



BCCI UK (PROPOSAL FOR RESTRUCTURING)

1. NEW COMPANY

A new company will be formed to take over BCCI UK. The company will be wholly incorporated in the U.K.

2. CHANGE OF NAME

The name of the new company will be the new bank.

3. EXISTING CAPITAL

Government of Abu Dhabi (GAD) will be invited to convert existing notional capital of BCCI UK as shareholding in the new bank. Such shares may be sold, if desired by GAD but not earlier than a period of three years.

4. NEW CAPITAL

This will be issued for the new company with preferential offer to existing depositors, creditors and employees and the balance part will be offered to outsiders and U.K Clearing Banks.

It is expected that UK clearing banks will participate as a matter of support which they have already displayed by way of making provisions for the Deposit Protection Fund. Such fund may be utilised for their participation.

(Acquisition by an existing bank in UK is possible).

5. SUBORDINATED LOAN / STANDBY CREDIT LINE

An additional amount would be undertaken to be provided by GAD as subordinated debt for 7 years at a nominal rate of interest. Depending on the success of invitation for new capital and a standby credit facility not exceeding 3 years at three months customer deposit rate would be provided by GAD agencies so as to tide over liquidity constraints.

6. PARTICIPATION BY DEPOSITORS

Large depositors will be expected to participate in the restructuring by way of buying Certificate of Deposits and redeemable loan stocks guaranteed by GAD covering maturity / repayment periods of annual due dates not exceeding four years. Such large depositors will be contacted in advance to determine their commitment. It is expected that the return on such instruments will have to be on the basis of floating rate commensurate with the market and determinable annually.

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7. LOAN AND ADVANCES

- i) Bad debts - GAD will provide 100% cash to write off these debts in full. Determination of such debts will be jointly agreed by GAD and the new bank. Any disagreement will be funded in an escrow account but utilised only by authority of GAD, after agreed arbitration if required.
- ii) Problem Loans - GAD will provide 100% cash to the new company where interest is required to be suspended and 100% guarantee otherwise to cover problem loans. In the event any amount is recovered within a specified period, such amounts may be refunded without interest. Determination of such debts will be agreed jointly and arbitrated as in the foregoing.

8. CONTINGENT LIABILITIES

Undisclosed or contingent liabilities which might jeopardise the viability of the new banks' continued business or its liquidity will be subject to the new bank's full due diligence investigation to be indemnified by GAD.

9. LIQUIDITY

It is assumed that no funding would be available to BCCI UK on the inter-bank market for some time.

On their part to support the restructuring, the Bank of England would agree to make a standby facility equal to 10% of deposits as at June 30, 1991 to the new company for an initial period of three years at three months customer deposit rates which will rank paripassu with other creditors.

On the basis of deposits as at June 30, 1991 the standby facility required would be \$ 285 million. This facility may be repaid in three annual equal tranches.

10. DUE TO / DUE FROM

It is assumed that Nostro Accounts presently blocked due to the liquidation will be released in full. In the event this is not possible due to local regulations or otherwise, 100% non available balance will be substituted by GAD or loss to the extent will be accounted. If in future such funds are recovered the proceed will handed over to GAD.

11. GOVERNMENT OF ABU DHABI

GAD shall indemnify the new company against claims by non - UK depositors on former assets of BCCI UK and for undisclosed liabilities.

12. BRANCH NETWORK

BCCI UK business was handled through a network of 25 branches.

It is proposed that the branches in the name of the new company should re-open from 1st January, 1992 with a reduced number of branches and rationalised number of staff. It is envisaged that the number of branches in UK would not exceed 7 with staff of around 500.

The new company may also be allowed to acquire BCCI locations and locations such as Isle of Man and Gibraltar as these locations are closely associated with UK.

13. BUSINESS

The new company will continue to focus on short term trade finance and generation of offshore corporate deposits.

For this purpose, the new company will have to set up new correspondent banking arrangement to facilitate handling of its business outside UK and corporate service units in branches inside UK will have to be established.

14. AUDIT

Investigation by independent auditors and legal firm appointed by the new company is a pre-requisite to any final arrangement. (Names to be advised later).

15. PROVISIONAL LIQUIDATORS/OTHER EXPENSES ORIGINATED BY GAD OR BANK OF ENGLAND

Expenses incurred by the Provisional Liquidators or other appointed agents to date of take over or studies made on account of the provisional liquidation shall not be on account of the new bank.

16. DEPOSIT FUND OF GOVERNMENT OF ABU DHABI

The new company shall refund amounts disbursed to existing depositors by GAD.

17. MANAGEMENT

A management structure will be approved by the Board of Directors of the new bank. The Chief Executive and all senior officials will have international experience and acceptability in U.K and will be appointed in consultation with the new bank and GAD.

18. STAFF

It is intended that all the staff should be paid their termination benefits and those who will be retained will be treated as fresh appointees.

Retainment will be on the basis of corporate need and individual qualities. No staff with proven disrepute may be employed.

It will be necessary to pay generous termination benefits to the staff to recover goodwill in the market and to mitigate the undeserving hardship. GAD will have to make a provision for this payment.

19. BOARD OF DIRECTORS

The Board will be constituted of an executive group of determinable number and a non-executive group of three members. The non-executive group will include one official each from the Bank of England, representatives of UK Clearing Banks and GAD. The Chairman shall be selected by the Bank of England from among the representatives of GAD. This process shall remain guaranteed for the period of first three years.

The new Chief Executive will be a Board member. The Deputy Chief Executive will also be a Board member. Other Board members of repute will be appointed as per shareholders choice, but will be subject to concurrence of the Bank of England for the first three years.

20. REGULATORY APPROVALS

Subject to agreement in principle by the Bank of England and GAD on this proposal, a nine member "Steering Committee" would be set up to steer the proposal through all the stages. The Committee may compose of :

1. Representative of GAD to chair the committee and arbitrate.
2. Representatives of auditors appointed, each one by the new company and the other by GAD.
 1. Representatives of the legal firm appointed by the new company.
 2. Employees from BCCI UK.
 3. Employees from BCCI Abu Dhabi.

The Steering Committee would be dissolved when the new bank starts functioning.

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21. PURCHASE PRICE

To the extent that the BCCI UK could be shown to have a positive networth, the new bank would consider giving value in return for the acquisition.

22. EXCLUSIVITY

If it is thought that the proposals form a basis on which we could proceed, it would be a requirement of all parties concerned that there would be a period during which no discussions would be conducted with any other party concerning a disposal of BCCI UK or its business or assets. This exclusive period would be required to permit the conduct of the due diligence investigation and the preparation and negotiation of the necessary contracts. We would suggest that this period should run for 60 days from the date on which you confirm that the proposals form the basis for more detailed discussions.

23. CONFIDENTIALITY

Pending the finalisation of all material aspects of our proposals, we would expect that these proposals and any discussions which may take place would be held in the strictest confidence by all the parties involved thereto.

24. PRESENT OBJECTIVE

We present this paper as a preliminary discussion material on behalf of the 'Steering Committee' for a broad understanding and endorsement by GAD and the provisional liquidator.

September 16, 1991

FINANCIAL POSITION AS AT MAY 31, 1991

BALANCE SHEET

LIABILITIES

Priviledged of Creditors		4,441	
Bills Payable		4,647	
Due to			
Banks	89,968		
Affiliates	79,793		
Branches	11,995		
Fin.Inst	11,454	193,210	
Deposits		3,171,007	
Sundry Creditors		297,613	
Reserves		10,019	
Loss upto May 1991		<u>(11,056)</u>	
TOTAL		3,669,881	=====

ASSETS

Cash, Bank & Short Term Rec.		12,498	
Due From			
Banks	665,166		
Affiliates	620,096		
Branches	18,746		
Fin Inst	2,384	1,306,392	
Advances		1,877,224	
Investment			
Building	41,556		
Others	26,720		
CD'S	189,783	258,059	
Other Assets			
Other Assets	68,347		
Sundry Creditors	101,991		
Capitalised Expenditure	31,976		
Furniture & Equipment	13,394	<u>215,708</u>	
TOTAL		3,669,881	=====

(US\$000)

PROFIT AND LOSS ACCOUNT (MAY 31, 1991)

Interest:

Interest Paid 274,833

Interest Received 276,947

2,114

Commission 12,567

Exchange Income 4,302

Investment Income 10,570

Total Income : 29,553

Staff Costs (17,506)

Premises Costs (4,272)

Other Operational Costs (19,956)

Total Costs (41,734)

Other Income:

Revaluation 1,107

Rent Received 18

Total Other Income: 1,125

NET LOSS: (11,056)

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SOME LIQUIDITY NOTES (MAY 1991)

- Deposits US\$ 3171 Million
 - 58% of deposits are short term
 - 24% of deposits are over 30 days
- 50% of the deposits are US Dollar component (June 1991)
- Advances US\$ 1877 Million
 - 24% of advances are clean
 - 42% of advances are against mortgage
 - 30% of advances are against other securities
 - 4% of advances relate to bills purchased/discounted
- 36% of advances are US Dollar components (June 1991)
- Loan Loss Provision as at June 30, 1991 is US\$ - Million which is - % of gross advances (TO VERIFY)
- IRF in view of suspended operation has to be reassessed
- IRF as at June 1991 was estimated to be US\$ 700 Million (TO VERIFY)
- Unreconciled items of nostro/vostro accounts have to be pursued
- Recovery of US\$ 625 Million placed with Affiliates has to be guaranteed by Liquidators/GAD
- Close scrutiny of sundry debtors and capitalised expenditure is required - write off premises abandoned
- Valuation of investment to be verified - bonds
- Position of sovereign risks re Nigeria etc. to be reassessed
- Group guarantees from Luxembourg if any to be encashed/funded

LIQUIDITY : BCCI UK : 31 MAY 1991
(A WORST SCENARIO)

(US\$'000)

CURRENT LIABILITIES

DEPOSITS	3,171,007
DUE TO	193,210
BILLS PAYABLE	4,647
CREDITORS	297,613

TOTAL OUTGOING DEMAND 3,666,477

AVAILABLE RESOURCES TO REPAY

DUE FROM

BANKS	665,166	
BRANCHES	18,746	
FIN. INST	2,384	(686,296)

CASH & BANKS (12,496)

INVESTMENTS

OTHERS	26,720	
CD'S	189,783	<u>(216,503)</u>

IMMEDIATE SHORTAGE OF CASH 2,751,182

RECOVERABLE FROM ADVANCES

TOTAL ADVANCES 1,877,224

IMMEDIATE RECOVERABLE BILLS AND ADVANCES SECURED BY BOND ETC.	(638,256)
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PROVISION AND INTEREST SUSPENSE
FIGURE ARE NOT KNOWN

CASH SHORTAGE / FUNDING NEED -----
2,112,926

WE HAVE TO ARRANGE FUNDING/CREDIT LINE TO THE EXTENT
OF US\$ 2 BILLION TO START OPERATIONS.

HOW TO RAISE US\$ 2 BILLION

1.	BANK OF ENGLAND FUNDING AS CONTRIBUTION TOWARDS THEIR PART OF THE COMMITMENT TO SUPPORT INTEREST OF DEPOSITORS	US\$ 285 MILLION
2.	GAD FUNDING FOR BLOCKED DUE FROMS	US\$ 625 MILLION
3.	GAD NOTIONAL CAPITAL FOR UK OPERATIONS WHICH WAS NOT GIVEN TO UK PHYSICALLY HITHERTO	US\$ 300 MILLION
4.	CD COMMITMENT FROM CUSTOMERS	US\$ 400 MILLION
5.	SUB ORDINATED LOAN	US\$ 50 MILLION
6.	CREDIT LINE FROM ADIA	US\$ 340 MILLION
		=====
		US\$ 2,000 MILLION

FURTHER US\$ 50 MILLION MAY BE OBTAINED AS LOAN FROM UK CLEARING BANKS IN LIEU OF THEIR CONTRIBUTIONS TOWARDS THE UK DEPOSITS PROTECTION FUND. MOST OF THIS FUND HAS ALREADY BEEN CREATED BY THEM.

