HBL BANK UK

COMPANY REGISTRATION NUMBER: 01719649

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2022

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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 and itself is wholly owned by HBL Bank Limited (HBL). During the year 2022 HBL acquired the 9.5% shareholding of Allied Bank Limited in HAHL to become the sole parent of HAHL.

Strategy and Objectives
The Bank's vision and key objectives is to re-position itself as a niche financial services institution by leveraging the HBL (parent) bank network and name recognition across South Asian and network clients to provide UK based products. Products include Corporate Lending, International Trade Financing, and Wealth Services, to our target clients, supported by a Financial Institution Strategy to balance risk and optimise 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 network clients and UK small cap family-owned companies. The product offering primarily includes working capital, trade financing, targeted private equity placements and associated UK real estate lending.

Further the commercial banking segment contributes significantly towards the Bank's liquidity 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 provides clients with personalised investment solutions, and a flexible approach to managing their wealth and lifestyle through Execution Only Services. Under this Service, clients' needs, objectives, and risk appetite, as well as suitability and affordability, are considered. However, any decision whether to 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 serve both the HBL Group and HBL UK's clients, as well as HBL Group's network treasuries.

Financial Institutions
Financial Institutions business continues to provide the critical role of supporting the businesses by using 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, mitigating risk and supporting 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 function supports the Bank in ensuring adequate liquidity is available to businesses through its asset liability management (ALM) function. It supports customers by providing foreign exchange products including forwards while managing liquidity through its money market activities.

Business Review

Business Environment

The pandemic continued to be managed successfully and thus the year started with gradual recovery of economies and businesses. However, this business recovery was again impacted due to supply chain constraints resulting from previous lockdowns and materially high energy costs primarily due to the invasion of Ukraine by Russia. The invasion resulted in uncertainty which not only impacted energy costs, commodities prices but other areas resulting in high inflation. As the inflation in UK increased to 10.5% by December 2022 the Bank of England (BOE) continued increasing the interest rates to meet its inflation target of 2%. The interest rate was increased to 4% in February 2023 from 0.75% in January 2022 with BOE ready to take further actions in case the inflation is not managed.

Brexit

The Bank has no branches in Europe having closed its branch in Zurich, Switzerland in the final quarter of 2022 and therefore does not foresee any further impacts from Brexit.

Covid-19

The Bank supported its customers and relevant operations during the Covid-19 pandemic and did not face any material disruption in business and operations at that time continues to operate effectively without any material disruption.

Financial Review

Operating Profit / (Loss) before Tax (£ "000")	**2022**	**2021**
Net Interest	13,936	8,972
Fee and Commission	4,403	5,392
Other Income – net	3,821	1,412
Net Operating Income	**22,160**	15,776
Total Operating Expenses	(22,012)	(19,873)
Operating Profit / (Loss) before provisions and tax	**148**	(4,097)
Reversal of Provisions	1,456	312
Operating Profit / (Loss) before tax	**1,604**	(3,785)

Net Interest Income

The refreshed strategy, approved by the Board, focuses on increasing the lending to customers which provides a higher return to the Bank. By following this strategy, the Bank has been able to increase its customer lending book by 15% resulting in higher revenue. Further, as the Bank has been adequately liquid and has a shorter tenor repricing asset base, the increase in interest rate have also enhanced its net interest income to £13.9m compared to £8.9m last year.

Fee and Commission Income

With the business environment improving, the Bank has been able to enhance the trade volumes resulting in higher trade and foreign exchange related income. The Wealth business faced challenges as the invasion of Ukraine and higher interest rates created uncertainty in markets and reduced the trading volume of the customers. Thus, the resulting lower wealth revenue impacted the overall fee revenue which reduced to £4.4m compared to £5.4m last year.

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 favorable exchange rates the impact is £2.64m.

Operating expenses

The Bank exited Zurich, Switzerland during the year which resulted in one off costs of around £1.67m. Excluding the exit related impact, the overall costs remained broadly at the same level as last year despite higher inflation. Going forward the saving from the closing of Zurich branch will assist the Bank in managing its cost base more efficiently.

Provisions

During the year the Bank has been able to recover from a legacy non-performing customer loan resulting in reversal of provision by £1.7m. This reversal has been offset by providing £0.2m for another impaired customer.

Operating loss before tax

The Bank has thus made a profit of £1.6m compared to a loss of £3.8m last year.

Statement of Financial Position (£ "000")	**2022**	**2021**
Cash and balances at central banks	91,424	103,943
Loans and advances to banks	145,200	169,942
Loans and advances to customers	204,734	178,267
Debt Securities	86,400	95,586
Other assets	11,031	6,404
Total Assets	**538,789**	554,142
Deposit by banks	9,841	7,806
Customer Deposits	444,361	469,399
Other Liabilities	14,105	12,423
Total Liabilities	**468,307**	489,628
Equity	70,482	64,514
Total Capital and Liabilities	**538,789**	554,142

Cash and balances at central banks and Debt securities

The Bank continued to hold adequate liquidity with an amount of £91m maintained with Bank of England providing a high LCR, well above the regulatory requirement. Investment in debt securities were slightly lower as the Bank did not reinvest a number of securities maturing near the year end to maintain high liquidity. To manage the risk profile the focus has been to invest in high quality liquid assets and sovereigns.

Loans and advances to banks and customers

The focus continues to be to grow the customer lending asset base of the Bank. Loans from customers therefore increased to £205m compared to £178m, an increase of around 15% while the loans from banks which are utilised to deploy excess liquidity reduced. The Bank continues to have a strong pipeline of customer related business and expects to enhance the customer asset base further on a prudent basis.

Customer Deposits

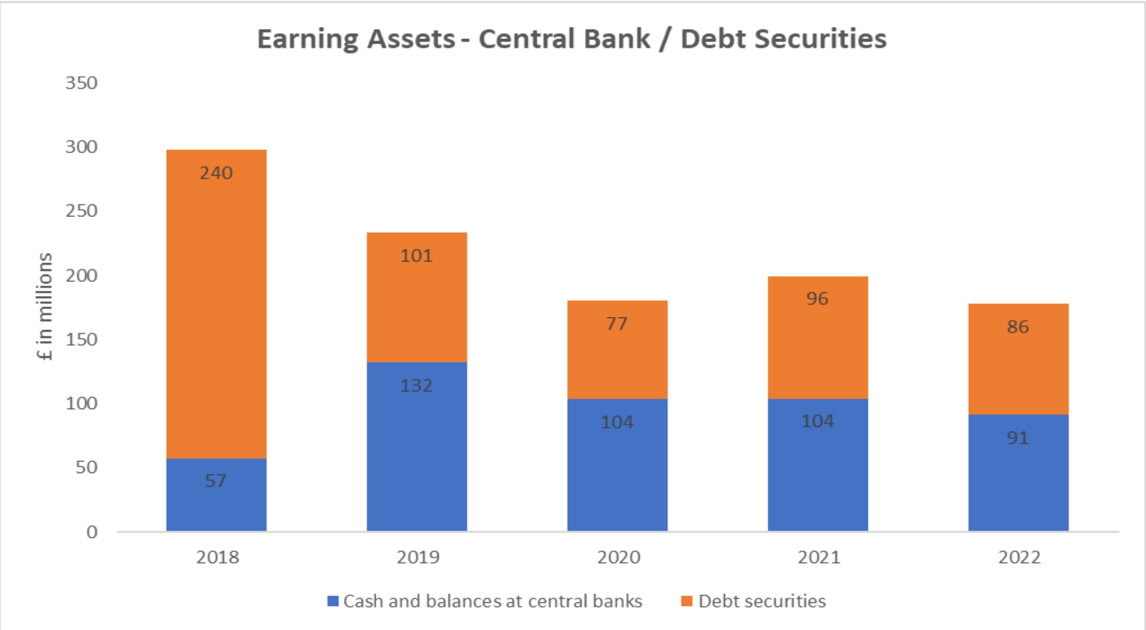
The Bank continues to fund itself from customer deposits which are broadly stable. Total customer deposit base of £444m consists of 77% of low-cost Current and Savings Account (CASA). The total deposit base is well diversified in terms of deposit class, residency and currency with customers having a long relationship with the Bank.

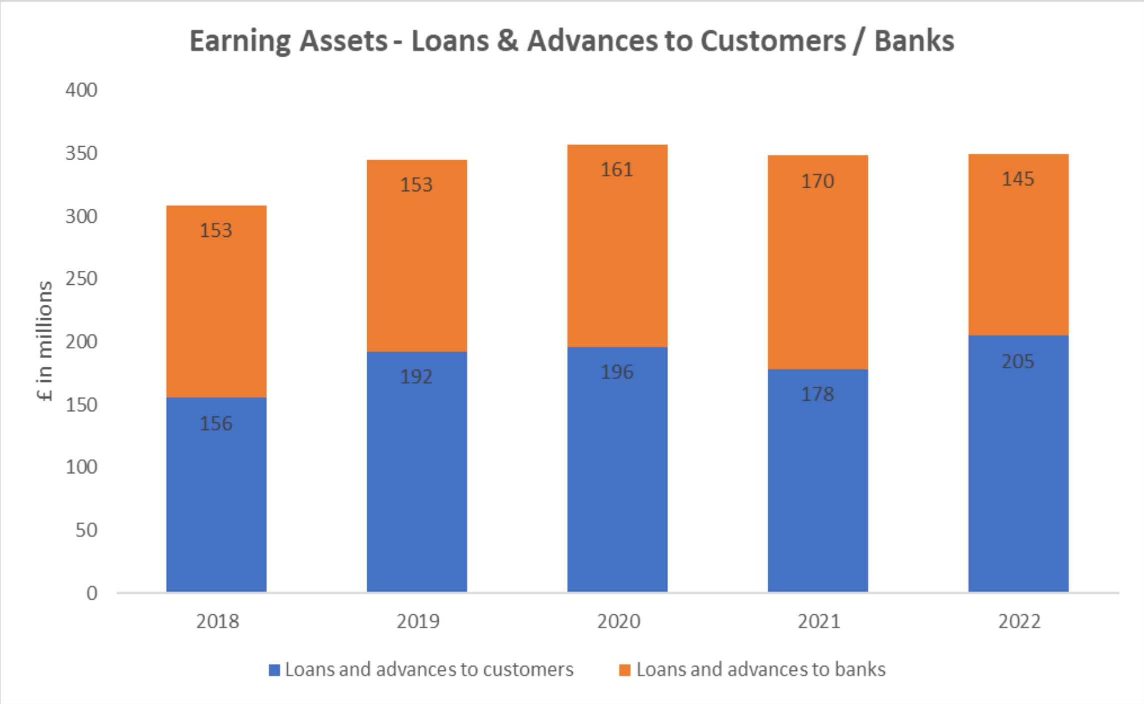
Equity

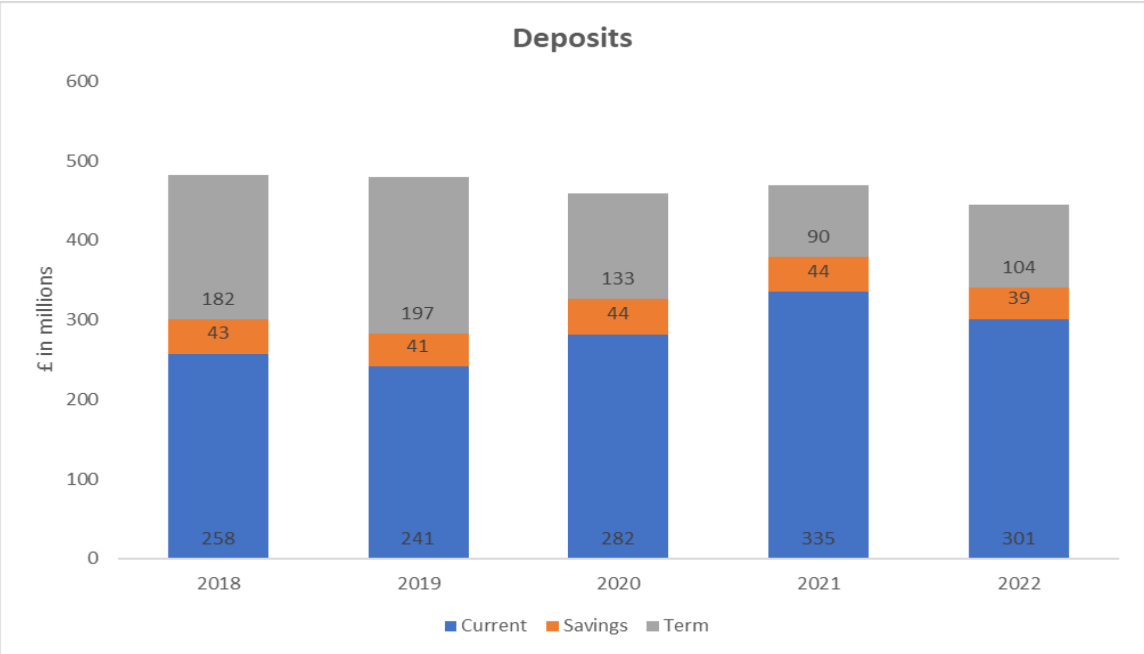
The Bank's equity consists of shareholder capital was increased to £53m following a capital injection by the shareholder of £3m. The Bank issued 600 thousand ordinary shares against the capital issuance. The Bank also has additional tier 1 and tier 2 instruments totaling £20.49m. Thus, the Bank has adequate surplus capital available against regulatory minimum capital requirement.

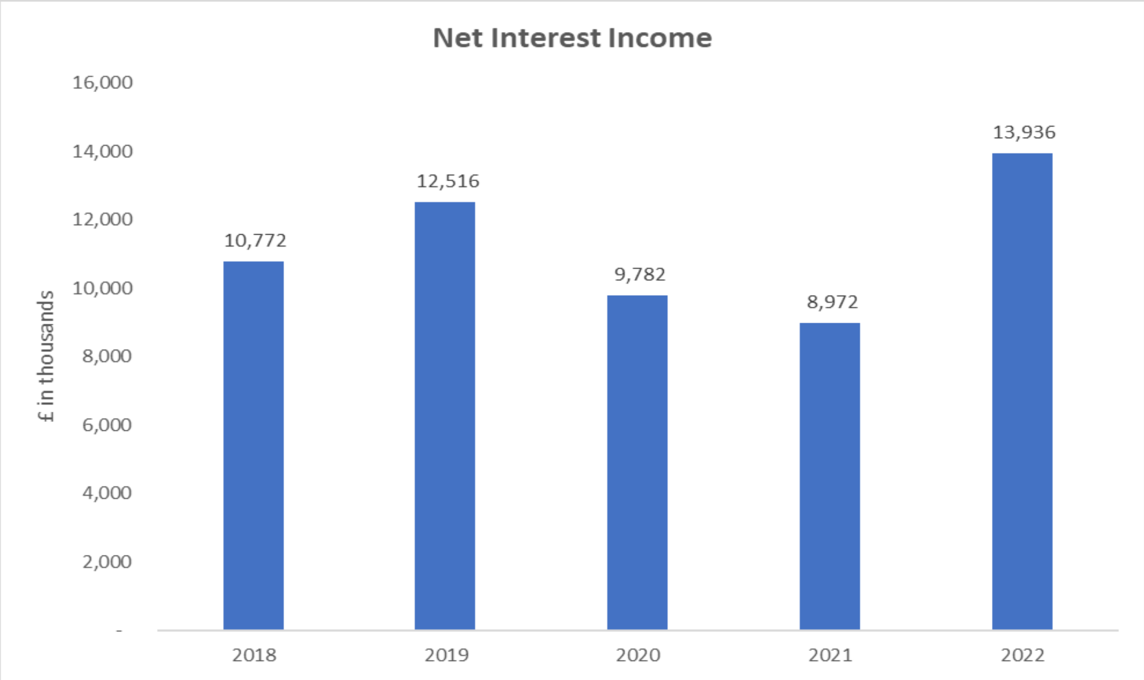
Trend Analysis

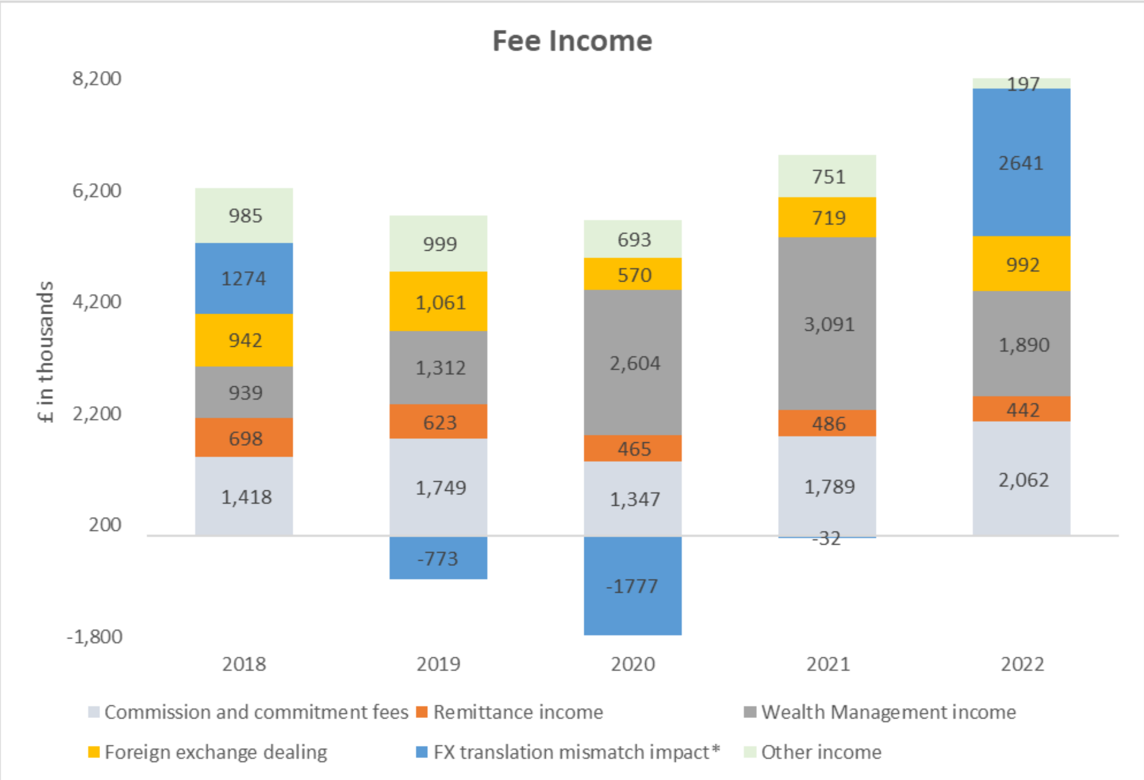
The last five years trend analysis based on the data given in the current and previous financial statements is given below



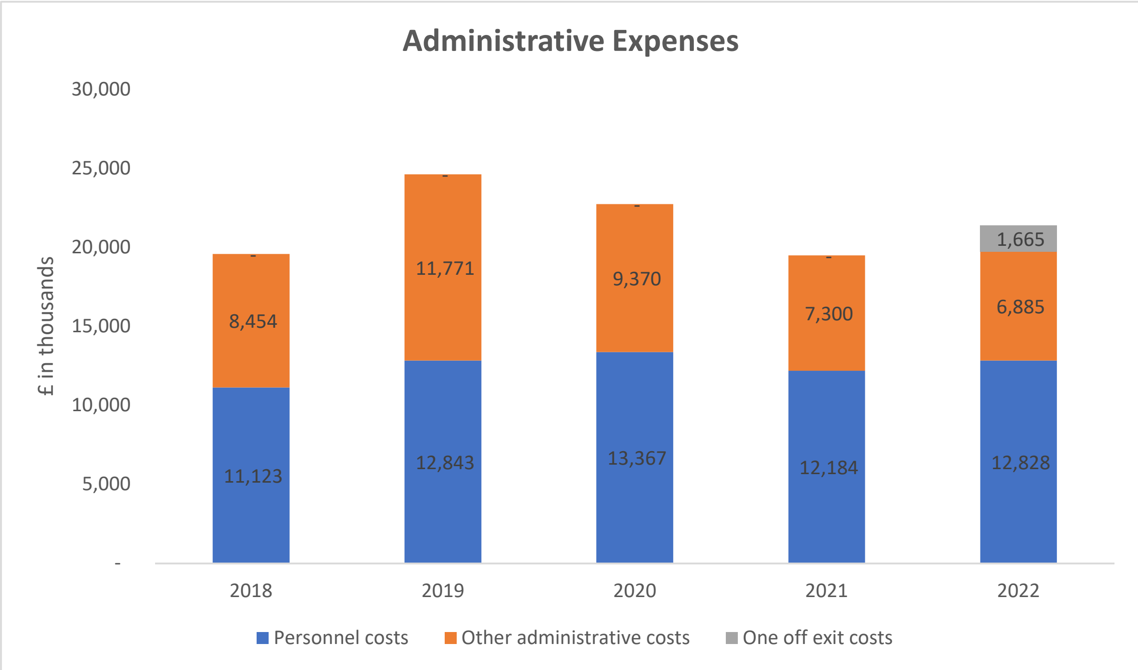

Earning Assets - Loans & Advances to Customers / Banks
£ in millions
400
350
300
250
200
150
100
50
0
2018
2019
2020
2021
2022
153
156
153
192
161
196
170
178
145
205
Loans and advances to customers
Loans and advances to banks

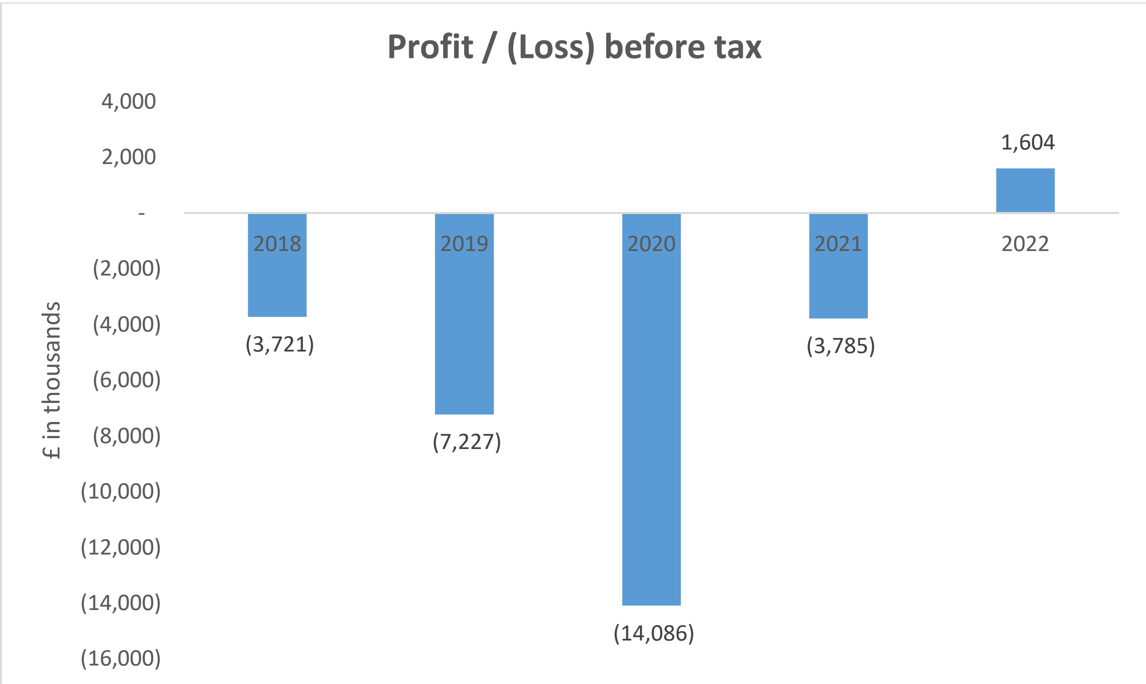

Deposits
£ in millions
600
500
400
300
200
100
0
2018
2019
2020
2021
2022
182
43
258
197
41
241
133
44
282
90
44
335
104
39
301
Current
Savings
Term





* '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), cyber risk, 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. The Disaster Recovery Plan (DRP) / Business Continuity Plan (BCP) testing are also carried out periodically, this is further supported by the Operational Resilience Framework in determining critical business activities that have ongoing continuity to provide service. 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 Operational 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 & Conduct Committee; and
- Board Nominations Committee.

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

Climate Change

The Bank is 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 and embed 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 Internal Capital Adequacy Assessment Process (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 by management, the board and other parties to manage risk and increase the likelihood that established organisational objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Management assumes the responsibility for establishing and maintaining adequate internal controls and procedures, while the Board of Directors are ultimately responsible for the internal control systems.

For this purpose, the bank has management level committees which are chaired by the Chief Executive Officer and 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 along with other performance data.

During the year, the Bank has reviewed its credit processes and governance and has upgraded its policies and processes to strengthen the overall controls around these areas.

The Internal Audit function of the bank assists the bank in maintaining effective controls by evaluating their adequacy, operating effectiveness, and efficiency and by promoting continuous improvement. Deficiencies that are identified are reported and remediation actions followed up until the deficiencies are addressed. The status of any 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 maintains 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, an automated post transaction review to prevent AML risk and a robust Suspicious Activity Report (SAR) process 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 SAR.

The Bank continues to:

- Further enhance the robustness of the financial crime and compliance framework in line with regulatory expectations;
- Strengthen the control environment to align with best market practice;
- Achieve robust controls to ensure compliance with regulatory requirements; and
- Enhance customer journeys.

Anti-Bribery and Corruption
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 transparency to their operations. Bank ensures that the products and services offered to its clients are in their best interest, considering Consumer Duty regulations, and factoring in any vulnerabilities the clients may have.

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 has been made available throughout the bank, including at all branches, where posters are placed in prominent positions and employees are encouraged to share their concerns. A 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
The Bank has continued to provide its services without fail to the customers and has adopted a hybrid model for its employees to work both remotely and in office. The Bank also continued to focus on the potential operational risks arising from this change in working practices. The Bank adopted a pragmatic and flexible approach to operational resilience that is based on the size and nature of the Bank considering the regulatory recommendations, business profile and risk tolerances. This approach assists the Bank to ensure that the developed Framework, supports the Bank in facing operational challenges arising from changes / events at local / global level, ensuring that the Bank can respond appropriately while continue to operate within the acceptable tolerance limits. Going forward the Bank intends to test the developed plans that can highlight the strengths and weaknesses of the framework, improve the early warning triggers, and strengthen the service level agreements with the key and business critical vendors.

Cyber risk
As the Bank progresses in the digitization of its operations, for example through the launch of Digital Banking Application in 2021, the threat level of Cyber Risk i.e., the risk that the Bank is subject to some form of disruption arising from an interruption to its IT and data infrastructure increases. The Bank regularly tests its infrastructure and systems to ensure that it remains robust to a range of threats and has a business continuity and disaster recovery plan in place.

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 who were historically linked with GBP LIBOR were successfully transferred to BOE benchmark. For any new US dollars-based lending products the Bank is using the Secured Overnight Financing Rate (SOFR) benchmark instead of US dollars LIBOR.

Russian and Ukraine Exposure
Both Ukraine and Russia are not primary markets and the Bank does not have any material exposure to them.

Key Risks
The Board has identified the below as key risks to the Bank:

- Economy
- Customers
- People
- Sustainable execution

Other Emerging Risks
The Bank is continuously monitoring other emerging risks such as economic factors (high interest rates, inflation, energy prices, the cost of living crisis and real estate prices), competition to attract and retain high quality staff, the profile of the Bank's customers and the ability to execute sustainably given the reliance on legacy manual processes, so that proactive action can be taken when required. Further the Bank as a policy ensures that it remains adequately liquid by investing its excess liquidity predominantly in short dated high quality liquid assets. It therefore does not believe to be susceptible to the risks identified in recent banking industry events.

Since late 2022, Pakistan is facing significant economic challenges that have impacted its foreign exchange reserves resulting in downgrading of the country's rating. The Bank is monitoring this closely and have taken appropriate steps to manage and reduce its exposure where 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:

- <u>the likely consequences of any decision in the long term</u>
  The Board after detailed discussions have 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. This plan is reviewed annually to ensure that it incorporates any recent opportunities and challenges.

  The Board has also in January 2023 defined its priorities going forward which includes ensuring a sustainable business model with strong control environment and continuous profitability, focusing on people, customers, culture, robust risk management and accountability at all levels.

- <u>the interests of the Bank's employees</u>
  The Board understands that the employees are key to the Bank's success and are always considered before taking any major decision. The Human Resources & Remuneration 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. A robust and progressive performance appraisal system is in place, and we have held 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 support including infrastructure and equipment to ensure that they could successfully work from home without major challenges. As the lockdown have eased, we have shifted to a hybrid model where employees are now in the office for at least three days of the week.

- <u>the need to foster the Bank's business relationships with suppliers, customers, and others</u>
  The customers remain at the heart of every major decision being taken and reviewed by the Board. The Board understands the impact of customers on the long-term success of the Bank and therefore ensures that the customers' interests are considered in decisions. The Bank's conduct policy ensures that all the customers are treated fairly. During the pandemic and in line with regulation and the government guidelines, the Bank offered the 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 respond to regulators in an open manner. Our various board committees regularly receive updates on management's interactions with Regulators and ensure that any required actions are taken. Simultaneously, we have ensured ongoing mandatory compliance processes and procedures training for all staff, to ensure strong and effective lines of defense throughout the bank. We 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.

- <u>the impact of the Bank's operations on the community and the environment</u>
  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. The Board has also 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.

- <u>the desirability of the Bank maintaining a reputation for high standards of business conduct</u>
  The Bank expects its staff to maintain the highest standards of business practice and conduct both internally and externally. The bank abides by its set of core values which include integrity, customer centricity, value people, progressive, and excellence.

- <u>the need to act fairly between members of the Bank</u>
  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 – Example

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
Review of Annual Budget and the five-year plan The Board approved a refreshed five years strategy in 2021 after the restructuring of the Bank This plan is reviewed annually to incorporate any recent opportunities and challenges not included or addressed earlier.	Customers	The Board reviewed and ensured 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 resources are sometimes 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.

Future Development

The Bank continues to follow the strategy of focusing on developing customer centric products and enhancing the customer lending asset base. Though the business environment has improved post pandemic, challenges primarily relating to the higher interest rates and its impact on the economy and business remains. The bank is therefore monitoring the situation carefully and is managing its risk prudently.

The Bank's parent bank is one of the largest banks in Pakistan with a network in multiple countries. Till now the Bank has not been able to optimise leveraging the strength of the parent bank to support the customers. However, since last year the Bank has developed a working strategy where both the commercial banking and wealth teams are working more closely with the parent bank network to provide support to the customers through provisions of new and innovative products. This has not only provided more opportunities for the customer base but has also enhanced the revenues. Focus remains to expand the commercial banking and wealth management businesses by providing new products such as corporate advisory, financing to blue chip and high net worth network customers both in and outside UK.

The Financial Institutions (FI) business continues to build partnerships with various multilateral development companies to provide new capital relief products. This frees up the capital and provides further room to conduct more commercial banking business. FI also continues to support the deployment of liquidity through various products such as discounting and syndicated financing.

The cost base is continuously being reviewed for efficiencies and the Bank has recently rationalised the cost based by closing the branch in Zurich, Switzerland. The exit from Zurich was 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 hybrid working policy where employees will be working from both the office and remotely.

The regulatory environment continues to evolve, and the Bank is working closely with the Regulators, the Board and where necessary external consultants to ensure implementation of the rules both in spirit and letter of the law.

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, high interest rates, inflation 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

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Andrea Farace
Chairman / Director
HBL Bank UK Limited
9 Portman Street
London W1H 6DZ
Dated: 06 April 2023

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 2022. The Bank, a private company limited by shares, is a wholly owned subsidiary of Habib Allied Holding Ltd (HAHL), a non-banking company, registered in England & Wales.

Principal Activities
The Bank was incorporated on 29 April 1983. 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 a 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 2022 are set out in detail on pages [37] to [61]. The profit on ordinary activities before tax for the financial year amounted to £1.60mn (Loss on ordinary activities before tax for the financial year 2021: £3.79mn).

The Directors do not propose the payment of a dividend for the year (2021: 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 [17].

Existence of Branches outside UK
During the year under review, the Board of the Bank took the decision to close the only branch outside the UK in Zurich, Switzerland and the closure of the branch was completed on 31 October 2022.

Share Capital
Allotted, called up and fully Paid-up Capital of the Bank at the end of the year was £53.32mn (2021: £50.32mn) and Total Equity was £70.48mn (2021: £64.51). On 9 December 2022, the Directors allotted 600,000 ordinary shares in the Bank, with the existing rights attached, and with a nominal value of £5 per share to its sole Shareholder, HAHL, for the total consideration of £3,000,000, as set out in Note [17].

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 the 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. As the three Independent Non-Executive Directors were stepping down at the end of the year, three new Independent Non-Executive Directors were appointed with effect from November 2022 to ensure continuity. Consequently the Bank exceeded the maximum number of Directors permitted under Article 18 and the Board of Directors (the "Board") approved a resolution to temporarily exceed the maximum number of Directors permitted until the year-end.

Going forward the Board includes four independent directors which 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 (2021: 5).

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 (resigned 31.12.2022)
Andrea Farace*	Chairman / Independent Non-Executive Director (appointed 01.11. 2022)
Suzanne Clark	Independent Non-Executive Director (appointed 01.11. 2022)
Khalid Qurashi	Independent Non-Executive Director (appointed 01.11. 2022)
Rayomond Kotwal	Non-Executive Director
Faisal N. Lalani	Non-Executive Director
Sagheer Mufti	Non-Executive Director
Allan J. Hirst	Independent Non-Executive Director (resigned 31.12.2022)
Juliet Wedderburn	Independent Non-Executive Director
Sian Herbert	Independent Non-Executive Director (resigned 31.12.2022)
Andreas Ponce de Leon	CEO / Director

* Appointed as Chairman of the Bank on 1 January 2023.

Directors' Interests

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

Directors' indemnification

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision defined by Section 236 of the Companies Act 2006 (the "Act"). The indemnity was in force throughout the financial year and is currently in force but has not been utilised by the Directors.

An insurance policy is maintained by the Bank and HAHL which indemnifies the Directors against certain liabilities arising in the conduct of their duties. Such indemnity has been in place during the period and remains 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 2022 was £1.02m (2021: £0.87m).

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

Political and Charitable Contributions

During the year, the Bank has made a charitable contribution of £1,000 (2021: Nil) and no political contribution (2021: £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 the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and PRA.

The 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 areas which are Commercial Banking, Wealth Management, Financial Institutions and Treasury. These areas are supported by functions such as operations, human resources, technology and compliance.

The Board of Directors (the "Board") are responsible for the overall governance and 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.

The 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 budgets, business plans, the risk management 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 environment which harmonises the goals of compliance with the regulatory/legal framework, maximising shareholder value and maintaining a customer centric focus.

The corporate governance framework of the Bank is based on an effective and independent Board which is not involved in day-to-day management. The position of the Chairman of the Board and CEO are held by separate individuals, ensuring no one individual has unfettered powers of decision making. 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 and CEO liaise with the Chairman prior to each meeting to agree agenda content and papers to be submitted to the Board meetings. Board 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 better enable the Board to discharge their duties, five Board Committees have operated throughout the year, with defined terms of reference.

The Board Committees review various Management Information ("MI") and policies to ensure that activities of the Bank are always conducted in accordance with 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 Conduct Committee ("CCC") (formerly the Compliance and Transformation Committee); and
- Board Nominations Committee ("BNC").

Board Audit Committee

The Bank has an independent Audit function with the Head of Internal Audit reporting directly to the Chairman of the BAC who is an Independent Non-Executive Director and an approved person by the PRA/FCA.

The following are the core areas of Board Audit Committee responsibilities:

- Review the Bank's financial statements and appropriateness of its accounting policies;
- 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 financial control systems 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

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 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
The HRRC key duties and responsibilities are to:

- Develop 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 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 Conduct Committee
The CCC supports the Board in instilling a strong 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 and whistleblowing.

Since compliance and conduct are Bank-wide considerations, relevant committees of the Board actively coordinate with each other to achieve the overall objective of improving the compliance and conduct environment.

Board Nominations Committee
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 the Board 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 Bank. 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.
- 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 to 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 assess 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 includes consideration of its funding and the ILAAP and ICAAP documents. 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 and benefits
As at 31 December 2022 the Bank had 128 employees (2021: 134). The Bank provides the following benefits to all employees.

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. The Bank remains committed to the strategy and believe the 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 on pages 2 to 17. The Bank's Pillar III disclosures are available on the Bank's website at www.hblbankuk.com.

Research and Development
The Bank was 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:

Suzanne Clark

Suzanne Clark
Director
HBL Bank UK Limited
9 Portman Street
London W1H 6DZ
Dated: 6 April 2023

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 2022 and of its profit 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

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 £2.11m (2021: £1.94m) which has been determined based on 3% (2021: 3%) of net assets.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team in the UK for all branches.
Significant changes in our approach	There have been no significant changes in our audit approach compared to prior year. The Swiss branch was closed during the year and our audit procedures on that component were reduced accordingly.

4. Conclusions relating to going concern

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

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

- We performed walkthroughs of management's controls around the assessment of going concern, including those around the inputs, methods and assumptions used in management's model for capital severe stress testing;

- 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 disaster recovery plan and procedures in place;

- We challenged the key assumptions used in the profitability forecast of the Bank by evaluating their reasonableness against the Bank's historic performance and macroeconomic forecasts;

- We undertook back testing approach where the audit team compared the actual results reported in 2022 and 2021 with the forecasted performance to identify any areas where historically the Bank's forecasts have been inaccurate;

- 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;

- We held bilateral discussions with the regulator to understand their view of the Bank's overall risk rating to consider any impact on our audit;

- We performed a post balance sheet event review and inquired about the extent of unrealised valuation adjustment in investments in debt securities to assess the completeness of the management's credit stress testing on the surplus capital position; 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 2022, the Bank had an outstanding balance of loans and advances to customers, net of provision, amounting to £205m (2021: £178m) (see note 22) with the total impairment provision balance being £1.1m (2021: £3.4m) (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 Instruments: Recognition and Measurement'. The level of impairment against loan and advances portfolio is one of the most significant estimates made by the Bank's directors and management in preparing financial statements. The accounting policy relating to impairment losses on loans and receivables is in Note 2(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. The estimation of the loan loss provision and the valuation of collateral is complex and 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.

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;

- 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;

- Tested the impairment assessment performed by management on loans that are assessed individually, being watch listed and bad book loans. This involved assessing the impairment methodology and reviewing key assumptions used in the assessment in light of recent macroeconomic environment;

- 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, we tested the key loan characteristics such as contracts, collateral valuations and coverage, payment delinquencies, customer financials and loan covenant compliance to assess for potential impairment indicators under IAS 39;

- Challenged management on key inputs and judgements used in the impairment assessment by evaluating payment history, collateral valuation and underlying supporting documents;

- With the involvement of our property valuation specialist team, for a sample of loans, we assessed the latest collateral valuation report for properties that underlie loans;

- Inspected the correspondence (including post year end correspondence) with borrowers to identify any risk factors that may require adjustment in the provision recognised against watch listed and bad book borrowers as on

	31 December 2022; and • Assessed the appropriateness of the disclosures made in the financial statements in view of the requirements of applicable financial reporting framework.
Key observations	Overall, we conclude that the provisioning on loans and advances to customers, and the related disclosures are reasonable.

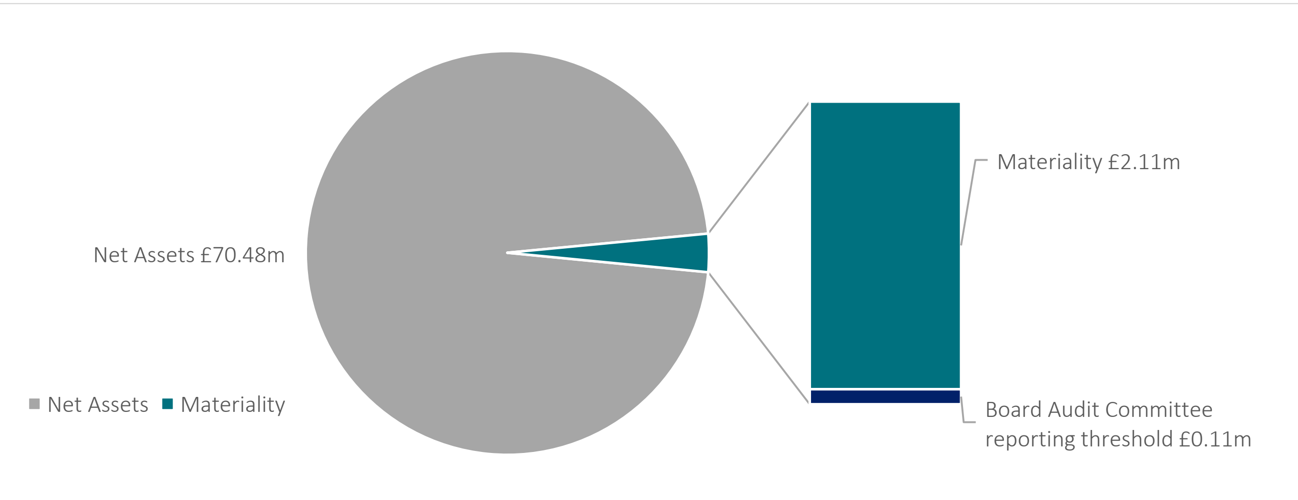
6. Our application of materiality

6.1. Materiality

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

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

Materiality	£2.11m (2021: £1.94m)
Basis for determining materiality	3% of Net Assets (2021: 3% of Net Assets)
Rationale for the benchmark applied	Net Assets is a key metric within the financial statements on which the users, being the owner of the Bank, lenders, and regulatory body tends to focus and is a good proxy for regulatory capital. The Bank is balance sheet driven and it is their significant deposit and loan positions that drive their income and expenses.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the Bank's control environment, and the low level of corrected and uncorrected misstatements identified in previous audits.

6.3. Error reporting threshold

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of £0.11m (2021: £0.10m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the Bank and its environment, including internal controls, and assessing risks of material misstatements. The Bank has four branches in the United Kingdom, having closed its branch in Switzerland during the year. Audit work to respond to risks of material misstatement was performed directly by the audit engagement team in the UK for all branches.

7.2. Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used in the financial reporting, lending, and deposits businesses. For these controls we engaged our IT specialists to perform testing over the general IT controls, including testing of user access and change management system.

In the current year, we evaluated the design and implementation of controls over the determination of loan loss provisioning.

The directors discuss the control environment, including improvements made during the year, on page 11 of the Strategic Report.

7.3. 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 page 11 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 disclosed in the Strategic Report (pages 2 to 17 of the Annual Report) and in Risk Management disclosure in note 28.

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 evaluated the Bank's climate related disclosure in note 28 and considered whether information included in the Strategic 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. 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 2022 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 7 years, covering the years ending 31 December 2016 to 31 December 2022.

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.

Christopher Brough FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
06 April 2023

Income Statement
For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Interest receivable			
Interest receivable and similar income arising from debt securities		**1,892**	1,015
Other interest receivable and similar income	**3**	**12,718**	8,569
		14,610	9,584
Interest payable	**4**	**(674)**	(612)
NET INTEREST RECEIVABLE		**13,936**	8,972
Fees and commissions receivable	**5**	**4,403**	5,392
Foreign exchange dealing profit - net		**3,633**	687
Other operating income		**188**	725
NET OPERATING INCOME		**22,160**	15,776
Administrative expenses	**6**	**(21,378)**	(19,484)
Depreciation and amortisation	**7**	**(634)**	(389)
TOTAL OPERATING EXPENSES BEFORE PROVISIONS		**(22,012)**	(19,873)
OPERATING PROFIT / (LOSS) BEFORE PROVISIONS AND TAX		**148**	(4,097)
Reversal of provision for loan losses (net)	**16**	**1,456**	188
Reversal of provision for diminution in the value of investments	**10**	**-**	124
PROFIT / (LOSS) BEFORE TAX		**1,604**	**(3,785)**
Tax credit / (charge)	**8**	**3,187**	(1,906)
PROFIT / (LOSS) AFTER TAX		**4,791**	(5,691)

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 42 to 61 form part of these financial statements.

The registered number of company is 01719649.

Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Profit / (Loss) for the year		**4,791**	(5,691)
Other comprehensive loss			
Items to be reclassified to Income Statement in subsequent periods:			
Loss on revaluation of investments	**10**	**(1,439)**	(262)
Deferred tax related to available for sale debt securities	**8b**	**375**	56
Effect of movements in exchange rates on retained earnings / other movement		**7**	(10)
		(1,057)	(216)
Total Comprehensive Income / (Loss) for the Year		**3,734**	(5,907)

Statement of Financial Position
As at 31 December 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Cash and balances at central banks	**22**	**91,424**	103,943
Loans and advances to banks	**22**	**145,200**	169,942
Loans and advances to customers	**22**	**204,734**	178,267
Debt securities	**10**	**86,400**	95,586
Fixed assets	**11**	**1,158**	1,618
Other assets	**13**	**3,354**	2,067
Accrued income		**654**	416
Deferred taxation	**12**	**5,865**	2,303
TOTAL ASSETS		**538,789**	554,142
LIABILITIES			
Deposits by banks		**9,841**	7,806
Customer accounts	**14**	**444,361**	469,399
Other liabilities	**15**	**14,105**	12,423
TOTAL LIABILITIES		**468,307**	489,628
EQUITY			
Shareholders' funds			
Share capital	**17**	**53,315**	50,315
Profit and loss account		**(2,159)**	(6,191)
Revaluation reserve		**(1,161)**	(97)
		49,995	44,027
Other equity instruments	**18**	**20,487**	20,487
TOTAL EQUITY		**70,482**	64,514
TOTAL LIABILITIES & EQUITY		**538,789**	554,142

The notes on pages 42 to 61 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 2023 and were signed on its behalf by:

Suzanne Clark

Suzanne Clark
Director

Statement of Changes in Equity
For the year ended 31 December 2022

	Share capital	Share premium	Other Equity instruments	Profit and loss account	Revaluation reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	50,315	-	20,151	131	109	70,706
Total comprehensive loss for the year						
Loss for the year	-	-	-	(5,691)	-	**(5,691)**
Other comprehensive income	-	-	-	(10)	(206)	**(216)**
	-	-	-	(5,701)	(206)	(5,907)
Contributions by and distributions to owners						
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	**50,315**	**-**	**20,487**	**(6,191)**	**(97)**	**64,514**
Total comprehensive income for the year						
Profit for the year	-	-	-	4,791	-	**4,791**
Other comprehensive loss	-	-	-	7	(1,064)	**(1,057)**
	-	**-**	**-**	**4,798**	**(1,064)**	**3,734**
Contributions by and distributions to owners						
Issuance of Common Equity Tier 1 Capital	3,000	-	-	-	-	**3,000**
Interest on Equity instruments classified as equity	-	-	-	(766)	-	**(766)**
	3,000	**-**	**-**	**(766)**	**-**	**2,234**
At 31 December 2022	**53,315**	**-**	**20,487**	**(2,159)**	**(1,161)**	**70,482**

Cash Flow Statement

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit / (Loss) for the year		**4,791**	(5,691)
Adjustment for:			
Depreciation	**7**	**354**	389
Loss / (gain) on sale of securities		**39**	(126)
Provisions for diminution in the value of investments	**10**	**-**	(124)
Fixed assets written off	**7**	**280**	-
Taxation	**8**	**(3,187)**	1,906
Provisions for loan losses (net)	**16**	**(1,456)**	(188)
		(3,970)	1,857
		821	(3,834)
Increase in operating assets			
Loans and advances to banks (excluding short term placements and Nostro balances)		**13,390**	3,765
Loans and advances to customers		**(25,011)**	18,113
Other assets (excl. Corporation Tax) including Accrued Income		**(1,525)**	2,993
		(13,146)	24,871
Decrease in operating liabilities			
Deposit by banks		**2,035**	2,361
Customer accounts		**(25,038)**	10,138
Other liabilities (excl. Corporation Tax) including Deferred Income		**1,682**	(1,554)
		(21,321)	10,945
		(33,646)	31,982
Income tax paid-net		**-**	112
Net cash flows used in operating activities		**(33,646)**	32,094
Cash flows from investing activities			
Net investments in available-for-sale securities		**11,217**	(22,599)
Net investments in held-to-maturity securities		**(3,509)**	3,661
Fixed capital expenditure	**11**	**(156)**	(59)
Net cash flows generated from investing activities		**7,552**	(18,997)
Cash flows from financing activities			
Repayment of Tier II Capital		**-**	(1,852)
Issuance of Additional Tier 1 Capital		**3,000**	2,190
Interest paid on other equity instruments		**(766)**	(621)
Net cash flows used in financing activities		**2,234**	(283)
(Decrease) / increase in cash and cash equivalents during the year		**(23,860)**	12,814
Cash and cash equivalents at the beginning of the year		**163,302**	150,837
Effects of exchange rate changes on cash and cash equivalents		**(11)**	(349)
		163,291	150,488
Cash and cash equivalents at the end of the year	**7.1**	**139,431**	163,302

Notes to the Financial Statements
For the year ended 31 December 2022

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 4 branches (2021: 5). The offshore branch was closed in 2022.

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 2022 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;
- Continuing of the refreshed strategy relating to wealth, commercial & financial institution business;
- Effeciencies generated by the offshore branch closure;
- Potential growth in business due to issuance of additional capital in 2022;
- Increase in interest rates;
- Strong creditability of the Bank's loan book;
- Focused on strategic technological investment on various business channels including operational effeciency tools; 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 HAHL in which the Bank's results are consolidated which may be obtained from Companies House:

(i) A reconciliation of the number of shares outstanding at the beginning and at the end of the year.

(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 £1.0mn.

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

(iii) Deferred Taxation
Judgement is involved in determining the period of time over which it is probable there will be sufficient future taxable profits against which the unutilised losses can be used. 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.
- expected loss of the customer derived through the probability of default data calculated by the third party internal credit risk model and using discounted cash flows (including collateral) to arrive at the relevant loss given default.

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 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).

	2022	2021
	£'000	£'000
3 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME		
Interest earned on loans and advances to customers	**8,813**	6,576
Interest earned on bills discounted	**2,342**	1,765
Interest earned on bank deposits and placements	**1,563**	228
	12,718	8,569
4 INTEREST PAYABLE		
Interest on customer deposits	**629**	516
Interest on inter-bank borrowings	**45**	96
	674	612
5 FEES AND COMMISSIONS RECEIVABLE		
Commission on Letter of Credits and Guarantees	**1,529**	1,300
Commitment and Loan processing fees	**533**	489
Remittance income	**442**	486
Fiduciary income	**9**	26
Wealth Management income	**1,890**	3,091
	4,403	5,392
6 ADMINISTRATIVE EXPENSES		
Staff costs:		
Wages, salaries and allowances	**11,818**	10,656
Social security costs	**1,130**	1,084
Other pension costs	**384**	444
Other administrative expenses	**8,046**	7,300
	21,378	19,484

The total average number of persons employed during the year was 128 (2021: 135).

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

	Nos	**Nos**
	2022	2021
Managers and above	**71**	65
Non-management	**57**	70
	128	135

		Note	2022 £'000	2021 £'000
7	**PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAX**			
	Loss is stated after			
	Charging:			
	Auditor's Remuneration			
	Audit of the Bank's financial statements		**145**	120
	Fee for audit of branches outside UK		**50**	50
	All other audit related assurance services		**137**	125
	Other non-audit assurance services		**53**	50
	Operating lease rentals			
	Buildings		**914**	1,062
	Motor vehicle		**2**	10
	Depreciation and amortisation	11	**354**	389
	Fixed asset write off	11	**280**	-
			634	389
	Reversal of provisions for loan losses - net		**(1,456)**	(188)
	Reversal of provision for diminution in the value of investments		**-**	(124)
7.1	**Cash and cash equivalents at the end of the year**			
	Cash and balances at central Banks		**91,424**	103,943
	Loans and advances to banks (Nostros and short term placements)		**48,007**	59,359
			139,431	163,302

8 TAXATION

		2022 £'000	2021 £'000
(a)	**Analysis of tax credit for the year**		
	Current tax:		
	Foreign tax for current year	**-**	8
	Adjustments in respect of prior periods	**-**	(8)
	Current tax charge / (credit)	**-**	-
	Deferred tax:		
	Origination and reversal of timing differences	**(2,409)**	2,463
	Impact of change in tax rate	**(18)**	(527)
	Prior year adjustment in respect of timing differences	**(760)**	(30)
	Total deferred tax charge / (credit)	**(3,187)**	1,906
	Tax charge / (credit)	**(3,187)**	1,906
(b)	**Tax recognised in the Statement of Other Comprehensive Income**		
	Deferred tax:		
	Origination and reversal of temporary differences	**(278)**	(50)
	Effect of tax rate change	**(97)**	(6)
	Total deferred tax	**(375)**	(56)
	Total tax credit recognised in other comprehensive income	**(375)**	(56)
(c)	**Factors affecting tax credit for the year**		
	Profit / (loss) on ordinary activities before tax	**1,604**	(3,785)
	Profit /(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**305**	(719)
	Effects of:		
	Difference in overseas tax rates	**-**	(9)
	Expenses not deductible for tax purposes	**7**	6
	Deduction due to reclassification of other equity	**(146)**	(118)
	Prior year adjustment	**(18)**	(39)
	Movement in unrecognised deferred tax on losses	**(2,641)**	3,267
	Rate change adjustment	**(692)**	(527)
	Non-qualifying depreciation/disposals	**(2)**	45
	Total tax (credit) / charge for the year	**(3,187)**	1,906

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.

9 DIRECTORS' EMOLUMENTS

	2022 £'000	2021 £'000
Directors' fees and emoluments	**1,004**	850
Pension contributions	**18**	18
	1,022	868
The total remuneration and benefits of the highest paid director	**614**	505

Benefits under defined contribution pension arrangements accrued during the year to one director (2021: one director).

10 DEBT SECURITIES

	Note	2022 £'000	2021 £'000
Investment securities - Held to Maturity			
Government securities		**3,509**	-
Investment securities - Available for Sale			
Government securities		**77,063**	88,149
Others		**10,635**	11,463
		87,698	99,612
Deficit on revaluation on available for sale investments		**(906)**	(125)
Provision for diminution in the value of investment	10.1	**(3,901)**	(3,901)
		86,400	95,586

10.1 Provision for diminution in the value of investment

	2022 £'000	2021 £'000
At 1 January	**3,901**	4,025
Impairment (reversal) / charge for the year	**-**	(124)
At 31 December	**3,901**	3,901

Market value of held to maturity investments as at 31 December 2022 is £1.7m (2021: £Nil). All debt securities as at 31 December 2022 and 2021 are traded in active markets.

Investment reclassified from available for sale to held to maturity in 2022 £3.5mn (2021: Nil).

Unrealised revaluation loss for the year on investments amounted to £1.44mn (2021: Loss of £0.26mn).

11 FIXED ASSETS

	Freehold property £'000	Leasehold improve-ments £'000	Software develop-ment cost £'000	Computers, furniture, fixtures & equipment £'000	Total £'000
Cost					
At 1 January 2022	1,249	3,071	934	4,488	**9,742**
Additions	-	93	43	20	**156**
Write-offs	-	-	-	(1,381)	**(1,381)**
At 31 December 2022	1,249	3,164	977	3,127	**8,517**
Accumulated depreciation					
At 1 January 2022	881	2,541	646	4,056	**8,124**
Write-offs	-	-	-	(1,101)	**(1,101)**
Charge for the year	59	136	67	92	**354**
Effect of movements in exchange rates/other adjustments	-	(2)	-	(16)	**(18)**
At 31 December 2022	940	2,675	713	3,031	**7,359**
Net book value at 31 December 2022	**309**	**489**	**264**	**96**	**1,158**
Net book value at 31 December 2021	368	530	288	432	1,618

11.1 Fixed assets written-off

	2022 £'000	2021 £'000
Cost	**1,381**	-
Accumulated depreciation	**(1,101)**	-
Amount written off during the year due to closure of Zurich branch	**280**	-

12 DEFERRED TAX ASSET

	2022 £'000	2021 £'000
At beginning of year	**2,303**	4,153
Adjustment in respect of prior years (income statement)	**18**	30
Credit / (Charge) in the year (income statement)	**3,169**	(1,936)
Deferred tax credit to other comprehensive income	**375**	56
At 31 December	**5,865**	2,303

Deferred tax asset is made up of:

	2022 £'000	2021 £'000
Accelerated capital allowances	**430**	471
Losses carried forward	**4,875**	1,639
Available for sale assets	**406**	31
Other temporary differences	**154**	162
	5,865	2,303

Factors that may affect the future tax charge

As at 31 December 2022, based on the business plan for five years to 31 December 2027 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 £4,875k (net) (£19,598k gross) in respect of existing carried forward losses.

The total net unrecognised deferred tax asset as at 31 December 2022, which comprises of losses, is £10.54mn (2021: £13.78mn).

13 OTHER ASSETS

	2022 £'000	2021 £'000
Prepaid expenses	**857**	600
Trade finance fee receivables	**-**	52
Unrealised gain on forward exchange contracts	**2,091**	964
Other receivables	**406**	451
	3,354	2,067

14 CUSTOMER DEPOSITS

	2022 £'000	2021 £'000
Current	**301,239**	335,208
Savings	**39,379**	43,807
Term	**103,743**	90,384
	444,361	469,399

15 OTHER LIABILITIES

	2022 £'000	2021 £'000
Accrued expenses	**2,672**	1,404
Corporation tax payable	**-**	7
Unrealised loss on forward exchange contracts	**993**	1,868
Other liabilities	**10,440**	9,144
	14,105	12,423

16 PROVISION FOR LOAN LOSSES

	Loans & advances		2022	2021
	Specific	Collective	Total	Total
	£ '000	£ '000	£ '000	£ '000
At 1 January	**2,714**	**650**	**3,364**	7,870
Charge during the year	225	-	**225**	-
Provision reversals during the year	(1,681)	-	**(1,681)**	(188)
Provision taken to income statement (net)	(1,456)	-	**(1,456)**	(188)
Written off against provision during the year	(850)	-	**(850)**	(4,318)
At 31 December	**408**	**650**	**1,058**	3,364

			2022	2021
			£'000	£'000
17	**SHARE CAPITAL**			
	Authorised			
		15,000,000 ordinary shares of £5 each (2021: 15,000,000 ordinary shares of £5 each)	**75,000**	75,000
	Allotted, called up and fully paid			
		10,663,081 ordinary shares of £5 each (2021: 10,063,081 ordinary shares of £5 each)	**53,315**	50,315

The Parent Bank injected additional share capital of £3mn in 2022.

		Note	2022	2021
			£'000	£'000
18	**OTHER EQUITY INSTRUMENTS**			
		(a)	**9,785**	9,785
		(b)	**10,702**	10,702
			20,487	20,487

(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 USD LIBOR (2021: 4.75% above six month USD 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 HAHL to HBL UK Limited, equity instruments of $53mn were transferred on 15 December 2014 which were issued by HAHL to HBL. In 2016, CRD IV non-compliant portion of the equity instruments of $33mn was repaid after obtaining prior approval from the PRA. Out of the remaining part of the equity instruments of $20mn (equivalent to £12.56mn) which is classified as CRD IV complaint Tier II capital a further $10mn was repaid to HBL on 27 September 2021 after taking approval from the PRA. As of 31 December 2022 $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 USD LIBOR (2021: 4% above six months USD LIBOR).

		2022 £'000	2021 £'000
19	**CONTINGENCIES AND COMMITMENTS**		
(a)	**Commitments**		
	(i) Annual commitments under non-cancellable operating leases		
	Operating leases which expire:		
	Not later than one year	**111**	110
	Later than one year and not later than five years; and	**637**	198
	Later than five years	**166**	764
	(ii) In respect of forward foreign exchange contracts:		
	Purchase	**19,988**	21,825
	Sale	**19,994**	21,811
	(iii) In respect of forward cross currency swaps:		
	Purchase	**38,203**	65,722
	Sale	**37,098**	66,638
	(iv) In respect of undrawn credit facilities	**8,771**	15,089
(b)	**Contingencies:**		
	Acceptances and endorsements	**7,434**	16,539
	Guarantees	**5,312**	7,545

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 2022 was £0.012m (2021: £0.027m)

Currency	**2022 £'000**	2021 £'000
USD	**(116)**	(162)
EURO	**(1)**	6
AED	**-**	25
CHF	**(11)**	(4)
PKR	**85**	120
Other currencies	**31**	42

21 CONCENTRATION OF CREDIT RISK

	2022						
	Balances at central banks	**Loans to customers**	**Loans and advances to Banks**	**Debt securities**	**Contingencies**	**Derivative & Others**	**Total**
Sectoral concentration:	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Automobile and transportation	**-**	**-**	**-**	**2,491**	**-**	**-**	**2,491**
Chemicals and Pharmaceuticals	**-**	**-**	**-**	**-**	**304**	**-**	**304**
Financial	**90,748**	**-**	**145,200**	**3,991**	**812**	**2,033**	**242,784**
Food, Tobacco and Beverages	**-**	**16,163**	**-**	**-**	**2,209**	**-**	**18,372**
General traders	**-**	**1,077**	**-**	**-**	**856**	**-**	**1,933**
Government	**-**	**-**	**-**	**79,918**	**-**	**-**	**79,918**
Shipping	**-**	**16**	**-**	**-**	**-**	**-**	**16**
Hotel and Hospitality	**-**	**9,984**	**-**	**-**	**-**	**-**	**9,984**
Retail and wholesale trade	**-**	**374**	**-**	**-**	**-**	**58**	**432**
Metal and Allied	**-**	**794**	**-**	**-**	**-**	**-**	**794**
Printing and Packaging	**-**	**386**	**-**	**-**	**-**	**-**	**386**
Textile	**-**	**7,990**	**-**	**-**	**2,600**	**-**	**10,590**
Property Investments	**-**	**138,069**	**-**	**-**	**-**	**-**	**138,069**
Individual	**-**	**16,539**	**-**	**-**	**-**	**-**	**16,539**
Medical Services	**-**	**3,300**	**-**	**-**	**-**	**-**	**3,300**
Others	**-**	**10,042**	**-**	**-**	**5,965**	**-**	**16,007**
	90,748	**204,734**	**145,200**	**86,400**	**12,746**	**2,091**	**541,919**

	2022						
	Balances at central banks	**Loans to customers**	**Loans and advances to Banks**	**Debt securities**	**Contin-gencies**	**Derivative & Others**	**Total**
Geographical concentration:	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Europe	**90,748**	**164,455**	**50,921**	**2,490**	**12,524**	**2,091**	**323,229**
North America	**-**	**1,162**	**27,287**	**72,262**	**-**	**-**	**100,711**
Asia Pacific (including South Asia)	**-**	**16,212**	**18,495**	**3,509**	**114**	**-**	**38,330**
Africa	**-**	**6,589**	**15,856**	**6,061**	**108**	**-**	**28,614**
Middle East	**-**	**16,316**	**32,641**	**2,078**	**-**	**-**	**51,035**
	90,748	**204,734**	**145,200**	**86,400**	**12,746**	**2,091**	**541,919**

	2021						
	Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contin-gencies	Derivative & Others	Total
Sectoral concentration:	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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
	103,291	178,267	169,942	95,586	24,084	1,883	573,053

	2021						
	Balances at central banks	Loans to customers	Loans and advances to Banks	Debt securities	Contin-gencies	Derivative & Others	Total
Geographical concentration:	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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

22 MATURITY ANALYSIS OF FINANCIAL INSTRUMENTS

Financial instruments maturities at the end of the year were:

	2022					
	On Demand	**3 months or less but not on demand**	**Over 3 months but less than 1 year**	**Over 1year but less than 5 years**	**Greater than 5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances at central Banks	**91,424**	**-**	**-**	**-**	**-**	**91,424**
Loans and advances to:						
Banks;						
- Parent and connected	**575**	**8,304**	**-**	**1,594**	**-**	**10,473**
- Others	**36,490**	**73,398**	**24,839**	**-**	**-**	**134,727**
Customers	**25,896**	**12,143**	**19,711**	**119,269**	**27,715**	**204,734**
Debt securities	-	**37,250**	**41,648**	**7,501**	-	**86,399**
Other financial assets	-	**-**	**654**	**-**	**-**	**654**
Derivative financial assets	-	**1,451**	**640**	**-**	**-**	**2,091**
	154,385	**132,546**	**87,492**	**128,364**	**27,715**	**530,502**

		2022					
		On Demand	**3 months or less but not on demand**	**Over 3 months but less than 1 year**	**Over 1 year but less than 5 years**	**Greater than 5 years**	**Total**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Deposits by:							
	Banks;						
	- Parent and connected	**2,911**	**4,152**	**-**	**-**	**-**	**7,063**
	- Others	**1,117**	**1,661**	**-**	**-**	**-**	**2,778**
	Customers	**340,880**	**75,256**	**26,565**	**1,661**	**-**	**444,362**
	Other financial liabilities	**781**	**-**	**11,483**	**-**	**-**	**12,264**
	Derivative financial liabilities	**-**	**287**	**706**	**-**	**-**	**993**
		345,689	**81,356**	**38,754**	**1,661**	**-**	**467,460**
	Net gap	**(191,304)**	**51,190**	**48,738**	**126,703**	**27,715**	**63,042**

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.

		2021					
		On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1year but less than 5 years	Greater than 5 years	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central Banks		103,943	-	-	-	-	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	27,931	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	27,931	549,621
Deposits by:							
	Banks;						
	- Parent and connected	3,191	-	-	-	-	3,191
	- Others	3,131	1,484	-	-	-	4,615
	Customers	379,015	61,188	28,153	1,043	-	469,399
	Other financial liabilities	852	-	9,696	-	-	10,548
	Derivative financial liabilities	-	1,780	88	-	-	1,868
		386,189	64,452	37,937	1,043	-	489,621
Net gap		(219,513)	88,622	42,003	120,957	27,931	60,000

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 £299.2mn (2021: £319.8mn) 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:

	2022						
	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	**90,748**	**-**	**-**	**-**	**-**	**676**	**91,424**
Loans and advances to:							
Banks	**98,296**	**8,304**	**-**	**1,594**	**-**	**37,006**	**145,200**
Customers	**200,720**	**-**				**4,014**	**204,734**
Debt securities	**42,250**	**32,620**	**4,030**	**7,500**		**-**	**86,400**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**2,745**	**2,745**
Other non-financial assets	**-**	**-**	**-**	**-**	**-**	**8,286**	**8,286**
	432,014	**40,924**	**4,030**	**9,094**	**-**	**52,727**	**538,789**
Deposits by:							
Banks	**5,813**		**-**	**-**	**-**	**4,028**	**9,841**
Customers	**114,635**	**2,695**	**23,870**	**1,661**	**-**	**301,500**	**444,361**
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**14,105**	**14,105**
Other non-financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Equity	**-**	**20,487**	**-**	**-**	**-**	**49,995**	**70,482**
	120,448	**23,182**	**23,870**	**1,661**	**-**	**369,628**	**538,789**
Overall gap	**311,566**	**17,742**	**(19,840)**	**7,433**	**-**	**(316,901)**	**-**
Cumulative gap	**311,566**	**329,308**	**309,468**	**316,901**	**316,901**	**-**	**-**

	2021						
	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than1 year	More than 1 year but not more than 5 years	Greater than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central Banks	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
	433,233	52,051	6,450	15,330	-	47,078	554,142
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
	105,636	24,525	23,475	1,042	-	399,464	554,142
Overall gap	327,597	27,526	(17,025)	14,288	-	(352,386)	-
Cumulative gap	327,597	355,123	338,098	352,386	352,386	-	-

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 HAHL of which 100% (2021: 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.

		2022	2021
		£'000	£'000
The details of balances with the related parties are as follows:			
Borrowing / deposits / other equity instruments			
	Immediate parent and associates	**7,063**	23,678
	Key management personnel	**101**	66
Loan receivable from:			
	Immediate parent and associates	**10,499**	7,836
	Key management personnel	**1,752**	1,794
Interest Income			
	Immediate parent and associates	**50**	161
Interest Expense/Paid			
	Immediate parent and associates	**766**	638

Total compensation of key management personnel (including the directors) in the year amounted to £2.02mn (2021: £2.43 mn).

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).

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets available for sale	**82,891**	**-**	**-**	**82,891**
Derivative financial instruments - assets	**-**	**2,091**	**-**	**2,091**
Total	**82,891**	**2,091**	**-**	**84,982**
Derivative financial instruments - liabilities	**-**	**993**	**-**	**993**
Total	**-**	**993**	**-**	**993**

	2021			
	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
Total	95,586	964	-	96,550
Derivative financial instruments - liabilities	-	1,868	-	1,868
Total	-	1,868	-	1,868

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 HAHL and AKFED, respectively. AKFED is registered at Avenue de la Paix, 1-3, CH-1211, Switzerland. The registered office of HAHL is at 9 Portman Street, London, W1H 6DZ. HAHL 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 2022	**Neither past due nor impaired**	**Past due not impaired**	**Impaired**	**Impairment allowances**	**Total**
	£(000)	**£(000)**	**£(000)**	**£(000)**	**£(000)**
Financial Assets at Amortised Cost					
Balances at Central Banks	**90,748**	**-**	**-**	**-**	**90,748**
Loans and advances to Banks	**145,200**	**-**	**-**	**-**	**145,200**
Loans and advances to customers	**200,724**	**3,998**	**1,070**	**(1,058)**	**204,734**
Debt securities	**3,509**	**-**	**-**	**-**	**3,509**
All other financial instruments	**1,060**	**-**	**-**	**-**	**1,060**
	441,241	**3,998**	**1,070**	**(1,058)**	**445,251**
Financial assets at fair value through Income Statement					
Unrealised gain on forward exchange contracts	**2,091**	**-**	**-**	**-**	**2,091**
Available for sale Financial Assets					
Debt securities	**82,891**	**-**	**3,901**	**(3,901)**	**82,891**
Total financial instruments	**526,223**	**3,998**	**4,971**	**(4,959)**	**530,233**
31 December 2021					
Financial Assets at Amortised Cost					
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
	445,865	3,687	6,231	(3,364)	452,419
Financial assets at fair value through Income Statement					
Unrealised gain on forward exchange contracts	964	-	-	-	964
	964	-	-	-	964
Available for sale Financial Assets					
Debt securities	95,586	-	3,901	(3,901)	95,586
	95,586	-	3,901	(3,901)	95,586
Total financial instruments	542,415	3,687	10,132	(7,265)	548,969

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:

		2022	2021
		£'000	£'000
CQS			
	1	**35,919**	61,031
	2	**24,814**	26,113
	3	**3,886**	9,584
	4	**3,809**	6,896
	5	**66,001**	66,318
	6	**10,771**	-
		145,200	169,942

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.

	2022	2021
	£'000	£'000
Internal risk rating of loans and advances to customers		
Rating		
Grade 1 to 6	**170,212**	142,962
Grade 7	**34,510**	32,438
Grade 8	**1,070**	6,231
Total Gross Amount	**205,792**	181,631
Allowance for impairment (individual and collective)	**(1,058)**	(3,364)
Total	**204,734**	178,267
Concentration of past due and impaired exposure		
UK	**6,424**	11,543
AFRICA	**2,545**	2,276
	8,969	13,819

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:

Collateral type:			
	Cash collateral	**17,077**	18,166
	Residential real estate	**87,353**	82,362
	Commercial real estate	**283,019**	231,281
	Others including shares and debt securities	**40,956**	61,888
Total collateral value		**428,405**	393,697
Gross loans and advances to customers		**205,792**	181,631

As at 31 December 2022 Bank's maximum exposure towards credit risk is approximately £546mn (2021: £573mn). 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:

		2022	2021
		£'000	£'000
CQS			
	1	**72,263**	76,177
	2	**-**	-
	3	**3,991**	3,974
	4	**2,490**	7,092
	5	**4,147**	8,343
	6	**3,509**	-
		86,400	95,586

No debt securities are pledged as collateral to secure liabilities under repurchase agreement (2021: 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 £2.79mn on net interest income for the year ended 31 December 2022 (2021: £3.01mn). 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, however the Bank continues to monitor the incidents against the defined appetite with defined limits and thresholds.

Counterparty risk

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

Capital management

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

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

The 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.

29 COUNTRY-BY-COUNTRY REPORTING AS AT 31 DECEMBER 2022

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).

Country-by-country breakdown 2022

	Type of operation	**Turnover**	**Profit / (Loss) before tax**	**Corporation tax paid**	**Average number of employees**
		£'000	**£'000**	**£'000**	**Nos**
United Kingdom	Retail and Commercial Banking (RCB), Wealth Management(WM), Financial Institution (FI) and Treasury services (TS)	**21,217**	**2,325**	**-**	**123**
Switzerland	RCB and WM	**943**	**(721)**	**(7)**	**5**
		22,160	**1,604**	**(7)**	**128**

Country-by-country breakdown 2021

	Type of operation	Turnover	Operating profit /(Loss) before tax	Corporation tax paid	Average number of employees
		£'000	£'000	£'000	Nos
United Kingdom	Retail and Commercial Banking (RCB),	13,309	(3,801)	78	126
Switzerland	RCB and WM	2,467	16	(6)	9
Netherlands	RCB	-	-	40	-
		15,776	(3,785)	112	135

30 EVENT AFTER BALANCE SHEET DATE

The Board has assessed the impact of recent downgrade of Pakistan Government rating in 2023 as not material to the Bank's overall operations. The event therefore does not require any adjustment.

The Directors confirms that apart from the above there was no significant events since the reporting date that require to be disclosed.