

**HBL** BANK UK

COMPANY REGISTRATION NUMBER: 01719649

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
31 DECEMBER 2021

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## **Strategic Report**

### **HBL Bank UK Limited Structure**

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

### **Strategy and Objectives**

The Bank's vision and key objectives is to re-position as a niche financial services institution leveraging our global bank network and name recognition across South Asian clients and geographies to provide UK based Corporate Lending, International Trade Financing, and Wealth Services, to our target clients, supported by a Financial Institution Strategy to balance risk and optimize capital use.

### **Business Model**

The Bank's business model is not complex, and it serves its customers through four main product areas as follows:

#### Commercial Banking

The aim of commercial banking is to become a niche corporate bank and focused Corporate Finance advisor to our target market of blue chip corporate Pakistani resident clients and UK small cap family owned companies. The product offering includes cross border financing, working capital, trade financing, targeted private equity placements and associated UK real estate lending.

Further it is also a core supplier of liquidity to the Bank and offers savings and other deposit products, remittances to its customers through the retail network.

#### Wealth Management

HBL UK has a well-defined history of attracting affluent to High Net Worth entities, mainly from the South Asian diaspora. Wealth Management provide clients with personalized investment solutions, and a flexible approach to managing their wealth and lifestyle, via an Execution Only Services. Under this Service, clients' needs, objectives, and risk appetite, as well as suitability and affordability, are taken into account. However, any decision whether buy or sell of securities, lies solely with our clients. The aim of Wealth Management is to be the HBL Group's centre of execution, booking and settlement of investments, and to service both Group and HBL UK's clients, as well as Group's network treasuries.

#### Financial Institutions

Financial Institutions business continues to provide the critical role of supporting the businesses by leveraging on Banks and Non Bank Financial Institutions to balance the risk and opportunities. It works with its customers and stakeholders to find innovative solutions for optimising the use of the capital, mitigate risk and support liquidity requirements. It is engaged in providing correspondent banking relationships, cash management, discounting facilities, syndicated financing and negotiation facilities among others to its customers.

#### Treasury

The Treasury business is to support the Bank in ensuring adequate liquidity is available to businesses through its asset liability management (ALM) function. It supports the customers by providing foreign exchange and forwards while managing liquidity through its money market activities.

## Business Review

### Business Environment

The pandemic continued to disrupt the businesses during the year and thus the environment remained challenging both domestically and internationally. However, there is cautious optimism as the successful deployment of vaccines in the UK resulted in reducing the overall restrictions and lockdowns. This has provided positive push to the businesses and the economy has started showing positive momentum.

During the year both Bank of England (BOE) and Federal reserve continued to support the economies through stimulus packages and lowering of interest rates. However, as the economies start to rebound, there is rise in inflation resulting in increase in base rates by Central Banks. Thus, the BOE has recently increased its interest rates to 0.75% from 0.10%. The expectation is for both the BOE and Federal Reserve to raise the interest rates further. The Bank intends to monitor this and will continue to support the clients wherever required.

### 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 which as a part of refreshed strategy the Board has decided to close in year 2022 and therefore we do not foresee any further impact from Brexit.

### Covid-19

The Bank supported its customers and relevant operations during the Covid-19 pandemic and as envisaged did not had any further impact on respective operational and business capabilities.

## Financial Review

<b>Operating Loss before Tax (£ "000")</b>	<b>2021</b>	<b>2020</b>
Net Interest	8,972	9,782
Fee and Commission	5,392	4,478
Other Income / (loss) - net	1,412	(576)
<b>Net Operating Income</b>	<b>15,776</b>	13,684
Total Operating Expenses	(19,873)	(25,705)
<b>Operating Loss before provisions and tax</b>	<b>(4,097)</b>	(12,021)
Reversal / (Provisions)	312	(2,065)
<b>Operating Loss before tax</b>	<b>(3,785)</b>	(14,086)

### Net Interest Income

The pandemic resulted in lowering of interest rates whose full impact is reflected in the current year. Thus, despite an increase in the overall earnings assets the net interest income was lower by around £0.8mn. This is predominantly due to the impact of lower interest rates mitigated by material reduction in cost of deposits by around 65%. Going forward as the interest rates scenario changes, the Bank intends to focus more on higher margin commercial business.

### Fee and Commission Income

One of the key areas for the Bank is to grow its fee business income. The Bank has been steadily growing its fee based revenue and this year it has been able to achieved the highest income since last four years (see trend analysis later) i.e. an increase of around 20% from last year. The Wealth business has been able to leverage the opportunity of lower interest rates by providing relevant products and services to high net worth customers. This has resulted in its revenue growing by 19% year on year to £3mn in current year. Further as the business environment started to improve the bank was able to enhance the trade volume resulting in around 30% higher commission and commitment fee income.

### Other income

Other income includes the impact of translation mismatch due to non-revaluation of other equity instruments issued in USD as per the accounting rules. Due to favourable exchange rates the impact was negligible this year compared to a loss of £1.7mn last year.

### Operating expenses

The Bank went through a restructuring last year (2020) resulting in closing of some branches and executing other efficiency strategies. These actions have started showing their positive results and the overall administrative costs are lower by 23% to £19.9mn this year (2020: £25.7mn). Further the Bank launched its digital banking application in early 2021 and has been successfully able to migrate around 35% of the transactional volume and 30% of its customer base on it. This has resulted in achieving operational efficiencies through lowering volumes at branches and call centres. The focus will continue to remain on driving cost efficiencies and robustly managing the expenses.

### Provisions

There have been no additional impairments charge against loans and advances or investments during the year.

### Operating loss before tax

The Bank has been able to reduce its loss before tax by around 73% to £3.8mn compared to prior year losses of £14.1mn

<b>Statement of Financial Position (£ "000")</b>	<b>2021</b>	<b>2020</b>
Cash and balances at central banks	103,943	103,675
Loans and advances to banks and customers	348,209	357,355
Debt Securities	95,586	76,602
Other assets	6,404	11,754
<b>Total Assets</b>	<b>554,142</b>	<b>549,386</b>
Deposit by banks	7,806	5,445
Customer Deposits	469,399	459,261
Other Liabilities	12,423	13,974
<b>Total Liabilities</b>	<b>489,628</b>	<b>478,680</b>
Equity	64,514	70,706
<b>Total Capital and Liabilities</b>	<b>554,142</b>	<b>549,386</b>

### Cash and balances at central banks and Debt securities

Due to the uncertainty of the environment the Bank remained adequately liquid and maintained similar balances with Central Banks around £104mn as last year (2020: £104mn). Further it invested surplus liquidity in shorter tenor high quality liquid assets resulting in increase in the debt securities from £77mn last year to £96mn this year.

### Loans and advances to banks and customers

The overall earning assets of the Bank slightly increased from last year i.e. £548mn from £538mn last year. The focus is to grow the lending assets which is around £348mn (including loans to banks) compared with £357mn last year. The reduction is primarily due to the focus on growing more commercial assets as per the refreshed strategy which has taken longer than expected. However, the Bank continues to have a strong pipeline of businesses and expect to enhance the lending assets in coming year 2022. Further there has been no impairment against loans and advances or investments during the year reflecting the quality of the asset book.

### Customer Deposits

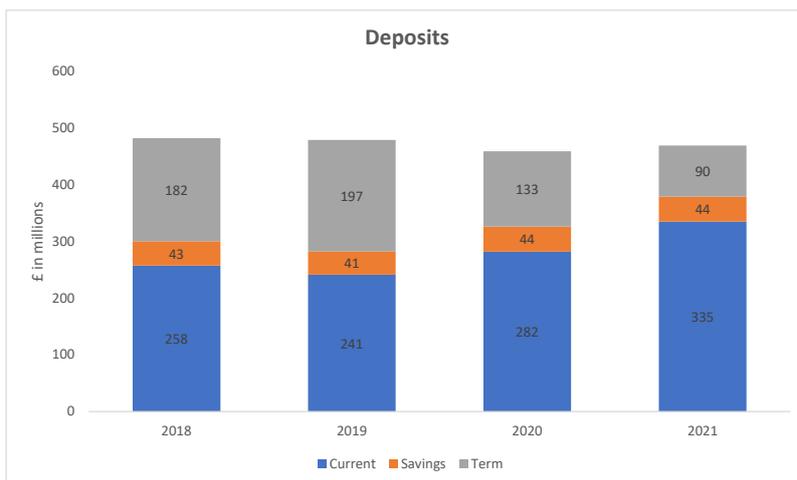
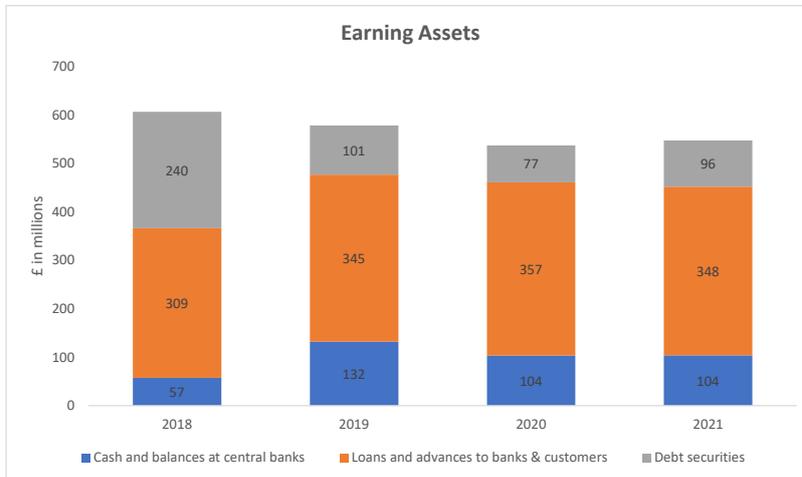
The Bank continues to fund itself from customer deposits which have remained stable and resilient despite the challenging environment. Total customer deposit base of £469mn is higher by around £10mn from last year (2020: £459mn). Around 80% of the deposits base consists of low cost Current and Savings Account (CASA) which includes diversified customer base with a lengthy relationship with the Bank.

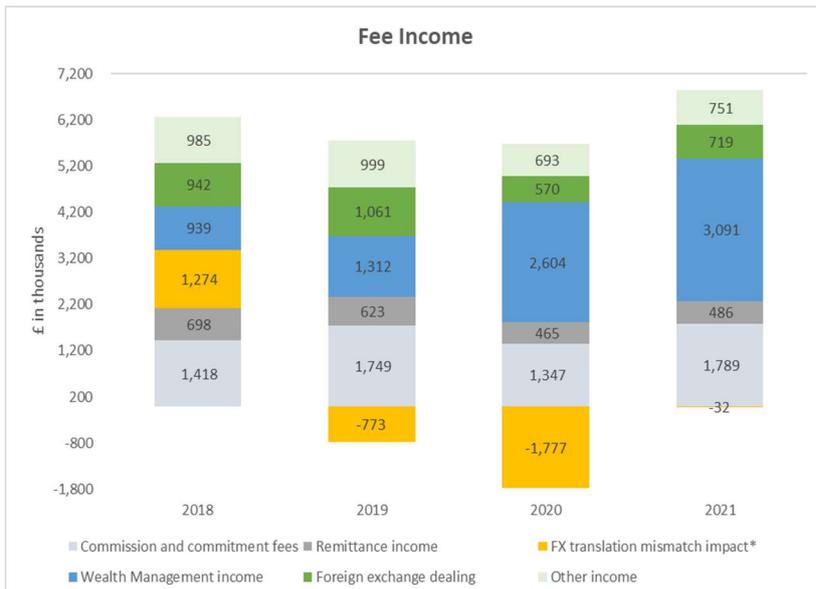
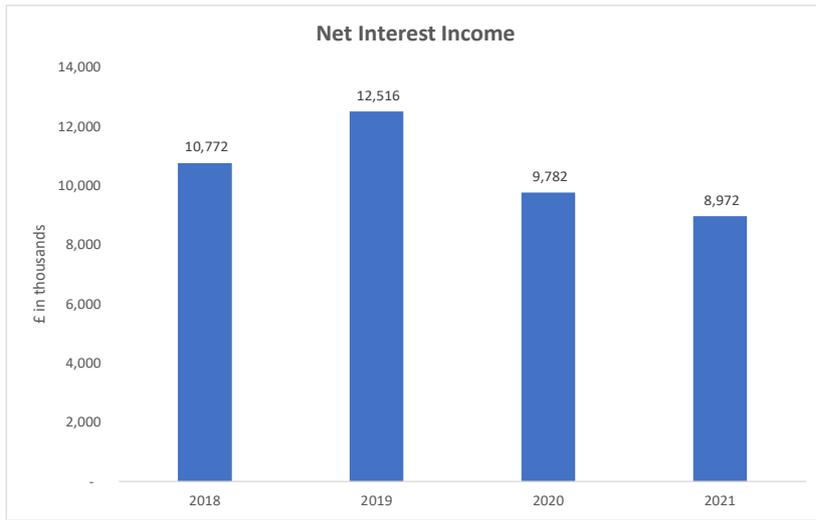
### Equity

The Bank's equity consists of shareholder capital of £50mn and additional tier 1 and tier 2 instruments of £20mn. The Bank has adequate surplus capital available against regulatory minimum capital requirement.

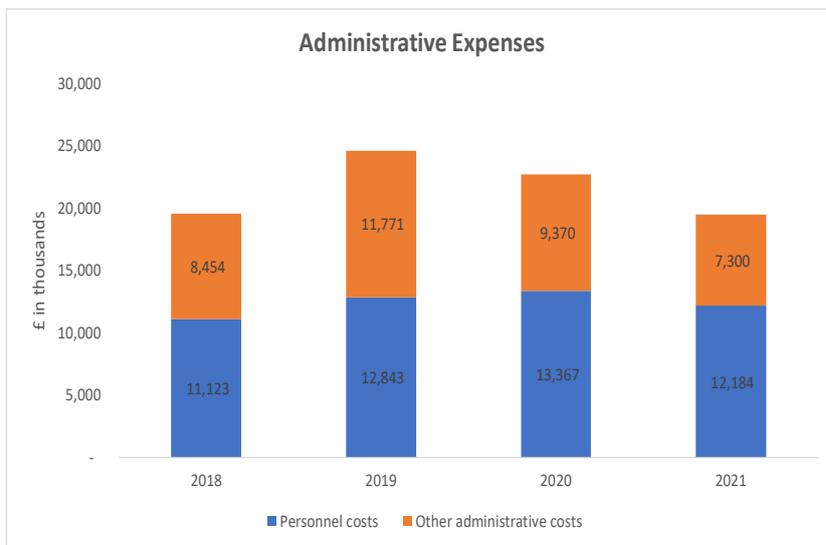
### **Trend Analysis**

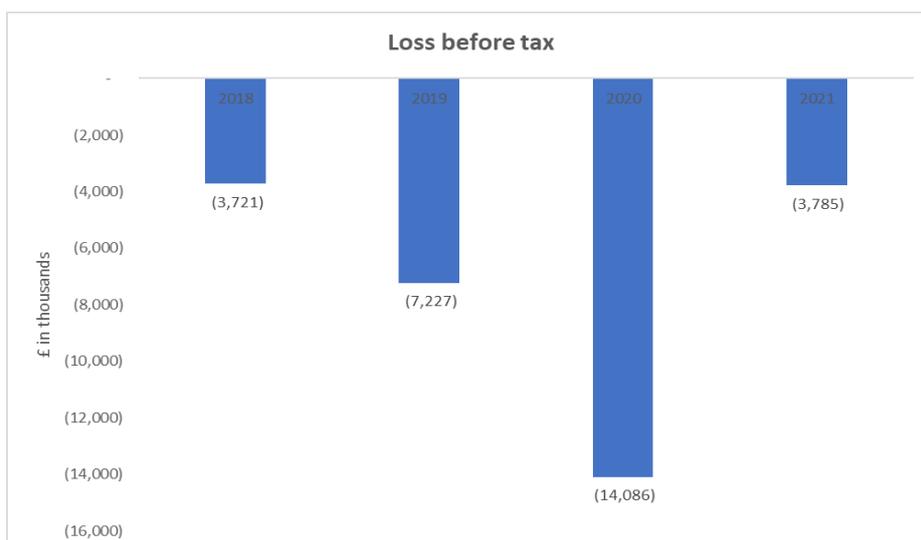
The last four years trend analysis based on the data given in the current and previous financial statements is given below





\* Foreign exchange income / (loss) - net' in Income statement includes impact of foreign exchange translation mismatch due to non-revaluation of other equity instruments as per the accounting rules.





### 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), financial risks from climate change 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. Similarly, capital adequacy is also at the core of the strategy to ensure adequate capital is maintained and yet sufficient to support future growth.

### 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. 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.

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](http://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 committed to providing financing to customers that meet the minimum applicable requirements in consideration of UK law on climate-related issues and managing climate risks and adverse impacts arising from the activities of its customers. The Bank is also committed to continually enhancing its approach to managing the financial risks from climate change in line with regulatory requirements from the PRA and FCA, on a proportionate basis to the size, scale and complexity of its business model.

The Bank recognises the need for the wider global economy to reduce the use of fossil fuels and to transition to a low carbon, climate resilient economy. Therefore, the importance of reviewing our customers' climate impact and sensitivity to climate change is acknowledged to understand the physical and transition risks related to their business models.

In enhancing the risk management framework to integrate climate-related financial risks, the Bank has recognised that climate change presents risks which cut across multiple traditional risk types. Climate risk can drive credit risk by causing losses that leave the Bank's clients unable to meet their

obligations to repay and service debt. As the Bank does not engage in any proprietary trading, therefore climate-related market risk is limited to the debt exposures of sovereign and financial institution counterparties. Thus, the financial impact is similar to that of credit risk whereby the effects of climate change can reduce the value of collateral that the Bank can use to secure funding and access liquidity.

The Bank is specifically managing the financial risks from climate change in four broad 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.

These board areas have been integrated into the Bank’s existing policies and processes and will continue to be enhanced as the journey for regulation and global commitment to climate change evolves.

### **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 endeavors 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 continues to:

- Further enhancing the robustness of the financial crime and compliance framework in line with regulatory expectations
- Improving the control environment to be at par with best market practice;
- Achieving robust control to ensure compliance with regulatory requirements; and
- Streamlined and consistent journey for our customers.

### **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 organisation. 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 endeavors 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.

### **Operational Resilience**

Throughout the year due to pandemic, the Bank continued its services without fail to the customers by allowing employees working remotely. However, there was significant focus on the potential operational risks arising from the change in working practices. The regulators also released new Operational Resilience recommendations through a policy update. The Management also focused heavily to develop a new operational resilience framework to ensure that planning, controls, and operational activities remained robust and appropriate.

### **Cyber risk**

As the bank makes progress in digitising its operations through launching of new Digital Banking Application, the threat level of Cyber Risk is also increased for the Bank within its operational risk management processes. It is the risk that the Bank is subject to some form of disruption arising from an interruption to its IT and data infrastructure. The Bank regularly tests the infrastructure and systems to ensure that it remains robust to a range of threats and has continuity of business plans in place including a business continuity and disaster recovery plan.

### **London Interbank Offered rate (LIBOR)**

In 2017, the Financial Conduct Authority (FCA) announced that it had reached an agreement with LIBOR panel banks to contribute to LIBOR until the end of 2021, after which there would be a transition from LIBORs to risk-free rates (RFRs). The regulators directed that certain non-US dollar LIBOR tenors would cease at the end of 2021 while certain US dollar LIBOR tenors are to cease by the end of June 2023, and restrictions have been imposed on new use of US dollar LIBOR.

The Bank's main lending product primarily uses the Bank of England (BOE) rate as benchmark which is not affected by the LIBOR transition. A small number of customers were however historically linked with GBP LIBOR which have now been successfully transferred to BOE benchmark. For any new US dollars based lending products the Bank intends to use the Secured Overnight Financing Rate (SOFR) benchmark instead of US dollars LIBOR.

### **Russian and Ukraine Exposure**

The Bank has performed a detail analysis of its exposure to Russia and Ukraine. As both countries are not primary markets, the Bank does not have any material exposure to them. Further the Bank is continuously monitoring other emerging risks such as higher inflation and oil prices so that proactive action can be taken when required.

### **Section 172 statement by the Directors**

The Board considers the matters set out in Section 172 of the Companies Act 2006 in all its discussions

and decision making. That includes:

- the likely consequences of any decision in the long term  
The Board after detail deliberate discussions have recently approved a refreshed five-year strategy for the Bank. This long term plan includes detail road map of the type of businesses to consider, introduction of new products for customers, efficiencies required, and the resources to achieve it. The Board deliberation considered the impact of this strategy on its customers, regulators, employees, and other stakeholders.
- the interests of the Bank's employees  
The Board understands that the employees are key to our success and are always considered before taking any major decision. The Human Resources (HR) committee ensures that all key matters relating to employees are discussed at the Board level. Policies, conduct rules and continuous training program are among the many trainings and upskilling events that are undertaken to support them. The 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. Further the health, safety and wellbeing of employees is always one of the primary concerns in all the decisions being considered by the Board and its Committees. During the pandemic the employees were provided all the support including infrastructure and equipment to ensure that they can work from home without major challenges. As the lockdown have eased, we have changed to a hybrid model where employees are now required to be in the office for some days of the week.
- the need to foster the Bank's business relationships with suppliers, customers, and others  
The customers remain at the heart of every major decision being taken and reviewed by the Board. Board understands the impact of the customers on the long-term success of the Bank and therefore ensures that the customers' interests are catered for in decisions. The Bank's conduct policy ensures that all the customers are treated fairly. During the pandemic last year 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.

We have continued to be effective in our responses with the regulator. 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 defence 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.

- the impact of the Bank's operations on the community and the environment  
The Bank's operations have limited direct impact on the environment. However, 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 achieve it. Further the Board has approved the Social and Environmental Management System (SEMS) Policy which ensures that credit decisions consider the impact of environment, health, safety and social issues before providing credits.

- the desirability of the Bank maintaining a reputation for high standards of business conduct  
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 which include integrity, customer centricity, value people, progressive, and excellence.
- the need to act fairly between members of the Bank  
The Bank has only one shareholder and therefore ensures that matters are referred to it according to the Articles of Association and other relevant laws.

### Principles Decisions – Examples

Below is the example of how the Board considers the interests of its stakeholders while deliberating the decisions:

Decision	Stakeholder	How Stakeholder Interests are Considered
<b>Refreshed five-year strategy</b> After the restructuring of last year, the Board has reviewed and approved a refreshed strategy to turn around the Bank.	Customers	The Board reviewed that the products being offered, and investment being made revolves around ease of doing business by customers.
	Employees	The Board understands that being a smaller organisation sometimes resources are stretched. Thus, it has reviewed and agreed to a plan of strengthening the infrastructure and investments in technology to simplify and automate the tasks wherever possible.
	Regulators	The Board ensured that regulators are made aware of the changes being made in the strategy and their observations, if any, are addressed.
	Shareholder	The Board reviewed and ensured that the strategy included the balance between the requirement of return by the shareholder and the sustainability of the franchise in the long term.
<b>Premises for Operations Area</b> As part of the premises strategy the Board had to review the effective utilisation of Bank's premises. During this review it was decided to move the Operations personnel primarily involved in back office functions to move to a more central location within London	Customers	The Board through the management ensured that the strategy to shift the premises and infrastructure relating to Operations is managed on seamless basis with minimal impact on customers. The plan was executed efficiently with no impact on the customers.
	Employees	A change, specially after a long time is sometimes not desirable by all. However, the Board ensured that there was an adequate strategy to manage and address the employees' comments, anxiety, and observations. Further the management ensured that the new premises included the infrastructure and support required by the relevant personnel.

## Future Development

As the business environment starts to improve and the pandemic related lockdowns start becoming a thing of the past there is cautious optimism. However, the continuing increase in the inflation and rising interest rates may dampen some of the economic activity. The Bank will thus continue to monitor the environment minutely and take proactive actions where necessary.

Our parent bank is one of the largest banks in Pakistan with a network in multiple countries. The Bank till now has not been able to successfully leverage this strength of the parent bank to support the customers. However we now have a working strategy where both the commercial banking and wealth teams will work more closely with the parent bank network to provide support to the customers through provisions of new and innovative products. This will not only enhance and provide more opportunities for our customer base but will also increase the revenues of the Bank. Focus will be to expand the commercial banking and wealth management by providing unique and new products such as corporate advisory, export insurance to support the customer base both in and outside UK. The wealth business has already grown and its revenues even in current year have increased by around 19%.

Further the Financial Institutions business has started building partnerships with various multilateral development companies to provide new capital relief products. Thus, freeing up our capital to conduct more commercial banking business within and outside UK. It also continues to support the deployment of liquidity through its various products such as discounting and syndicated financing.

The cost base is continuously being reviewed for efficiencies. In the coming year 2022 we intend to take further steps to rationalize the cost base which includes closure of the branch in Zurich, Switzerland, and other key measures. The exit from Zurich is part of the refreshed strategy to transform the Bank into a sustainable franchise. These measures along with the year 2020 restructuring benefits will ensure that the efficiencies are channeled in the right manner and impact the bottom line positively. For our employees we have also adapted a flexible working policy in line with government guidelines where employees will be working from both the office and home.

We are excited about the opportunities that our newfound relationship with the parent bank network will open and believe this will propel the business forward creating a sustainable, profitable customer centric bank.

The Board of Directors also considered, at length, the impact of pandemic and other areas 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.

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: 06 April 2022

## **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 2021.

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 2021 are set out in detail on pages 34 to 57. The loss on ordinary activities before tax for the financial year amounted to £3.79mn (2020: £14mn).

The Directors do not propose the payment of a dividend for the year (2020: Nil).

### **Financial review and future developments**

The Bank's detailed financial review and future developments are set out in the Strategic Report on pages 2 to 14.

### **Existence of Branches outside UK**

The Bank has only one branch outside of the UK in Zurich, Switzerland. The Board, however, has decided to exit from Zurich, Switzerland. Management has initiated necessary steps subsequent to the year end to implement this strategy.

### **Share Capital**

Allotted, called up and fully Paid-up Capital of the Bank at the end of the year was £50.32mn (2020: £50.32mn) and Total Equity of £64.5mn (2020: £70.71mn).

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 five meetings (2020: 7).

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

David J. Blatchford	Chairman / Independent Non-Executive Director
Raymond Kotwal	Non-Executive Director
Faisal N. Lalani	Non-Executive Director
Sagheer Mufti	Non-Executive Director
Allan J. Hirst	Independent Non-Executive Director
Juliet Wedderburn *	Independent Non-Executive Director
Sian Herbert	Independent Non-Executive Director
Andreas Ponce de Leon	CEO / Director

\* Joined on 1 January 2021

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

### **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 HAML 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 and HAML 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 2021 was £0.87mn (2020: £1.39mn).

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 no charitable contribution (2020: £4,000) and political contribution (2020: £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 (HAML), 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 four major segments which are Commercial Banking, Wealth Management, Financial Institutions and Treasury. These segments are supported by operating functions such as core operations, human resources, technology, compliance and other functions.

The Board of Directors (the Board) are responsible for the overall governance and are ultimately have responsibility for the overall leadership, controls, operations and financial soundness of the Bank. Further they support in creating and delivering sustainable shareholder value through the prudent management of the business. The Board, therefore, determines the strategic objectives and policies to deliver long term value, protecting the reputation, integrity, safety, soundness, and interest. 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 and review all important aspects of the Bank's affairs. It provides 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 which is directed not only towards regulatory and legal requirements but also towards adherence to sound business practices, transparency and disclosures to shareholder. In dealing with its borrowers, depositors, shareholder and other stakeholders, the Bank always ensures that the fundamental principles of corporate governance – that of integrity, transparency and fairness is always maintained. This provides an enabling environment to harmonise the goals of compliance with the regulatory/legal framework, maximises shareholder value and support in 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 and 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 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, including the Nominations Committee which was added this year. The Committees, have been delegated specific responsibilities 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.

The Board Committees review various MIS and policies to ensure that activities of the Bank are always conducted in accordance with appropriate and required 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 and an approved person by the FCA. 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 including but 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 following up on actions that 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 such as 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.

### **Board Nominations Committee (BNC)**

The BNC 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); and
- Compliance and Reputational Risk 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 recognise 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 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 and 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 under the heading of Key sources of estimation uncertainty in note 2(b) of the financial statements.

### **Employees**

As at 31 December 2021 the Bank had 135 employees including our Zurich Branch (2020: 149).

- 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 28 of the financial statements and set out in the strategic report page 2 to 14. The Bank's Pillar III disclosures are available on the Bank's website at [www.hblbankuk.com](http://www.hblbankuk.com).

### **Research and Development**

The Bank is not involved in any research and development activities during the year.

**Post Balance Sheet Events**

There are no unadjusted or reportable events subsequent to the balance sheet date apart from as disclosed in Note 30.

**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: 06 April 2022

## **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 2021 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 30.

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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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

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#### Key audit matters

The key audit matter that we identified in the current year was:

- loan loss provisioning on loans and advances to customers.

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

Materiality determined for the current year amounted to £1.94m (2020: £2.12m) which has been determined based on 3% (2020: 3%) of net assets.

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#### 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.

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#### Significant changes in our approach

There have been no significant changes in our audit approach compared to prior year.

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### 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 company's ability to continue to adopt the going concern basis of accounting included:

- We evaluated management's going concern assessment paper to assess 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 current economic circumstances by evaluating the Bank's recovery plan and mitigating procedures in place;
- We challenged the assumptions used in the five year profitability plan of the Bank. We involved back testing approach where the audit team compared the actual results reported in 2021 with the forecasted performance to identify any significant variation.
- With the involvement of our prudential risk specialists, we read the most recent ICAAP and ILAAP submissions, considered management's capital and liquidity projections, assessed the results of management's stress testing on the liquidity reserve position and the surplus capital position, and evaluated key assumptions and methods used in the liquidity and capital 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;

- With the involvement of our prudential risk specialists, we read the Skilled Person report, who was appointed by the regulator under section 166 of the Financial Services and Market Act 2000 to review the Bank's credit risk management, regulatory reporting and governance arrangements around credit risk, to consider whether the findings raised by the Skilled Person have any impact on our audit;
- We held bilateral discussions with the Skilled Person to understand and discuss their findings on the Bank's risk management practices and the risk governance process to determine whether the findings have any impact on our audit;
- We held bilateral discussions with the regulator to understand their view of the Skilled Person report and the Bank's overall risk rating to consider any impact on our audit; and
- We assessed the appropriateness 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 on loans and advances to customers

#### Key audit matter description

As at 31 December 2021, the Bank had an outstanding balance of loans and advances to customers, net of provision, amounting to £178m (2020: £196m) (see note 21) with the total impairment provision balance being £3.4m (2020: £7.9m) (see note 16). 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 57% primarily due to write-off of fully impaired loan accounts in 2021 amounting to £4.3m on their net settlement. Additionally, the Bank has recorded a reversal of provision charge of £0.2m from net settlement of fully impaired loan accounts during the year ended 31 December 2021.

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

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and receivables is in Note 2(f), judgements in applying accounting policies and critical accounting estimates in Note 2(d), and provision for impairment losses on loans and advances to customers in Note 16 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 prevailing uncertainty in the macro-economic environment as a result of the COVID-19 pandemic, the complexity in estimating loan loss provisioning has increased, including the valuation of collateral. There is a potential risk of fraud due to significant judgements applied.

Accordingly, we have identified that the risk of material misstatement is most significant in the individual impairment assessment of the 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.

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

As part of our response to the identified key audit matter, we performed the following procedures on the watch listed loan population:

- Obtained understanding of the relevant controls related to the Bank's loan loss provisioning process. This included an assessment of the credit sanctioning, credit monitoring, credit provisioning of Loans and advances to customers and any changes to these processes as a result of COVID-19;
- Scrutinised the Credit Risk 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 record;
- Tested the impairment assessment performed by management on watch-listed loans. This involved assessing the impairment methodology and reviewing key assumptions used in the assessment;
- Assessed the completeness of the provision balance by obtaining the 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 judgement used in impairment assessment by evaluating payment history, collateral valuation and underlying supporting documents;
- With the involvement of our property valuation specialist, we assessed the latest collateral valuation report for properties that underlie loans, where properties had not been valued recently or do not have any offer available to support market price;
- Inspected the correspondence (including post year end correspondence)

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with borrowers to identify any risk factor that may require adjustment in the provision recognised against watch listed borrowers as on 31 December 2021; and

- Assessed the appropriateness of the disclosures made in the financial statements in view of the requirements of applicable financial reporting framework.

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**Key observations**

We conclude that the provisioning on loans and advances to customers, and the related disclosures are reasonable.

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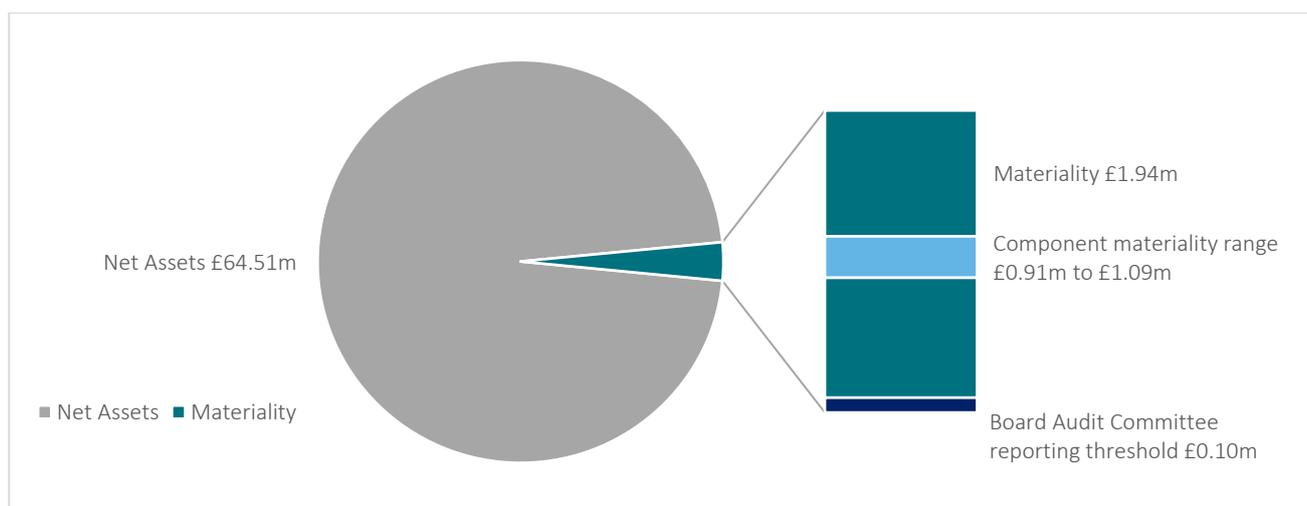
## 6. Our application of materiality

### 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:

<b>Materiality</b>	£1.94m (2020: £2.12m)
<b>Basis for determining materiality</b>	3% of Net Assets (2019: 3% of Net Assets)
<b>Rationale for the benchmark applied</b>	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 2021 audit (2020: 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 £0.10m (2020: £0.11m), 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 an 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.

## 7.2. Our consideration of climate-related risks

In planning our audit, we have considered the potential impacts of the climate-related risks identified by management on the Bank's business and its financial statements.

The Bank has set out its strategic ambition on climate and the related risks and governance processes on pages 8-9 of the annual report. Management have identified that climate-related risks could have a material impact on the strategy and operations of the Bank, and the timing and ultimate impact of these risks contain an inherent level of uncertainty.

As part of our audit, we have made inquiries of management to understand their process for considering the impact of climate-related risks including their qualitative loan sector analysis. In addition, we consider whether information included in the Bank's climate related disclosure in the front half of the annual report is materially consistent with the financial statements or knowledge obtained in the audit.

## 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 within 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](http://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, including component audit 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 area of loan loss provisioning on loans and advances to customers. 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 frameworks 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 on loans and advances to customers 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 team, 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 29 to the financial statements for the financial year ended 31 December 2021 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 Board of Directors of the Bank on 21 July 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2016 to 31 December 2021.

### 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  
06 April 2022

**Income Statement**

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest receivable			
Interest receivable and similar income arising from debt securities		1,015	1,481
Other interest receivable and similar income	3	8,569	10,082
		<u>9,584</u>	<u>11,563</u>
Interest payable	4	(612)	(1,781)
<b>NET INTEREST RECEIVABLE</b>		<u>8,972</u>	<u>9,782</u>
Fees and commissions receivable	5	5,392	4,478
Foreign exchange dealing profit / (loss) - net		687	(1,207)
Other operating income		725	631
<b>NET OPERATING INCOME</b>		<u>15,776</u>	<u>13,684</u>
Administrative expenses	6	(19,484)	(22,737)
Restructuring cost		-	(2,530)
Depreciation and amortisation	7	(389)	(438)
<b>TOTAL OPERATING EXPENSES BEFORE PROVISIONS</b>		<u>(19,873)</u>	<u>(25,705)</u>
<b>OPERATING LOSS BEFORE PROVISIONS AND TAX</b>		<u>(4,097)</u>	<u>(12,021)</u>
Provisions for loan losses reversal / (charge)- (net)	16	188	(985)
Reversal of provision / (charge) for diminution in the value of investments	10	124	(1,080)
<b>LOSS BEFORE TAX</b>		<u>(3,785)</u>	<u>(14,086)</u>
Tax (expense) / credit on loss on ordinary activities	8	(1,906)	1,891
<b>LOSS AFTER TAX</b>		<u><u>(5,691)</u></u>	<u><u>(12,195)</u></u>

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 38 to 57 form part of these financial statements.

The registered number of company is 01719649.

**Statement of Comprehensive Income**  
**For the year ended 31 December 2021**

	Note	2021 £'000	2020 £'000
<b>Loss for the year</b>		<b>(5,691)</b>	<b>(12,195)</b>
<b>Other comprehensive (loss) / income</b>			
<b>Items to be reclassified to Income Statement in subsequent periods:</b>			
(Loss) / Gain on revaluation of investments	<b>10</b>	(262)	215
Current tax related to available for sale debt securities		-	142
Deferred tax related to available for sale debt securities	<b>8b</b>	56	(12)
Effect of movements in exchange rates on retained earnings / other movement		(10)	(185)
		(216)	160
<b>Total Comprehensive Loss for the Year</b>		<b>(5,907)</b>	<b>(12,035)</b>

**Statement of Financial Position**  
**As at 31 December 2021**

	Note	2021 £'000	2020 £'000
<b>ASSETS</b>			
Cash and balances at central banks	22	103,943	103,675
Loans and advances to banks	22	169,942	161,163
Loans and advances to customers	22	178,267	196,192
Debt securities	10	95,586	76,602
Fixed assets	11	1,618	2,006
Other assets	13	2,067	4,735
Accrued income		416	860
Deferred taxation	12	2,303	4,153
<b>TOTAL ASSETS</b>		<b>554,142</b>	<b>549,386</b>
<b>LIABILITIES</b>			
Deposits by banks		7,806	5,445
Customer accounts	14	469,399	459,261
Other liabilities	15	12,423	13,974
<b>TOTAL LIABILITIES</b>		<b>489,628</b>	<b>478,680</b>
<b>EQUITY</b>			
Shareholders' funds			
Share capital	17	50,315	50,315
Profit and loss account		(6,191)	131
Revaluation reserve		(97)	109
		44,027	50,555
Other equity instruments	18	20,487	20,151
<b>TOTAL EQUITY</b>		<b>64,514</b>	<b>70,706</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>554,142</b>	<b>549,386</b>

The notes on pages 38 to 57 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 06 April 2022 and were signed on its behalf by:



David J. Blatchford  
Director

**Statement of Changes in Equity**  
**For the year ended 31 December 2021**

	Share capital	Share premium	Other Equity instruments	Profit and loss account	Revaluation reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	50,315	15,602	19,118	(1,936)	(236)	82,863
<b>Total comprehensive loss for the year</b>						
Loss for the year	-	-	-	(12,195)	-	(12,195)
Other comprehensive income	-	-	-	(185)	345	160
	-	-	-	(12,380)	345	(12,035)
<b>Contributions by and distributions to owners</b>						
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	<b>50,315</b>	-	<b>20,151</b>	<b>131</b>	<b>109</b>	<b>70,706</b>
<b>Total comprehensive loss for the year</b>						
Loss for the year	-	-	-	(5,691)	-	(5,691)
Other comprehensive loss	-	-	-	(10)	(206)	(216)
	-	-	-	(5,701)	(206)	(5,907)
<b>Contributions by and distributions to owners</b>						
Transfer of share premium to distributable reserve	-	-	-	-	-	-
Issuance of Additional Tier 1 Capital	-	-	2,190	-	-	2,190
Repayment of Tier II Capital	-	-	(1,854)	-	-	(1,854)
Interest on Equity instruments classified as equity	-	-	-	(621)	-	(621)
	-	-	336	(621)	-	(285)
At 31 December 2021	<b>50,315</b>	-	<b>20,487</b>	<b>(6,191)</b>	<b>(97)</b>	<b>64,514</b>

**Notes to the Financial Statements**  
**For the year ended 31 December 2021**

**1 THE BANK AND ITS OPERATIONS**

HBL Bank UK Limited ("the Bank") is a private company limited by shares. 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 (2020: 5) including 1 branch (2020: 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 2021 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. 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;
- Executing refreshed strategy relating to wealth, commercial & financial institution business;
- Potential impact of the branch closure;
- Issuance of better quality capital in 2021;
- Increase in interest rates;
- Strong creditability of the Bank's loan book; and
- Assessment and probable control measures to limit cost.

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 sustainability in the Bank's interest income and increase in non-funded income.

**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 losses under stress scenario.

*Liquidity assessment:*

The 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 HABL 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 and note 16). 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 £1.1mn.

**(ii) 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. The Bank perform its assessment over a period of five years. This includes making judgements on the impact of future economic conditions.

**Key sources of estimation uncertainty**

**(i) 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 12.

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 7. 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).

	<b>2021</b>	2020
	<b>£'000</b>	£'000
<b>3 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME</b>		
Interest earned on loans and advances to customers	<b>6,576</b>	6,084
Interest earned on bills discounted	<b>1,765</b>	3,285
Interest earned on bank deposits and placements	<b>228</b>	713
	<u><b>8,569</b></u>	<u>10,082</u>
<b>4 INTEREST PAYABLE</b>		
Interest on customer deposits	<b>516</b>	1,502
Interest on inter-bank borrowings	<b>96</b>	279
	<u><b>612</b></u>	<u>1,781</u>
<b>5 FEES AND COMMISSIONS RECEIVABLE</b>		
Commission on Letter of Credits and Guarantees	<b>1,300</b>	1,055
Commitment and Loan processing fees	<b>489</b>	292
Remittance income	<b>486</b>	465
Fiduciary income	<b>26</b>	62
Wealth Management income	<b>3,091</b>	2,604
	<u><b>5,392</b></u>	<u>4,478</u>
<b>6 ADMINISTRATIVE EXPENSES</b>		
Staff costs:		
Wages, salaries and allowances	<b>10,656</b>	11,613
Social security costs	<b>1,084</b>	1,257
Other pension costs	<b>444</b>	497
Other administrative expenses	<b>7,300</b>	9,370
	<u><b>19,484</b></u>	<u>22,737</u>

The total average number of persons employed during the year was 135 (2020: 149).

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

	<b>2021</b>	2020
Managers and above	<b>65</b>	67
Non-management	<b>70</b>	82
	<u><b>135</b></u>	<u>149</u>

	Note	2021 £'000	2020 £'000
<b>7</b>	<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAX</b>		
Loss is stated after			
<i>Charging:</i>			
<b>Auditor's Remuneration</b>			
	Audit of the Bank's financial statements	120	89
	Fee for audit of branches outside UK	50	50
	All other audit related assurance services	125	129
	Other non-audit assurance services	50	65
<b>Operating lease rentals</b>			
	Buildings	1,062	1,228
	Motor vehicle	10	10
	<b>Depreciation and amortisation</b>	<b>11</b>	<b>389</b>
	Provisions for loan losses (reversal) / charge - net	(188)	985
	Reversal of provision / (charge) for diminution in the value of investments	(124)	1,080
<b>8</b>	<b>TAXATION</b>	<b>2021 £'000</b>	<b>2020 £'000</b>
<b>(a)</b>	<b>Analysis of tax credit for the year</b>		
Current tax:			
	UK corporation tax for the year	-	(16)
	Foreign tax for current year	8	3
	Adjustments in respect of prior periods	(8)	(92)
	Current tax charge / (credit)	<u>-</u>	<u>(105)</u>
Deferred tax:			
	Origination and reversal of timing differences	2,463	(1,517)
	Impact of change in tax rate	(527)	(276)
	Prior year adjustment in respect of timing differences	(30)	7
	Total deferred tax charge / (credit)	<u>1,906</u>	<u>(1,786)</u>
	Tax charge / (credit)	<u>1,906</u>	<u>(1,891)</u>
<b>(b)</b>	<b>Tax recognised in the Statement of Other Comprehensive Income</b>		
Current tax:			
	UK corporation tax on profits for the year	-	16
	Total current tax	<u>-</u>	<u>16</u>
Deferred tax:			
	Origination and reversal of temporary differences	(50)	10
	Effect of tax rate change	(6)	2
	Total deferred tax	<u>(56)</u>	<u>12</u>
	Total tax (credit) / charge recognised in other comprehensive income	<u>(56)</u>	<u>28</u>
<b>(c)</b>	<b>Factors affecting tax credit for the year</b>		
	Loss on ordinary activities before tax	<u>(3,785)</u>	<u>(14,086)</u>
	Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(719)	(2,676)
	Effects of:		
	Difference in overseas tax rates	(9)	17
	Expenses not deductible for tax purposes	6	54
	Deduction due to reclassification of other equity	(118)	(220)
	Prior year adjustment	(39)	(85)
	Movement in unrecognised deferred tax on losses	3,267	1,226
	Rate change adjustment	(527)	(276)
	Non-qualifying depreciation/disposals	45	69
	Total tax charge / (credit) for the year	<u>1,906</u>	<u>(1,891)</u>

In the March 2021 UK Budget, it was announced that the UK rate of corporation tax will increase from 19% to 25% effective 1 April 2023. The change was enacted on 10 June 2021. As a result, existing timing differences on which deferred tax has been provided may unwind in periods subject to the 25% rate. The deferred tax in relation to these timing differences have been recognised at the rates at which they are expected to unwind.

	2021 £'000	2020 £'000
<b>9 DIRECTORS' EMOLUMENTS</b>		
Directors' fees and emoluments	850	1,390
Pension contributions	18	8
	<u>868</u>	<u>1,398</u>
The total remuneration and benefits of the highest paid director were	<u>505</u>	<u>993</u>

Benefits under defined contribution pension arrangements accrued during the year to one director (2020: two directors).

	2021 £'000	2020 £'000
<b>10 DEBT SECURITIES</b>		
Investment securities - Held to Maturity		
Government securities	-	-
Others	-	3,661
	<u>-</u>	<u>3,661</u>
Investment securities - Available for Sale		
Government securities	88,149	46,556
Others	11,463	30,273
	<u>99,612</u>	<u>76,829</u>
(Deficit) / Surplus on revaluation on available for sale investments	(125)	137
Provision for diminution in the value of investment	10.1 (3,901)	(4,025)
	<u>95,586</u>	<u>76,602</u>

**10.1 Provision for diminution in the value of investment**

At 1 January	4,025	2,945
Impairment (reversal) / charge for the year	(124)	1,080
At 31 December	<u>3,901</u>	<u>4,025</u>

Market value of held to maturity investments as at 31 December 2021 is Nil (2020: £3.66mn). All debt securities as at 31 December 2021 and 2020 are traded in active markets (Level 1).

Unrealised revaluation loss for the year on available for sale investments amounted to £0.26mn (2020: Gain of £0.22mn).

	Freehold property £'000	Leasehold improve- ments £'000	Software develop- ment cost £'000	Computers, furniture, fixtures & equipment £'000	Total £'000
<b>11 FIXED ASSETS</b>					
<i>Cost</i>					
At 01 January 2021	1,249	3,071	985	4,459	9,764
Additions	-	-	-	59	59
Disposals	-	-	-	-	-
Write-offs	-	-	-	-	-
Effect of movements in exchange rates/other adjustments	-	-	(51)	(30)	(81)
At 31 December 2021	<u>1,249</u>	<u>3,071</u>	<u>934</u>	<u>4,488</u>	<u>9,742</u>
<i>Accumulated depreciation</i>					
At 01 January 2021	819	2,389	598	3,952	7,758
Disposals	-	-	-	-	-
Write-offs	-	-	-	-	-
Charge for the year	62	152	48	127	389
Effect of movements in exchange rates/other adjustments	-	-	-	(23)	(23)
At 31 December 2021	<u>881</u>	<u>2,541</u>	<u>646</u>	<u>4,056</u>	<u>8,124</u>
<b>Net book value at 31 December 2021</b>	<u>368</u>	<u>530</u>	<u>288</u>	<u>432</u>	<u>1,618</u>
Net book value at 31 December 2020	430	682	387	507	2,006

	2021 £'000	2020 £'000
<b>12 DEFERRED TAX ASSET</b>		
At beginning of year	4,153	2,379
Adjustment in respect of prior years (income statement)	30	(7)
(Charge) / Credit in the year (income statement)	(1,936)	1,793
Capitalise / (Released) in the year (other comprehensive income)	56	(12)
At 31 December	<u>2,303</u>	<u>4,153</u>

Deferred tax asset is made up of:

Accelerated capital allowances	471	292
Losses carried forward	1,639	3,764
Available for sale assets	31	(26)
Other temporary differences	162	123
	<u>2,303</u>	<u>4,153</u>

**Factors that may affect the future tax charge**

As at 31 December 2021, based on the business plan for five years to 31 December 2026 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 £1.6mn in respect of existing carried forward losses.

The total net unrecognised deferred tax asset as at 31 December 2021, which comprises of losses, is £13.78mn (2020: £7.33mn).

	Note	2021 £'000	2020 £'000
<b>13 OTHER ASSETS</b>			
Prepaid expenses		600	447
Trade finance fee receivables		52	55
Corporation tax receivable		-	108
Unrealised gain on forward exchange contracts		964	3,402
Other receivables		451	723
		<u>2,067</u>	<u>4,735</u>

**14 CUSTOMER DEPOSITS**

Current	335,208	282,048
Savings	43,807	44,474
Term	90,384	132,739
	<u>469,399</u>	<u>459,261</u>

		2021 £'000	2020 £'000
<b>15 OTHER LIABILITIES</b>			
Provision for restructuring	15(a)	-	1,637
Accrued expenses		1,404	1,481
Corporation tax payable		7	-
Unrealised loss on forward exchange contracts		1,868	1,662
Other liabilities		9,144	9,194
		<u>12,423</u>	<u>13,974</u>

**15(a)** The restructuring provision related to redundancy and other restructuring cost i.e. dilapidation and onerous lease, have been fully utilised during the year.

**16 PROVISION FOR LOAN LOSSES**

	Loans & advances		2021	2020
	Specific £ '000	Collective £ '000	£ '000	£ '000
At 1 January	7,220	650	7,870	20,519
Charge during the year	-	-	-	1,186
Provision reversals during the year	(188)	-	(188)	(201)
Provision taken to income statement (net)	(188)	-	(188)	985
Written off against provision during the year	(4,318)	-	(4,318)	(13,629)
Effect of movements in exchange rates	-	-	-	(5)
At 31 December	<u>2,714</u>	<u>650</u>	<u>3,364</u>	<u>7,870</u>

17	SHARE CAPITAL	2021	2020
		£'000	£'000
	<i>Authorised</i>		
	15,000,000 ordinary shares of £5 each (2020: 15,000,000 ordinary shares of £5 each)	<u>75,000</u>	<u>75,000</u>
	<i>Allotted, called up and fully paid</i>		
	10,063,081 ordinary shares of £5 each (2020: 10,063,081 ordinary shares of £5 each)	<u>50,315</u>	<u>50,315</u>
	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>£'000</b>	<b>£'000</b>
18	OTHER EQUITY INSTRUMENTS		
	<b>(a)</b>	<b>9,785</b>	<b>7,595</b>
	<b>(b)</b>	<b>10,702</b>	<b>12,556</b>
		<u><b>20,487</b></u>	<u><b>20,151</b></u>

**(a)** In 2020, 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 and second tranche of \$3mn (equivalent to £2.19mn) has been issued on 22 September 2021 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 utilised the proceeds of this issuance to fully and partially repay the Tier II capital issued in 2013 and 2012 respectively. 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 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 (2020: 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)** Due to transfer of the business from HABL to HBL UK Limited, equity instruments of \$53mn were transferred on 15 December 2014 which were issued by HABL to HBL. In 2016, CRD IV non-compliant portion of the equity instruments of \$33mn was repaid after obtaining prior approval from the PRA. Out of the remaining part of the equity instruments of \$20mn (equivalent to £12.56mn) which is classified as CRD IV compliant Tier II capital a further \$10mn was repaid to HBL on 27 September 2021 after taking approval from the PRA. As of 31 December 2021 \$17mn (equivalent to £10.70mn) is outstanding. 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 months LIBOR (2020: 4% above six months LIBOR).

	2021 £'000	2020 £'000
<b>19 CONTINGENCIES AND COMMITMENTS</b>		
<b>(a) Commitments</b>		
(i) Annual commitments under non-cancellable operating leases		
Operating leases which expire:		
Not later than one year	110	348
Later than one year and not later than five years; and	198	283
Later than five years	764	607
(ii) In respect of forward foreign exchange contracts:		
Purchase	21,825	19,543
Sale	21,811	19,534
(iii) In respect of forward cross currency swaps:		
Purchase	65,722	52,140
Sale	66,638	50,408
(iv) In respect of undrawn credit facilities	15,089	14,136
<b>(b) Contingencies:</b>		
Acceptances and endorsements	16,539	14,117
Guarantees	7,545	5,478

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.

**20 FOREIGN EXCHANGE**

The Bank's net open foreign exchange positions are monitored daily basis and managed by the treasury front office. As most of the transactions are back to back therefore the Bank is not exposed to material FX risk. The Bank's net open position (NOP) as at 31 December 2021 was £0.027m (2020: £0.011m)

Currency	2021 £'000	2020 £'000
USD	(162)	(380)
EURO	6	1
AED	25	10
CHF	(4)	8
PKR	120	316
Other currencies	42	57

**21 CONCENTRATION OF CREDIT RISK**

	2021						
	Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contingen cies	Derivative & Others	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Sectoral concentration:</b>							
Automobile and transportation	-	-	-	3,710	-	-	3,710
Chemicals and Pharmaceuticals	-	-	-	-	-	-	-
Financial	103,291	-	169,942	3,827	2,155	679	279,894
Food, Tobacco and Beverages	-	12,848	-	-	1,637	-	14,485
General traders	-	3,723	-	-	1,681	-	5,404
Government	-	-	-	88,049	-	-	88,049
Shipping	-	3,007	-	-	-	-	3,007
Hotel and Hospitality	-	10,585	-	-	-	-	10,585
Retail and wholesale trade	-	334	-	-	-	285	619
Metal and Allied	-	825	-	-	-	-	825
Printing and Packaging	-	427	-	-	-	-	427
Textile	-	9,277	-	-	3,292	-	12,569
Property Investments	-	114,334	-	-	-	-	114,334
Individual	-	14,619	-	-	-	-	14,619
Others	-	8,288	-	-	15,319	919	24,526
	<b>103,291</b>	<b>178,267</b>	<b>169,942</b>	<b>95,586</b>	<b>24,084</b>	<b>1,883</b>	<b>573,053</b>

2021							
Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contingencies	Derivative & Others	Total	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Geographical concentration:							
Europe	103,291	142,475	53,349	7,423	23,419	1,598	331,555
North America	-	1,188	40,514	68,748	-	-	110,450
Asia Pacific (including South Asia)	-	12,591	22,712	7,578	336	-	43,217
Africa	-	7,979	24,072	6,499	329	-	38,879
Middle East	-	14,034	29,295	5,338	-	285	48,952
	103,291	178,267	169,942	95,586	24,084	1,883	573,053

2020							
Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contingencies	Derivative & Others	Total	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Sectoral concentration:							
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	-	14,759	-	-	-	-	14,759
Retail and wholesale trade	-	557	-	-	-	95	652
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	1,638	15,556
	103,015	196,192	161,163	76,602	19,595	5,040	561,607

2020							
Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contingencies	Derivative & Others	Total	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Geographical concentration:							
Europe	103,015	140,060	37,501	36,214	17,624	4,722	339,136
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	5,040	561,607

## 22 MATURITY ANALYSIS OF FINANCIAL INSTRUMENTS

Financial instruments maturities at the end of the year were:

2021						
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	
Cash and balances at central Banks	103,943	-	-	-	103,943	
Loans and advances to:						
Banks;						
- Parent and connected	881	6,307	532	-	7,720	
- Others	33,614	78,538	49,353	717	162,222	
Customers	28,238	12,488	12,362	97,248	178,267	
Debt securities	-	54,351	17,200	24,035	95,586	
Other financial assets	-	503	416	-	919	
Derivative financial assets	-	887	77	-	964	
	166,676	153,074	79,940	122,000	549,621	

	2021					Total £'000
	On Demand £'000	3 months or less but not on demand £'000	Over 3 months but less than 1 year £'000	Over 1 year but less than 5 years £'000	Greater than 5 years £'000	
<b>Deposits by:</b>						
<b>Banks;</b>						
- Parent and connected	3,191	-	-	-	-	3,191
- Others	3,131	1,484	-	-	-	4,615
<b>Customers</b>	<b>379,015</b>	<b>61,188</b>	<b>28,153</b>	<b>1,043</b>	-	<b>469,399</b>
<b>Other financial liabilities</b>	<b>852</b>	-	<b>9,696</b>	-	-	<b>10,548</b>
<b>Derivative financial liabilities</b>	-	<b>1,780</b>	<b>88</b>	-	-	<b>1,868</b>
	<b>386,189</b>	<b>64,452</b>	<b>37,937</b>	<b>1,043</b>	-	<b>489,621</b>
<b>Net gap</b>	<b>(219,513)</b>	<b>88,622</b>	<b>42,003</b>	<b>120,957</b>	<b>27,931</b>	<b>60,000</b>

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.

	2020					Total £'000
	On Demand £'000	3 months or less but not on demand £'000	Over 3 months but less than 1 year £'000	Over 1 year but less than 5 years £'000	Greater than 5 years £'000	
Cash and balances at central Banks	103,675	-	-	-	-	103,675
Loans and advances to:						
<b>Banks;</b>						
- Parent and connected	786	2,897	1,329	-	-	5,012
- Others	24,685	50,623	80,843	-	-	156,151
<b>Customers</b>	<b>16,542</b>	<b>6,945</b>	<b>29,078</b>	<b>70,326</b>	<b>73,301</b>	<b>196,192</b>
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
	<b>145,688</b>	<b>86,132</b>	<b>142,079</b>	<b>95,472</b>	<b>73,301</b>	<b>542,672</b>
<b>Deposits by:</b>						
<b>Banks;</b>						
- Parent and connected	2,492	-	-	-	-	2,492
- Others	1,129	1,465	359	-	-	2,953
<b>Customers</b>	<b>327,162</b>	<b>97,095</b>	<b>34,501</b>	<b>503</b>	-	<b>459,261</b>
<b>Other financial liabilities</b>	<b>1,044</b>	-	<b>11,268</b>	-	-	<b>12,312</b>
<b>Derivative financial liabilities</b>	-	<b>1,428</b>	<b>234</b>	-	-	<b>1,662</b>
	<b>331,827</b>	<b>99,988</b>	<b>46,362</b>	<b>503</b>	-	<b>478,680</b>
<b>Net gap</b>	<b>(186,139)</b>	<b>(13,856)</b>	<b>95,717</b>	<b>94,969</b>	<b>73,301</b>	<b>63,992</b>

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 £319.80mn (2020: £312.10mn) of deposits representing retail deposit accounts considered by the Bank as a stable source of funding of its operations.

**23 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:

		2021						
		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		103,291	-	-	-	-	652	103,943
Loans and advances to:								
	Banks	96,241	36,132	4,101	-	-	33,468	169,942
	Customers	170,645	1,068	-	-	-	6,554	178,267
Debt securities		63,056	14,851	2,349	15,330	-	-	95,586
Other financial assets		-	-	-	-	-	1,883	1,883
Other non-financial assets		-	-	-	-	-	4,521	4,521
		<b>433,233</b>	<b>52,051</b>	<b>6,450</b>	<b>15,330</b>	<b>-</b>	<b>47,078</b>	<b>554,142</b>
Deposits by:								
	Banks	-	-	-	-	-	7,806	7,806
	Customers	105,636	4,038	23,475	1,042	-	335,208	469,399
Other financial liabilities		-	-	-	-	-	12,416	12,416
Other non-financial liabilities		-	-	-	-	-	7	7
Total Equity		-	20,487	-	-	-	44,027	64,514
		<b>105,636</b>	<b>24,525</b>	<b>23,475</b>	<b>1,042</b>	<b>-</b>	<b>399,464</b>	<b>554,142</b>
Overall gap		<b>327,597</b>	<b>27,526</b>	<b>(17,025)</b>	<b>14,288</b>	<b>-</b>	<b>(352,386)</b>	<b>-</b>
Cumulative gap		<b>327,597</b>	<b>355,123</b>	<b>338,098</b>	<b>352,386</b>	<b>352,386</b>	<b>-</b>	<b>-</b>

		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
		<b>377,243</b>	<b>50,443</b>	<b>46,842</b>	<b>16,602</b>	<b>-</b>	<b>58,256</b>	<b>549,386</b>
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
		<b>142,403</b>	<b>30,964</b>	<b>25,317</b>	<b>503</b>	<b>-</b>	<b>350,199</b>	<b>549,386</b>
Overall gap		<b>234,840</b>	<b>19,479</b>	<b>21,525</b>	<b>16,099</b>	<b>-</b>	<b>(291,943)</b>	<b>-</b>
Cumulative gap		<b>234,840</b>	<b>254,319</b>	<b>275,844</b>	<b>291,943</b>	<b>291,943</b>	<b>-</b>	<b>-</b>

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

**24 RELATED PARTY TRANSACTIONS**

The Bank is a wholly owned subsidiary of HABL 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.

	<b>2021</b>	2020
	<b>£'000</b>	£'000
The details of balances with the related parties are as follows:		
Borrowing / deposits / other equity instruments		
Immediate parent and associates	<b>23,678</b>	22,643
Key management personnel	<b>66</b>	64
Loan receivable from:		
Immediate parent and associates	<b>7,836</b>	5,362
Key management personnel	<b>1,794</b>	1,906
Interest Income		
Immediate parent and associates	<b>164</b>	395
Interest Expense/Paid		
Immediate parent and associates	<b>638</b>	1,161

**25 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).

	<b>2021</b>			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets available for sale	95,586	-	-	95,586
Derivative financial instruments - assets	-	964	-	964
<b>Total</b>	<b>95,586</b>	<b>964</b>	<b>-</b>	<b>96,550</b>
Derivative financial instruments - liabilities	-	1,868	-	1,868
<b>Total</b>	<b>-</b>	<b>1,868</b>	<b>-</b>	<b>1,868</b>

	<b>2020</b>			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets available for sale	72,941	-	-	72,941
Derivative financial instruments - assets	-	3,402	-	3,402
<b>Total</b>	<b>72,941</b>	<b>3,402</b>	<b>-</b>	<b>76,343</b>
Derivative financial instruments - liabilities	-	1,662	-	1,662
<b>Total</b>	<b>-</b>	<b>1,662</b>	<b>-</b>	<b>1,662</b>

For financial assets and liabilities carried at amortised costs (including loans and advances and customer deposits), 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 10.

**26 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 HABL and AKFED, respectively. AKFED is registered at Avenue de la Paix, 1-3, CH-1211, Switzerland. The registered office of HABL is at 9 Portman Street, London, W1H 6DZ. HABL financial statements are available at companies house.

**27 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.

**28 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. The below table provides gross balances of maximum exposures for each class of financial assets.

**Credit risk on financial instruments**

**31 December 2021**

	Neither past due nor impaired £(000)	Past due not impaired £(000)	Impaired £(000)	Impairment allowances £(000)	Total £(000)
<b><u>Financial Assets at Amortised Cost</u></b>					
Balances at Central Banks	103,291	-	-	-	103,291
Loans and advances to Banks	169,942	-	-	-	169,942
Loans and advances to customers	171,713	3,687	6,231	(3,364)	178,267
All other financial instruments	919	-	-	-	919
	<b>445,865</b>	<b>3,687</b>	<b>6,231</b>	<b>(3,364)</b>	<b>452,419</b>
<b><u>Financial assets at fair value through Income Statement</u></b>					
Unrealised gain on forward exchange contracts	964	-	-	-	964
	<b>964</b>	-	-	-	<b>964</b>
<b><u>Available for sale Financial Assets</u></b>					
Debt securities	95,586	-	3,901	(3,901)	95,586
	<b>95,586</b>	-	<b>3,901</b>	<b>(3,901)</b>	<b>95,586</b>
<b>Total financial instruments</b>	<b>542,415</b>	<b>3,687</b>	<b>10,132</b>	<b>(7,265)</b>	<b>548,969</b>

31 December 2020

**Financial Assets at Amortised Cost**

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
All other financial instruments	1,638	-	-	-	1,638
	<b>453,312</b>	<b>2,329</b>	<b>14,237</b>	<b>(7,870)</b>	<b>462,008</b>

**Financial assets at fair value through Income Statement**

Unrealised gain on forward exchange contracts	3,402	-	-	-	3,402
	<b>3,402</b>	-	-	-	<b>3,402</b>

**Available for sale Financial Assets**

Debt securities	76,602	-	4,025	(4,025)	76,602
	<b>76,602</b>	-	<b>4,025</b>	<b>(4,025)</b>	<b>76,602</b>
<b>Total financial instruments</b>	<b>533,316</b>	<b>2,329</b>	<b>18,262</b>	<b>(11,895)</b>	<b>542,012</b>

**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:

CQS	2021 £'000	2020 £'000
1	61,031	43,742
2	26,113	37,117
3	9,584	12,080
4	6,896	29,291
5	66,318	33,922
6	-	5,011
	<b>169,942</b>	<b>161,163</b>

**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.

<b>Internal risk rating of loans and advances to customers</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Rating		
Grade 1 to 6	<b>142,962</b>	167,305
Grade 7	<b>32,438</b>	22,520
Grade 8	<b>6,231</b>	14,237
Total Gross Amount	<b>181,631</b>	204,062
Allowance for impairment (individual and collective)	<b>(3,364)</b>	(7,870)
Total	<b>178,267</b>	196,192

Due to the pandemic in 2020 the Bank had 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, much of the portfolio that was impacted at the time was regularised by the end of 2020.

<b>Concentration of past due and impaired exposure</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
UK	<b>11,543</b>	18,347
AFRICA	<b>2,276</b>	2,244
	<b>13,819</b>	20,591

Loans and advances past due by more than 90 days are considered as non-performing.

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

<b>Collateral type:</b>	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Cash collateral	<b>18,166</b>	19,032
Residential real estate	<b>82,362</b>	84,911
Commercial real estate	<b>231,281</b>	236,867
Others including shares and debt securities	<b>61,888</b>	69,775
<b>Total collateral value</b>	<b>393,697</b>	410,585
Gross loans and advances to customers	<b>181,631</b>	204,062

As at 31 December 2021 Bank's maximum exposure towards credit risk is approximately £573mn (2020: £583mn). 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:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
CQS		
1	<b>76,177</b>	52,850
2	-	4,432
3	<b>3,974</b>	9,914
4	<b>7,092</b>	5,026
5	<b>8,343</b>	4,380
	<b>95,586</b>	76,602

No debt securities are pledged as collateral to secure liabilities under repurchase agreement (2020: nil).

### **Financial Risks from climate change**

The Bank is committed to providing finance to customers that meet the minimum applicable requirements in consideration of UK law on climate-related issues and managing climate risks and adverse impacts arising from the activities of its customers. The Bank is also committed to continually enhancing its approach to managing the financial risks from climate change in line with UK regulatory requirements from the PRA and FCA (including PRA SS3/19), on a proportionate basis to the size, scale and complexity of its business model.

The Bank recognises the need for the wider global economy to reduce the use of fossil fuels and to transition to a low carbon, climate resilient economy. Therefore, the importance of reviewing our customers' climate impact and sensitivity to climate change is acknowledged to understand the physical and transition risks related to their business models.

In enhancing the risk management framework to integrate climate-related financial risks, the Bank has recognised that climate change presents risks which cut across multiple traditional risk types. Climate risk can drive credit risk by causing losses that leave the Bank's clients unable to meet their obligations to repay and service debt. For example, if rising sea levels force a retail or textiles business to abandon one of its major warehouses, the supply chain related losses could leave the business unable to repay its corporate bonds or loans.

The Bank does not engage in any proprietary trading, therefore climate-related market risk is limited to the debt exposures of sovereign and financial institution counterparties. Thus, the financial impact is similar to that of credit risk whereby the effects of climate change can reduce the value of collateral that the Bank can use to secure funding and access liquidity.

### **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 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 on a portion of its assets and liabilities and the result of mismatches 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 £3.01mn (2020: £2.24mn) on net interest income for the year ended 31 December 2021. 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 20.

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', in line with regulations and results in the operational risk capital requirement under Pillar 2A which is 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 Operational 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 firm's 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](http://www.hblbankuk.com).

## **29 COUNTRY-BY-COUNTRY REPORTING AS AT 31 DECEMBER 2021**

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 2021 was £15.78mn (2020: £13.69mn).

### **Average number of employees**

The average number of employees was 135 for the year ended 31 December 2021 (2020: 149).

**Country-by-country breakdown 2021**

	Type of operation	Turnover	Loss before tax	Corporation tax paid	Average number of employees	Public subsidies received
		£'000	£'000	£'000	£'000	£'000
<b>United Kingdom</b>	Retail and Commercial Banking (RCB), Wealth Management(WM), Financial Institution (FI) and Treasury services (TS)	13,309	(3,801)	78	126	-
<b>Switzerland</b>	RCB and WM	2,467	16	(6)	9	-
<b>Netherlands</b>	RCB	-	-	40	-	-
		<b>15,776</b>	<b>(3,785)</b>	<b>112</b>	<b>135</b>	<b>-</b>

**Country-by-country breakdown 2020**

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

**30 EVENT AFTER BALANCE SHEET DATE**

The Board of Directors has approved the strategy to exit from Zurich, Switzerland and closing down the branch. The management has started to initiate the process and has announced the decision to the wider group subsequent to the year end. Therefore the directors have concluded that this is a non-adjusting subsequent event. Further the Bank has immaterial indirect exposure to Russia and Ukraine as these are not its prime markets. Both of these events do not require any adjustments.