HBL BANK UK LIMITED
COMPANY REGISTRATION NUMBER: 01719649

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2020

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Strategic Report

HBL Bank UK Limited Structure

HBL Bank UK Limited is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The Bank is wholly owned subsidiary (100% shareholding) of Habib Allied Holding Limited (HAHL), which is a non-banking company. The majority, 90.5%, of the shareholding of HAHL is held by HBL. The remaining 9.5% shareholding is held by Allied Bank Limited.

Business Model

The Bank provides a range of wealth, retail and commercial banking services to individuals, high net worth (HNW) clients as well as Corporate and Business clients.

This includes, but is not limited to, services as well as:

- Deposits;
- Investment products;
- Corporate Loans / Short Term Finance;
- Financial Institutions (Cash Management, Trade Finance & Treasury Services);
- Trade Finance;
- Payment Solutions; and
- Foreign exchange (FX) & Money Marketing dealings.

The Bank prides itself on building strong, sustainable relationships with our clients. This is achieved through consistent levels of customer service, offering bespoke tailored solutions where feasible and high levels of engagement through our physical and online presence. We have a network of 4 branches geographically spread across the UK with one each in Birmingham and Manchester, and two located in London. We also have a branch in Zurich which strategically supports our high net worth clients' ambitions in the region. In addition, we have recently launched an online and mobile application for both our personal and business customers in the UK.

Our Mission

To be the leading niche bank by offering financial products and tailored banking solutions to the community we serve in a manner that meets the requirements of our customers.

Business Review

Business Environment

2020 has been a challenging year both domestically and globally. The macroeconomic environment faced significant headwinds including uncertainty around Brexit and while a last-minute deal went through it had already caused a lot of uncertainty for businesses in the UK. The presidential election and other politically sensitive incidents in the US, triggered huge uncertainty and trepidation globally. The Covid-19 pandemic has severely affected economies resulting in numerous fiscal and monetary policy measures in the short term. The unprecedented scale of the pandemic means that it may take some time for the world and subsequent economies to rebound. However, the successful development and deployment of vaccines along with new remote way of working model has brought back cautious optimism to the markets. The bank has also been able to adapt successfully to the new remote model of working with the majority of its staff working from home. There has been no adverse impact of this current working model for the bank or any of its staff in the way we operate and function on a day to day basis.

Brexit

The Bank had already taken relevant actions in previous periods such as closure of branches in Europe to minimise the impact of Brexit. It has had no impact on our Zurich branch and therefore we do not foresee any further impact from Brexit.

Covid-19

The Bank is continuing to support its customers and relevant operations during the Covid-19 pandemic. It invoked the business continuity plan successfully, ensuring first and foremost the safety and wellbeing of its staff and customers, and simultaneously managed its operations with no disruptions. Though the bank faced no major challenges and had adequate capital and liquidity, however it still as a precaution invoked the liquidity contingency plan. This has ensured that the bank remained adequately liquid. The Board will continue to monitor the situation in 2021 but does not envisage any further impact of Covid-19 on respective operational and business capabilities.

Restructuring

The bank undertook a comprehensive restructuring exercise during the course of the year primarily to improve efficiencies and re-align its business model with that of the industry. The exercise which included closure of 5 branches and some redundancies resulted in total costs of around £2.5m. The first phase focused on creating efficiency and managing costs across the bank out of a three-phase plan has been completed. As a result, the bank is leaner and more efficient and able to drive profitability sustainably for the future.

Financial Review

For many, including the bank, 2020 was an eventful year. The pandemic and consequent lockdowns resulted in a significant slowdown of footfall in our branches and thus respective business activity. However, we had a significant uplift in other areas such as Wealth Management. We also experienced no significant attrition in our liabilities and remained adequately liquid to fend off any unforeseen event. However, the additional liquidity and lower trade volumes due to pandemic and further investments in improving the overall control environment, specifically in relation to Anti Money Laundering ("AML") and Financial Crime risk that began in 2019 along with restructuring of business model resulted in higher than expected outflows. Further the bank also recorded impairment charges on it legacy book resulting in an operating loss before tax of £14.07mn in 2020 (2019: £7.23mn).

Assets

The business as stated before was affected during the pandemic and thus the loans and advances to customers grew only by 2% in 2020 to £196mn (2019: £192mn). This growth is driven by our continued focus on building a robust, diversified pipeline which produces a healthy margin. The legacy portfolio however suffered and resulted in recording further impairment losses during the period. Our trade portfolio balances are down 38% to £83mn (2019: £134mn) due to decreased activity because of the pandemic and prioritising our capital in other areas of the balance sheet in the short term. The Investment portfolio declined by 24% to £77mn (2019: £101mn), continuing our planned divestment strategy and concentration on more commercial business. Our overall balance sheet strategy for 2021 will remain focused on building strong growth in trade and lending to customers.

Liabilities

Despite the pandemic and macroeconomic headwinds, the deposit base remained broadly stable, reflecting its strength and resilience and was at £459mn, lower by only 4% when compared to 2019. This strength reflects the conscious decisions to ensure diversification of the deposit base which consists both resident and non-resident persons. Going forward in 2021 we expect further strengthening of the deposits base through our recently launched online and mobile banking proposition and a simultaneous return to pent-up business activity in the second half of the year.

Income

Maintaining higher liquidity due to pandemic, facing reduced business volumes in Trade, Corporate and sudden change in Bank of England ("BOE") base rates affected the top line adversely. Though part of the impact was offset by the lower interest cost it was not enough to sustain the overall level of net interest income. Thus, Net Interest Income (NII) declined by 22% to £9.8mn in 2020 (2019: £12.5mn). However, our strong margin management focus over the last 18 months has provided a solid foundation to grow NII in 2021 from its current low-cost base.

The lower interest rates scenario supported our wealth products offering which performed better than expected. Clients sought to achieve a higher return for their savings resulting in diversification away from the standard interest-bearing deposit account. This increased activity in our wealth management division, and duly increased our fee income. Whilst the pandemic affected the global business trade resulting in lower income being generated from trade and other related fee-based products, the overall fee-based income increased. The fee income was £4.5mn compared to £3.8mn in 2019. The overall non-Funded Income (NFI) which include fees and commissions receivable, foreign exchange income and other operating income as shown in the income statement was however lower by 22% to £3.9mn (2019: £4.9mn) predominantly due to recognition of translation impact amounting to £1.8mn mainly due to recognition of revaluation loss on Additional Tier 1 and Tier 2 bonds issued for capital purposes which were classified as equity in 2019 and cannot be revalued under accounting rules.

Operating Expenses

The total operating costs have increased by only 3% up Year-on-Year (YOY) at £25.7mn (2019: £25mn) despite the continued investment in compliance related controls and restructuring related costs. A key area of focus for the bank in 2021 post-restructuring will be on driving cost efficiencies and robustly managing expenses.

Provisions & Impairments

Watchlist and impaired loans have now reduced to 9% of the total book in 2020. There has been no additional customers' default since 2018 reflecting strength of the current loan book which was built after strengthening of governance and credit underwriting process. We have made additional provisions of £1mn each for loan losses and diminution in the value of investments respectively. These provisions relate to an impaired legacy customer and a high street retail bond bought over 3 years ago.

Principal Risks and Risk Management

Managing risk is an integral part of the banking business. The bank is primarily exposed to credit risk, market risk (including interest, and FX), liquidity risks, operational risk i.e. the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including risk of non-compliance with regulatory requirements) and reputational risk. All these risks are managed through adherence to documented policies and procedures together with board level oversight of the bank's operations.

The Bank has always adopted a strategy to maintain adequate liquidity, both in terms of amount and quality, to ensure that it continues to meet its obligations as they fall due. The bank regularly reviews its asset / liability maturity mismatches and maintains liquidity gaps within prescribed limits as per the risk appetite statement.

The Covid-19 pandemic is a new emerging risk which has made significant economic and social disruption across the globe. The Board of Directors, the Assets & Liability Committee (ALCO) and the management team continued to monitor the bank's operational and financial results to ensure the bank has sufficient capital and liquidity to trade through a plausible range of economic outcomes.

Risk Management

The PRA have concluded that based on the scale and nature of the bank's UK business, the bank has little capacity individually to cause a disruption to the UK financial system and have classified the bank as a category 4 institution. The bank continues to pursue robust risk management policies. Risk Management at the bank involves identification, analysis, evaluation, acceptance and mitigation of all financial and non-financial risks that could have a negative impact on the institution's performance and reputation. The Board of Directors has overall responsibility for the establishment and oversight of risk management and continues to maintain an appropriate risk appetite. The bank has established Risk Management systems and controls to ensure that all its principal risks are identified, and that policies and monitoring processes are in place to mitigate them.

Those risks identified are managed at a level proportionate to current business activities and operations. The bank conducts stress tests to test the resilience of its business model in case liquidity, capital and credit risks materialise. Disaster Recovery Plan (DRP) / Business Continuity Plan (BCP) testing are also carried out periodically. The results of these tests are used to update business strategy as well as to incorporate additional mitigating controls including guidance in setting limits and Early Warning Indicator (EWI) thresholds. Adequacy of stress tests is regularly reviewed, and new tests are performed as emerging situations are identified. Credit risk is one of the key core risks that the Bank is exposed to, and considering the underlying market conditions are dynamic, the controls in this area are being regularly assessed and reviewed. The Board has approved a comprehensive Operations Risk Management Framework with a view to improve and better manage the operational risks.

At the onset of the Covid-19 pandemic, the Management had implemented the business continuity plan. All banking operations are being managed in line with the recovery plan, the situation settled more during the course of the year and the bank has been able to continue its operations with no significant challenge and demonstrated the resilience as a reaction to the situation. During the year, all third party / outsourced services have also continued in line with the service level agreements. The Bank continues to operate in line with the Government guidelines laid out for the Financial Services industry whilst continuing to operate under a new normal and servicing its loyal customer base.

To ensure that the Bank's risk profiles are aligned to available financial and non-financial resources, the Board of Directors has established:

- Defined, clear and coherent Risk Management systems and controls covering various types of risks to the bank to ensure that all of its principal risks are identified, and that internal monitoring processes, procedures and controls are in place to mitigate them;
- Bank's risk appetite statement which sets defined risk limits and tolerance levels for each underlying risk in relation to Regulatory Limits, Credit and Market risk and in accordance with the underlying financial resources;
- Adequate systems and controls / risk reporting system to manage and monitor the core risk related to capital, liquidity and credit;
- Suitable forums for discussing, monitoring and managing these risks;
- A Senior Managers Regime Framework which sets out the constitution, roles and responsibilities of the Board of Directors, Non-Executive Directors, all the Committees, Chief Executive Officer and senior management; and
- Forums and processes for reviewing risk management systems and monitoring thresholds.

The Board has established a number of Committees, each with defined terms of reference, scope of work, roles and responsibilities to prepare the groundwork for decision making and to assist the Board in monitoring the implementation of the policies, processes and procedures.

All significant matters discussed and decided at each meeting of the Board Committees are reported to the Board by the Chairman of the respective Committees, namely:

- Board Audit Committee;
- Risk Management Committee;
- Human Resources & Remunerations Committee;
- Compliance & Transformation Committee; and
- Board Nominations Committee.

The Risk Management disclosures as required under the Pillar III guidance are available on the bank's website: www.hblbankuk.com. These disclosures under Pillar III include a detailed risk management analysis, capital management and details of overdue and impairment exposures.

Climate Change

The Bank is cognizant of the important role it must play in climate change. We are managing our response proportionately to the nature, scale, and complexity of our business. We are specifically managing the financial risks from climate change in four areas:

- Governance – clear board-level engagement and responsibility for managing financial risks from climate change and oversee these risks within the firm's overall business strategy and risk appetite.
- Risk Management – addressing risks through the firms existing risk management frameworks, in line with board approved risk appetite, whilst recognising nature of financial risk require a strategic approach.
- Scenario Analysis – conducted to inform firms strategic planning and determine impact on overall business strategy and ICAAP.
- Disclosure – Consider relevance of disclosing information and how these risks are integrated into the governance and risk management processes.

A high-level plan was submitted to the PRA in October 2019 with the bank's approach to climate change. This outlined 3 clear phases to address and embed climate change in our bank. We have commenced the first phase of this plan with the project expected to complete by the end of 2021.

Internal Controls

An internal control system comprises the whole network of systems established in an organisation to provide reasonable assurance that organisational objectives will be achieved. The Management assumes the responsibility for establishing and maintaining adequate internal controls and procedures, while the Board of Directors is ultimately responsible for the internal control systems. For this purpose, the bank has Management level committees which are chaired by the Chief Executive Officer.

The Bank has developed procedure manuals that are followed when conducting the various banking transactions and other functions. These manuals are reviewed regularly and updated as and when required.

The Bank's system of internal control includes appropriate levels of authorisation, segregation of duties and limits for each aspect of business. There are established procedures and management information for internal monitoring and regular reporting of financial information. Financial performance reports are presented to the Board in each of its meetings detailing results and other performance data.

The Internal Audit function of the Bank reviews the adequacy and operating effectiveness of internal controls on a regular basis. Deficiencies that are identified are reported and remediation actions followed up until the deficiencies are addressed. The status of the unresolved significant issues is reviewed by the Board Audit Committee (BAC) at each of its meetings. An audit program is agreed annually with the BAC and the Head of Internal Audit presents a summary of audit reports completed during the period, with a summary of the key points.

Financial Crime Prevention

Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF)

The Bank endeavours to maintain the highest standards of regulatory compliance and industry best practice. As part of its risk-based approach to prevent financial crime, the bank has documented policies and procedures in place to combat money laundering and terrorist financing, monitored by the Money Laundering Reporting Officer (MLRO) and the bank's Compliance Department. All employees, at regular intervals, and new employees at the time of joining the bank receive Anti-Money Laundering training to ensure that they remain vigilant and aware of their legal obligations in identifying and preventing the risk of money laundering and terrorist financing in their daily activities, including the consequences for them and for the bank if they fall short of that expectation.

The Bank maintains appropriate due diligence procedures including real time payment screening, to further enhance our financial crime control framework.

The Bank has an automated transaction monitoring system that monitors customer transactions to identify any potential suspicious transactions that are not in accordance with the customer's 'Know Your Customer' profile. Alerts are reviewed and investigation is undertaken to confirm the legitimacy of the transaction or raise a Suspicious Activity Report.

The Bank maintains robust systems and controls through its Payment Screening Unit (PSU) and the Correspondent Bank Query Unit (CBQU) which is an additional defense in its effort to mitigate the risk of financial crime.

The Bank initiated the exercise of reducing its overall Financial Crime Risk Profile (FCRP) in Q4 2017 which was completed in 2018. In 2019 Bank decided to invest in improving the overall control environment standards around AML and Financial Crime Risk, specifically in response to the FCA review in the same year. A comprehensive Business Transformation (BT) project was rolled out in 2019 to achieve the key objectives of:

- Improving the control environment to be at par with best market practice;
- Achieving robust control to ensure compliance with regulatory requirements;
- Streamlined and consistent journey for our customers; and
- Addressing key issues identified by the FCA during their thematic assessment of financial crime systems and controls in 2019. The remediation work continued in 2020 and is due to be completed in 2021.

Anti-Bribery and Corruption Policy

Maintaining a solid reputation in the market as well as with our shareholders and customer is of paramount importance to the bank. The Board, senior management and every employee plays a role in maintaining and promoting the bank's reputation for honesty, integrity and fair play in dealing with fellow employees, customers, regulators, suppliers and the general public. The bank expects all employees to conduct themselves in accordance with the highest standards of personal and professional integrity and to comply with all laws, regulations, corporate policies and procedures.

The Bank has a robust Anti-Bribery Policy in place, that has been embedded in the organization. The bank has zero-tolerance towards any policy breaches.

Conduct Risk

The bank recognises that the conduct of firm, its staff and the culture that is embedded within the organisation is of critical importance, including the tone from senior management and the board. The bank endeavours to have a fair outcome for the customer in all their dealings with the bank. The bank is also mindful of ensuring that its actions do not disrupt the orderly workings of the market in which they operate, and that there is always a transparency to their operations.

Whistleblowing

Policies and procedures are in place to guide all employees in understanding how they can raise concerns without fear of repercussion. Details of the anonymous hotline is made available throughout the bank, including at all branches, where posters are in prominent positions and encourage employees to share their concerns. The Non-Executive member of the Board has oversight and accountability to ensure that all whistle-blowing reports made are dealt in a confidential manner.

Complaints

The Bank has a complaint handling procedure and encourages customers to report instances where its services are not as expected. Details of the complaints made are tracked and monitored by the management committee and further escalated to the Board.

Data Protection

The Bank's nominated Data Protection Officer (DPO) is a member of the Compliance Department and has responsibility for monitoring the bank's performance against the regulations of the Data Protection Act 2018, which sits alongside the UK GDPR regulations. The DPO is also responsible for ensuring that the Bank responds to any Data Subject Access Requests in the manner defined in the rules and within the set timeframes.

Section 172 statement by the Directors

The Bank successfully executed an extensive restructuring exercise in 2020 where we focused on becoming more efficient, refreshed our primary objectives as a business and ensured there is a clear and sustainable path outlined for the future. The decision to close some bank branches has been taken to protect the long-term viability, sustainability, and profitability of the bank. We consulted with stakeholders and considered all options available, and believe these decisions are in the best interest of the bank. Our reduction in our physical presence, i.e. the branch network, will enhance our ability to apply even more focus and resources to our digital strategy including recently launched mobile banking application and other areas where our customers need, and demands have increased.

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of HBL Bank UK Limited for the benefit of its member as a whole, and in doing so had regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Bank's employees;
- the need to foster the Bank's business relationships with suppliers, customers and others;
- the impact of the Bank's operations on the community and the environment;
- the desirability of the Bank maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Bank.

In discharging its section 172 duties, the Board has regard to the factors set out above.

The Board delegates authority for the day-to-day running of the business to the CEO and, through him, to Senior Management to set, approve and oversee execution of the bank's strategy and related policies. The Board reviews matters relating to financial and operational performance, business strategy, key risks, stakeholder-related matters, compliance, and legal and regulatory matters, over the course of the financial year. This is supported through the consideration of reports and presentations provided at Board meetings and reviewing aspects of the bank's strategy. Engaging with the bank's stakeholders is key to the way the Bank runs its business and is an important consideration for the Directors when making relevant decisions. As directors of a regulated bank, holding customer deposits, safety, soundness and adherence to all relevant aspects of regulation is key to the bank's business model. Strategic report and directors' report articulate the way Board performs its responsibility and comply with the requirements of section 172. The key stakeholders of the bank are its principal shareholder, employees, customers, and regulators. The bank's corporate governance and risk management framework is designed in a way to ensure that the interest of all key stakeholders is taken into consideration.

The Bank undertook a comprehensive restructuring exercise during the year. It identified a phased plan in which it sought primarily to improve efficiencies and re-align its business model with that of the future objectives and aspirations of the bank. The Bank closed the following branches;

- Edgware Road, London
- Glasgow
- Green Street, London
- Leicester
- Southall, London

As a result, the Bank is a leaner and more efficient bank and able to drive profitability sustainably.

Some examples of interaction in 2020 are:

Employees: In line with government guidelines most of our staff have worked remotely since the pandemic reached the UK in March 2020. All staff were supplied with the necessary tools to continue to operate at the highest standards for our customers. Our Human Resources (HR) committee ensures that all key matters relating to employees are discussed at the Board level. Policies, conduct rules and continuous training programmes are among the many training and upskilling events we undertook online during the year. Our robust and progressive performance appraisal system has been fully operational and we have been holding regular town hall meetings to ensure that employees are fully engaged, and their interests are safeguarded in all key decisions.

Values and culture: The Bank expects its staff to maintain the highest standards of business practice and conduct both internally and externally. The bank abides by and clearly communicated a refreshed set of core values in 2020 which include integrity, customer centricity, value people, progressive and excellence.

Customers: Our conduct risk framework has operated effectively for our customers throughout 2020. During the pandemic and in line with regulation and the government guidelines, we have offered our customers payment deferrals facilities if required in line with industry practices. The bank continued to operate all its services to the customers through fully operational branches, call centres, and centralised processes. The operational effectiveness has been monitored closely with management sharing regular information.

Regulators: We have continued to be effective in our responses with the regulator, implementing additional policies and procedures throughout 2020 in line with our plan submitted to the FCA in 2019. Our various board committees regularly receive updates from different management interaction with Regulators and ensure robust compliance is made of any actions that are required. Simultaneously, we have ensured ongoing mandatory compliance processes and procedures training for all staff, ensures strong and effective lines of defense throughout the bank. We will continue to engage with regulators on key matters to keep abreast of evolving challenges and to ensure we are fully embedding practices and mitigating risk across the Bank.

Shareholders: Continuous review of performance, discussion on various financial matters at the Board level, and review of management information ensures that the interest of shareholder is considered in all key Board decisions.

Environment & community: The Bank is aware of the part it plays in the community and has encouraged and supported its staff to engage in charitable events at local and international level. It is also keen to play its role in addressing the important factor of climate change and has enacted a phased plan to be completed by the end of 2021.

Future Development

The macroeconomic environment remains challenging, both domestically and in the wider global economy due to the uncertainty created primarily from the pandemic. We are continuing to trade as effectively as possible whilst remaining mindful of the challenges the pandemic has created, in both a social and economic context and both for our customers and our staff.

There is positive momentum after successfully executing an extensive restructuring exercise in 2020 where we have focused to enhance efficiency, refocused our primary objectives and ensured there is a clear and sustainable path outlined for the future. In addition, by enhancing our internal infrastructure, specifically through our compliance control improvement programme, and with the launch of our mobile application we are confident the bank will achieve its goals and objectives in the year ahead.

Our success continues to be delivered by our people and our ability to empower them. Over the last year we have made significant changes in our Leadership and Senior Management teams including our Chief Executive Officer. These changes will not only add significant experience of achievement and success but will further facilitate and foster an environment where people can grow and add value.

The Board of Directors also considered, at length, the impact of Covid-19 on the bank's capital, liquidity and operational resilience as part of the going concern assessment. The Directors are satisfied that the going concern basis remains appropriate in preparing these financial statements of the Bank. Further disclosures on the going concern basis can be found in note 2 (b) to the financial statements.

Finally, we intend to grow new and strengthen existing relationships with customers post COVID-19. We want to combine the core strengths of the bank and our people, including personalized service, with the efficiencies and enhanced experience of our recently launched mobile banking application. We intend to leverage these new capabilities to strengthen our position in the digital ecosystem and continue our move away from the more costly high street banking model, in line with our customers' needs. We will be focusing on growing our Non-Fund Based Income (NFBI) in 2021, with particular importance given to our Wealth Management and Trade businesses which will complement our strong foundations of those business lines. We believe this unique relationship will propel the business forward creating a sustainable, profitable customer centric bank in 2021.

Approved by the board of directors and signed on its behalf by:

David J. Blatchford
Director
HBL Bank UK Limited
9 Portman Street
London W1H 6DZ

Dated: 18 March 2021

Directors' Report

The Directors of HBL Bank UK Limited ("the Bank") have pleasure in presenting their annual report and financial statements for the year ended 31 December 2020.

The Bank is a wholly owned subsidiary of Habib Allied Holding Ltd (HAHL).

Principal Activities

The principal activities of the Bank are set out in the business model section of the Bank's Strategic report on page 2.

Management

The management team of the Bank consists of seasoned professionals with diverse but complementary skills in various backgrounds as well as depth of experience in their respective areas of operations. Over the years they have brought their knowledge, experience and leadership to bear on the development and delivery of solutions to meet the needs of the Bank's customers and, in the process, contributing to sustaining the performance of the Bank.

Financial Performance – Results

The financial statements for the year ended 31 December 2020 are set out in detail on pages 24 to 44. The loss on ordinary activities before tax for the financial year amounted to £14.09mn (2019: £7.23mn).

The Directors do not propose the payment of a dividend for the year (2019: Nil).

Financial review and future developments

The Bank's detailed financial review and future developments are setout in the Strategic Report on pages 2 to 7.

Existence of Branches outside UK

The Bank has only one branch outside of the UK in Zurich, Switzerland.

Share Capital

Allotted, called up and fully Paid-up Capital of the Bank at the end of the year was £50.32mn (2019: £50.32mn) and Total Equity of £70.71mn (2019: £82.86mn).

The Bank's financial statements have been prepared on the going concern basis as the Directors are satisfied that there are no material uncertainties that may raise significant doubt about the Bank's ability to continue as a going concern.

Directors

As per Bank's Articles of Association, unless otherwise determined by ordinary resolution, the number of directors (disregarding alternate directors) must not be less than five and not more than ten. All the Directors are nominee directors of the shareholder.

As at the end of the year under report, Board of Directors (the Board) includes four independent directors. The Board represents the right balance of professional and financial skill, expertise, breadth of knowledge, diversity, and experience within the Board relevant to the Bank's business. During the year under report, the Board held seven meetings (2019: 5).

The Directors who held the office up to and during the year are as follows:

David J. Blatchford	Chairman / Independent Non-Executive Director
Rayomond Kotwal	Non-Executive Director
Faisal N. Lalani	Non-Executive Director
Sagheer Mufti	Non-Executive Director
Allan J. Hirst *	Independent Non-Executive Director
John N Cotton**	Independent Non-Executive Director
Sian Herbert	Independent Non-Executive Director (appointed 01.07.2020)
Andreas Ponce de Leon	CEO / Director (appointed 03.12.2020)

* also, Senior Independent Director
** resigned on 31 December 2020

Arif Ali served during the year as CEO / Director until 2 December 2020. Further Juliet Wedderburn, has been appointed as Independent Non-Executive Director, to replace John Cotton effective 1 January 2021.

The Board records its appreciation for the leadership and services rendered by the outgoing Directors.

None of the Directors holds or has held shares of the Bank or its parent company HAHL.

Directors' Interests

None of the Directors who held office at the end of the financial year under review holds or has held shares of the Bank or its parent company HAHL and had any disclosable interest in the shares of the Bank or the Group as a whole. No contract of significance in relation to the Bank's business in which a director of the Bank has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year other than contracts entered in the normal course of business on an arm's length basis or under a service contract.

Directors' indemnification

An insurance policy is maintained by the Bank which indemnifies the Directors against certain liabilities arising in the conduct of their duties. Such indemnity has been in place during the period and remain in force at the date of this report.

Directors' remuneration report

The single total figure of remuneration including Pension contributions for Directors including Executive Directors of the Bank as a whole for the year ended 31 December 2020 was £1.39mn (2019: £1.08mn).

There are no performance targets in place for the non-executive directors and there are no benefits (pension, bonus, long term incentive plan, exit payments etc.) in place for the non-executive directors.

Political and Charitable Contributions

During the year, the Bank has made a charitable contribution of £4,000 (2019: £1,411) and there has been no political contribution (2019: £Nil).

Engagements with Suppliers, Customers and Others

Engagements with suppliers, customers and others are covered in the section 172 statement by the directors given in the Strategic Report.

Corporate Governance

The Bank is authorised by Prudential Regulation Authority (PRA) and regulated by Financial Conduct Authority (FCA) and PRA.

The Bank is a wholly owned subsidiary of Habib Allied Holding Limited (HAHL), which is a non-banking company registered in England & Wales. The Bank has its independent Board of Directors and all the directors are nominee directors of the shareholder. Board has delegated various authorities and responsibilities to the CEO to manage the day-to-day business and affairs of the Bank. The Bank has a range of business lines and functions such as Retail and Corporate banking, Wealth Management, Financial Institutions Business, Finance, Human Resources, Compliance, Treasury, Operations, IT, Trade Finance, Risk and Internal Audit on a Bank wide basis.

The Board of Directors (the Board) of the Bank is responsible for the overall governance of the Bank and has ultimate responsibility to shareholder for the overall leadership, controls, operations and financial soundness of the Bank, and creating and delivering sustainable shareholder value through the prudent management of the Bank's business. The Board, therefore, determines the strategic objectives and policies of the Bank to deliver long term value, protecting the reputation, integrity, safety, soundness, and interest of the Bank. The primary role and responsibilities of the Board include:

- Setting the Bank's strategy taking into account stakeholder interests;
- Ensuring that the business has an effective system of internal control and management of business risks is conducted in accordance with the FCA's and PRA's Principles for Business;
- Monitoring financial information of the Bank and reviewing overall financial condition and its position as a going concern;
- Reviewing market, credit and liquidity risks and exposures with additional oversight and control over credit risk management;
- Reviewing the application of stress tests as appropriate; and
- Supervisory management, exercising business judgement, and acting in good faith.

Board meets regularly to discharge its responsibilities for all important aspects of the Bank's affairs, providing objective advice on the activities of the Bank including monitoring performance, considering major strategic issues, approving strategies, annual budget, business plans, risk control framework and risk appetite to support the strategy.

The Board is firmly committed to the highest standards of corporate governance. The Bank's corporate governance is directed not only towards regulatory and legal requirements but also towards adherence to sound business practices, transparency and disclosures to shareholder. The Bank has, within its relationship with its borrowers, depositors, shareholder and other stakeholders, always maintained its fundamental principles of corporate governance – that of integrity, transparency and fairness, seeking to provide an enabling environment to harmonise the goals of compliance with the regulatory/legal framework, maximising shareholder value and maintaining a customer centric focus.

The corporate governance framework of the Bank is based on an effective and independent Board which is not involved in day-to-day management. The position of the Chairman of the Board and CEO are held by separate individuals.

Board meetings are held at least four times a year. If required, additional meetings can be held to discuss any specific item of critical importance. The Company Secretary in consultation with the CEO and Chairman prepares a detailed agenda for the Board meetings. Agenda papers and other explanatory notes are circulated to the directors in advance. The Directors have complete access to all information and are free to recommend inclusion of any matter in the agenda for discussion. Senior management is also invited to attend the Board meetings as and when required, so as to provide additional input to the items or issues being reviewed or discussed by the Board.

To enable a better and more focused attention to the affairs of the Bank, the Board has put in place five Board Committees, with the addition of the Nominations Committee this year, to which it has delegated specific responsibilities with defined terms of reference, scope of work, roles and responsibilities to prepare the ground work for decision making and to assist the Board in monitoring the implementation of the policies, processes and procedures.

The Board Committees review MIS and various policies to ensure that activities of the Bank are always conducted in accordance with appropriate ethical standards. The membership of the Board Committees is drawn from the Directors.

All significant matters discussed and decided at each meeting of the Board Committees are reported to the Board by the Chairman of the respective Committee. Approved minutes of the Board Committees are reviewed and adopted by the Board in its following meeting. The principal Board Committees are:

- Board Audit Committee (BAC);
- Risk Management Committee (RMC);
- Human Resources and Remuneration Committee (HR&RC);
- Compliance and Transformation Committee (CTC); and
- Board Nominations Committee (BNC).

Board Audit Committee (BAC)

The Bank has an independent Audit function with the Head of Audit reporting directly to the Chairman of the BAC who is a Non-Executive Director. Following are the core areas of Board Audit Committee responsibilities:

- Oversight of external audit including review of external audit findings, key judgements, level of misstatements;
- Oversight of internal audit which is not limited to monitor and review the effectiveness of the internal audit activities;
- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee) and obtaining explanation on what actions have been, or are being taken to remedy any significant failings or weaknesses; and
- Ensure that appropriate arrangements are in place to address whistle-blowing and fraud related matters.

The Committee apprises the Board of Directors of any significant issues and the corrective measures initiated. The Committee also follows up implementation of its various suggestions / decisions on a regular basis.

Risk Management Committee (RMC)

The RMC is responsible for ensuring appropriate governance and oversight in relation to all the risks in the Bank i.e. credit risk, liquidity risk, market risk, operational risk, and reputational risk. RMC's main responsibilities include:

- monitoring the independence and performance of risk function in accordance with FCA/PRA guidelines;
- setting out the nature, role, responsibility and authority of the risk management function and outline the scope of risk management and reporting requirements;
- review and assess the integrity of the risk control systems and ensure that the Bank's risk policies, procedures and strategies are effectively managed through reporting;
- ensure that the Bank has clear, comprehensive and well documented policies and procedures, guidelines relating to the risk management for all major risks;
- ensure that the Bank's risk management policies and framework are adequate to support its overall business strategy;
- ensure that the Bank's risk appetite is well articulated and captures the strategic focus of the Bank;
- periodically, review the Bank's overall risk appetite to ensure that it is commensurate with the latest business strategy of the Bank;
- update the Board on any material discussions held or decisions taken in the RMC;
- deliberate and review the tolerance limits in respect of credit, market, liquidity, conduct, counterparty and operational risk; detailed review of the overall portfolio, large exposures, concentrations e.g. geographical, sectors wise risks etc.;
- determine the credit approval process, and large exposure, country risk exposures and loan provisioning policies of the Bank;
- establish overall lending policies through credit policy manual (CPM), credit risk appetite and guidelines;
- ensure portfolio performance is in line with the set benchmarks and determine that overall provisions are adequate;
- review and discuss the results of the stress testing of the asset book; and
- to consider and recommend to the Board for approval of the Bank's recovery and resolution plan (RRP); internal capital adequacy assessment process (ICAAP) & internal liquidity adequacy assessment process (ILAAP).

Human Resources and Remuneration Committee (HR&RC)

The HRRC key duties and responsibilities are to:

- Develop of and implement the Bank's remuneration policies and practices in accordance with SYSC 19D (Remuneration Code).
- Consider and approve contents of the remuneration Policies and practices and periodically review their adequacy and effectiveness and compliance with the FCA/PRA Remuneration Code.
- Ensure that remuneration decisions properly reflect the importance of delivering standards set in respect of robust risk management and adheres to regulatory remuneration principles.
- Ensure independence, autonomy and effectiveness of Bank's policies and procedures on Whistleblowing, including the procedures for protection of staff who raise concerns from detrimental treatment.
- Approve HR policies and practices including staff professional development, establish and ensure implementation of appraisal process, internal promotions, and recruitment policies.
- Review and approve employee benefits plans, Pension Policy of the Bank, and the extent of employer pension contributions
- Satisfy itself that the Bank follows all relevant employment laws and regulations.
- Review and agree the principles and aggregate amounts of increase in the annual salary of the staff and aggregate amount of annual performance bonuses.
- Oversee any significant matters of employee relations.
- Consider and approve redundancy packages of staff members.
- Approve principles of any employee reward program.
- Periodically review and obtain approval of the Board to update its own terms of reference to reflect emerging legislation, codes of conduct and best practice.

Compliance and Transformation Committee (CTC)

The CTC support the Board in inculcating compliance and conduct culture into the Bank. It guides the design of Bank-wide compliance program, review measures instituted by the management to develop business responsibility and monitoring the Bank's compliance with legal and regulatory requirements and internal policies and procedures including code of conduct.

Since compliance and conduct are Bank-wide considerations, relevant committees of the Board notably CTC, Board Audit Committee, Human Resource & Remuneration Committee and Risk Management Committee, actively coordinate with each other and achieve overall objectives of improving compliance and conduct environment.

Nominations Committee (NMC)

The NMC was established to lead the appointment process for members of the Board.

The key duties/responsibilities of the Committee are to:

- Regularly review the structure, size, and composition (including the skills, knowledge, experience, independence, and diversity) of the Board as a whole, and make recommendations to the Board, and the Board of the parent company, regarding any changes considering any legislative or regulatory requirements.
- Give full consideration to succession planning for Non-Executive Directors including the length of service of members and the need to regularly refresh Board membership, taking into account the challenges and opportunities facing the Company, its strategic priorities and the main trends and factors affecting the long-term success and future viability of the Company, and what skills and expertise are therefore needed on the Board in the future;
- Be responsible for identifying and nominating for the approval of the Board, and Board of the parent company, candidates to fill board vacancies as and when they arise.
- Before an appointment is made, evaluate the balance of skills, knowledge experience, diversity, and length of service on the Board, and the range of critical skills of value to the Board relevant to the challenges and opportunities facing the Company. In the light of this evaluation prepare a description of the role and capabilities required for an appointment.
- Keep under review the leadership needs of the Bank, including the benefits of a diverse pipeline for appointments with a view to ensuring the continued ability of the Bank to compete effectively in the marketplace.
- Formulating plans for succession for Non-Executive Directors, and for the key role of Chairman, considering contingency, medium and long-term planning.
- Membership of the Board Committees, including the technical skills and knowledge required, in consultation with the chairmen of those committees.
- Recommend to the parent company an extension of terms, or the re-appointment of any Non-Executive Director at the conclusion of their specified term of office. This will be done giving due regard to their performance and ability to continue to contribute to the Board considering the knowledge, skills and experience required.

The CEO, who reports to the Chairman and the Board, is empowered by the Board of Directors for all operational issues and day-to-day management of the Bank. In carrying out his duties he is assisted by Senior Management and the following committees:

- Asset and Liability Committee (ALCO);
- Management Committee (MC);
- Credit Risk Committee (CRC);
- Operational Risk Management Committee (ORMC);
- Compliance and Reputational Risk Committee; and
- Early Warning Committee.

Code of Ethics

The standards of ethical conduct which the Bank expects from its employees are laid down in the Bank's Code of Ethics and Business Conduct to safeguard their ethical values and guide them in discharging their duties. These are a set of principles that reinforce the Rules and Regulations reflected in the Bank's Policies and Procedures. The Code of Ethics and Business Conduct for employees ensures that the employees conduct themselves with dignity and integrity and build customer confidence.

Code of Conduct

The Bank has adopted FCA Code of Conduct - Conduct Rules for Senior Managers and the Conduct Rules for Individual Staff members. Code of Conduct embodies honesty, integrity, quality and trust and other principles and standards to which management, officers and other employees are expected to adhere. Senior Manager Conduct rules are applicable to staff members approved by FCA/PRA under the Senior Manager Regime i.e. Senior Managers or SMFs and must be observed by them. Individual Conduct rules are applicable to all the staff members of the Bank irrespective of their position whether in Senior Manager Regime, Certification Regime or otherwise and are required to be observed by them.

Going concern

The Directors recognize their responsibility to make an assessment of the Bank's ability to continue as a going concern, for a period of at least twelve months from the date the financial statements are approved. The assessment is based on the Bank's business and capital plan having sufficient liquidity and capital and include consideration of its funding and the ILAAP and ICAAP approved by the Board. The Directors are satisfied that having considered the Bank's objectives, risk management policies, capital and liquidity management, nature of exposures, revenue and expenditure projections, the Bank has adequate financial resources, appropriate capital and a suitable management structure in place to manage its business risks successfully and continue in operational existence for the foreseeable future.

The Board of Directors also considered in depth the impact of Covid-19 on the Bank's capital, liquidity and operational resilience as part of the going concern assessment and also applied stress testing / sensitivities to the base case projections due to Covid-19. The Directors are satisfied that the going concern basis remains appropriate in preparing these financial statements of the Bank. The details of key assumptions considered in the going concern assessment are disclosed in note 2(b) of the financial statements.

Employees

As at 31 December 2020 the Bank had 136 employees including our Zurich Branch (2019: 157).

1 Defined contributory pension scheme with 5% employer contribution of the basic salary towards this;
2 Group life insurance cover of 4 times their annual salary in the event of death in service; and
3 Private Health Insurance.

Acknowledgement

The Board of Directors takes the opportunity to express its thanks and gratitude to all stakeholders including the Bank's customers for their continued support and cooperation without which the business growth of the Bank would not have been possible. We remain committed to our strategy and believe our customer focus and business model will continue to provide best opportunities for future success.

The Board of Directors also records its appreciation to the Management and Staff for their continued hard work, dedication, commitment, and teamwork.

Financial risk management objectives and policies

The disclosures required to be included in the Director's report in respect of the Bank's exposure to financial risk and its financial risk management policies are given in note 26 of the financial statements and also set out in the strategic report page 2 to 7. The Bank's Pillar III disclosures are available on the Bank's website at www.hblbankuk.com.

Post Balance Sheet Events

There are no unadjusted or reportable events subsequent to the balance sheet date apart from as disclosed in Note 28.

Directors' Representation

The Directors who held office at the date of this Directors' Report confirm that:

a) so far as each of the Directors is aware, there is no relevant audit information of which the Bank's auditor is unaware: and
b) each of the Directors has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

The above confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

The Directors are not aware of any material events that have occurred since the end of the financial year to the date of signing this report that could impact the financial health of the Bank.

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to appoint the auditors will be considered at the forthcoming annual general meeting.

Approved by the Board of Directors and signed on its behalf by:

David J. Blatchford
Director
HBL Bank UK Limited
9 Portman Street
London W1H 6DZ

Dated: 18 March 2021

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HBL BANK UK LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion, the financial statements of HBL Bank UK Limited (the 'Bank'):

- give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year was loan loss provisioning on loans and advances to customers. This is consistent with the key audit matter identified in prior year. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £2.12m (2019: £1.94m) which was determined on the basis of 3% (2019: 3%) of net asset.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team in the UK for all branches with the exception of the branch in Zurich where a component audit team in Switzerland was engaged.
Significant changes in our approach	We have included the loan loss provisioning on watch-listed customers within the key audit matter relating to loan loss provisioning.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We evaluated management's going concern assessment paper to determine whether it appropriately captures all key business risks, such as operational, financial, liquidity and capital risks;
- We assessed the operational resilience of the Bank under a prolonged lockdown period by challenging the Bank's recovery plan and mitigating procedures in place. We also reviewed the weekly management dashboard that provides an update on the banking operations to senior management including performing of third party service provider including IT support arrangement with parent bank;
- We challenged the assumptions used in the three year profitability plan of the Bank. We involved back testing approach where the audit team compared the actual results reported in 2020 with the budgeted performance to identify any significant variation;
- Supported by Deloitte's prudential risk specialists, we read the most recent ICAAP and ILAAP submissions, considered management's capital and liquidity projections, reviewed the results of management's reverse stress testing, and challenged key assumptions and methods used in the reverse stress testing;

- We read correspondence with regulators to understand the capital and liquidity requirements imposed by the Bank's regulators, and evidence any changes to those requirements; and

- We considered the adequacy of the disclosures made in the financial statements in view of the requirements of applicable financial reporting framework.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Loan loss provisioning

Key audit matter description	As at 31 December 2020, the Bank had an outstanding balance of loans and advances to customers, net of provision, amounting to £196m (2019: £192m) (see note 21) with the total impairment provision balance being £7.9m (2019: £20.5m) (see note 14). These loans are measured at amortised cost using the effective interest rate method less allowance for impairment as required under IAS 39 'Financial Instrument: Recognition and Measurement'. The provision balance for loan losses has decreased by 61.6% primarily due to write-off of fully impaired loan accounts in 2020 amounting to £13.6m. Additionally, the Bank has recorded an additional net provision charge of £1m on loan losses during the year ended 31 December 2020. The level of impairment against loan and advances portfolio is one of the most significant estimates made by the Bank's directors and management in preparing financial statements. The accounting policy relating to impairment losses on loans and receivables is in Note 2(e), judgements in applying accounting policies and critical accounting estimates in Note 2(c), and provision for impairment losses on loans and advances to customers in Note 14 of the financial statements. The significant judgements include the identification of loans where impairments may have occurred, the calculation of provisions to be recognised on the watch-listed and defaulted borrowers and the calculation of the collective impairment across the portfolio. Due to the current economic uncertainty as a result of the COVID-19 pandemic, the complexity in estimating loan loss provisioning has increased. Furthermore, government intervention, including the furlough scheme, business

interruption loans and payment holidays, has supported borrowers through the pandemic and, therefore, made it more difficult to consistently identify instances where the credit risk of borrowers has increased significantly. There is a potential risk of fraud due to significant judgements applied.

Accordingly, we have identified the following as areas that represent greatest judgement and, therefore, those most affected by the current economic uncertainty as key audit matter:

- Loan loss provisioning against bad book. This represents borrowers which have been either partially or fully provided for (categorised with Bank's internal credit rating of 8); and
- Loan loss provisioning against watch-listed borrowers. This category includes borrowers that indicate a potential increase in credit risk and are closely monitored by management for any potential impairment risk.

How the scope of our audit responded to the key audit matter

To respond to this key audit matter, we have performed the following procedures on bad book and watch-listed borrowers:

- Obtained understanding of the relevant controls and tested the key controls related to the Bank's impairment assessment process and provisioning calculation. This included an assessment of the credit sanctioning, credit monitoring and credit provisioning of loans and advances to customers;

- Scrutinised the Credit Risk Committee and Risk Management Committee minutes to identify problematic borrowers and any recent decision made in respect of internal risk rating that may impact impairment provision recognised in the Bank's records.

- Tested the levels of the impairment provision recognised on management identified loans with a credit rating of 8. This involved assessing the loan impairment methodology and reviewing key assumptions used.

- Tested the impairment assessment performed by management on watch-listed loans. This involved assessing the loan impairment methodology and reviewing key assumptions used.

- Assessed the completeness of the provision balance by obtaining a list of all loans held by the Bank where no specific provision was made. For a sample of these loans, tested the key loan characteristics such as contracts, collateral valuations and coverage, payment delinquencies, customer financials and loan covenant compliance to assess for potential impairment indicators under IAS 39.

- Challenged management on key inputs and judgements made for loans against which specific provisions are held, by comparing their judgements against our expectations based upon review of supporting evidence such as communications, legal opinions, valuation documents and financial information; and

	• With the involvement of our valuation specialists, we reviewed the latest collateral valuation reports for properties that underlie loans, where properties had not been valued recently or do not have any offer available to support market price.
Key observations	We conclude that the loan loss provisioning on bad book and watch-listed loans, and the related disclosures are reasonable.

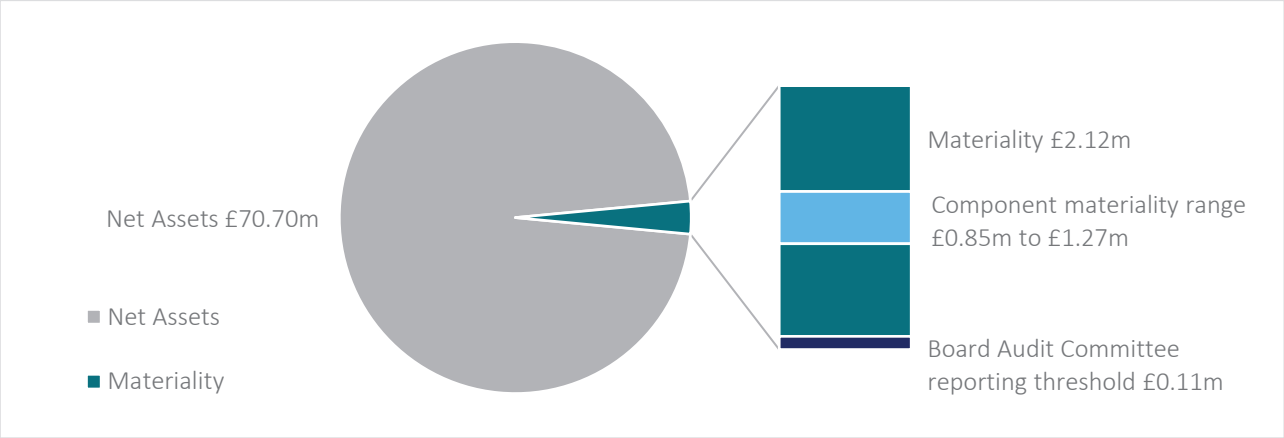
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£2.12m (2019: £1.94m)
Basis for determining materiality	3% of Net Assets (2019: 3% of Net Assets)
Rationale for the benchmark applied	Net Assets is a key metric within the financial statements on which the users, being the owner of the Bank, lenders, and regulatory body tends to focus and is a good proxy for regulatory capital. The Bank is balance sheet driven and it is their significant deposit and loan positions that drive their income and expenses.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the Bank's control environment, and the low level of corrected and uncorrected misstatements identified in previous audits.

6.3. Error reporting threshold.

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of £0.11m (2019: £0.10m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining and understanding of the Bank and its environment, including internal controls, and assessing risks of material misstatements. The Bank has five branches, four in the United Kingdom, and one overseas (Zurich). Audit work to respond to risks of material misstatement was performed directly by the audit engagement team in the UK for all branches with the exception of the branch in Zurich where a component audit team in Switzerland was involved. The Zurich team were provided with detailed instructions and the UK team maintained frequent communications with them throughout the audit. The UK team also reviewed their work with any findings presented to the Board Audit Committee.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained in the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such

internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Bank's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Board Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Bank's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, such as Tax specialists, regulatory specialists, IT risk specialists and Real Estate specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Bank operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, tax legislation and the Capital Requirements (Country-by Country Reporting) Regulations 2013.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Bank's ability to operate or to avoid a material penalty. These included the Bank's compliance with the Prudential Regulation Authority (PRA) Rulebook and the Financial Conduct Authority (FCA) Handbook.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Board Audit Committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including our internal specialists and component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion, the information given in note 27 to the financial statements for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Board Audit Committee, we were appointed by the Board of Directors of the Bank in April 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 December 2016 to 31 December 2020.

15.2. Consistency of the audit report with the additional report to the Board Audit Committee

Our audit opinion is consistent with the additional report to the Board Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Atif Yusuf FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

18 March 2021

Income Statement
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest receivable			
Interest receivable and similar income arising from debt securities		**1,481**	4,716
Other interest receivable and similar income	**3**	**10,082**	13,548
		11,563	18,264
Interest payable	**4**	**(1,781)**	(5,748)
NET INTEREST RECEIVABLE		**9,782**	12,516
Fees and commissions receivable	**4a**	**4,478**	3,774
Foreign exchange dealing (loss) /profit		**(1,207)**	288
Other operating income		**631**	909
NET OPERATING INCOME		**13,684**	17,487
Administrative expenses	**5**	**(22,737)**	(24,614)
Restructuring cost	**6**	**(2,530)**	-
Depreciation	**6**	**(438)**	(458)
TOTAL OPERATING EXPENSES BEFORE PROVISIONS		**(25,705)**	(25,072)
OPERATING LOSS BEFORE PROVISIONS AND TAX		**(12,021)**	(7,585)
Provisions for loan losses (net)	**14**	**(985)**	1,131
Recovery against written off accounts		**-**	38
Provisions for diminution in the value of investments	**9**	**(1,080)**	(811)
LOSS BEFORE TAX		**(14,086)**	(7,227)
Tax credit on loss on ordinary activities	**7**	**1,891**	1,286
LOSS AFTER TAX		**(12,195)**	(5,941)

There are no recognised gains and losses other than the loss for the year except as reported above and in Statement of Comprehensive Income.
The notes on pages 28 to 44 form part of these financial statements.
The registered number of company is 01719649.

Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Loss for the year		**(12,195)**	(5,941)
Other comprehensive Income / (loss)			
Items to be reclassified to Income Statement in subsequent periods:			
Gain on revaluation of investments	**9**	**215**	3,116
Current tax related to available for sale debt securities		**142**	(16)
Deferred tax related to available for sale debt securities	**7b**	**(12)**	16
Effect of movements in exchange rates on retained earnings / other movement		**(185)**	(54)
		160	3,062
Total Comprehensive Loss for the Year		**(12,035)**	(2,879)

Statement of Financial Position
As at 31 December 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Cash and balances at central banks		**103,675**	131,972
Loans and advances to banks	**20**	**161,163**	152,868
Loans and advances to customers	**20**	**196,192**	192,338
Debt securities	**9**	**76,602**	101,271
Fixed assets	**10**	**2,006**	2,201
Other assets	**12**	**4,735**	2,809
Accrued income		**860**	1,419
Deferred taxation	**11**	**4,153**	2,379
TOTAL ASSETS		**549,386**	587,257
LIABILITIES			
Deposits by banks		**5,445**	14,271
Customer accounts	**13**	**459,261**	479,084
Other liabilities	**13a**	**13,974**	9,538
Deferred income		**-**	1,501
TOTAL LIABILITIES		**478,680**	504,394
EQUITY			
Shareholders' funds			
Share capital	**15**	**50,315**	50,315
Share premium	**15**	**-**	15,602
Profit and loss account		**131**	(1,936)
Revaluation reserve		**109**	(236)
		50,555	63,745
Other equity instruments	**16**	**20,151**	19,118
TOTAL EQUITY		**70,706**	82,863
TOTAL LIABILITIES & EQUITY		**549,386**	587,257

The notes on pages 28 to 44 form part of these financial statements.
The registered number of company is 01719649.

These financial statements were approved by the Board of Directors and authorised for issue on 18 March 2021 and were signed on its behalf by:

David J. Blatchford
Director

Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital	Share premium	Other Equity instruments	Profit and loss account	Revaluation reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	50,315	15,602	19,118	5,650	(3,352)	**87,333**
Total comprehensive loss for the year						
Loss for the year	-	-	-	(5,941)	-	**(5,941)**
Other comprehensive income	-	-	-	(54)	3,116	**3,062**
	-	-	-	(5,995)	3,116	(2,879)
Contributions by and distributions to owners						
Interest on Equity instruments classified as equity	-	-	-	(1,591)	-	**(1,591)**
At 31 December 2019	**50,315**	**15,602**	**19,118**	**(1,936)**	**(236)**	**82,863**
Total comprehensive loss for the year						
Loss for the year	-	-	-	(12,195)	-	**(12,195)**
Other comprehensive Income	-	-	-	(185)	345	**160**
	-	**-**	**-**	**(12,380)**	**345**	**(12,035)**
Contributions by and distributions to owners						
Transfer of share premium to distributable reserve	-	(15,602)	-	15,602	-	**-**
Issuance of Additional Tier 1 Capital	-	-	7,595	-	-	**-** **7,595**
Repayment of Tier II Capital	-	-	(6,562)	-	-	**-** **(6,562)**
Interest on Equity instruments classified as equity	-	-	-	(1,155)	-	**(1,155)**
	-	**(15,602)**	**1,033**	**14,447**	**-**	**(122)**
At 31 December 2020	**50,315**	**-**	**20,151**	**131**	**109**	**70,706**

Notes to the Financial Statements
For the year ended 31 December 2020

1 THE BANK AND ITS OPERATIONS

HBL Bank UK Limited (" the Bank") is incorporated in England and Wales and is engaged in commercial banking services and is a wholly owned subsidiary of Habib Allied Holding Limited (HAHL) which is a non-banking private company and limited by ordinary shares. The registered office of the Bank and HAHL is at 9 Portman Street, London, W1H 6DZ. The Bank operates 5 branches (2019:10) including 1 branch (2019:1) outside UK.

2 Accounting policies

A summary of the accounting policies is set out below. Except where indicated, they have been applied consistently throughout the current and preceding year.

(a) Statement of Compliance

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The financial statements are presented in Pounds Sterling which is the functional currency of the Bank.

The financial statements of the Bank for the year ended 31 December 2020 have been prepared in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) issued by the Financial Reporting Council.

The financial statements contain information about HBL Bank UK Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under FRS 102, Section 9 - Consolidated and Separate Financial Statements from the requirement to prepare consolidated financial statements as the Company and its subsidiary are included by full consolidation in the FRS 102 consolidated financial statements of its parent, Habib Allied Holding Limited.

(b) Going concern

In carrying out their duties in respect of going concern, the directors have carried out a review of the Bank's financial position for a period of 12 months from the date of signing these financial statements.

The directors have reviewed the detailed forecasts for the period of 12 months from the signing of the financial statements and, recognising the uncertain economic backdrop in light of the covid-19 pandemic and incorporating the consequential impact of restructuring exercise conducted in 2020. The forecasted position have been further stress-tested by a range of pessimistic scenarios for both Capital and Liquidity.

These scenarios have been derived with reference to internal risk appetite and current economic conditions.

In the base case forecast the directors have considered the below key assumptions:

- Bank's operational continuity in case the pandemic prolonged for additional period, based on the operational challenges faced during past one year;
- Potential positive impact on the operating cost of the bank due to restructuring exercise conducted during 2020;
- Potential growth in business due to issuance of better quality capital in 2020;
- Negative interest rate movement and other wider market issues;
- Introduction of online banking;
- Strong creditability of the Bank's loan book;
- Assessment and probable control measures to limit cost and become profitable; and
- Focus on wealth management and diversification of corporate business.

Based on the above assumptions and conditional to no other uncertainties, the bank will go through the consolidation phase in next 12 months and anticipate reasonable growth in the Bank's interest income and non-fund income. Reduction in the overall cost is also expected as compared to 2020.

Sensitivity analysis:

The forecasted position is sensitive to the changes in Bank's risk based capital and liquidity surplus. Bank projects adequate capital and liquidity surplus in the next 12 months from signing date of the financial statements.

However, the directors on a prudent basis have applied further stress to the base case scenario to assess the potential impact on the Bank's future capital and liquidity position.

Capital assessment:
To test Bank's capital adequacy, management has applied four different stress scenarios to its loan book in line with the Bank's credit policy. Scenarios are based on specific assumptions and the most severe stress scenario has been applied on the Bank's capital resources. Based on the severe stress parameters existing capital is sufficiently adequate to absorb additional lossess under stress scenario.

Liquidity assessment:
Bank has applied both base case and combined stress scenario on the forecasted balance sheet of the Bank.

Base case scenario :
The normal scenario reflects that the Bank has adequate liquidity available in the next 12 months.

Combined stress scenario:
This stress test is the combination of Idiosyncratic and Market wide stress whereby it is assumed that the Bank will be suffering simultaneous liquidity stress from its counterparties and depositors as well as from an overall systemic and cyclical financial markets crisis.

The results of stress scenarios in relation to capital and liquidity assessments demonstrate that the Bank is likely to meet its obligations for a period of at least 12 months from the date of signing of these financial statements.

(c) Disclosure exemptions

The Bank meets the definition of qualifying entity and has therefore taken advantage of the disclosure exemptions available to it.

In accordance with disclosure exemptions available under FRS 102 as set out in paragraph 1.12 following disclosures are not included in the Bank's financial statement where as these disclosures are included in the consolidated financial statements of HAHL in which the Bank's results are consolidated which may be obtained from Companies House:

(i) Cash flow statement.
(ii) A reconciliation of the number of shares outstanding at the beginning and at the end of the year.
(iii) Key management compensation.

(d) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The estimates and underlying assumptions are reviewed on an ongoing basis.

Critical judgements in applying Bank's accounting policies

The critical accounting judgements are noted below.

(i) Impairment losses on loans and advances
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year includes impairment losses on loans and advances to customers. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur. (Refer to impairment allowances and collectively assessed impairment allowances in note 2f). The Bank has also performed sensitivity analysis by applying four stress scenarios on the credit portfolio in-line with Bank's credit policy. Whilst a range of outcomes is reasonably possible, however in the worst scenario the impairment loss on the credit portfolio was increased by £2.5mn.

(ii) Impairment of Debt Securities
The Bank reviews its financial investments at each balance sheet date to assess whether they are impaired. (Refer to "Held to Maturity Investments" and "Available for Sale Financial Investments" as given in note 2f).

(iii) Deferred Taxation
Judgement is involved in determining the period of time over which it is probable there will be sufficient future taxable profits against which the unutilised losses can be used. This includes making judgements on the impact of future economic conditions.

Key sources of estimation uncertainty

(i) Taxation
The Bank's current tax provision relates to management's assessment of the amount of tax payable. Due to the uncertainty associated with such tax items, there is a possibility that, on conclusion of open tax matters at a future date, the final outcome may differ significantly. Refer to accounting policy as given in note 2(h).

(ii) Deferred taxation
The Bank's accounting policy for deferred tax is set out in note 2(i) and details of Bank's deferred tax assets and liabilities are set out in note 11.

In recognising a deferred tax asset for unutilised tax losses the Directors' make certain judgements around the recoverability of the deferred tax asset.

Estimates of the level of future profitability are made in determining the amount of deferred tax asset on unutilised losses to recognise at the reporting date.

(e) Fixed Assets

Fixed assets are shown at cost less accumulated depreciation and impairment, if any, and reviewed for impairment if necessary. Depreciation is provided on these assets at rates calculated to depreciate the cost, less estimated residual value of each asset on a straight line basis over its expected useful life, as follows:

Nature of assets	Rate of depreciation
Buildings: Freehold properties	5%
Leasehold improvements	10% & over lease period
Furniture, fixtures and office equipment	10 - 20%
Computer hardware	20 - 33%
Software development cost	10%

(f) Financial assets and liabilities

The Bank has adopted the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) and the disclosure requirements of Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments. The scope of IAS 39 applies to account for all of the Bank's financial instruments at balance sheet date.

Financial assets

The Bank classifies its financial assets in four categories:

- Financial assets at fair value through income statement.
- Loans and receivables (measured at amortised cost).
- Held to maturity investments (measured at amortised cost).
- Available for sale financial assets (measured at fair value with fair value changes recorded in other comprehensive income).

Financial assets at fair value through Income Statement

(i) acquired principally for the purposes of selling or repurchasing in the near term, including marketable securities;
(ii) part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; and
(iii) a derivative contract.

Financial assets included in this category are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement. Purchases and sales of financial assets held for trading are recognised on trade date, being the date on which the Bank commits to purchase or sell the asset.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale.

Loans and advances to customers are initially recognised at transaction price less attributable transaction costs. They are subsequently valued at amortised cost, using the effective interest method less allowance for impairment.

Impairment Allowances

Loans and receivables are assessed regularly during the course of the year to determine whether there is an evidence of impairment on the accounts which are problematic.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Generally the Bank's portfolio is secured by charge on residential / commercial properties. As per the Bank's policy, valuation of collaterals are used as the proxy of future cash flows. Losses are recognised in income statement and reflected in an allowance account. When the Bank considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through income statement.

Collectively assessed impairment allowances

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics. A collective impairment allowance is calculated to reflect impairment losses incurred at the balance sheet date which will only be individually identified in the future.

The collective impairment allowance is determined by taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Held to maturity investments

Held to maturity investments are non-derivative financial assets including debt securities with fixed or determinable payments that the management has the positive intention and ability to hold to maturity. Held to maturity assets are initially recognised at fair value including direct and incremental transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less any impairment losses.

If there is objective evidence that an impairment loss on a financial asset classified as held to maturity has been incurred, the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of future estimated cash flows. Impairment losses are recognised in the income statement and the carrying amount of the financial assets is reduced by establishing an allowance for impairment losses. If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not recognised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in a fair value reserve until sold when the cumulative gain or loss is transferred to the income statement. When a decline in the fair value of an available for sale financial asset has been recognised in Statement of Comprehensive Income and there is objective evidence of impairment, the cumulative loss, being the difference between the asset's acquisition cost (net of amortisation) and its current fair value is removed from equity and recognised in the Income Statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be related objectively to the cessation of impaired event, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Income Statement.

Purchases and sales of financial assets available for sale are recognised on trade date, being the date on which the Bank commits to purchase or sell the asset.

Financial liabilities

Financial liabilities are initially measured at the transaction price (including transaction cost), except for financial liabilities held for trading, which are measured at fair value through income statement. All financial liabilities (including other payables) are subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments

The Bank makes use of derivative financial instruments, i.e. forward foreign exchange contracts and cross currency swaps, to manage exposures to foreign currency risks and balance sheet gap management. The derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at market prices. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains and losses arising from changes in fair value on the derivatives during the year are taken directly to the income statement.

Derecognition of financial assets and financial liabilities

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and
  - (a) the Bank has transferred substantially all the risks and rewards of the asset, or
  - (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(g) Investment in Subsidiary

Investment in subsidiaries are stated at cost less impairment. Impairment loss is recognised if the carrying amount exceeds its recoverable amount. Recoverable amount is higher of fair value less cost to sell and its value in use.

(h) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been substantially enacted by the balance sheet date.

(i) Deferred Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the Directors consider it more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

(j) Pension Costs

The Bank operates a defined pension contribution arrangement and cost is recognised as and when contributions are made. Pension benefits are provided through a defined contribution scheme to which the Bank contributes an amount as per the fixed percentage on each member's earnings. Differences between contributions payable in the year and contributions actually paid are shown as accruals in the balance sheet.

(k) Revenue recognition

Interest income / expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or interest expense is recorded using the effective interest method. The effective interest rate is a method of calculating the amortised cost of financial instruments and of allocating the interest income/expense over the relevant period using the estimated future cash flows. The estimated future cash flows used in this calculation include those determined by the contractual terms of the instruments, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs and all other premiums or discounts.

Once an impairment loss has been recognised on a loan or financial debt instruments, the accrual of interest is re-assessed in accordance with the contractual terms.

Fee, Commission and Other Income

Fee, commission income and other operating income (excluding capital gain or loss on sale of available for sale investment) is recognised in income statement when the related services are provided. Fee and commission comprises of commission on letter of credits / guarantees, commitment and loan processing fee, remittance income, fiduciary income and wealth management income.

Capital gain or loss is recognised on realisation of sale proceed of available for sale investment.

(l) Provision and Contingent Liabilities

Provisions are recognised if the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision is recognised. The amount recognised as a provision is measured at the best estimate of the consideration required to settle the obligation as of the balance sheet date, the expense is recognised in the income statement, taking into account the risks and uncertainties surrounding the obligation.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

(m) Restructuring cost

Provisions for costs associated with restructuring programmes are recognised when a detailed formal restructuring plan has been approved and communicated. Examples of restructuring-related costs include employee redundancies, write off of tangible assets, dilapidation provision and provision for onerous lease contracts. Redundancy cost comprises of agreed termination cost, payment in lieu of notice and accrued leaves.

(n) Foreign Currency Translation

The financial statements are presented in Pound Sterling, which is the functional currency of the Bank. Items included in the financial statements are measured using their functional currency, being the currency of the primary economic environment in which the Bank operates. Monetary assets and liabilities denominated in foreign currencies at the year end are reported in the functional currency at the rates of exchange prevailing at the year end.

For the purpose of presenting financial statements, the assets and liabilities of the Bank's foreign branch operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transaction are used. Exchange differences arising, if any, are recognised in Statement of Changes in Equity as exchange translation reserve.

The impact of foreign exchange difference on translation of foreign operations to presentation currency in the current period is not material to the financial statements and therefore not been disclosed separately as foreign currency reserve.

(o) Leases

The Bank enters into operating leases as referred to in note 6. Rentals under operating leases are charged on a straight line basis over the lease term. The Bank has not entered into any finance leases during the year.

(p) Fair Value

Where the recognition of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted price in an active market wherever possible. Where no such active market exists for the particular asset or liability, the Bank uses a valuation technique to arrive at the fair value including the use of prices obtained in recent arms-length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Where appropriate, valuations are adjusted to account for various factors including time value, volatility factors and underlying prices. For each class of financial assets and/or liability recognised at fair value, the company utilises the following hierarchy:

Level 1:	Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2:	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3:	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(q) Offsetting financial assets and financial liabilities

Assets and liabilities, which are considered to be financial assets and liabilities for the purposes of FRS 102, are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously.

(r) Fiduciary Activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and other institutions. Assets held in trust and fiduciary accounts do not become assets or liabilities of the Bank and are segregated from the Bank's assets.

(s) Segmental Reporting

A segment is a distinguishable component of the Bank which is specific to either the type of product or service (business segment), or to products and services provided within a particular economic environment (geographical segment), where the risks and rewards are different from those of other segments.

Currently, the directors consider that the Bank's services comprise one business segment (being the provision of banking services).

		2020	2019
		£'000	£'000
3	**OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**		
	Interest earned on loans and advances to customers	**6,084**	6,438
	Interest earned on bills discounted	**3,285**	5,106
	Interest earned on bank deposits and placements	**713**	2,004
		10,082	13,548
4	**INTEREST PAYABLE**		
	Interest on customer deposits	**1,502**	4,042
	Interest on inter-bank borrowings	**279**	1,706
		1,781	5,748
4a	**FEES AND COMMISSIONS RECEIVABLE**		
	Commission on Letter of Credits and Guarantees	**1,055**	1,410
	Commitment and Loan processing fees	**292**	339
	Remittance income	**465**	623
	Fiduciary income	**62**	90
	Wealth Management income	**2,604**	1,312
		4,478	3,774
5	**ADMINISTRATIVE EXPENSES**		
	Staff costs:		
	Wages, salaries and allowances	**11,613**	11,022
	Social security costs	**1,257**	1,313
	Other pension costs	**497**	508
	Other administrative expenses	**9,370**	11,771
		22,737	24,614

The total average number of persons employed during the year was 149 (2019: 151).

The average number of persons (including part-time employees) employed by the Bank as at 31 December are as follows:

	2020	2019
Managers and above	**67**	61
Non-management	**82**	90
	149	151

		Note	2020 £'000	2019 £'000
6	**LOSS ON ORDINARY ACTIVITIES BEFORE TAX**			
	Loss is stated after			
	Charging:			
	Auditor's Remuneration			
	Audit of the Bank's financial statements		**89**	81
	Fee for audit of branches outside UK		**50**	53
	All other audit related assurance services		**129**	130
	Other non-audit assurance services		**65**	91
	Operating lease rentals			
	Buildings		**1,228**	1,279
	Motor vehicle		**10**	10
	Depreciation	**10**	**438**	458
	Provisions for loan losses charge / (reversal) - net		**985**	(1,131)
	Provisions for diminution in the value of investments		**1,080**	811
	Restructuring cost			
	Write offs - tangible assets		**210**	-
	Dilapidation and onerous lease expense		**398**	-
	Redundancy cost		**1,922**	-
		6(a)	**2,530**	-

6(a) During the year, bank has implemented its restructuring plan and recognised a cost of £2.53mn in relation to closure of 5 branches and changes in senior management. This plan has been reviewed and approved by the board. The restructuring-related costs include employee redundancies, write off of tangible assets, dilapidation provision and provision for onerous lease contracts.

Redundancy cost comprises of agreed termination cost, payment in lieu of notice and accrued leaves.

		2020 £'000	2019 £'000
7	**TAXATION**		
(a)	**Analysis of tax credit for the year**		
	Current tax:		
	UK corporation tax for the year	**(16)**	(16)
	Foreign tax for current year	**3**	67
	Adjustments in respect of prior periods	**(92)**	-
	Current tax (credit) / charge	**(105)**	51

		2020 £'000	2019 £'000
	Deferred tax:		
	Origination and reversal of timing differences	**(1,517)**	(1,495)
	Impact of change in tax rate	**(276)**	163
	Prior year adjustment in respect of timing differences	**7**	(5)
	Total deferred tax	**(1,786)**	(1,337)
	Tax credit	**(1,891)**	(1,286)
(b)	**Tax recognised in the Statement of Other Comprehensive Income**		
	Current tax:		
	UK corporation tax on profits for the year	**16**	16
	Total current tax	**16**	16
	Deferred tax:		
	Origination and reversal of temporary differences	**10**	(16)
	Effect of tax rate change	**2**	
	Total deferred tax	**12**	(16)
	Total tax recognised in other comprehensive income	**28**	-
(c)	**Factors affecting tax credit for the year**		
	Loss on ordinary activities before tax	**(14,086)**	(7,227)
	Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	**(2,676)**	(1,373)
	Effects of:		
	Difference in overseas tax rates	**17**	54
	Expenses not deductible for tax purposes	**54**	20
	Deduction due to reclassification of other equity instrument	**(220)**	(302)
	Prior year adjustment	**(85)**	(5)
	Movement in unrecognized deferred tax on losses	**1,226**	103
	Rate change adjustment	**(276)**	163
	Non-qualifying depreciation/disposals	**69**	54
	Total tax credit for the year	**(1,891)**	(1,286)

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% from 1 April 2020 as previously enacted. As these changes were enacted before the balance sheet date, relevant deferred tax balances have been calculated with reference to these rates.

	Note	2020 £'000	2019 £'000

8 DIRECTORS' EMOLUMENTS

Directors' fees and emoluments	**1,390**	1,057
Pension contributions	**8**	26
	1,398	1,083
The total remuneration and benefits of the highest paid director were	**993**	366

Benefits under defined contribution pension arrangements accrued during the year to two directors (2019: two directors).

9 DEBT SECURITIES

	Note		
Investment securities - Held to Maturity			
Listed			
Government securities		**-**	-
Others		**3,661**	3,785
		3,661	3,785
Investment securities - Available for Sale			
Listed			
Government securities		**46,556**	45,094
Others		**30,273**	55,415
		76,829	100,509
Surplus / (deficit) on revaluation on available for sale investments		**137**	(78)
Provision for diminution in the value of investment	**9.1**	**(4,025)**	(2,945)
		76,602	101,271

9.1 Provision for diminution in the value of investment

	Note		
At 1 January		**2,945**	2,134
Impairment charge for the year	**9.2**	**1,080**	811
At 31 December		**4,025**	2,945

Market value of held to maturity investments as at 31 December 2020 is £3.66mn (2019: £3.83mn). All debt securities as at 31 December 2020 and 2019 are quoted in active markets (Level 1).

9.2 Impairment loss has been recognised amounting to £1.08mn (2019: £0.81mn) due to further drop in the market price in one of the debt security. The value of impairment loss has been determined as the difference between the carrying value and the market price on 31 December 2020.

Revaluation gain for the year on available for sale investments amounted to £0.22mn (2019: £3.12mn).

10 FIXED ASSETS

	Freehold property	Leasehold improve-ments	Software develop-ment cost	Computers, furniture, fixtures & equipment	**Total**
	£'000	£'000	£'000	£'000	**£'000**
Cost					
At 01 January 2020	1,900	3,071	753	4,654	**10,378**
Additions	-	-	232	207	**439**
Disposals	-	-	-	(69)	**(69)**
Write-offs	(651)	-	-	(396)	**(1,047)**
Effect of movements in exchange rates	-	-	-	63	**63**
At 31 December 2020	1,249	3,071	985	4,459	**9,764**
Accumulated depreciation					
At 01 January 2020	1,233	2,237	581	4,126	**8,177**
Disposals	-	-	-	(69)	**(69)**
Write-offs	(506)	-	-	(331)	**(837)**
Charge for the year	92	152	17	177	**438**
Effect of movements in exchange rates	-	-	-	49	**49**
At 31 December 2020	819	2,389	598	3,952	**7,758**
Net book value at 31 December 2020	**430**	**682**	**387**	**507**	**2,006**
Net book value at 31 December 2019	667	834	172	528	2,201

11 DEFERRED TAX ASSET

	2020 £'000	2019 £'000
At beginning of year	**2,379**	1,026
Adjustment in respect of prior years (income statement)	**(7)**	5
Credit in the year (income statement)	**1,793**	1,332
(Released) / credit in the year (other comprehensive income)	**(12)**	16
At 31 December	**4,153**	2,379

Deferred tax asset is made up of:

Accelerated capital allowances	**292**	213
Losses carried forward	**3,764**	2,060
Available for sale assets	**(26)**	(14)
Other temporary differences	**123**	120
	4,153	2,379

Factors that may affect the future tax charge

As at 31 December 2020, based on the business plan for five years to 31 December 2025 which demonstrates that the Bank will be profitable over that period, the directors have decided that they should only recognise a total deferred tax asset of £3.76mn in respect of existing carried forward losses.

The total net unrecognised deferred tax asset as at 31 December 2020, which comprises of unutilised losses, is £7.33mn (2019: £5.39mn).

12 OTHER ASSETS

	2020 £'000	2019 £'000
Prepaid expenses	**447**	693
Trade finance fee receivables	**55**	152
Corporation tax receivable	**108**	-
Unrealised gain on forward exchange contracts	**3,402**	780
Other receivables	**723**	1,184
	4,735	2,809

13 CUSTOMER DEPOSITS

	2020 £'000	2019 £'000
Current	**282,048**	241,255
Savings	**44,474**	41,230
Term	**132,739**	196,599
	459,261	479,084

During the current year, deferred income related to customer deposits amounting £194k has been reclassified and aggregated with the deposit balances of customers in line with the recognition and measurement requirement of financial liabilities at amortised cost in accordance with IAS 39. Comparatives have not been reclassified as balances were not material.

13(a) OTHER LIABILITIES

	Note	**2020 £'000**	2019 £'000
Provision for restructuring	**13(b)**	**1,637**	-
Accrued expenses		**1,481**	2,915
Corporation tax payable		**-**	475
Unrealised loss on forward exchange contracts		**1,662**	1,060
Other liabilities		**9,194**	5,088
		13,974	9,538

13(b) The restructuring provision relates to redundancy and other restructuring cost i.e. dilapidation and onerous lease. Redundancies provision of £1.23mn principally relates to approved restructuring cost. The provision is expected to utilise within one year.

The cost of exiting lease contracts amounting to £0.32mn is estimated as the present value of the rentals and rates to be paid over residual lease terms or in case where Bank assumes the property can be sublet at market rents, a shorter period is used. Onerous lease provision will be fully utilised over the relevant period i.e. maximum within 2 years.

Dilapidation provision of £0.08mn relates to closure of branches in the UK and is based on best estimate of bank's future liability and is expected to be utilised within one year.

14 PROVISION FOR LOAN LOSSES

	Loans & advances		**2020**	`2019
	Specific	**Collective**	**Total**	Total
	£ '000	**£ '000**	**£ '000**	£ '000
At 1 January	19,869	650	**20,519**	21,650
Charge during the year	1,186	-	**1,186**	-
Provision reversals during the year	(201)	-	**(201)**	(1,131)
Provision taken to income statement (net)	985	-	**985**	(1,131)
Written off against provision during the year	(13,629)	-	**(13,629)**	-
Effect of movements in exchange rates	(5)	-	**(5)**	-
At 31 December	**7,220**	**650**	**7,870**	20,519

15 SHARE CAPITAL

		2020 £'000	2019 £'000
Authorised			
	15,000,000 ordinary shares of £5 each (2019: 15,000,000 ordinary shares of £5 each)	**75,000**	75,000
Allotted, called up and fully paid			
	10,063,081 ordinary shares of £5 each (2019: 10,063,081 ordinary shares of £5 each)	**50,315**	50,315
Share Premium	**15(a)**	**-**	15,602

15(a) Share premium account has been cancelled during the year and reclassified to retained earnings as distributable reserve to create sufficient room for interest payments on equity instruments. All necessary approvals from the board have been obtained as per the requirement, Companies House and PRA have been also notified.

16 OTHER EQUITY INSTRUMENTS

	Note	2020 £'000	2019 £'000
	(a)	**7,595**	-
	(b)	**-**	6,562
	(c)	**12,556**	12,556
		20,151	19,118

(a) During the year, the bank has created an Additional Tier 1 instrument of $30mn with an ability to issue it in tranches as and when required. First tranche of $10mn (equivalent to £7.60mn) has been issued on 12 November 2020 to support the capital resources of the bank particularly the overall Tier 1 capital resources. Prior approval from the PRA was obtained on 17 August 2020 for the issuance of this instrument. The Bank has also decided to utilise the proceeds of this issuance to repay the Tier II capital issued in 2013. These notes are perpetual and are repayable at the option of the bank after five years have passed from the date of issuance. This equity instrument is subordinated to the claims of depositors and other creditors. The PRA classify this as CRD IV compliant Additional Tier 1 Capital and approval from them is required prior to any repayment. Interest is payable on a six monthly basis at the rate of 4.75% above six month LIBOR.

Interest is required to be paid from distributable reserve of the bank, however if on any date when a payment of interest would otherwise be due and the Bank has insufficient profits, payment of such interest shall be delayed until such time as the bank has sufficient profits for that purpose.

(b) During the year, instrument of $10mn issued in 2013 and classified as Tier II capital has been repaid to HBL on 16th November 2020 as explained in note (a) above. Prior approval for the repayment of Tier II Capital from the PRA has been obtained on 26 October 2020.

(c) Due to transfer of the business from HAHL to HBL UK Limited, equity instruments of $53mn were transferred on 15 December 2014 which were issued by HAHL to HBL. In 2016, CRD IV non-compliant portion of the equity instruments of $33mn was repaid after obtaining prior approval from the PRA and the remaining part of the equity instruments of $20mn (equivalent to £12.56mn) is still outstanding as at 31 December 2020. This instrument is classified as CRD IV complaint Tier II capital and for which approval from the PRA is required prior to any repayment. These notes are perpetual and are repayable at the option of the Bank after five years have passed from the date of issuance. These equity instruments are subordinated to the claims of depositors and other creditors. Interest is payable on a six monthly basis at the rate of 4% above six month LIBOR (2019: Interest is payable on a six monthly basis at the rate of 4% above six month LIBOR).

17 CONTINGENCIES AND COMMITMENTS

		2020 £'000	2019 £'000
(a)	**Commitments**		
	(i) Annual commitments under non-cancellable operating leases on land and buildings and motor vehicles are as follows:		
	Operating leases which expire:		
	Not later than one year	**348**	85
	Later than one year and not later than five years; and	**283**	325
	Later than five years	**607**	879
	(ii) In respect of forward foreign exchange contracts:		
	Purchase	**19,543**	7,313
	Sale	**19,534**	7,307
	(iii) In respect of forward cross currency swaps:		
	Purchase	**52,140**	46,804
	Sale	**50,408**	47,092
	(iv) In respect of undrawn credit facilities	**14,136**	23,900
(b)	**Contingencies:**		
	Acceptances and endorsements	**14,117**	11,207
	Guarantees	**5,478**	14,248
(c)	**Claim not acknowledged as debt**	**-**	51

Contingent liabilities including guarantees and commitments to extend credit are mainly credit exposures which represent the amounts at risk should contracts be fully drawn upon and clients default. Since a significant portion of contingent exposures and commitments are expected to expire without being drawn fully upon or be covered by cash lien, the total of the contractual amounts is not representative of future liquidity requirements.

18 ASSETS AND LIABILITIES DENOMINATED BY CURRENCY

	2020				
	Assets	Liabilities	Forward exchange contracts	Total Equity	Net Exposure
	£'000	£'000	£'000	£'000	£'000
GBP	308,081	286,701	28,824	50,555	(351)
USD	219,045	169,180	(29,105)	20,151	609
EURO	6,354	13,686	7,355	-	23
Other currencies	15,906	9,113	(7,074)	-	(281)
	549,386	478,680	-	70,706	-

	2019				
	Assets	Liabilities	Forward exchange contracts	Total Equity	Net Exposure
	£'000	£'000	£'000	£'000	£'000
GBP	329,056	258,011	(8,575)	63,745	(1,275)
USD	226,638	221,917	15,257	19,118	860
EURO	7,742	12,686	5,624	-	680
Other currencies	23,821	11,780	(12,306)	-	(265)
	587,257	504,394	-	82,863	-

19 CONCENTRATION OF CREDIT RISK

	2020						
	Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contin-gencies	Derivative instruments	Total
Sectoral concentration:	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Automobile and transportation	-	4	-	7,626	-	-	7,630
Chemicals and Pharmaceuticals	-	106	-	-	293	-	399
Financial	103,015	-	161,163	19,463	11,709	3,307	298,657
Food, Tobacco and Beverages	-	6,196	-	-	101	-	6,297
General traders	-	1,624	-	-	66	-	1,690
Government	-	15,377	-	46,746	-	-	62,123
Shipping	-	4,650	-	-	-	-	4,650
Hotel and Hospitality	-	7,966	-	-	-	-	7,966
Retail and wholesale trade	-	7,350	-	-	-	95	7,445
Metal and Allied	-	439	-	-	366	-	805
Printing and Packaging	-	455	-	-	-	-	455
Textile	-	8,663	-	-	3,399	-	12,062
Property Investments	-	118,432	-	-	112	-	118,544
Individual	-	17,126	-	-	202	-	17,328
Others	-	7,804	-	2,767	3,347	-	13,918
	103,015	196,192	161,163	76,602	19,595	3,402	559,969

	2020						
	Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contin-gencies	Derivative instruments	Total
Geographical concentration:	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Europe	103,015	140,060	37,501	36,214	17,624	3,084	337,498
North America	-	1,246	28,253	22,602	-	-	52,101
Asia Pacific (including South Asia)	-	24,494	32,445	7,444	1,859	-	66,242
Africa	-	12,680	17,412	766	112	-	30,970
Middle East	-	17,712	45,552	9,576	-	318	73,158
	103,015	196,192	161,163	76,602	19,595	3,402	559,969

	2019						
	Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contin-gencies	Derivative instruments	Total
Sectoral concentration:	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Automobile and transportation	-	5	-	13,024	-	-	13,029
Chemicals and Pharmaceuticals	-	-	-	-	-	-	-
Financial	130,938	-	152,868	39,120	14,930	778	338,634
Food, Tobacco and Beverages	-	9,024	-	-	-	-	9,024
General traders	-	1,635	-	-	683	-	2,318
Government	-	15,141	-	45,169	-	-	60,310
Shipping	-	6,549	-	-	-	-	6,549
Hotel and Hospitality	-	7,876	-	-	-	-	7,876
Retail and wholesale trade	-	8,614	-	1,117	-	2	9,733
Metal and Allied	-	454	-	-	379	-	833
Printing and Packaging	-	476	-	-	-	-	476
Textile	-	7,160	-	-	2,674	-	9,834
Property Investments	-	109,172	-	-	-	-	109,172
Individual	-	18,443	-	-	-	-	18,443
Others	-	7,789	-	2,841	6,789	-	17,419
	130,938	192,338	152,868	101,271	25,455	780	603,650

	2019						
	Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contin-gencies	Derivative instruments	Total
Geographical concentration:	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Europe	130,938	134,973	45,270	51,899	21,017	780	384,877
North America	-	1,329	25,048	27,406	-	-	53,783
Asia Pacific (including South Asia)	-	27,740	46,633	7,124	4,331	-	85,828
Africa	-	9,825	26,590	1,141	107	-	37,663
Middle East	-	18,471	9,327	13,701	-	-	41,499
	130,938	192,338	152,868	101,271	25,455	780	603,650

20 MATURITY OF LOANS, DEBT SECURITIES AND DEPOSITS

Maturity of loans, debt securities and deposits at the end of the year were:

		2020					
		On Demand	**3 months or less but not on demand**	**Over 3 months but less than 1 year**	**Over 1year but less than 5 years**	**Greater than 5 years**	**Total**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances at central Banks		**103,675**	**-**	**-**	**-**	**-**	**103,675**
Loans and advances to:							
	Banks;						
	- Parent and connected counterparties	**786**	**2,897**	**1,329**	**-**	**-**	**5,012**
	- Others	**24,685**	**50,623**	**80,843**	**-**	**-**	**156,151**
	Customers	**16,542**	**6,945**	**29,078**	**70,326**	**73,301**	**196,192**
Debt securities		**-**	**22,030**	**29,426**	**25,146**	**-**	**76,602**
Other financial assets		**-**	**778**	**860**	**-**	**-**	**1,638**
Derivative financial assets		**-**	**2,859**	**543**	**-**	**-**	**3,402**
		145,688	**86,132**	**142,079**	**95,472**	**73,301**	**542,672**

		2020					
		On Demand	**3 months or less but not on demand**	**Over 3 months but less than 1 year**	**Over 1 year but less than 5 years**	**Greater than 5 years**	**Total**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Deposits by:							
	Banks;						
	- Parent and connected counterparties	**2,492**	**-**	**-**	**-**	**-**	**2,492**
	- Others	**1,129**	**1,465**	**359**	**-**	**-**	**2,953**
	Customers	**327,162**	**97,095**	**34,501**	**503**	**-**	**459,261**
	Other financial liabilities	**1,044**	**-**	**11,268**	**-**	**-**	**12,312**
	Derivative financial liabilities	**-**	**1,428**	**234**	**-**	**-**	**1,662**
		331,827	**99,988**	**46,362**	**503**	**-**	**478,680**
	Net gap	**(186,139)**	**(13,856)**	**95,717**	**94,969**	**73,301**	**63,992**

All financial assets and financial liabilities are measured at amortised cost except for:

(1) Available for sale investments which are measured at fair value through other comprehensive income; and
(2) Derivatives which are measured at fair value through income statement.

	2019					
	On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1year but less than 5 years	Greater than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central Banks	131,972	-	-	-	-	131,972
Loans and advances to:						
Banks;						
- Parent and connected counterparties	1,836	1,865	1,831	2,569	-	8,101
- Others	20,543	40,452	73,901	9,871	-	144,767
Customers	5,638	7,768	35,613	62,510	80,809	192,338
Debt securities	-	13,407	25,223	62,641	-	101,271
Other financial assets	-	1,336	1,419	-	-	2,755
Derivative financial assets	-	602	178	-	-	780
	159,989	65,430	138,165	137,591	80,809	581,984
Deposits by:						
Banks;						
- Parent and connected counterparties	2,629	-	-	-	-	2,629
- Others	9,740	1,552	350	-	-	11,642
Customers	282,486	113,014	83,559	25	-	479,084
Other financial liabilities	-	-	9,504	-	-	9,504
Derivative financial liabilities	-	835	225	-	-	1,060
	294,855	115,401	93,638	25	-	503,919
Net gap	(134,866)	(49,971)	44,527	137,566	80,809	78,065

The maturities of loans, debt securities and deposits have been shown according to their contractual maturities except for impaired assets which have been classified in greater than 5 years net of their provision.

Expected maturity dates do not differ significantly from the contract dates except for the maturity of £301.50mn (2019: £312.10mn) of deposits representing retail deposit accounts considered by the Bank as a stable source of funding of its operations.

21 INTEREST RATE SENSITIVITY GAPS

Interest rate risk primarily arises on the mismatching of the Bank's assets with its funding. Interest rate sensitivity gaps in the Bank at the end of the year were:

	2020						
	Not more than 3 months	**More than 3 months but not more than 6 months**	**More than 6 months but not more than 1 year**	**More than 1 year but not more than 5 years**	**Greater than 5 years**	**Non interest bearing**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances at central Banks	**103,015**	**-**	**-**	**-**	**-**	**660**	**103,675**
Loans and advances to:							
Banks	**56,808**	**29,417**	**38,442**	**-**	**-**	**36,496**	**161,163**
Customers	**186,846**	**-**	**-**	**-**	**-**	**9,346**	**196,192**
Debt securities	**30,574**	**21,026**	**8,400**	**16,602**	**-**	**-**	**76,602**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**5,040**	**5,040**
Other non-financial assets	**-**	**-**	**-**	**-**	**-**	**6,714**	**6,714**
	377,243	**50,443**	**46,842**	**16,602**	**-**	**58,256**	**549,386**
Deposits by:							
Banks	**-**	**1,823**	**-**	**-**	**-**	**3,622**	**5,445**
Customers	**142,403**	**8,990**	**25,317**	**503**	**-**	**282,048**	**459,261**
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**13,974**	**13,974**
Other non-financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Equity	**-**	**20,151**	**-**	**-**	**-**	**50,555**	**70,706**
	142,403	**30,964**	**25,317**	**503**	**-**	**350,199**	**549,386**
Overall gap	**234,840**	**19,479**	**21,525**	**16,099**	**-**	**(291,943)**	**-**
Cumulative gap	**234,840**	**254,319**	**275,844**	**291,943**	**291,943**	**-**	**-**

	2019						
	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than1 year	More than 1 year but not more than 5 years	Greater than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central Banks	130,938	-	-	-	-	1,034	131,972
Loans and advances to:							
Banks	43,940	50,006	23,661	14,861	-	20,400	152,868
Customers	178,261	2,011	-	-	-	12,066	192,338
Debt securities	22,006	17,959	7,264	54,042	-	-	101,271
Other financial assets	-	-	-	-	-	3,535	3,535
Other non-financial assets	-	-	-	-	-	5,273	5,273
	375,145	69,976	30,925	68,903	-	42,308	587,257
Deposits by:							
Banks	3,476	350	-	-	-	10,445	14,271
Customers	154,244	49,697	33,863	25		241,255	479,084
Other financial liabilities	-	-	-	-	-	10,564	10,564
Other non-financial liabilities	-	-	-	-	-	475	475
Total Equity	6,562	12,556	-	-	-	63,745	82,863
	164,282	62,603	33,863	25	-	326,484	587,257
Overall gap	210,863	7,373	(2,938)	68,878	-	(284,176)	-
Cumulative gap	210,863	218,236	215,298	284,176	284,176	-	-

Non interest bearing items comprise total equity, provisions, tangible & intangible assets, impaired assets and other assets and liabilities not subject to interest.

22 RELATED PARTY TRANSACTIONS

The Bank is a wholly owned subsidiary of HAHL of which 90.50% is controlled by HBL, its immediate parent, which is in turn a subsidiary of The Aga Khan Fund for Economic Development (AKFED) SA, the ultimate controlling party and ultimate parent undertaking of the Bank and its registered office is in Geneva, Switzerland. The Bank has related party relationships with its immediate parent, subsidiaries and associates of the immediate parent, and key management personnel of the Bank and its immediate parent.

Transactions with related parties are executed on the same terms, including interest rates (deposits/advances) and collateral, as those prevailing at the time for comparable transactions with unrelated parties other than those under the terms of employment and loans provided to employees under the staff loan scheme. Pension contributions are made in accordance with the terms of the pension contribution plan.

	2020	2019
	£'000	£'000
The details of balances with the related parties are as follows:		
Borrowing / deposits / other equity instruments		
Immediate parent and associates	**22,643**	21,746
Key management personnel	**64**	317
Loan receivable from:		
Immediate parent and associates	**5,362**	8,102
Key management personnel	**1,906**	2,028
Interest Income		
Immediate parent and associates	**395**	244
Interest Expense		
Immediate parent and associates	**1,161**	1,656
Acceptances and endorsements related to:		
Immediate parent and associates	**-**	40

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels based on the degree to which the fair value is observable as given in note 2 (p).

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets available for sale	**72,941**	**-**	**-**	**72,941**
Financial assets at amortised cost	**3,661**	**462,668**	**-**	**466,329**
Derivative financial instruments - assets	**-**	**3,402**	**-**	**3,402**
Total	**76,602**	**466,070**	**-**	**542,672**
Financial liabilities at amortised cost	**-**	**477,018**	**-**	**477,018**
Derivative financial instruments - liabilities	**-**	**1,662**	**-**	**1,662**
Total	**-**	**478,680**	**-**	**478,680**

	2019			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets available for sale	97,486	-	-	97,486
Financial assets at amortised cost	3,785	479,933	-	483,718
Derivative financial instruments - assets	-	780	-	780
Total	101,271	480,713	-	581,984
Financial liabilities at amortised cost	-	502,859	-	502,859
Derivative financial instruments - liabilities	-	1,060	-	1,060
Total	-	503,919	-	503,919

For financial assets and liabilities carried at amortised costs, the directors do not anticipate the fair values to be materially different from the book values considering the underlying nature of the portfolios except as disclosed in note 9.

24 ULTIMATE PARENT UNDERTAKING AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH THE BANK IS A MEMBER

The smallest and largest group in which the results of the Bank are consolidated is headed by HAHL and AKFED, respectively. AKFED is registered at Avenue de la Paix, 1-3, CH-1211, Switzerland.

25 INVESTMENT IN SUBSIDIARY

HBL UK Nominees Limited (formerly known as Habibsons Nominees Limited) is 100% owned subsidiary of the Bank with its registered office located at 9 Portman Street, London, W1H 6DZ. There has been no trading or business activity in this company since its incorporation on 10 January 2013. One ordinary share of £1 each has been issued which is the total investment of the Bank at cost which is not impaired.

26 RISK MANAGEMENT FRAMEWORK - (RMF)

Salient features of the RMF are summarised below:

Credit Risk

Credit risk is the risk of loss due to the failure of a counterparty to meet their credit obligations in accordance with agreed contract terms.

Credit risk makes up the largest part of the Bank's risk exposures. The Credit risk policies are established by the Risk Management Committee (RMC) and are approved by the Board. The RMC is responsible for ensuring appropriate governance and oversight in relation to all the risks in the Bank i.e. credit risk, market risk, operational risk, liquidity risk and reputational risk. In terms of credit risk the RMC's responsibilities include:-

- to determine the policies and processes for credit approval, large exposures, country risk exposures and provisioning;
- to establish overall lending policies and guidelines;
- to monitor effective implementation of policies and consider any desirable amendments in the light of market conditions;
- to ensure the credit exposures of the Bank are at all times in compliance with any legal or regulatory requirements or restrictions;
- to ensure portfolio performance is in line with the set benchmarks and determine that overall provisions remain at required levels; and
- to review the Large Exposures portfolio.

The Bank's strategy for managing its different type of credits is as per the risk appetite statement.

Credit risk on financial instruments

31 December 2020	**Neither past due nor impaired**	**Past due not impaired**	**Impaired**	**Impairment allowances**	**Total**
	£(000)	**£(000)**	**£(000)**	**£(000)**	**£(000)**
Balances at Central Banks	**103,015**	**-**	**-**	**-**	**103,015**
Loans and advances to Banks	**161,163**	**-**	**-**	**-**	**161,163**
Loans and advances to customers	**187,496**	**2,329**	**14,237**	**(7,870)**	**196,192**
Debt securities	**76,602**	**-**	**4,025**	**(4,025)**	**76,602**
All other financial instruments	**5,040**	**-**	**-**	**-**	**5,040**
Total financial instruments	**533,316**	**2,329**	**18,262**	**(11,895)**	**542,012**

31 December 2019	Neither past due nor impaired	Past due not impaired	Impaired	Impairment allowances	Total
	£(000)	£(000)	£(000)	£(000)	£(000)
Balances at central Banks	130,938	-	-	-	130,938
Loans and advances to Banks	152,868	-	-	-	152,868
Loans and advances to customers	180,271	2,326	30,260	(20,519)	192,338
Debt securities	100,154	-	4,062	(2,945)	101,271
All other financial instruments	3,535	-	-	-	3,535
Total financial instruments	567,766	2,326	34,322	(23,464)	580,950

Quality of loans and advances exposure to banks

An analysis of the exposures to banks as per Credit Quality Step (CQS) based on credit ratings provided by external rating agencies is as follows:

		2020	2019
		£'000	£'000
CQS			
	1	**43,742**	28,236
	2	**37,117**	5,382
	3	**12,080**	18,034
	4	**29,291**	32,564
	5	**33,922**	58,611
	6	**5,011**	10,041
		161,163	152,868

Credit quality of loans and advances portfolio

The definition of internal risk rating for the loans and advances are given below:

Grade 1-6	:	Performing
Grade 7	:	Watch-list
Grade 8	:	Impaired accounts

The Bank's internal risk rating scale is a measure of relative credit worthiness and does not map exactly with that of external rating agencies.

Internal risk rating of loans and advances to customers	**2020**	2019
	£'000	£'000
Rating		
Grade 1 to 6	**167,305**	178,658
Grade 7	**22,520**	3,939
Grade 8	**14,237**	30,260
Total Gross Amount	**204,062**	212,857
Allowance for impairment (individual and collective)	**(7,870)**	(20,519)
Total	**196,192**	192,338

During the year the bank has provided support to its customers in the form of Covid -19 repayment deferral scheme for loans as per the PRA guidance issued on 26 March and 4 June 2020. The customers who has received temporary support amounted in total circa £54mn (31% to total loan book) as at June 2020, however by Dec 2020, £35mn of such portfolio has been regularised, which shows strong credibility of Bank's loan book. Management will closely monitor such customers by classifying them into watchlist until they regularise.

	2020	2019
	£'000	£'000
Concentration of past due and impaired exposure		
UK	**18,347**	34,141
ASIA	**-**	187
AFRICA	**2,244**	2,320
	20,591	36,648

The table below provides the gross value of collaterals including cash and financial collaterals held by the Bank:

Collateral type:		
Cash collateral	**19,032**	20,048
Residential real estate	**84,911**	79,044
Commercial real estate	**236,867**	226,016
Others including shares and debt securities	**69,775**	55,485
Total collateral value	**410,585**	380,593
Gross loans and advances to customers	**204,062**	212,857

As at 31 December 2020 Bank's maximum exposure towards credit risk is approximately £583mn (2019: £631mn). This represents funded and non-funded exposures towards sovereign, Banks, financial institutions and other customers.

The collateral value in the above table excludes the value of such collateral which the Bank may accept to manage its risks more effectively such as personal guarantees.

Debt securities

An analysis of the Bank's debt securities portfolio as per Credit Quality Step (CQS) based on credit ratings provided by external rating agencies is as follows:

		2020	2019
		£'000	£'000
CQS			
	1	**52,850**	61,074
	2	**4,432**	14,606
	3	**9,914**	15,725
	4	**5,026**	5,253
	5	**4,380**	3,496
	6	**-**	1,117
		76,602	101,271

No debt securities are pledged as collateral to secure liabilities under repurchase agreement (2019: nil).

Liquidity Risk

Liquidity Risk arises from the maturity profile, and type and nature of the Bank's assets and liability mix. If not satisfactorily controlled the Bank could be faced with being unable to meet customer demands for repayment of deposits, which can lead to a run on Bank deposits.

The Bank's liquidity policy is to ensure the Bank at all times maintains solvency through a prudent funding profile and appropriate mix of assets to ensure compliance with the overall liquidity adequacy principle as defined in the CRD IV guidelines. The Bank's solvency has to be achieved on a self-sufficiency basis.

The policy document sets out the overall liquidity policy, liquidity risk appetite, thresholds and tolerance levels, and systems and controls. Senior management is responsible for regularly reviewing this policy document and for recommending changes, if any, to the Board in a timely manner.

The Bank will continue to evolve its liquidity risk management arrangements based on feedback from the FCA / PRA experience, and from developments in market and industry best practices.

The Assets and Liabilities Committee (ALCO) has responsibility for the formulation of the overall strategy and oversight of the asset liability management function.

Market risk

Market risk is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. The Bank does not maintain an active trading book.

(i) Interest rate risk

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustments within a specific period. A substantial part of the Bank's assets and liabilities are subject to floating rates and hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively smaller portion of its assets and liabilities and assets funded through equity. The major portion related to this risk is reflected in the banking book.

The Bank manages its interest rate exposure through an interest rate gap report whereby assets and liabilities are allocated into an appropriate time band, based on the next interest re-fix date.

The interest risk is then calculated as a 2% impact on earnings of the resulting net position for each time band, in line with the Basel Committee's recommendation.

Interest sensitivity

The impact of 100bps would have had an impact of £2.24mn (2019: £1.58mn) on net interest income for the year ended 31 December 2020. Bank has more interest sensitive assets as compared to interest sensitive liabilities within 1 year and consequently movement in interest rate would have positive impact if interest rate rises and negative impact if interest rate decline.

(ii) Foreign exchange risk

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. Foreign currency transactions are undertaken only on behalf of customers who are covered from the market on the same day. Therefore, the Bank has not performed the foreign exchange sensitivity analysis, as the risk is not material which is also evident from note 18.

The Bank's foreign exchange risk appetite is defined by ALCO and monitored on a daily basis.

The foreign exchange position risk is calculated as 8% higher of the net overbought or oversold position in foreign currencies.

Operational risk

Operational risk is the risk of loss resulting from weaknesses in systems, procedures and people or from external events. The Bank has adopted the 'Basic Indicator Approach', which as the BIPRU sourcebook states is 'The Operational Risk Capital Requirement' (ORCR) under the Basic Indicator Approach equal to 15% of the three-year average of the sum of (a) A firm's net interest income; and (b) A firm's net non-interest income.

The RMF will reduce any operational risk to a minimum, although in view of the number of unknown external factors, the framework is regularly reviewed and overall risk management is kept at a high profile within the business to ensure any unmitigated operational risk is identified at an early stage.

The data available to the Bank since its inception shows that the Bank has made insignificant operational losses during the period to date. The level of complaints received are minimal and insufficient to identify any particular trends or weaknesses.

Counterparty risk

Counterparty credit risk (CCR) is the risk to the Bank that a counterparty to a transaction could default before the final settlement of the transaction's cash flows. In the normal course of business the Bank enters into foreign exchange contracts on behalf of its customers which are generally covered by entering into reciprocal transactions with other Banks in the market on a daily basis to avoid position risk. Counterparty credit risk emanating from these transactions is managed by maintaining appropriate collateral from customers to mitigate customer default exposure at the time of settlement. Exposures on Banks which are other counterparties to these transactions are managed within overall limit allocations determined as part of the Bank's credit assessment of such institutions.

Capital management

The Bank is managing and monitoring its capital resources as per the Total Capital Requirement (TCR) in addition to the Pillar 2B requirements as set out by the PRA. The Bank's capital resources consist of paid-up capital, retained earnings additional Tier 1 and Tier II capital. There are no terms and conditions attached to the Bank's Tier I capital resources.

The firms own assessment of the capital required to hold against its risks is known as ICAAP (Internal Capital Adequacy Assessment Process) and the SREP (Supervisory Review and Evaluation Process) is the qualitative and a quantitative assessment of the ICAAP.

Bank has a robust Capital Planning and Management process embedded within the culture .This process addresses Capital Adequacy and ensures compliance with the principle threshold conditions. The core objective of an effective capital planning process is to assess the adequacy of capital against a forward looking forecast, market events, stress scenarios and transaction booking. The viability and sufficiency of the Capital model is also periodically tested against different stress scenarios. In addition the forward looking capital planning process in place is to ensure that the Management and the Board are at all times taking the available capital into consideration when taking any business decision that could impact and affect the Bank's solvency.

The Board has set Capital monitoring limits to ensure capital adequacy is maintained and capital coverage, capital surplus remains within the predetermined thresholds at all times. The Bank's Capital management and monitoring system also entails sequence of processes that manages and monitors the capital adequacy frequently.

The disclosures under Pillar III include a detailed risk management analysis, Capital Management and details of overdue and impaired exposures and are available on the Bank's website: www.hblbankuk.com.

27 COUNTRY-BY-COUNTRY REPORTING AS AT 31 DECEMBER 2020

HBL Bank UK Limited is an authorised credit institution and provides a wide range of Banking and financial services including Retail and Commercial Banking, Wealth Management, Financial Institution and Treasury services. The Bank is a wholly owned subsidiary of Habib Allied Holding Limited and is headquartered in London, United Kingdom and provides services to its clients through branches in United Kingdom and Switzerland.

Subsidiaries

HBL UK has the following subsidiary incorporated and located in England and Wales:

HBL UK Nominees Limited (formerly known as Habibsons Nominees Limited).

Turnover

The net operating income of HBL Bank UK Limited for the year ended 31 December 2020 was £13.69mn (2019: £17.49mn).

Average number of employees

The average number of employees was 149 for the year ended 31 December 2020 (2019: 151)

Country-by-country breakdown 2020

	Type of operation	**Turnover**	**Loss before tax**	**Corporation tax paid**	**Average number of employees**	**Public subsidies received**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
United Kingdom	Retail and Commercial Banking (RCB), Wealth Management(WM), Financial Institution (FI) and Treasury services (TS)	**11,650**	**(13,531)**	**(568)**	**138**	**-**
Switzerland	RCB and WM	**2,034**	**(555)**	**(7)**	**11**	**-**
Netherlands	RCB	**-**	**-**	**83**	**-**	**-**
		13,684	**(14,086)**	**(492)**	**149**	**-**

Country-by-country breakdown 2019

	Type of operation	Turnover	Operating profit /(Loss) before tax	Corporation tax paid	Average number of employees	Public subsidies received
		£'000	£'000	£'000	£'000	£'000
United Kingdom	Retail and Commercial Banking (RCB), Wealth Management(WM), Financial Institution (FI) and Treasury services (TS)	15,274	(6,105)	32	141	-
Switzerland	RCB and WM	1,842	(919)	2	10	-
Netherlands	RCB	371	(203)	(74)	-	-
		17,487	(7,227)	(40)	151	-

28 EVENTS AFTER BALANCE SHEET DATE

On 31 January 2020, the UK exited the European Union with a transition period that has ended on 31 December 2020. The directors remain confident of the long-term profitability of the Bank. The Bank has already closed its branch network in the European Union.

The Covid-19 pandemic has created unprecedented social and economic disruption across the world. The Bank is still not aware of the full extent of it, but the UK is starting to ease some of the restrictions. We put business resilience plans in place to make sure our colleagues are safe and still able to serve our customers without disruption.