

BACB



البنك التجاري العربي البريطاني

ISLAMIC DEPOSITS

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British Arab Commercial Bank

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Currency Option Wade'a (Cash & Carry)

An Islamic investor wishes to earn a return from trade. We enter into an agreement with the Islamic investor to take the usual Wade'a cash and carry investment, but enhance the net return with a Currency Option. This investment cannot be broken and operates for placements from 1 week to 3 months.

The client selects a strike price on their option that suits their underlying foreign exchange needs, which generates an increased yield or net return over the normal Wade'a cash and carry investment rate. The counter currency of the option trade is the same as for the cash and carry trade. The further the strike from the underlying market price the lower the increased return, but also the lower the risk of being exercised.

The strike price fixes the Islamic institution at a rate that they are happy to deal at on expiry, that would be better than the forward market rate prevailing on the cash and carry trade, and if the option does not get exercised they can deal at the spot rate prevailing at maturity, as they would have done now. However they would enjoy a considerable pick up due to the sold option premium.

If the option is exercised the investment income can be paid in the underlying investment currency, or the counter currency, this however must be determined at the time of dealing.

BACB only undertakes Currency Option Wade'a Linked Deals (Cash & Carry) with clients that can be classified as market counterparties in accordance with FSA rules.

These transactions are covered by an ISDA agreement.

BACB is authorised by the Financial Services Authority (FSA).

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Example:

An investor wishes to place USD 5,000,000 for a 1-week period at a net return of 9%. BACB enters into a forward foreign exchange transaction, the forward points are the net return yield plus the option premium yield, and the outright price is the same as the Strike price on the underlying option; in this case counter currency EUR at a Strike price of 1.2500 which leads to two possible expiry scenarios.

A confirmation similar to the following is sent to the customer:

Concerning your cash and carry transaction of USD 5,000,000. We confirm that we sold you EUR 4,001,818.43 against USD 5,000,000 at 1.249432 Value (date). We confirm we bought from you the same amount at 1.2500 forward 7 days, maturity (date).

Annualised yield of 9%.

Upon maturity there are two possible payment scenarios:

Scenario 1: If the EUR/USD exchange rate closes above the Strike of 1.2500 USD per 1 EUR at expiry (date), the investor is repaid the initial USD capital investment plus the Payment of net return in USD.

Scenario 2: If the EUR/USD exchange rate closes at or below the Strike at expiry (date), the investor is repaid the initial USD capital investment in EUR plus the net return, converted at the Strike of 1.2500 USD per 1 EUR.

Currency Option Wade'a Linked Trade Backed Deal

An Islamic investor wishes to earn a return from trade. BACB enters into an agreement with the Islamic investor to take the usual Wade'a investment, but enhance the net return with a Currency Option. This investment cannot be broken and operates for placements from 1 week to 3 months.

The client selects a strike price on their option that suits their underlying foreign exchange needs, which generates an increased yield or net return over the normal Wade'a investment rate. The further the strike from the underlying market price, the lower the increased return, but also the lower the risk of being exercised.

The strike price fixes the Islamic institution at a rate that they are happy to deal at on expiry that would be better than the Forward market rate prevailing, and if the option does not get exercised they can deal at the spot rate prevailing at maturity, as they would have done now. However, they would enjoy a considerable pick up due to the sold option premium. If the COLD option is exercised the investment income can be paid in the underlying investment currency, or the counter currency, this however must be determined at the time of dealing.

BACB only undertakes Currency Option Wade'a Linked Trade Backed Deals with clients that can be classified as market counterparties in accordance with FSA rules.

These transactions are covered by an ISDA agreement.

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Example:

An investor wishes to place USD 5,000,000 for a specified period. These funds are applied to our portfolio of trade related transactions; simultaneously the option-backed investment is struck, increasing the investor's return, in this case counter currency EUR at a Strike price of 1.2300 which leads to two possible expiry scenarios. A confirmation similar to the following is sent to the customer:

We have accepted an investment of \$5,000,000 from (date) until (date) expiry (date) giving a net return of \$....

Upon maturity there are two possible payment scenarios:

Scenario 1: If the EUR/USD exchange rate closes above the Strike of 1.2300 USD per 1EUR at expiration, the investor is repaid the initial USD capital investment plus the Payment of net return in USD.

Scenario 2: If the EUR/USD exchange rate closes at or below the Strike at expiration, the investor is repaid the initial USD capital investment in EUR plus the net return, converted at the Strike of 1.2300 USD per 1 EUR.

Murabaha Investments

BACB is pleased to offer competitive returns to Islamic investors wishing to invest funds in any freely convertible currency with BACB for fixed periods.

Returns are earned on a Murabaha basis as follows:

- The Islamic investor (the client) purchases non-precious metals from an accredited London metal broker, for immediate settlement;
- The client simultaneously sells the metal to BACB at a pre-determined mark-up for deferred settlement at an agreed future date;
- The amount of the mark-up depends on the length of the deferred period. No other fees or charges are levied.

BACB will introduce clients to an agent who will act for the customer in effecting the requisite purchases and sales of metals. No additional charge is levied for this service.

BACB only undertakes Murabaha investment business with clients that can be classified as market counterparties in accordance with FSA rules.

The transactions are covered by two agreements:

- (1) an Agency Agreement by which the customer appoints the agent to act in arranging transactions on a non-discretionary basis
- (2) a Murabaha agreement defining the relationship between the customer and BACB.

The client will receive written confirmation of purchases and sales from the agent and BACB respectively, detailing all aspects of the transactions. Broker invoices will be available on request.

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Wade'a - Cash & Carry

These trades are designed particularly for investors who prefer their accrued interest reflected as profit on a foreign exchange transaction rather than interest on a fixed deposit.

These trades are attractive to Islamic institutions that are not necessarily bound to Murabaha type agreements for their investments.

BACB only undertakes Wade'a - Cash & Carry with clients that can be classified as market counterparties in accordance with FSA rules.

These transactions are covered by at least an IFEMA agreement.

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Example:

An investor wishes to place US\$5,000,000 for a period of one month (31 days) at an interest rate of 1.25% p.a. with a net return of US\$5,381.94.

BACB enters into a one month forward foreign exchange transaction where we buy from the customer US\$5,000,000 @ 1.2150 against the sale of CHF6,075,000 and simultaneously buy CHF6,075,000 forward one month (31 days) at 1.2136936 and sells US\$5,005,381.94 back to the customer, thus producing a profit equal to the net return amount of US\$5,005,381.94.

The only settlement is the payment of US\$5,000,000 from the customer to BACB while the CHF amounts are purely notional to complete the transaction.

Wade'a - Trade Backed

An Islamic investor wishes to earn a return from trade. The investor places their funds in a Wade'a - Trade Backed product for a fixed period of time, and at the end of the period receives a fixed return. To generate the return, BACB utilises the funds to support a segregated pool of Islamically acceptable trade related term obligations.

An investor wishes to place US\$5,000,000 for a specified period. These funds are applied to our portfolio of trade related transactions and a confirmation, similar to the following, is sent to the customer:

"We have accepted an investment of USD 5,000,000 from (date) until (date) giving a net return of USD..... which has been applied in support of BACB's portfolio of Islamically acceptable trade finance obligations."

BACB only undertakes Wade'a - Trade Backed with clients that can be classified as market counterparties in accordance with FSA rules.

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