BACB

البنك التجاري العربي البريطاني

STRUCTURED PRODUCTS

CONTENTS

January 2009

British Arab Commercial Bank

8-10 Mansion House Place
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www.bacb.co.uk

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Currency Option Linked Deposits (COLD)

This product is designed for clients who have a known forthcoming foreign exchange requirement, and who would like to obtain a higher return on their funds while they wait for the day in question. This higher return is the result of linking a currency option to a deposit, and is thus more flexible than a standard forward contract where the end rate is fixed.

For example, Client A has a known/natural requirement to sell USD and buy EURO in two weeks time with the rate today at 1.2853. The client then enters into a COLD with BACB placing the USD 10m on deposit and getting a rate of 9.0521% (instead of the 0.5% interest rate currently available on a two week deposit) with a Strike price for the FX option at 1.2500. The difference of 8.5521% is produced because of the currency option (Vanilla Put), which has a value - paid by means of the higher deposit rate.

This currency option means that if the EUR/USD rate at maturity is 1.2500 or lower then the client will receive the USD deposit and interest back in Euros and not USD. If the EUR/USD rate is higher than 1.2500, the customer will receive his USD deposit and interest back in USD. The fact that the currency of the deposit may be exchanged to another as part of the COLD contract is important to remember, but should not be a problem as long as the client wants to receive the alternate currency anyway.

Obviously, if the FX rate in our example was 1.2450 at maturity the client receiving the Euro at 1.2500 would have missed an opportunity, but by way of compensation the client will have received a better interest rate, and at 1.2500 will still have received a better rate than if they had covered themselves forward when the market was at 1.2853.

BACB is authorised by the Financial Services Authority.

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Example:

USD **Standard COLD** on EUR/USD
(Indicative pricing only, no offer)

Product Details:
Principal Currency **USD**
Alternative Currency **EUR**
Payment **9.0521**% p.a. on act/360 basis
Spot Basis **1.2853** USD per 1 EUR
Initial Investment USD **10,000,000.00**

Strategy:
Invest in a USD standard COLD on EUR/USD
Investment Term: 2 weeks
Strike: **1.2500** USD per 1 EUR
Payment: **9.0521%** p.a.

There are two possible scenarios at expiration:
Scenario 1: If the EUR/USD exchange rate closes **above the Strike of 1.2500 USD per 1 EUR** at expiration, the investor is **repaid the initial USD capital investment plus the interest payment of 9.0521% p.a. in USD.**

Scenario 2: If the EUR/USD exchange rate closes **at or below the Strike of 1.2500 USD** at expiration, the investor is **repaid the initial USD capital investment in EUR, converted at the Strike of 1.2500 USD per 1 EUR, plus the Payment of 9.0521% p.a. paid out in EUR.**

Dates
Pricing Date 9-Dec-2008
Value Date 11-Dec-2008
Expiration Date 23-Dec-2008
Redemption Date 29-Dec-2008

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Currency Option Linked Loan (COLL) or Reverse COLD

At present a customer trading in the COLD product is locked into that trade until expiry, and consequently cannot trade out of that position during the life of the deal**. A customer may from time to time wish to take profit on COLD trades that are still live when they have a beneficial movement in volatility or the underlying spot rate.**

The REVERSE COLD or COLL would involve BACB lending till the maturity of the existing COLD at market yield, and writing a put option to the same expiry and at the same strike to enhance that yield. BACB purchases the equal option in the market so BACB has no currency risk.

Indeed there is no reason why these trades have to be against an existing COLD position, as BACB has no currency risk, and the loan is under existing lending limits and restrictions.

The loan to our customer is covered under existing lending or cash cover limits. The purchase of the option in the market in covered by existing FX Option FFE limits. The sold option premium not received from the customer until maturity is offset by the option premium (we are not paying on the original COLD until maturity).

Deals booked and entries passed are no different to a COLD just in reverse.

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EXAMPLE:

Underlying CAD per 1 USD
Principal Currency **CAD**
Alternative Currency **USD**
Receipt 11.34% p.a. on act/360 basis, composed of:

Initial Investment CAD 5,000,000.00
Strategy Invest in a **CAD Principal COLD** on USD/CAD

Investment Term: 1 month
Strike: 1.35 CAD per 1 USD
Receipt: 11.34% p.a.

There are two possible scenarios at expiration:

Scenario 1: If the USD/CAD exchange rate closes **at or above the Strike of 1.35 CAD per 1 USD** at expiration, BACB is **repaid the initial CAD capital investment plus the Payment of 11.34% p.a. in CAD.**

Scenario 2: If the USD/CAD exchange rate closes **below the Strike at expiration**, BACB is repaid the initial **CAD capital investment in USD, converted at the Strike of 1.35 CAD per 1 USD, plus the Payment of 11.34% p.a. paid out in CAD**.

Dates
Pricing Date 9-Dec-2008
Value Date 10-Dec-2008
Expiration Date 9-Jan-2009
Redemption Date12-Jan-2009

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Forex rate Linked Deposits (FOLD)

• BACB's FOLD deposits are effectively range accruals on FX rates.
• Coupon Payments are adjusted by the number of days during which the reference FX rate stays within an agreed range.
• Investing in a range accrual on FX rates through a FOLD is a way of expressing a view on FX volatility.
• The coupon is payable at maturity.
• The guaranteed coupon rate is ZERO with an agreed additional coupon (as shown in the example below) payable for each day that the FX rate stays within the agreed range.
• The higher the volatility of the reference rate, the higher the probability that the rate will move out of the pre-specified range.
• FOLDs can be arranged in all major currencies with a minimum amount of USD5mio or equivalent.
• The product is only available to Market Counterparties.

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Example:

Below is an example of the deal confirmation that would be issued by BACB. All figures are for illustrative purposes only:

Depository British Arab Commercial Bank
Rating A
Type Deposit
Amount 50,000,000.00
Currency EUR
Value Date December 9, 2008
Redemption Date March 9, 2008 (90 days)
Redemption Amount 100% in EUR
Guaranteed Coupon 0.00% i.e. EUR 0.00
Additional Coupon 5.00%x N/92 (Act/360)
(N represents the number of Quotation Days that the Reference Exchange Rate is below the Upper Limit value and above the Lower Limit value during the Reference Period).
Upper Limit 1.3000
Lower Limit 1.2400
Reference Period From 11/12/2008 until 11/3/2009 (inclusive)
Reference Spot 1.28
Reference Exchange Rate EUR/USD exchange rate published by the European Central Bank (Reuter ECB37)
Quotation Day Every calendar day between 11/12/2008 and 11/3/2009 (inclusive) i.e. 90 quotation days for the reference exchange rate. For non working days, the reference exchange rate taken into account will be the rate quoted during the last business day.

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Structured Interest Rate Swaps

In addition to simple, or "vanilla" interest rate swaps, BACB can design a Structured Interest Rate Swap around the needs of the customer. These products use derivatives which are derived from a specific market factor e.g. 3 month LIBOR, and as such are off balance sheet transactions.

Most of these structures will involve the terms:

CAP- which limits the upside risk
FLOOR - which limits the downside risk
COLLAR - which limits both upside and downside risk within a range
KNOCK IN - which creates a defined risk from a certain level
KNOCK OUT - which clears a defined risk from a certain level

These can be combined to either hedge an exposure that a client wants to cover, or to create an exposure if certain events happen, which the client wants to adopt as it will suit their particular business.

For example, if a client wanted to hedge its USD funding costs within a set range over a 2 year period - but also take advantage of a sharp fall in rates - we could design and price a collar to protect the client in the event that rates fell below, say 1.5%, or above 2.5% but with a knock out feature at 1%. The client would know that the most they will have to pay, on a defined amount, would be 2.5%, the least 1.5%, but if rates got as low as 1% then they were released from their obligation at 1.5% - for the relevant fixing period. What in practice happens is the client would pay the market rate for the two-year period, but BACB would refund the client if rates rose above 2.5% (the difference between the market rate and 2.5%) or charge them extra if rates fell below 1.5%, unless rates got to 1% in which case the charge would no longer apply.

Another example might be the **Range Accrual Swap**, which provides the client with an opportunity to significantly boost a deposits yield, whilst maintaining 100% principal protection. At the outset a high fixed coupon (relative to prevailing money market fixed rates) is set along with a rate range setting against a relevant LIBOR fixing. The agreed higher rate of interest will be paid under this swap on agreed dates, for every day that the agreed LIBOR remains with the range, but no interest will be paid if the LIBOR moves outside the range.

PUTS and **CALLS** can also be added to further refine the "structure" to the clients' preference.

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Because of the many different potential types of structure, clients should discuss their objectives with our trained staff who will endeavour to create a tailor made solution.

BACB only undertakes Structured 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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