

# BACB



البنك التجاري العربي البريطاني

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## Base Tracker Deposit

**This is a fixed term deposit with a variable rate** - any changes in the rate being determined by changes in benchmarks rates - and is designed for clients wishing to ensure they receive the prevailing rate for the duration of the deposit. The product is offered in US Dollars, Euros, or Pounds Sterling with the benchmarks being the Fed Funds rate, the ECB Repo, or the Bank of England base rate.

This product is offered for deposits from 3 months to 1-year maturity, and at inception the deposit is taken from the client at an agreed margin above the benchmark rate. If the relevant benchmark rate moves up or down during the duration of the deposit, BACB will accordingly move the rate it pays up or down to reflect the change. The margin above the benchmark rate will not change. BACB will change the rate on the same day as the benchmark changes.

Interest is normally payable at maturity, although it could be paid to date when rates change providing this is agreed at inception. BACB would not notify the client of each change to the rate being paid, as the client would be deemed to be aware of this change from the global media, which always covers such benchmark changes.

This product is only available to clients deemed as a suitable counterparty in accordance with FSA rules.

These transactions are covered by a specific confirmation - tailor made for the product.

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

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## Collar Deposit Agreement

The collar deposit agreement (CDA) is a deposit product designed for money managers who are looking for **a stable interest return on a long-term deposit - rather than a fixed rate**. By buying an interest rate option at a lower threshold of an acceptable range (floor) and selling an interest rate option at the higher level of the range (cap), they can still benefit from market moves within their defined range. This may make the product more attractive than a fixed rate deposit.

With a CDA rates can go up or down within a pre-agreed range, but if actual rates move beyond that range both parties know that they will not receive, or have to pay interest, outside that range.

The deal is broken into several legs where a libor rate is referenced for the period of each leg. (Although the tenor can vary, standard market tenors as usual would generate the best pricing). The spread differential between the higher and lower interest rate forms the collar. If the libor rate is between the spread then the client receives libor. The client will receive interest at the end of each rate leg.

**A collar is an interest rate option trade, structured by a purchase of a FLOOR strike whilst simultaneously selling a higher CAP strike.** The premium is payable on spot value at inception of the trade. This premium is calculated as an annual basis point interest rate percentage of the notional deposit amount, and will be charged in the underlying currency of the trade.

Each rate-fixing period until maturity will be agreed at the time of dealing. The lower FLOOR strike and higher CAP strike are at the customer's discretion.

This product requires an underlying deposit to be placed, to create the link.

BACB only undertakes Collar Deposit Agreements with clients that can be classified as market counterparties in accordance with FSA rules.

To undertake a Collar Deposit Agreement with BACB, all clients must have a signed ISDA agreement with the bank.

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Example:

**On 9/12/08 Client X agrees to place USD 10,000,000 with BACB on a Collar Deposit Agreement for 3 years from 11/12/08 till 11/12/11 with 6-month re-fixing periods.**

**FLOOR STRIKE 2%** (customer buys interest rate option to guarantee as their lowest rate)

**CAP STRIKE 3.25%** (customer sells interest rate option supplying at best rate)

Premium is 46bp's or USD 10,000,000 X 0.46 X 365 / 36000 = USD 46,638.89 payable on 11/12/08.

Interest rate leg	Rate applied	6 Month libor rate	Comment
11/12/08 – 9/6/09	3.25	3.45	Cap exercised
9/6/09 – 9/12/09	3.00	3.00	No exercise
9/12/09 – 9/6/10	2.00	1.80	Floor exercised
9/6/10 – 9/12/10	2.00	1.80	Floor exercised
9/12/10 – 9/6/11	2.00	1.90	Floor exercised
9/6/11 – 11/12/11	2.25	2.25	No exercise

**The customer never receives less than 2% but will never receive more than 3.25%.**

## Fiduciary Deposits

Fiduciary Deposits (FD) are deposits where the depositor gives funds to BACB as agent to place on the depositor's behalf, to institutions with a high credit rating, particularly if the amounts are of a large nature. Pricing for such deposits varies depending upon any given bank's appetite for funds. The 'agent' will pay the depositor the same rate as the bank receiving the actual Deposit, but charge a fee for handling the transaction. Despite the obvious reasons for such a product to appear unattractive to potential depositors, there are currently many who are happy to deal this way.

Before the first deal is concluded, the bank receiving the deposit and the agent sign an "Acknowledgement of Trust". The 'agent' is required to give their client a copy of this Acknowledgement of Trust (AT). This legal document means that in the event of the agent's failure, the original depositor would be legally entitled to claim their funds from the bank taking the deposit, and there would be no right of set off for the agent's liquidators.

BACB only undertakes Fiduciary Deposits with clients that can be classified as market counterparties in accordance with FSA rules.

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## Forward Rate Agreement or FRA

The FRA is similar to a forward contract in Foreign Exchange, except it is used for interest rates, and is nett settled at maturity. A client agrees with a bank where a certain rate will be at a given date in the future, and the difference between the agreement and reality is settled when the maturity date arrives. The rate used to determine “reality” is usually the published LIBOR rate on the settlement day, but could be other reference rates.

Usually Interest Rate Swaps have a series of reset dates over the life of the deal, whereas an FRA is simply for one defined period, with no reset at the end. So a typical example would be 3 month-6 month USD FRA where the agreement is what the USD 3 month LIBOR rate will be in 3 months time.

The FRA is an off-balance sheet product that enables clients to protect themselves from interest rate movements that maybe harmful to their business. Generally a client selling an FRA will protect themselves from interest rates falling, and a buyer from interest rates rising - for a set period of time.

BACB only undertakes FRA transactions for clients that can be classified as market counterparties in accordance with FSA rules.

Set by standardised market terms and definitions, which are incorporated into the agreement by the terms of the confirmation.

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## Interest Rate Swaps

An interest rate swap is an agreement between a customer and a bank to exchange interest rate payments, or receipts from a floating rate to a fixed rate, or vice-versa in the same currency, generally for periods ranging from one to ten years. These transactions are sometimes referred to as 'vanilla swaps'.

Interest Rate Swaps involve the exchange of an amount of interest determined at a fixed rate upon a given amount of money (the 'notional' amount of the transaction) with an amount of interest determined at a given floating or variable rate on the same 'notional' amount.

Where a customer borrows on a floating rate basis (i.e. 3-month LIBOR) and swaps to a fixed rate, if LIBOR is less than the swap (newly fixed) rate the customer receives the difference. If LIBOR is greater than the swap rate, the customer pays the difference. The difference is always paid or received on the floating leg rollover date.

On each payment date (reset period) the client will effectively have created a fixed rate of interest by combining the LIBOR rate with the swap exchange (difference payment). The 3-month LIBOR rate is taken from the British Bankers' Association fixing at 11:00am London time, two business days prior to every coupon period. Apart from GBP where LIBOR is set to same day value.

BACB only undertakes Interest Rate Swaps for 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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## Maximizer Deposit

The Maximizer Deposit (MD) is a deposit product designed for money managers who are looking to make the most of their money with the minimum amount of risk.

MDs are offered to select clients in US Dollars, Euro and Sterling from time to time, and in limited amounts, depending upon the requirements of BACB. The MD is available for deposits with maturities from 6 to 12 months.

Depositors will be offered a market rate for the tenor of the deposit and are guaranteed to get that interest rate if rates fall, but if rates go up then the rate the client receives will go up too. The review date for determining whether a higher rate is appropriate will be the same date each calendar month (providing it is a working day – if not the next available working day) as the date the initial deposit was placed.

So, for example, on the 27th January 2009 client X places USD 50mio with BACB on a 6 month Maximizer Deposit at 1.48 % maturing 27th July 2009. On the 27th February the interest rate for the 27th of July is 1.46% so no change, 27th March 1.44% no change, 27<sup>th</sup> April 1.47% no change, but on 27th May the rate for the 27th July is 1.54% so the rate BACB pays on the MD increases to 1.54%. If on the 27th of June the rate has fallen to 1.51% the client receives 1.51% for the remaining month.

Therefore the client can never receive less than 1.48% as the originally agreed rate, but in the event that rates on review dates are higher, the rate received will reflect that higher rate until the next review.

Changes in interest rates between review dates are immaterial and will not produce a change in the rate BACB pays – only the rate on the review date.

The benchmark for the review date will be agreed with the client BEFORE the MD is taken.

**MD deposits cannot be broken, but could be used as collateral to borrow against –subject to BACB agreement.**

BACB only undertakes Maximizer Deposits 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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## Money Markets

As an active member of the London money markets, our highly experienced team use the latest technology to supply customers and wholesale counterparties with a range of services designed to enable efficient balance sheet management.

These include instant and highly competitive prices for those wanting to:

- place deposits, or borrow (subject to credit status)
- buy or sell tradable debt securities
- hedge, or create, exposures using off-balance sheet products such as FRAs,
- use Interest Rate Swaps, and other derivatives
- use cross currency swaps
- buy or sell futures
- buy or sell Certificates of Deposit

In addition we are very happy to supply information on market movements and trends, thus enabling clients to judge potential future risks.

This tailor-made service is available every working day from 0730hrs to 1700hrs London time, in all major currencies, and in all Arabic currencies - where permitted.

BACB only undertakes Money Market transactions for clients that can be classified as market counterparties in accordance with FSA rules.

No official agreement is required to deal in Money Markets although BACB has to comply with the statutory 'Know Your Customer' (KYC) regulations

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## Overnight Indexed Swaps (OI's)

An Overnight Indexed Swap is a fixed/floating interest rate swap with the floating leg tied to a daily overnight rate reference. The term generally ranges from overnight until one year, although rarely traded beyond three months. Primarily a US Dollar product but markets do exist in Swiss, Canadian and Aussie Dollars.

The two parties to an OIS agree to exchange at maturity, on the agreed notional amount, the difference between interest accrued at the fixed rate and interest accrued through compounding the floating index rate. The floating rate calculation is made to replicate the accrual on an amount rolled 'P plus I' at the index rate every business day over the term of the swap. Settlement at maturity is made net with no exchange of principal.

The overnight index rate is weighted average rate for overnight transactions published by the relevant Central Bank. For example, the US Federal Reserve uses the 'Fed Funds Effective Rate (FFE)'. Complied every day as the average rate on actual transactions in the overnight Fed Funds market that day, and published the following day at 10:00am NY time.

Other major markets have similar instruments. The Euro 'Eonia' and Sterling has the 'Sonia'. Both fundamentally work in exactly the same format as the above.

BACB only undertakes Overnight Indexed Swaps for 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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## Re-fixing/Variable Rate Deposit

Operates for FIXED TERM deposits from 6 month to 12-month maturities denominated in EUR USD or GBP (currencies traded at BACB's discretion).

Reset rate dates or re-fixing dates will be set for either 1 month, 3 months or 6 months, depending on customer requirements and the period of the deposit (the longer the deposit, the longer the re-fixing periods can be).

One-month re-fix periods will reference 1-month libor, 3 months will reference 3-month libor and 6 months will reference 6-month libor.

A rate is agreed for the fixed term of the deposit (effectively the strike rate).

On rate re-fix date if the market libor for the re-fixing period is below that of strike rate, then the rate remains unchanged for the next re-fixing period.

On rate re-fix date if the market libor rate is higher than the strike rate, then the libor rate will be applied until the next rate re-fixing date.

Interest is calculated for each re-fixing period and paid on maturity of the term.

There is an underlying option attached to this deal whereby the customer is buying an interest rate floor to benefit from an upward move in interest rates.

BACB only undertakes re-fixing/variable rate deposits with clients that can be classified as market counterparties in accordance with FSA rules. Currencies offered may vary at BACB's discretion.

These transactions are covered by at least an IFEMA agreement.

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## Yield Enhancing Deposit

**The yield enhancing deposit (YHD) is a deposit product designed for money managers who normally rollover their deposits on a monthly basis, but would like to earn a higher return on a longer-term deposit.** The product allows the customer to benefit from an upward move in interest rates, but if rates move lower, the YHD protects the client's yield at the original dealt rate.

The YHD is offered to select clients denominated in US Dollars, Euro and Sterling from time to time and in limited amounts, depending on the requirements of BACB. The YHD is available for deposits from 6 to 12 months.

Depositors will be offered a market rate for the tenor of the deposit. One month review dates to determine whether any interest rate change will be set. This will be the same value date each calendar month as the original deposit value date providing it is a good working day – if not the next available working day will be applied. Changes in interest rates between review dates are immaterial and will not produce a rate change on the deposit, only the rate on the review date may produce a change.

The benchmark for the review date and review date periods will be agreed BEFORE the YHD is taken.

BACB only undertakes Yield Enhancing Deposits with clients that can be classified as suitable counterparties in accordance with FSA rules.

These transactions are covered by a specific confirmation - tailor made for the product.

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Example:

Client X places USD 50mio with BACB on a yield enhancing deposit for 6 months at a rate of 2.5%.  
Dates: 11/12/08 maturing 11/6/09.

On 12/1/09 the 1-month reference rate is 2.45 so no change in rate

On 11/2/09 the 1-month reference rate is 2.4 so no change in rate

On 11/3/09 the 1-month reference rate is 2.70 so the higher rate of 2.7% is applied

On 14/4/09 the 1-month reference rate is 2.62 so the higher rate of 2.62% is applied

On 11/5/09 the 1-month reference rate is 2.58 so the higher rate of 2.58% is applied

All the interest amounts are calculated and paid upon maturity of the YHD.

The client never received less than 2.5% (the original agreed rate), but at the same time benefited from higher interest rates.

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These materials should not be regarded as an offer or solicitation to sell investments or make deposits in any country to any person or entity to which it is unlawful to make such an inducement or solicitation in such country.

The information contained in these pages is not intended to provide professional advice and all products are subject to counterparty eligibility requirements. Persons accessing these pages should obtain appropriate professional advice as necessary and appropriate to individual investment needs.

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