recent years. BACB's clients in most of these countries are mainly government-owned entities and relatively large corporates and financial institutions. This, combined with BACB's selective stance, limits the number of clients available and increases the concentration risk. The bank's second-tier core markets are neighbouring Arab and sub-Saharan countries. Exposures in the latter are kept low and may be cash secured. In these markets BACB primarily finances import flows. In addition to the above, the bank provides treasury services to its clients in the MENA region. It is building up a strong FOREX and capital markets franchise to cater to the needs of its clients. Historically, BACB has been involved in project and other term lending activities, but these have been reduced as the bank adjusts to the new liquidity requirements being introduced by the FSA, and in anticipation of the maturity of issued term debt (see Funding below). BACB has also started building risk capacity for West African markets providing trade finance services in Mauritania and selected sub-Saharan countries.

The bank aims to start offering private banking services to its main clients. Headcount growth stabilised as business activity has somewhat levelled off in 2008 and 2009. The bank employed 147 staff at end-June 2009.

## Presentation of Accounts

The financial statements in this report are prepared under IFRS. The bank's 2008 financial statements were audited by KPMG and were unqualified. The bank does not publish interim results.

## Performance

Operating profit more than doubled in 2008 thanks to strong FX income and growth in trade finance activities. Profits also benefited from the weakening of the GBP. Performance remains sensitive to FX risk, as revenue is mainly earned in USD and EUR, whereas expenses are largely in GBP. However, the bank partially hedges its downside risk through the purchase of currency options.

- Profitability remains sensitive to FX risk
- Higher expected loan impairment charges from a few large problematic exposures could significantly affect 2009 profitability
- Improving cost efficiency

BACB's performance has not been directly affected by the market turmoil in relation to sub-prime mortgages and related investment vehicles due to the nature of its business and the markets in which it mainly operates. However, the international financial crisis, which led to lower oil prices and fewer foreign direct investments, caused the economies in the MENA region to slow. This in turn will result in lower growth in business volumes for the bank and might also lead to some problematic exposures which could significantly affect BACB's profitability in 2009.

### Revenue

Net interest revenue (NIR) rose significantly in 2008 (2008: up 42%; 2007: up 21%) as the bank benefited from the widening of credit and other spreads during market turbulence, combined with the beneficial impact of falling benchmark rates. Around 70% of interest income was from treasury activities (bank placements and the securities portfolio) with the remainder being provided from the bank's loan portfolio. NIR continues to be the main driver of operating income and accounted for GBP27m (52% of total revenue) in 2008. The net interest margin and performance ratios (operating ROAE and ROAA) are modest, reflecting BACB's sovereign and institutional client base and the placement of the bank's increasing surplus funds in the inter-bank market.

Fees and commissions also form an important revenue source (2008: 27% of total revenues) for the bank. This is primarily driven by the bank's trade finance business, which accounted for around 80% of BACB's net fee income. Fitch expects this form of income to continue to be strong in 2009, but for growth to slow given lower anticipated business volumes as the MENA economies slow. The balance of operating income was mainly from FX dealing which is broadly equally split into two categories: proprietary trading and customer driven transactions. This form of income increased by 79% in 2008 to GBP7.9m reflecting increased flows of customer business, and the widening of trading spreads in highly volatile and disrupted markets.

### Non-Interest Expenses

Non-interest expenses grew by 25% in 2008 on 2007, mainly as a result of performance related remuneration. The bank's cost/income ratio nonetheless improved in 2008 to 36.8% (2007: 43.5%), aided by the weaker GBP. This ratio compares well with that of international banks, but might be under pressure in 2009, despite tighter cost controls, as revenue growth falls. Additionally, any change in the GBP/USD FX rate would affect the cost/income ratio.

### Impairment Charges

Gross impairment charges increased by 16% in 2008 to GBP0.95m as the bank took on new collective provisions. The bank also saw some recoveries in 2008 resulting in a net loan impairment charge of GBP0.83m. This compares less favourably to 2007 when the bank registered GBP1.5m in reversals following the release of some collective reserves, which were difficult to justify under IFRS. Fitch expects BACB to post additional large loan impairment charges in 2009 as the credit cycle worsens in the MENA region and given a few large problematic exposures at the bank. At end-June 2009, the bank had exposures to two troubled Saudi trading groups amounting to GBP31.6m.

### Prospects

BACB's good local knowledge and established relationships with regional governments, leading local corporates and institutions should allow it to tap into new business in the MENA region. Fitch also welcomes the bank's continuous expansion in trade finance activities in other countries in Africa. The main challenge for BACB would be to generate enough profits to be able to absorb higher expected loan impairment charges, particularly as growth in the MENA economies slows. Margins are also expected to be under pressure given lower interest rates

(especially as the loan book runs off) and the expected regulatory requirement to hold a larger buffer of very highly rated liquid assets for liquidity purposes. Additionally, the stronger competition in the region, particularly in government-related projects where BACB is highly active, is likely to increase margin pressure. Tighter cost controls will alleviate some pressure on profitability.

- Some contraction in the loan portfolio following recent rapid growth
- Mainly exposed to credit and to a lesser extent FX risks
- Asset quality might deteriorate due to a few large problematic exposures
- Considerable borrower concentration

### Risk Management

BACB's risk management procedures and controls have been adapted from HSBC. An independent risk management unit consisting of 12 people plus the head of risk management is responsible for identifying all the risks to which the bank is exposed and ensuring appropriate policies and controls are in place to mitigate those risks. The head of risk management reports to the chief executive of the bank and to the audit committee.

Although some of the markets in which BACB operates are challenging, featuring difficult international relations, BACB has a good understanding of the countries in which it does business and a policy of only dealing with counterparties it knows well. In addition, when BACB expands into new markets, it limits its business in these countries to partly or wholly cash-collateralised trade finance with quality names, and for modest amounts. BACB continues with its cautious approach to risk taking, however given the large borrower concentrations, a few problematic exposures could result in a significant worsening in asset quality and lower profitability.

### Credit Risk

Credit is the most significant risk to which BACB is exposed. Individual approvals up to authorised limits are undertaken by management, while larger facilities are approved by a credit committee, consisting of BACB directors, including one from HSBC Bank Middle East. A credit forum reviews problem exposures and potential impaired loans, and all credit approvals are subject to subsequent review by the bank's board.

As reputation is very important to BACB, the bank has a risk-based approach to the countries to which it is exposed. BACB uses a grading system for countries and operates a behavioural monitoring system under which activity on all the accounts is reviewed monthly. This system was enhanced in 2006 to enable the relationship managers to "drill-down" into historic detailed information.

BACB's accounts show that 2008 gross loans grew by a strong 32% in GBP terms (2007: 38%) to GBP865m. Excluding FX revaluations following the strengthening of the USD against the GBP (end-2008: GBP/USD was 1.46, end-2007: GBP/USD was 2.0), the loan book would have contracted by 11% yoy in 2008. The contraction in the loan book started in H208 as the international financial crisis intensified and the bank restricted its lending activity, and this has continued in 2009. Lending is mainly in the form of term lending (44%), project finance (21%) and short-term commercial advances (15%, primarily the financing of letters of credit for periods up to one year).

Off-balance-sheet items such as trade finance facilities are also a source of credit risk. Contingent liabilities and other commitments grew 47% yoy to GBP1.2bn at end-2008 (the equivalent of about 39% of total assets). In USD terms, contingent liabilities increased by 12% primarily driven by an increase in letters of credit, which accounted for 68% of off-balance-sheet activities at end-2008. Guarantees and acceptances accounted for 23% and 3% of total off-balance sheet exposures at end-2008, with the balance being credit lines and other commitments, which saw a 24% decline in 2008. Fitch understands that losses arising from these activities have been minimal for many years.

In terms of geography, the loan portfolio is mainly exposed to the Gulf region, which represented 59% of the lending portfolio at end-2008 (exposure to the UAE

accounted for around 38% of the GCC exposure). Tunisia, the UK and Egypt each accounted for around 8% of the portfolio at end-2008. The only noticeable growth in the loan portfolio came from the Gulf and Tunisia. Off-balance-sheet activity is most important in Libya (25%), Algeria (15%) and Syria (9%) in the MENA region. The remainder is broadly split between Western Europe and other countries in the Middle East and Africa. Of BACB's total exposures, around 71% are to financial institutions. Of the remainder, the main concentrations by sector were to energy (39%) and commodities (11%). Fitch understands that very limited new lending is taking place and that the bank does not expect to re-enter the term lending market, other than for projects closely associated with its trade finance franchise in the medium-term.

As BACB generally lends to the better-quality credits in these markets, typically the large public-sector banks, governments, public agencies or infrastructure projects, this leads to significant borrower concentration. At end-June 2009 the 20 largest non-interbank exposures accounted for about GBP357m (or 12% of BACB's total exposures), the equivalent of 204% of BACB's equity.

At end-2008 the currency mix of the loan book was essentially unchanged, with about 84% of lending in USD; the vast majority of the remainder was broadly split between EUR and JPY. Off-balance sheet exposures were mainly in EUR (51%) and USD (39%).

### Other Earning Assets

These remain very significant and accounted for 70.2% of BACB's balance sheet, totalling GBP2.2bn at end-2008. Interbank assets amounted to GBP1.3bn, the bulk of which are placed with highly rated Western European banks. BACB revised its limits to individual interbank exposures in 2008 to 75% of the bank's equity from 100% in prior years. Fitch understands that BACB has had no problematic interbank exposures to date. "Other securities and investments" includes a portfolio of unlisted certificates of deposit (CDs; end-2008: GBP773m) issued by western European, investment-grade counterparties. The bank also holds a portfolio of listed debt securities (end-2008: GBP122m), largely made up of OECD corporate and bank floating and fixed rate notes. Fitch notes that around 11% of the investment portfolio is OECD government risk. BACB did not take any impairment on its investment portfolio and Fitch does not expect the bank to require any significant impairment, given its relatively low-risk investments.

### Loan Loss Experience and Reserves

BACB has conservative provisioning policies and the bank is continuously monitoring its credit exposures recognising an impairment when it arises. At end-2008 impaired loans were very low (0.4% of gross loans) and comfortably covered (163%) by mainly specific impairment reserves. Given a couple of large troubled Saudi exposures, impaired loans increased markedly to 5.1% of gross loans at end-H109. Fitch notes that asset quality may further deteriorate as the MENA economies (and in particular the GCC) economies slow.

### Market Risk

This is monitored daily and reviewed monthly by the bank's asset and liability committee. Trading activity in BACB primarily comprises FX and debt securities trading, but also includes trading of vanilla derivatives. Most trading activity is customer driven. Market risk arises primarily from the bank's FX and interest-rate exposure. Interest-rate risk is monitored on a daily basis by measuring the sensitivity of changes in the present value of committed future cash flows to a 0.01% change in interest rates (PVBP). In 2008, this value was at a maximum of GBP16,864. BACB also benefits from the fact that around half of its assets mature in less than a month (primarily due to the large interbank placements), which helps the bank to re-price its assets fairly rapidly if necessary. FX risk also arises because revenue is in USD and costs are in GBP; however, the bank has partially hedged its

downside risk through the purchase of currency options. FX risk in its trading book is controlled using overnight, intra-day and stop-loss limits. Trading limits are conservative. BACB uses derivatives to manage risks in both the trading and banking books. At end-June 2009 BACB's net open FX position was low at less than 1% of total equity.

### Operational Risk

In January 2008 BACB implemented the basic indicator approach when measuring operational risk under Basel II. All operational risk losses are reported to the Asset and Liability Committee monthly and the reported amounts are typically small. BACB also registers near misses to promote improvements and places a strong emphasis on "know your customer" due diligence of customers.

## Funding and Capital

### Funding and Liquidity

The primary source (around 90%) of funding at BACB is deposits from the banks and institutions that make up its customer base in the MENA region. The deposit base is very concentrated by geography and customers, with the six largest depositors accounting for 77% of total deposits at end-April 2009. Deposits are mainly short-term with about 73% of the deposit base due within one month and 95% due within three months at end-April 2009. Nevertheless, BACB has a core balance from established customers, which it considers stable for liquidity purposes. BACB also issued in 2005 USD200m of floating-rate notes due in 2010, through its wholly owned Jersey subsidiary, to help lengthen the bank's maturity profile slightly. The bank also issued USD50m of subordinated debt in 2008 (due in 2018). Fitch understands that management does not intend to refinance the maturing notes in current markets.

Liquidity is very comfortable, with loan/deposit and loan/asset ratios of 75% and 28%, respectively, at end-2008. BACB continues to place most short-term deposits it receives from its clients into the interbank market and additional liquidity is available through a portfolio of investment-grade securities (see "Other Earning Assets" above). It should be noted that BACB ran a negative liquidity gap at end-2008 in the up to three-month time band, which was equal to 22% of total liabilities in that time band. However, this analysis is based on contractual maturity and in practice BACB's large deposits tend to be stable. The bank also held liquid securities which covered this gap.

### Capital

BACB follows the Standardised Approach to credit risk and at end-2008 the Tier 1 and total regulatory capital adequacy ratios stood at comfortable levels of 11.7% and 16.5%, respectively (end-2007: 13.4% and 15.3%, respectively). The bulk of tier 2 capital is related to the subordinated debt. At end-H109, the regulatory capital ratio improved to 17.2% as the bank benefited from zero risk-weighted reverse repo transactions increasing to USD944m (2008: USD179m). The Fitch eligible capital ratio was also satisfactory at 12.2% at end-2008, despite its downward trend following rapid loan growth. Fitch notes that, since January 2008, BACB has also been assessing capital requirements under Basel II using ICAAP (which also include Pillar 2 risks unlike the calculations above). At end-June 2009, the bank's ICAAP calculations showed headroom of 34% on current regulatory capital ratios and the bank would like to maintain a minimum of 10% of headroom. The ICAAP calculation is, however, still subject to the FSA's approval. The bank is also taking steps to control further growth of short-term deposits that consume capital when placed back into the market without generating any real benefits. The dividend pay-out has historically been around 50% of normal profits, although this was lower in respect of 2008 in order to keep capital ratios comfortable. The bank paid GBP7m dividends in 2009, (the equivalent of 31% of 2008 net income).

- Very highly concentrated but stable funding source, despite being contractually short term
- Abundant liquidity
- Good capital ratios

**BRITISH ARAB COMMERCIAL BANK**

**Income Statement**

	31 Dec 2008				31 Dec 2007			31 Dec 2006		31 Dec 2005	
	Year End USDm	Year End GBPm	As % of Earning Assets	Average GBPm	Year End GBPm	As % of Earning Assets	Year End GBPm	As % of Earning Assets	Year End GBPm	As % of Earning Assets	
	Original	Original	Original	Original	Original	Original	Original	Original	Original	Original	
<b>Income Statement</b>											
1. Interest Income on Loans	55.7	38.2	1.38	39.7	41.1	1.67	31.3	1.36	21.6	-	
2. Other Interest Income	129.0	88.5	3.20	86.1	83.7	3.41	80.7	3.52	41.6	-	
3. Dividend Income	n.a.	n.a.	-	n.a.	n.a.	-	0.0	0.00	0.7	-	
<b>4. Gross Interest and Dividend Income</b>	<b>184.7</b>	<b>126.7</b>	<b>4.58</b>	<b>125.8</b>	<b>124.8</b>	<b>5.08</b>	<b>112.0</b>	<b>4.88</b>	<b>63.9</b>	-	
5. Interest Expense on Customer Deposits	134.6	92.3	3.34	92.9	93.4	3.80	87.3	3.81	41.9	-	
6. Preferred Dividends Paid & Declared	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
7. Other Interest Expense	10.6	7.3	0.26	9.8	12.3	0.50	8.9	0.39	7.0	-	
<b>8. Total Interest Expense</b>	<b>145.2</b>	<b>99.6</b>	<b>3.60</b>	<b>102.7</b>	<b>105.7</b>	<b>4.30</b>	<b>96.2</b>	<b>4.19</b>	<b>48.9</b>	-	
<b>9. Net Interest Income</b>	<b>39.5</b>	<b>27.1</b>	<b>0.98</b>	<b>23.1</b>	<b>19.1</b>	<b>0.78</b>	<b>15.8</b>	<b>0.69</b>	<b>15.0</b>	-	
10. Net Gains (Losses) on Trading and Derivatives	14.3	9.8	0.35	7.4	4.9	0.20	3.6	0.16	3.0	-	
11. Net Gains (Losses) on Other Securities	0.9	0.6	0.02	0.3	-0.1	0.00	0.0	0.00	0.0	-	
12. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
13. Net Insurance Income	0.0	0.0	0.00	n.a.	n.a.	-	n.a.	-	n.a.	-	
14. Net Fees and Commissions	20.6	14.1	0.51	12.4	10.7	0.44	11.7	0.51	10.2	-	
15. Other Operating Income	0.4	0.3	0.01	0.4	0.6	0.02	0.4	0.02	0.1	-	
<b>16. Total Non-Interest Operating Income</b>	<b>36.2</b>	<b>24.8</b>	<b>0.90</b>	<b>20.5</b>	<b>16.1</b>	<b>0.66</b>	<b>15.7</b>	<b>0.68</b>	<b>13.3</b>	-	
17. Personnel Expenses	11.8	8.1	0.29	7.6	7.1	0.29	6.8	0.30	6.5	-	
18. Other Operating Expenses	16.0	11.0	0.40	9.6	8.2	0.33	7.7	0.34	6.8	-	
<b>19. Total Non-Interest Expenses</b>	<b>27.8</b>	<b>19.1</b>	<b>0.69</b>	<b>17.2</b>	<b>15.3</b>	<b>0.62</b>	<b>14.5</b>	<b>0.63</b>	<b>13.3</b>	-	
20. Equity-accounted Profit/ Loss - Operating	0.0	0.0	0.00	n.a.	n.a.	-	n.a.	-	n.a.	-	
<b>21. Pre-Impairment Operating Profit</b>	<b>47.8</b>	<b>32.8</b>	<b>1.19</b>	<b>26.3</b>	<b>19.9</b>	<b>0.81</b>	<b>17.0</b>	<b>0.74</b>	<b>15.0</b>	-	
22. Loan Impairment Charge	1.2	0.8	0.03	-0.4	-1.5	-0.06	-0.5	-0.02	-9.1	-	
23. Other Credit Impairment Charges	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
<b>24. Operating Profit</b>	<b>46.6</b>	<b>32.0</b>	<b>1.16</b>	<b>26.7</b>	<b>21.4</b>	<b>0.87</b>	<b>17.5</b>	<b>0.76</b>	<b>24.1</b>	-	
25. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
26. Non-recurring Income	n.a.	n.a.	-	n.a.	n.a.	-	2.8	0.12	19.1	-	
27. Non-recurring Expense	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
28. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
29. Other Non-operating Income and Expenses	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
<b>30. Pre-tax Profit</b>	<b>46.6</b>	<b>32.0</b>	<b>1.16</b>	<b>26.7</b>	<b>21.4</b>	<b>0.87</b>	<b>20.3</b>	<b>0.89</b>	<b>43.2</b>	-	
31. Tax expense	13.8	9.5	0.34	8.1	6.6	0.27	6.3	0.27	11.9	-	
<b>32. Net Income</b>	<b>32.8</b>	<b>22.5</b>	<b>0.81</b>	<b>18.7</b>	<b>14.8</b>	<b>0.60</b>	<b>14.0</b>	<b>0.61</b>	<b>31.3</b>	-	
33. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
34. Change in Value of AFS Investments	1.0	0.7	0.03	0.0	-0.7	-0.03	-0.7	-0.03	0.7	-	
35. Currency Translation Differences	0.0	0.0	0.00	n.a.	n.a.	-	n.a.	-	n.a.	-	
36. Remaining OCI Gains/(losses)	0.0	0.0	0.00	n.a.	n.a.	-	n.a.	-	n.a.	-	
<b>37. Fitch Comprehensive Income</b>	<b>33.8</b>	<b>23.2</b>	<b>0.84</b>	<b>18.7</b>	<b>14.1</b>	<b>0.57</b>	<b>13.3</b>	<b>0.58</b>	<b>32.0</b>	-	
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-	
39. Memo: Net Income after Allocation to Non-controlling Interests	32.8	22.5	0.81	18.7	14.8	0.60	14.0	0.61	31.3	-	
40. Memo: Common Dividends Paid & Declared in the Period	n.a.	n.a.	-	n.a.	n.a.	-	7.0	0.31	25.1	-	
Exchange Rate		USD1 = GBP 0.6860			USD1 = GBP 0.4991		USD1 = GBP 0.5094		USD1 = GBP 0.5808		

**BRITISH ARAB COMMERCIAL BANK**  
**Assets & Off-Balance Sheet Items**

	31 Dec 2008				31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Year End	Year End	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	GBPm	Assets	GBPm	GBPm	Assets	GBPm	Assets	GBPm	Assets
	Original	Original	Original	Original	Original	Original	Original	Original	Original	Original
<b>A. Loans</b>										
1. Residential Mortgage Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Other Consumer/ Retail Loans	n.a.	n.a.	-	n.a.	13.7	0.54	n.a.	-	n.a.	-
3. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	641.0	25.36	463.4	18.74	393.1	17.95
4. Other Loans	1,260.8	864.9	27.96	432.5	0.0	0.00	10.1	0.41	11.6	0.53
5. Less: Reserves for Impaired Loans/ NPLs	8.3	5.7	0.18	5.0	4.3	0.17	5.9	0.24	7.9	0.36
<b>6. Total Loans Net of Reserves</b>	<b>1,252.5</b>	<b>859.2</b>	<b>27.78</b>	<b>754.8</b>	<b>650.4</b>	<b>25.73</b>	<b>467.6</b>	<b>18.91</b>	<b>396.8</b>	<b>18.12</b>
7. Memo: Gross Loans	1,260.8	864.9	27.96	759.8	654.7	25.90	473.5	19.15	404.7	18.48
8. Memo: Impaired Loans included above	5.1	3.5	0.11	3.6	3.7	0.15	4.5	0.18	3.6	0.16
9. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>B. Other Earning Assets</b>										
1. Loans and Advances to Banks	1,856.9	1,273.8	41.18	1,137.3	1,000.8	39.59	1,282.1	51.85	1,173.9	53.61
2. Trading Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Derivatives	24.9	17.1	0.55	17.8	18.5	0.73	2.4	0.10	1.2	0.05
4. Available for Sale Securities	1,312.9	900.6	29.11	855.0	809.3	32.02	681.9	27.58	579.5	26.46
5. Held to Maturity Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
6. At-equity Investments	n.a.	n.a.	-	n.a.	n.a.	-	1.0	0.04	0.9	0.04
7. Other Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>8. Total Securities</b>	<b>1,337.8</b>	<b>917.7</b>	<b>29.67</b>	<b>872.8</b>	<b>827.8</b>	<b>32.75</b>	<b>685.3</b>	<b>27.71</b>	<b>581.6</b>	<b>26.56</b>
9. Memo: Government Securities included Above	140.4	96.3	3.11	n.a.	n.a.	-	n.a.	-	n.a.	-
10. Investments in Property	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
11. Insurance Assets	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
12. Other Earning Assets	n.a.	n.a.	-	n.a.	n.a.	-	0.0	0.00	0.0	0.00
<b>13. Total Earning Assets</b>	<b>4,447.3</b>	<b>3,050.7</b>	<b>98.62</b>	<b>2,764.9</b>	<b>2,479.0</b>	<b>98.08</b>	<b>2,435.0</b>	<b>98.47</b>	<b>2,152.3</b>	<b>98.29</b>
<b>C. Non-Earning Assets</b>										
1. Cash and Due From Banks	0.3	0.2	0.01	0.3	0.3	0.01	0.4	0.02	0.4	0.02
2. Foreclosed Real Estate	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Fixed Assets	14.9	10.2	0.33	10.4	10.6	0.42	11.1	0.45	12.9	0.59
4. Goodwill	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
5. Other Intangibles	1.3	0.9	0.03	0.9	0.9	0.04	0.7	0.03	0.6	0.03
6. Current Tax Assets	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
7. Deferred Tax Assets	n.a.	n.a.	-	n.a.	0.2	0.01	0.4	0.02	0.9	0.04
8. Discontinued Operations	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
9. Other Assets	45.6	31.3	1.01	34.0	36.6	1.45	25.2	1.02	22.7	1.04
<b>10. Total Assets</b>	<b>4,509.4</b>	<b>3,093.3</b>	<b>100.00</b>	<b>2,810.5</b>	<b>2,527.6</b>	<b>100.00</b>	<b>2,472.8</b>	<b>100.00</b>	<b>2,189.8</b>	<b>100.00</b>
<b>D. Off-Balance Sheet Items</b>										
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Liquidity Lines to SPEs	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Guarantees	402.2	275.9	8.92	233.7	191.5	7.58	n.a.	-	n.a.	-
4. Acceptances Reported Off-Balance Sheet	53.5	36.7	1.19	47.6	58.4	2.31	n.a.	-	n.a.	-
5. Committed Credit Lines	94.3	64.7	2.09	74.9	85.0	3.36	n.a.	-	n.a.	-
6. Other Contingent Liabilities	1,186.5	813.9	26.31	645.9	477.8	18.90	600.6	24.29	544.1	24.85
<b>7. Total Business Volume</b>	<b>6,245.9</b>	<b>4,284.5</b>	<b>138.51</b>	<b>3,812.4</b>	<b>3,340.3</b>	<b>132.15</b>	<b>3,073.4</b>	<b>124.29</b>	<b>2,733.9</b>	<b>124.85</b>
<b>8. Memo: Total Weighted Risks</b>	<b>2,092.2</b>	<b>1,435.2</b>	<b>46.40</b>	<b>1,315.0</b>	<b>1,194.8</b>	<b>47.27</b>	<b>1,064.4</b>	<b>43.04</b>	<b>1,064.0</b>	<b>48.59</b>
Exchange Rate		USD1 = GBP 0.6860			USD1 = GBP 0.4991		USD1 = GBP 0.5094		USD1 = GBP 0.5808	

**BRITISH ARAB COMMERCIAL BANK**  
**Liabilities and Equity**

	31 Dec 2008				31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Year End USDm Original	Year End GBPm Original	As % of Assets Original	Average GBPm Original	Year End GBPm Original	As % of Assets Original	Year End GBPm Original	As % of Assets Original	Year End GBPm Original	As % of Assets Original
<b>E. Interest-Bearing Liabilities</b>										
1. Customer Deposits - Current	1,674.6	1,148.7	37.14	1,006.1	863.4	34.16	826.0	33.40	578.0	26.40
2. Customer Deposits - Savings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Customer Deposits - Term	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>4. Total Customer Deposits</b>	<b>1,674.6</b>	<b>1,148.7</b>	<b>37.14</b>	<b>1,006.1</b>	<b>863.4</b>	<b>34.16</b>	<b>826.0</b>	<b>33.40</b>	<b>578.0</b>	<b>26.40</b>
5. Deposits from Banks	2,226.6	1,527.4	49.38	1,391.3	1,255.1	49.66	1,276.0	51.60	1,274.7	58.21
6. Other Deposits and Short-term Borrowings	4.4	3.0	0.10	41.3	79.6	3.15	70.9	2.87	n.a.	-
<b>7. Total Deposits, Money Market and Short-term Funding</b>	<b>3,905.6</b>	<b>2,679.1</b>	<b>86.61</b>	<b>2,438.6</b>	<b>2,198.1</b>	<b>86.96</b>	<b>2,172.9</b>	<b>87.87</b>	<b>1,852.7</b>	<b>84.61</b>
8. Long-term Borrowing	189.7	130.1	4.21	114.8	99.5	3.94	101.6	4.11	121.2	5.53
9. Subordinated Borrowing	94.5	64.8	2.09	43.5	22.2	0.88	22.6	0.91	25.7	1.17
10. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>11. Total Long Term Funding</b>	<b>284.1</b>	<b>194.9</b>	<b>6.30</b>	<b>158.3</b>	<b>121.7</b>	<b>4.81</b>	<b>124.2</b>	<b>5.02</b>	<b>146.9</b>	<b>6.71</b>
12. Derivatives	31.6	21.7	0.70	19.5	17.2	0.68	2.0	0.08	1.9	0.09
13. Trading Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>14. Total Interest Bearing Liabilities</b>	<b>4,221.3</b>	<b>2,895.7</b>	<b>93.61</b>	<b>2,616.4</b>	<b>2,337.0</b>	<b>92.46</b>	<b>2,299.1</b>	<b>92.98</b>	<b>2,001.5</b>	<b>91.40</b>
<b>F. Non-Interest Bearing Liabilities</b>										
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	n.a.	n.a.	-	n.a.	n.a.	-	0.4	0.02	0.0	0.00
4. Current Tax Liabilities	5.8	4.0	0.13	3.8	3.5	0.14	n.a.	-	n.a.	-
5. Deferred Tax Liabilities	0.0	0.0	0.00	0.0	0.0	0.00	2.1	0.08	7.2	0.33
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	10.7	0.43	7.0	0.32
7. Discontinued Operations	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
8. Insurance Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
9. Other Non-interest Bearing Liabilities	26.5	18.2	0.59	18.1	18.0	0.71	1.3	0.05	1.6	0.07
<b>10. Total Liabilities</b>	<b>4,253.7</b>	<b>2,917.9</b>	<b>94.33</b>	<b>2,638.2</b>	<b>2,358.5</b>	<b>93.31</b>	<b>2,313.6</b>	<b>93.56</b>	<b>2,017.3</b>	<b>92.12</b>
<b>G. Hybrid Capital</b>										
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>H. Equity</b>										
1. Common Equity	255.7	175.4	5.67	172.7	169.9	6.72	159.1	6.43	171.8	7.85
2. Non-controlling Interest	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Securities Revaluation Reserves	0.0	0.0	0.00	-0.4	-0.7	-0.03	0.0	0.00	0.7	0.03
4. Accumulated Other Comprehensive Income	0.0	0.0	0.00	-0.1	-0.1	0.00	0.1	0.00	0.0	0.00
<b>5. Total Equity</b>	<b>255.7</b>	<b>175.4</b>	<b>5.67</b>	<b>172.3</b>	<b>169.1</b>	<b>6.69</b>	<b>159.2</b>	<b>6.44</b>	<b>172.5</b>	<b>7.88</b>
<b>6. Total Liabilities and Equity</b>	<b>4,509.4</b>	<b>3,093.3</b>	<b>100.00</b>	<b>2,810.5</b>	<b>2,527.6</b>	<b>100.00</b>	<b>2,472.8</b>	<b>100.00</b>	<b>2,189.8</b>	<b>100.00</b>
7. Memo: Fitch Core Capital	255.7	175.4	5.67	172.2	168.9	6.68	158.8	6.42	171.6	7.84
8. Memo: Fitch Eligible Capital	255.7	175.4	5.67	172.2	168.9	6.68	158.8	6.42	171.6	7.84
Exchange Rate		USD1 = GBP 0.6860			USD1 = GBP 0.4991		USD1 = GBP 0.5094		USD1 = GBP 0.5808	

**BRITISH ARAB COMMERCIAL BANK**

**Summary Analytics**

	31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
	Year End	Year End	Year End	Year End
	GBPm	GBPm	GBPm	GBPm
	Original	Original	Original	Original
<b>A. Interest Ratios</b>				
1. Interest Income on Loans/ Average Net Loans	5.03	7.29	7.13	n.a.
2. Interest Expense on Customer Deposits/ Average Customer Deposits	9.17	11.06	12.44	n.a.
3. Interest Income/ Average Earning Assets	4.58	5.08	4.88	n.a.
4. Interest Expense/ Average Interest-bearing Liabilities	3.81	4.56	4.47	n.a.
5. Net Interest Revenue/ Average Earning Assets	0.98	0.78	0.69	n.a.
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	0.95	0.84	0.71	n.a.
<b>B. Other Operating Profitability Ratios</b>				
1. Non-interest Income/ Gross Revenues	47.78	45.74	49.84	47.00
2. Non-Interest Expense/ Gross Revenues	36.80	43.47	46.03	47.00
3. Pre-impairment Op. Profit/ Average Equity	19.04	12.12	10.25	n.a.
4. Pre-impairment Op. Profit/ Average Total Assets	1.17	0.80	0.73	n.a.
5. Credit Impairment Charges/ Pre-impairment Op. Profit	2.44	-7.54	-2.94	-60.67
6. Operating Profit/ Average Equity	18.57	13.03	10.55	n.a.
7. Operating Profit/ Average Total Assets	1.14	0.86	0.75	n.a.
8. Taxes/ Pre-tax Profit	29.69	30.84	31.03	27.55
<b>C. Other Profitability Ratios</b>				
1. Net Income/ Average Total Equity	13.06	9.01	8.44	n.a.
2. Net Income/ Average Total Assets	0.80	0.59	0.60	n.a.
3. Fitch Comprehensive Income/ Average Total Equity	13.46	8.59	8.02	n.a.
4. Fitch Comprehensive Income/ Average Total Assets	0.83	0.56	0.57	n.a.
5. Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	n.a.	n.a.
<b>D. Capitalization</b>				
1. Fitch Eligible Capital/ Regulatory Weighted Risks	12.22	14.14	14.92	16.13
2. Tangible Common Equity/ Tangible Assets	5.64	6.66	6.41	7.85
3. Tier 1 Regulatory Capital Ratio	11.70	13.40	14.30	13.90
4. Total Regulatory Capital Ratio	16.50	15.30	16.70	16.90
5. Fitch Eligible Capital/ Tier 1 Regulatory Capital	n.a.	105.30	104.47	n.a.
6. Equity/ Total Assets	5.67	6.69	6.44	7.88
7. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	50.00	80.19
8. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.	52.63	78.44
9. Net Income - Cash Dividends/ Total Equity	n.a.	n.a.	4.40	3.59
<b>E. Loan Quality</b>				
1. Growth of Total Assets	22.38	2.22	12.92	n.a.
2. Growth of Gross Loans	32.11	38.27	17.00	n.a.
3. Impaired Loans(NPLs)/ Gross Loans	0.40	0.57	0.95	0.89
4. Loan Impairment Reserves/ Gross loans	0.66	0.66	1.25	1.95
5. Reserves for Impaired Loans/ Impaired Loans	162.86	116.22	131.11	219.44
6. Impaired Loans less Reserves for Imp Loans/ Equity	-1.25	-0.35	-0.88	-2.49
7. Loan Impairment Charges/ Average Gross Loans	0.11	-0.27	-0.11	n.a.
8. Net Charge-offs/ Average Gross Loans	n.a.	n.a.	n.a.	n.a.
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	n.a.	n.a.	n.a.
<b>F. Liquidity</b>				
1. Loans/ Customer Deposits	75.29	75.83	57.32	70.02
2. Loans/ Deposits and Short-term Funding	32.28	29.78	21.79	21.84
3. Liquid Assets/ Total Assets	n.a.	35.94	49.31	50.06
4. Liquid Assets/ Wholesale Funding	n.a.	451.22	624.96	746.22
5. Wholesale Funding/ Total Funding and Capital	6.49	8.09	7.94	6.76

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