



Management Report
1988

BCCI Holdings (Luxembourg) SA

Financial Highlights

	1988 US\$ '000
Capital Fund	*since increased to US\$1,517,133
Net Operating Profit	191,934
Profit before tax	46,934
Total Assets	20,637,655
Deposits and other funds	18,815,879
Deposits from customers	15,662,018
Loans and Advances (net of provisions)	9,838,179

*Capital Fund increased in April 1989

Ratios	1988 %
Liquidity/Assets	Cash, Banks, CD's and Marketable Securities/Total Assets
	47.47
Liquidity/External Liabilities	Cash, Banks, CD's and Marketable Securities/External Liabilities
	50.97
Loan Ratio	Net Loans/Total Deposits and Other Funds
	52.29
Capital/Deposits	Capital Fund/Customer Deposits
	9.05
Leverage Ratio	Capital Fund/External Liabilities
	7.37
Capital/Assets	Capital Fund/Total Assets
	6.87*

*Capital/Risk Weighted Assets ratio exceeds 9%

The Perspective of 1988 Operations

The true strength of an organisation is tested when it is faced with new challenges or adverse circumstances. The year 1988 was such a year for BCC particularly in October when it found itself the subject of certain allegations made against its operations in Tampa, Florida relating to money laundering. This matter is discussed in more detail elsewhere in this report.

The financial industry as a whole is faced with unprecedented challenge from a rapidly changing business and regulatory environment. While business becomes more and more competitive compressing profit margins, placing extraordinary demands on the creativity and quality of management, the scope and application of new laws and regulations has suddenly widened, directly affecting the ways in which financial institutions should conduct their business.

There is for example much greater emphasis now not merely on the knowledge of the business of a client, but more importantly the underlying sources of funding. This requires a whole set of intricate and complex control procedures and adds a new dimension to the operational aspects.

The social and legal processes in many countries have been changing, sometimes dramatically. All institutions working under such conditions need to continually update their operating policies and procedures to take account of such changes.

The various aspects of the 1988 Group Balance Sheet and Operating Results have therefore, to be considered against this background.

In 1988 BCC's global structure remained more or less unchanged. The total number of branches and offices globally now stands at 417 covering 73 countries servicing 1,300,000 customers through 14,000 members of staff from 90 nationalities.

For the last three years emphasis has been on consolidation, on becoming more competitive and on securing a larger share of the markets in which the Group operates.

BCC Group continues to be engaged primarily in commercial banking mobilising deposits and lending against short term trade and commercial transactions. Its business policies and strategies are based on providing quality banking and financial services to its customers and it always strives to follow the high ethical and moral standards required in the industry.

Group Balance Sheet and Operating Results

Capital Fund

During the year, the Group significantly increased the level of provisions against commercial and cross border risks in response to guidelines of the regulatory authorities and in recognition of the deterioration in the economies of some of the developing countries in which the Group operates. The charge of US\$145 million to the current year's income had a negative effect on both the results for the year and the Group's capital fund.

To keep the capital base strong a fresh injection of US\$100 million was made after the year end through a contribution of US\$75 million by the shareholders to the Group's equity and through the issue and

subscription of new subordinated Capital Notes for US\$25 million. Both issues were fully paid by early April, 1989. The latest increase has enhanced the Capital Fund to over US\$1,500 million as compared to US\$1,469 million in December 1987.

Outside shareholders' interest increased by US\$20 million during the year mainly through retained earnings.

The capital to risk asset ratio stands at over 9% after the capital increase which compares favourably with the prevailing ratios in the industry.

Deposits and Other Funds

There was an increase in customer deposits to US\$15.6 billion with an addition of more than 75,000 deposit customers reflecting the continuing emphasis placed by management on the need to maintain a strong and diversified deposit base.

We are particularly satisfied with the geographical segmentation and widening base of customer deposits, bringing greater stability to available funds. The Group's depositors include individuals, business organisations, corporations, governments, semi-government organisations, central banks and other financial and non-financial institutions.

It is a pleasure to report to our shareholders, counterparties and clients that the Group was able to replenish the temporary outflow of deposits following the Tampa incident. Here we must also acknowledge the efforts of all BCC personnel globally.

Funds placed with us by correspondent banks, together with some borrowings in

the inter-bank market, totalled US\$2.8 billion at the end of December as against US\$2.0 billion at previous year end.

Total Deposits and Other Funds as at the end of the year stood at US\$18.8 billion as compared to US\$17.7 billion at the end of previous year.

Liquidity

The high liquidity policy pursued by the Group since inception continued.

At the end of the year liquid assets stood at US\$9.7 billion, which is over 47% of the total assets. This included cash and inter-bank balances of US\$6.0 billion, certificates of deposits of prime international banks of US\$1.5 billion and marketable securities – primarily US Government Bonds and Treasury Notes of US\$2.2 billion.

Loans and Advances

Loans and Advances rose by 7% to US\$9.8 billion as against US\$9.2 billion in 1987. In accordance with our established policy these assets are well diversified geographically and by industry and maturity. The main sector remains trade-related and of a self-liquidating nature. Geographical and industry analysis of the loans and advances portfolio is given in the Notes to the Accounts.

The ratio of loans and advances to customer deposits stood at 63% at the end of 1988.

Without deviating from the basic policy of keeping the loan portfolio short term and trade related in character, we are continuously reviewing our credit policies in vari-

The deposit base will be widened through organised marketing effort and local lending opportunities will be selectively sought.

The UK and Europe

This is a region of growing importance to the Group. It covers most of the major countries in the EEC, as well as Switzerland and Turkey, through 80 branches and offices.

The Group's network of banking offices offers an excellent opportunity to BCC for participating in the prospects arising out of 1992 EEC unification plans.

In preparation for 1992 and to provide BCC's operations in Europe with greater depth and to take advantage of these opportunities, the Group has initiated a new plan with short term and long term goals.

Pursuant to this plan, it is restructuring its management and marketing resources in the region. Automation and technology is being upgraded to enable the bank to develop technology based products and delivery systems to compete in a more unified European market.

Despite intense competition, BCC is focusing on special niches of business and continues to rely on its intrinsic strength as a marketing orientated global bank. It will optimise on its overseas customers' requirements for banking services in Europe. It will similarly develop effective relationships with European corporations for services required by them in countries outside Europe where BCC has a presence.

While deregulation is a challenge to competitiveness, it is also an opportunity for institutions like BCC who could develop

capability to serve such market segments which require specialisation, more personalised approach and a high level of efficiency.

Already the region makes a significant contribution to the Group results. In 1988 this amounted to US\$4,420 million in Deposits, US\$6,757 million in Assets and US\$24 million in operating profit. By following the above strategy, BCC expects to enhance this contribution in the coming years.

North America

BCC has been attempting to establish a presence in the North American Region, consisting of Canada and the USA, over the last few years and was intending eventually to make it a major region of the group. While BCC Canada continues to show steady growth, in the USA – where we have six banking offices, the local operation suffered from the Tampa incident.

Nevertheless the US operation has an asset base in excess of US\$843 million, and contributes US\$10 million to operating profits and has a sound customer base on which to build. It is our committed programme to resolve satisfactorily the events in Florida, significantly improve internal operations and controls and achieve the steady progress it had once anticipated in the US mainland.

Latin America and the Caribbean

BCC Group covers 13 countries in the region. Notwithstanding the well known

Latin American debt burden and high inflation rate the internal economies of each of these countries provide adequate selective domestic and trade related business opportunities for a global bank with a local presence.

It is expected that in the next 5 to 10 years, once the debt issue is brought under some kind of a workable discipline, some of these countries will re-emerge as significant economic forces both in international trade and finance as well as growing domestic markets.

BCC has established its presence in this region with a long term objective. For the time being, its cross border exposure to most of the countries in the region is negligible and the emphasis remains on domestic and trade related business opportunities.

Significant international business and private banking services continue to be provided through the head office of our major banking subsidiary in Grand Cayman.

In 1988 most of the units in the Region continued to build up their deposit base and achieved encouraging profitability.

Future Prospects

We live in an age of innovative competition which is unlikely to slacken; the traditional roles of financial institutions are being radically transformed; there is a global urge towards a new interdependent order in trade, financial co-operation and economic development.

BCC, founded as a truly international bank, matches the needs of the present with the

likely needs of the future. It is committed to the principle of promoting local and international trade and to be the bridge between the developing and the developed countries of the world. BCC today has the fifth largest banking network in the world, spread over Africa, Asia, Australia, Europe, the Far East, the Middle East, the North and South Americas, serving them through a dedicated team of 14,000 people.

BCC claims no country as its own, but treats every city and every town it operates in as its home. It is committed to local communities with its belief that indigenous enterprise can benefit from the application of financial skills and knowledge acquired through years of international experience.

Through these unique features of BCC, we propose to optimise our market share and contribution in promoting and financing international trade and attracting investment from surplus countries to the developing countries. In providing such services we shall also promote sophisticated and technology driven products and enhance the professional and technical skills of human resources so that our capabilities do not begin to lag behind new opportunities.

BCC is at a threshold in the process of its future development. Whereas it continues to progress and grow in the markets where it is more entrenched, such as the Far East, Middle East, South Asia and Africa, it has to adopt new policies and strategies in other markets, particularly industrialised countries, to enhance and further diversify its profitability and also meet the ever changing expectations of the customer.

BCC has, therefore, set up a Strategy &

Planning Group in its management structure distinct from its existing Planning Division. This group will formulate short and long term strategies of business. It will make a careful assessment of each geographic region's potential and possibilities taking into account economic and political conditions, the nature of competition, the products in demand and those for which demand can be created. Success is the best motivator and enhances creativity. The Strategy Group will therefore also identify the sectors where BCC could be more successful in the immediate future. This group will also be responsible for matching the possibilities with BCC's marketing capability, either present, enhanced or acquired.

In the new strategy, this aspect is already being given greater attention. A significant number of senior bankers from other large international banks have already joined BCC. The process of education, training and skill development of the existing staff is being improved and accelerated, both by in-house facilities and with the assistance of outside expertise.

While our products, delivery systems, and market niches may undergo changes, our basic business and the principles of conducting of the same are not expected to change in the near future. This means that:

- our principal activities will be in the area of commercial banking
- our business policies will be based on the following preferences:
 - High liquidity maintained through broad based and diversified customer deposits.

- Cost of deposits continued to be kept at an economic level.
- Quality of assets to remain high – largely short term, self-liquidating.
- Quality profit generated both from sustainable and regular streams and through short term transactions and deals.

BCC is destined to earn its distinction by the quality of its operation and by the role it plays as a link between what is and what is possible – a bridge between developing and developed countries.

We have every reason to look to the future with confidence and are determined to make 1989 significantly better than the last year.