

Habib European Bank Limited

Directors' Report and Financial Statements

For the year ended 31 December 2015

Habib European Bank Limited

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Habib European Bank Limited

Company information

Directors:

D J Gelling, CBE CP	(Chairman)
S A Zubairi	(Vice Chairman)
S K Kazmi	
S K Dowling, LL.B	
A S Ibrahim	
Z Habib	

Secretary:

S K Dowling, LL.B

Management:

S M A Jafri	(Vice President)
Tracey Moyer	(Operations Manager)

Registered office:

14 Athol Street
Douglas
Isle of Man

Auditors:

KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man

Advocates:

Appleby
33 Athol Street
Douglas
Isle of Man

Habib European Bank Limited

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2015.

Principal activity

The principal activity of the Company is that of bankers in the Isle of Man. The Directors have announced their intention to wind down the operations of the Company within 12 months from the signing of the financial statements.

Results and dividend

The Directors submit the audited financial statements for the year. The profit for the year ended 31 December 2015 amounted to £Stg11,984 (2014: Loss of £Stg259,932 restated), including the unrealised exchange gain on the Swiss Franc denominated assets (note 2e). The Directors do not recommend the payment of a dividend (2014: £StgNil).

Directors

The Directors who served during the year and to date were:

D J Gelling, CBE CP	(Chairman)
S A Zubairi	(Vice Chairman)
S K Kazmi	
S K Dowling, LL B	
A S Ibrahim	
Z Habib	

Employees

The average number of full time employees during the year was 4 (2014: 4).

Secretary

The Company Secretary during the year and to date was:

S K Dowling, LL B

Auditors

Our auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office in accordance with Section 12 (2) of the Isle of Man Companies Act 1982.

By order of the Board


S K Dowling, LL B
Secretary

Habib European Bank Limited

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' 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, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the financial statements in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man Company.

The financial statements are required by law to 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 estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man Company; 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 proper 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 to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Habib European Bank Limited

Report of the Independent Auditors, KPMG Audit LLC, to the member of Habib European Bank Limited

We have audited the financial statements of Habib European Bank Limited for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man Company.

This report is made solely to the Company's member, as a body, in accordance with Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's member 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 Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, as applicable to an Isle of Man Company; and
- have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004.

Habib European Bank Limited

Report of the Independent Auditors, KPMG Audit LLC, to the member of Habib European Bank Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's Statement of Financial Position and Statement of Comprehensive Income are not in agreement with the books of account and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

KPMG Audit LLC

7 April 2016

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

Habib European Bank Limited

Statement of Comprehensive Income

for the year ended 31 December 2015

	Notes	£Stg	2015 £Stg	£Stg	Restated Note 20 2014 £Stg
Interest receivable	2b	306,863		301,282	
Interest payable	2b	(76,933)		(57,300)	
			229,930		243,982
Foreign exchange gain/(loss)	2e	275,895		(163,894)	
Fair value gain/(loss)	20	41,737		(51,971)	
Commission receivable		39,737		93,686	
Other income	2c	82,084		76,976	
			439,453		(45,203)
Total income			669,383		198,779
<i>Less:</i>					
Administration expenses		577,142		394,308	
Management charge		6,418		-	
Directors' fees		27,000		27,000	
Audit fees		20,214		17,864	
Depreciation	9	22,758		21,268	
			(653,532)		(460,440)
Profit/(loss) before taxation for the year			15,851		(261,661)
Isle of Man income tax	3		(3,867)		1,729
Profit/(loss) after taxation for the year	13,17		11,984		(259,932)

In both the current and preceding financial years, there were no recognised gains or losses other than those dealt with in the profit and loss account.

All the activities of the company are classed as discontinuing as the Directors have the intent to wind up the Company within 12 months from the signing of the financial statements.

The notes on pages 8 to 27 form part of these financial statements.

Habib European Bank Limited

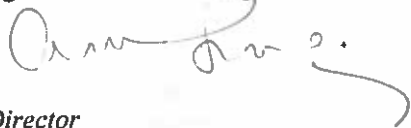
Statement of Financial Position


as at 31 December 2015

	<i>Notes</i>	2015 £Stg	Restated Note 20 2014 £Stg
Liquid assets			
Investments	5	2,846,813	3,023,904
Discounted bills		1,416,864	2,158,103
Cash		3	185
Due from banks - demand	6	2,853,996	638,802
- time	6	12,633,046	15,443,032
- group companies	6	14,579,735	12,231,156
		<u>34,330,457</u>	<u>33,495,182</u>
Other assets			
Advances to customers	8	1,098,709	1,655,605
Prepayments and sundry debtors		238,407	158,693
Fixed assets	9	752,077	760,909
		<u>36,419,650</u>	<u>36,070,389</u>
Total assets			
Current liabilities			
Demand deposits			
- due to customers	6	6,708,005	5,860,851
Time deposits			
- due to group companies	6	115,796	-
- due to customers	6	21,818,749	22,691,284
Other liabilities	10	444,244	197,382
		<u>29,086,794</u>	<u>28,749,517</u>
Capital and reserves			
Share capital	12	5,000,024	5,000,024
Retained earnings	13	2,332,832	2,320,848
		<u>7,332,856</u>	<u>7,320,872</u>
Total equity shareholder's funds	17	<u>7,332,856</u>	<u>7,320,872</u>
Total liabilities and equity shareholder's funds		<u>36,419,650</u>	<u>36,070,389</u>

The notes on pages 8 to 27 form part of the financial statements.

These financial statements were approved by the Board of Directors on 7/09/16 and were signed on their behalf by:


Director


Director

Habib European Bank Limited

Notes

(forming part of the financial statements for the year ended 31 December 2015)

1 Basis of preparation

These financial statements have not been prepared on a going concern basis as the Directors have announced their intentions to wind down the operations of the Company.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1.

These financial statements were prepared in accordance with Financial Reporting Standard 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), as applicable to an Isle of Man Company.

In the transition to FRS 102 from old UK GAAP, the Company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the company is provided in note 20.

The consolidated financial statements of its parent, Habib Bank Zurich AG, are publicly available and can be obtained from the Company Secretary of Habib Bank AG Zurich, PO Box 303, 8035 Zurich, Switzerland. The Company is therefore considered to be a qualifying entity for the purposes of this FRS. It has therefore applied the exemption to prepare a Statement of Cash flows and disclose key management personnel compensation.

2 Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

a) *Accounting convention*

The financial statements are prepared under the historical cost basis except the following assets and liabilities are stated at fair value: investments, discounted bills, deposits, amounts due from banks and loans and advances.

b) *Interest receivable and payable*

Interest receivable and payable are recognised in the statement of comprehensive income on an accruals basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability.

c) *Other income and expenses*

Other income and expenses are accounted for on an accruals basis.

d) *Fixed assets*

Fixed assets are depreciated so as to write-off their cost less estimated residual values on the straight line basis at the following rates:

Furniture, fixtures and fittings	15% per annum
Leasehold improvements	20% per annum
Equipment	25% per annum
Leasehold property	2% per annum

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

2 Accounting policies (continued)

e) Foreign exchange transactions

Monetary assets and liabilities in currencies other than Sterling are translated into Sterling at the rates ruling at the balance sheet date. Share capital is translated at historic rate. Revenue and expenses are translated at the rates prevailing at the time of settlement. All foreign exchange gains and losses are included in the profit and loss account.

f) Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation that is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

g) Pension costs

The charge for pension costs represents amounts payable to the defined contribution scheme during the year.

h) Financial instruments

The Company has chosen to adopt the Section 11, Basic Financial Instruments as prescribed by FRS 102. The Company has classified its non-derivative financial assets and liabilities into financial assets at fair value through profit or loss, loans and receivables and other financial liabilities.

(i) Financial assets

Classification

Financial assets at fair value through profit or loss Investments are designated at fair value, with fair value change recognised immediately in profit or loss. These are quoted on an active market.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise loans and advances to banks and customers.

(ii) Non-derivative financial liabilities

Other liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

2 Accounting policies (continued)

h) Financial instruments

Recognition

The Company recognises financial instruments at the point it enters into a contractual arrangement in respect of such instruments.

The Company derecognises a financial asset when the contractual rights to the cash flow from the assets expire.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Measurements

Financial instruments are measured initially at cost, including transaction costs. For financial instruments classified at fair value through profit or loss transaction costs are expensed.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in an active market.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of investments measured at fair value are recognised in the statement of comprehensive.

(iii) Impairment

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account.

i) Use of judgements and estimates

There are no judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements or estimates with a significant risk of material adjustment in the next year.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Assumptions and estimation uncertainties

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

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

3 Tax on losses on ordinary activities

a) Analysis of charge in period

	2015	2014
	£Stg	£Stg
Statement of comprehensive income		
Current tax		
Isle of Man income tax at 10% (2014: 10%) based on profits for the year	4,694	-
Adjustments in respect of previous period	-	-
	<u>4,694</u>	<u>-</u>
Deferred tax		
Provision for deferred tax	(827)	(1,729)
	<u>(827)</u>	<u>(1,729)</u>
Tax on profit on ordinary activities	<u>3,867</u>	<u>(1,729)</u>
Statement of financial position		
Due in less than one year	<u>4,694</u>	<u>-</u>
Due in more than one year	<u>-</u>	<u>-</u>
Deferred tax		
Accelerated capital allowances	-	(2,411)
Losses carried forward	-	1,584
	<u>-</u>	<u>(827)</u>
Provision brought forward	(827)	(2,556)
Deferred tax credit in profit and loss account	827	1,729
	<u>-</u>	<u>(827)</u>
Provision carried forward	<u>-</u>	<u>(827)</u>

On the basis that Company is in the process of winding down, it is uncertain whether these losses will be utilised. The deferred tax liability in respect of the fixed asset timing differences can only be recognised if the market value or disposal proceeds will exceed the net book value of the fixed assets. Therefore, it would be prudent not to recognise deferred tax in respect of these differences.

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

3 Tax on losses on ordinary activities (continued)

b) Factors affecting tax charge for the period

The tax assessed for the period is lower (2014: lower) than the rate of Manx income tax. The differences are explained below:

	2015	Restated
	£Stg	Note 20
		2014
		£Stg
Profit/(Loss) on ordinary activities before tax	15,851	(261,661)
Loss on ordinary activities multiplied by rates of Manx income tax:		
Tax at 10 % (2014: 10%)	1,585	(26,166)
<i>Effects of:</i>		
Income taxable at 0%	4,694	-
Non-taxable foreign exchange income	(26,273)	17,288
Depreciation in excess of capital allowances	891	2,097
Losses incurred during the year	24,624	8,510
Deferred tax	(827)	(1,729)
Total tax charge	4,694	-

4 Pension costs

The charge for pension costs during the year amounted to £Stg3,000 (2014: £ Stg5,513).

The staff are members of a defined contribution personal pension scheme operated by the Company.

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

5 Investments

Investments comprise the following:

	2015 £Stg	Restated Note 20 2014 £Stg
<i>Stated at fair value</i>		
14 Athol Street Limited	1	1
HSBC Finance Fixed Rate Note	693,740	679,803
Credit Agricole SA	-	653,515
Goldman Sachs Group Inc	527,969	-
Standard Chartered Bank	553,840	650,406
Macquarie Bank Ltd	1,071,263	1,040,179
	<u>2,846,813</u>	<u>3,023,904</u>

These investments were previously stated at cost. See note 20 for the effect of transition to FRS 102.

6 Deposit assets and liabilities

	Assets £'000Stg	2015 Liabilities £'000Stg	Assets £'000Stg	2014 Liabilities £'000Stg
Demand deposits - banks	2,853	-	639	-
- customers	-	6,708	-	5,861
- group companies	937	-	2,925	-
Time deposits - banks	12,633	-	15,443	-
- customers	-	21,818	-	22,691
- group companies	13,642	116	9,306	-
	<u>30,065</u>	<u>28,642</u>	<u>28,313</u>	<u>28,552</u>
<i>Maturity analysis</i>				
Sight - less than 8 days	12,925	11,820	15,529	10,859
8 days less than 1 month	11,775	7,327	5,684	5,981
Due between 1 and 3 months	5,065	8,029	4,950	9,477
Due between 3 and 6 months	200	1,250	2,050	2,090
Due between 6 and 12 months	100	216	100	145
	<u>30,065</u>	<u>28,642</u>	<u>28,313</u>	<u>28,552</u>

Deposit liabilities held as security for advances, guarantees and similar obligations amount to £Stg2,432,000 (2014: £ Stg2,325,000).

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

7 Credit exposures

Credit exposures individually exceeding 10% of the total adjusted capital base:

	2015 £'000Stg	2014 £'000Stg
Total value	3,291	3,801
Number	2	3

8 Advances to customers

	2015 £Stg	2014 £Stg
Customers - secured	934,767	1,440,500
Staff loans	163,593	214,777
Customers' current accounts	349	328
	<u>1,098,709</u>	<u>1,655,605</u>

Staff loans include a loan of £43,738 (2014: £55,738) advanced to Mr A S Ibrahim, a director of the Company.

9 Fixed assets

	Leasehold property and improvements £Stg	Office fixtures & fittings £Stg	Office equipment £Stg	Household furniture & fittings £Stg	Total £Stg
<i>Cost</i>					
At 1 January 2015	941,125	25,337	142,957	11,146	1,120,565
Additions	-	-	13,926	-	13,926
At 31 December 2015	<u>941,125</u>	<u>25,337</u>	<u>156,883</u>	<u>11,146</u>	<u>1,134,491</u>
<i>Depreciation</i>					
At 1 January 2015	181,360	25,073	142,077	11,146	359,656
Charge for the year	20,618	264	1,876	-	22,758
At 31 December 2015	<u>201,978</u>	<u>25,337</u>	<u>143,953</u>	<u>11,146</u>	<u>382,414</u>
<i>Net book value</i>					
At 1 January 2015	759,765	264	880	-	760,909
At 31 December 2015	<u>739,147</u>	<u>-</u>	<u>12,930</u>	<u>-</u>	<u>752,077</u>

The ownership of the ground floor of 14 Athol Street is on a 999-year lease agreement with 14 Athol Street Limited.

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

10 Other liabilities

	2015	2014
	£Stg	£Stg
Sundry creditors and accruals	440,377	196,555
Deferred tax liability (note 3)	-	827
Current tax payable (note 3)	3,867	-
	<u>444,244</u>	<u>197,382</u>

11 Depositors' compensation scheme

All Isle of Man incorporated licensed deposit-taking institutions are members of the statutory Isle of Man Depositors' Compensation Scheme under the Compensation of Depositors Regulations 2008 as amended by the Compensation of Depositors (Amendment) Regulations 2008 ("the Scheme").

The Scheme provides compensation to a maximum of 100% of the first £50,000 or currency equivalent of individual depositors and £20,000 in any other case, subject to a maximum of £200,000,000 for all participants, in the event of the failure of a participant institution to meet its obligations to depositors.

On 8 October 2008, the banking licence granted to Kaupthing Singer and Friedlander (Isle of Man) Limited ("Kaupthing S&F") was suspended and on 29 May 2009 Kaupthing S&F was placed into liquidation, thus triggering the provisions of the scheme.

On 5 July 1991, international regulatory action coordinated by the Bank of England led to the closure of Bank of Credit and Commerce International SA (BCCI SA), a Luxembourg banking company, the Bank of credit and Commerce Overseas Limited, a Cayman Bank, and various other companies in the BCCI Group.

On 16 January 1992, the Scheme Manager determined that BCCI SA was in default in terms of Regulation 4 (1) of the Banking Business (Compensation of Depositors) Regulations 1991. This followed the making of a winding up order by the High Court in the Isle of Man in respect of the affairs of BCCI SA on the Island and winding up orders in Luxembourg, the Cayman Islands and United Kingdom.

The scheme collected and subsequently repaid £23,471,500 from the participating banks to enable compensation to be paid to depositors.

During 2015 a refund of £12,849 was received from BCCI (2014: £46,064 Kaupthing S&F) was received by the Bank. The amount received is included within "other income" in the profit and loss account.

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

12 Share capital

	2015 £Stg	2014 £Stg
<i>Authorised</i>		
9,579 ordinary shares of CHF 1,000 each converted at historic rate	4,007,904	4,007,904
3,623,327 ordinary "B" shares of £1 each	3,623,327	3,623,327
	<u>7,631,231</u>	<u>7,631,231</u>
<i>Issued and fully paid</i>		
9,579 ordinary shares of CHF 1,000 each converted at historic rate	4,007,904	4,007,904
992,120 ordinary "B" shares of £1 each	992,120	992,120
	<u>5,000,024</u>	<u>5,000,024</u>

Capital Management

Regulatory capital

The Company's regulator, the Isle of Man Financial Services Authority, sets and monitors capital requirements for the company. The capital requirements are based on the Basel II framework. Regulatory capital is organised into 1 tier.

Tier 1 capital

	2015 £Stg	Restated Note 20 2014 £Stg
Ordinary shares, amount paid up	5,000,024	5,000,024
Retained earnings	2,332,832	2,320,848
	<u>7,332,856</u>	<u>7,320,872</u>

The Company's policy is to maintain a ratio of total capital to total risk weighted assets in excess of that prescribed by the regulator.

The Company has complied with all externally imposed capital requirements throughout the year and there have been no material changes in the Company's management of capital during the year.

13 Retained earnings

	2015 £Stg	Restated Note 20 2014 £Stg
Balance at 1 January	2,320,848	2,580,780
Profit/(Loss) for the year	11,984	(259,932)
Balance at 31 December	<u><u>2,332,832</u></u>	<u><u>2,320,848</u></u>

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

14 Parent and ultimate holding company

The parent and ultimate holding company is Habib Bank AG Zurich, a company incorporated in Switzerland.

15 Related party disclosures

The Company is a wholly-owned subsidiary of Habib Bank AG Zurich, a company registered in Switzerland. The financial statements of the Company are consolidated into the financial statements of Habib Bank AG Zurich, who are considered to be the controlling entity of the Company.

16 Contingent liabilities

The Company had entered into letters of guarantee and letters of credit of £Stg1,944,065 (2014: £Stg1,712,673) as at 31 December 2015 on behalf of customers.

17 Reconciliation of movements in equity shareholder's funds

	2015 £Stg	Restated Note 20 2014 £Stg
Opening equity shareholder's funds	7,320,872	7,580,804
Profit/(loss) for the year after taxation	11,984	(259,932)
Closing equity shareholder's funds	7,332,856	7,320,872

18 Subsequent events

Subsequent to the year end, the Directors announced its intention to wind down the operations of the Company.

19 Review of the Company's risk profile

The Company's financial instruments comprise deposits, money market assets, cash and liquid resources, and other various items that arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the year.

Credit risk

Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. The Company manages its credit risk by investing deposit funds received by the Company with financial institutions that have been approved by the Board of Directors as an acceptable counterparty. In addition, limits are set as to the maximum exposure to any individual financial institution that may exist at any one time, these limits being reviewed on a regular basis.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

19 Review of the Company's risk profile (continued)

Currency risk

The Company is exposed to currency risk arising from exchange rate fluctuations. The Company holds various assets and liabilities in the following currencies; US dollar, Euro, Japanese Yen, Australian Dollar, New Zealand Dollar, Canadian Dollar, United Arab Emirates Dirham and Swiss francs. In respect of the monetary assets and liabilities denominated in foreign currencies, the Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The net foreign currency monetary assets/(liabilities) positions at the balance sheet date were as follows:

At 31 Dec 2015	USD	CHF	AUD	NZD	CAD	EUR	AED
£Stg'000							
Assets	11,563	1,801	3,359	-	236	917	255
Liabilities	(11,557)	(1,792)	(3,355)	-	(235)	(924)	(25)
Net exposure	6	9	4	-	1	(7)	-
At 31 Dec 2014	USD	CHF	AUD	NZD	CAD	EUR	AED
£Stg'000							
Assets	11,267	5,229	1,082	1	267	1,110	227
Liabilities	(11,263)	(4,230)	(1,081)	-	(266)	(1,113)	(224)
Net exposure	4	999	1	1	1	(3)	(3)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet commitments. The Company monitors expected cash outflow on each working day. Its policy throughout the year has been to ensure liquidity by maintaining at all times sufficient high quality liquid assets to cover the expected net cash outflow over the next business day. The maturity analysis of the assets and liabilities are disclosed in note 6.

Interest rate risk

Exposure to interest rate risk is the risk that arises when there is an imbalance between rate sensitive and non-rate sensitive assets and liabilities. The Company's policy is to maintain the interest rate risk at a minimal level except that management may invest funds in fixed or floating rate instruments in response to market conditions.

The tables on pages 22 and 23 show management's estimation of the interest rate sensitivity gap as at 31 December 2015 and 2014. Assets and liabilities are included in the table at the earliest date at which the applicable interest rate can change.

Interest rate sensitivity gap analysis

Part of the Company's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The tables below summarise these repricing mismatches on the Company's non-trading book as at 31 December 2015 and 2014 and are representative of the whole year. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

19 Review of the Company's risk profile (continued)

Valuation of financial instruments

The Company applies fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values. The Company applies the following levels:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets only for identical assets or liabilities. The investments are deemed to be Level 1 in the fair value hierarchy as their prices are available on active markets.
- Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices for identical or similar instruments in markets that are considered less than active) or indirectly (i.e. derived from prices).
- Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

19 Review of the Company's risk profile (continued)

Accounting classifications and fair values

The table below sets out the Company's classification of each class of financial assets and liabilities and their fair values (excluding accrued interest).

31 December 2015

	Designated at fair value £'000 Stg	Held to maturity £'000 Stg	Loans and receivables £'000 Stg	Other amortised cost £'000 Stg	Total carrying amount £'000 Stg	Fair value £'000 Stg
<i>Assets</i>						
Investments	2,846	-	-	-	2,846	2,846
Balances due from banks	-	-	30,067	-	30,067	30,067
Loans and advances including bills discounted	-	-	2,516	-	2,516	2,516
Other assets	-	-	-	990	990	990
Total assets	2,846	-	32,583	990	36,419	36,419
<i>Liabilities</i>						
Demand and time deposits	-	-	-	28,642	28,642	28,642
Other liabilities	-	-	-	444	444	444
Shareholder's funds	-	-	-	7,333	7,333	7,333
Total liabilities	-	-	-	36,419	36,419	36,419

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

19 Review of the Company's risk profile (continued)

Accounting classifications and fair values

The table below sets out the Company's classification of each class of financial assets and liabilities and their fair values (excluding accrued interest).

31 December 2014 (Restated - note 20)

	Designated at fair value £'000 Stg	Held to maturity £'000 Stg	Loans and receivables £'000 Stg	Other amortised cost £'000 Stg	Total carrying amount £'000 Stg	Fair value £'000 Stg
Assets						
Investments	3,023	-	-	-	3,023	3,023
Balances due from banks	-	-	28,313	-	28,313	28,313
Loans and advances including bills discounted	-	-	3,813	-	3,813	3,813
Other assets	-	-	-	920	920	920
Total assets	3,023	-	32,126	920	36,069	36,069
Liabilities						
Demand and time deposits	-	-	-	28,552	28,552	28,552
Other liabilities	-	-	-	197	197	197
Shareholder's funds	-	-	-	7,320	7,320	7,320
Total liabilities	-	-	-	36,069	36,069	36,069

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

19 Review of the Company's risk profile (continued)

a) Interest rate analysis

At 31 December 2015

	Within 3 months £'000 Stg	After 3 months but within 6 months £'000 Stg	After 6 months but within 1 year £'000 Stg	After 1 year but within 5 years £'000 Stg	After 5 years £'000 Stg	Non-interest bearing funds £'000 Stg	Total £'000 Stg
<i>Assets</i>							
Investments	-	-	693	2,153	-	-	2,846
Balances due from banks	26,798	200	101	-	-	2,968	30,067
Loans and advances including bills discounted	1,210	208	-	1,098	-	-	2,516
Other assets	-	-	-	-	-	990	990
Total assets	28,008	408	794	3,251	-	3,958	36,419
<i>Liabilities</i>							
Demand and time deposits	20,585	1,250	100	-	-	6,707	28,642
Other liabilities	-	-	-	-	-	444	444
Shareholder's funds	-	-	-	-	-	7,333	7,333
Total liabilities	20,585	1,250	100	-	-	14,484	36,419
Interest rate sensitivity gap	7,423	(842)	694	3,251	-	(10,526)	-
Cumulative interest rate sensitivity gap	7,423	6,581	7,275	10,526	10,526	-	-

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

19 Review of the Company's risk profile (continued)

a) Interest rate analysis (continued)

31 December 2014 (Restated - note 20)

	Within 3 months £'000 Stg	After 3 months but within 6 months £'000 Stg	After 6 months but within 1 year £'000 Stg	After 1 year but within 5 years £'000 Stg	After 5 years £'000 Stg	Non-interest bearing funds £'000 Stg	Total £'000 Stg
<i>Assets</i>							
Investments	-	-	1,302	1,721	-	-	3,023
Balances due from banks	22,599	2,050	100	-	-	3,564	28,313
Loans and advances including bills discounted	1,998	160	-	1,655	-	-	3,813
Other assets	-	-	-	-	-	920	920
Total assets	24,597	2,210	1,402	3,376	-	4,484	36,069
<i>Liabilities</i>							
Demand and time deposits	20,456	2,090	145	-	-	5,861	28,552
Other liabilities	-	-	-	-	-	197	197
Shareholder's funds	-	-	-	-	-	7,320	7,320
Total liabilities	20,456	2,090	145	-	-	13,378	36,069
Interest rate sensitivity gap	4,141	120	1,257	3,376	-	(8,894)	-
Cumulative interest rate sensitivity gap	4,141	4,261	5,518	8,894	8,894	-	-

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

20 Explanation of transition to FRS 102 from previous UK accounting standards GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102 as applicable to an Isle of Man Company.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014, which is restated as a result.

In preparing its FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous UK accounting standards. An explanation of how the transition from previous UK accounting standards to FRS 102 has affected the Company's financial position and financial performance is set out in the following table.

Reconciliation of equity

	Old UK GAAP	Effect of transition to FRS 102	FRS 102
	Year ended 31 Dec 13 £Stg	2014 £Stg	2014 £Stg
Liquid assets			
Investments	3,597,233	*154,159	3,751,392
Discounted bills	1,598,749	-	1,598,749
Cash	21	-	21
Due from banks - demand	1,028,798	-	1,028,798
- time	4,197,778	-	4,197,778
- group companies	24,023,951	-	24,023,951
	<u>34,446,530</u>	<u>154,159</u>	<u>34,600,689</u>
Other assets			
Advances to customers	1,948,765	-	1,948,765
Prepayments and sundry debtors	200,822	-	200,822
Fixed assets	781,878	-	781,878
	<u>37,377,995</u>	<u>154,159</u>	<u>37,532,154</u>
Current liabilities			
Demand deposits			
- due to customers	6,320,263	-	6,320,263
Time deposits			
- due to group companies	-	-	-
- due to customers	23,412,600	-	23,412,600
Other liabilities	218,487	-	218,487
	<u>29,951,350</u>	<u>-</u>	<u>29,951,350</u>
Capital and reserves			
Share capital	5,000,024	-	5,000,024
Retained earnings	2,426,621	154,159	2,580,780
	<u>7,426,645</u>	<u>154,159</u>	<u>7,580,804</u>
Total equity shareholder's funds	<u>7,426,645</u>	<u>154,159</u>	<u>7,580,804</u>
Total liabilities and equity shareholder's funds	<u>37,377,995</u>	<u>154,159</u>	<u>37,532,154</u>

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

20 Explanation of transition to FRS 102 from previous UK accounting standards GAAP (continued)

Reconciliation of equity

	Old UK GAAP	Effect of transition to FRS 102	FRS 102
	31 Dec 2014 £Stg	2014 £Stg	2014 £Stg
Liquid assets			
Investments	2,921,716	*102,188	3,023,904
Discounted bills	2,158,103	-	2,158,103
Cash	185	-	185
Due from banks - demand	638,802	-	638,802
- time	15,443,032	-	15,443,032
- group companies	12,231,156	-	12,231,156
	<u>33,392,994</u>	<u>102,188</u>	<u>33,495,182</u>
Other assets			
Advances to customers	1,655,605	-	1,655,605
Prepayments and sundry debtors	158,693	-	158,693
Fixed assets	760,909	-	760,909
	<u>35,968,201</u>	<u>102,188</u>	<u>36,070,389</u>
Current liabilities			
Demand deposits			
- due to customers	5,860,851	-	5,860,851
Time deposits			
- due to group companies	-	-	-
- due to customers	22,691,284	-	22,691,284
Other liabilities	197,382	-	197,382
	<u>28,749,517</u>	<u>-</u>	<u>28,749,517</u>
Capital and reserves			
Share capital	5,000,024	-	5,000,024
Retained earnings	2,218,660	102,188	2,320,848
	<u>7,218,684</u>	<u>102,188</u>	<u>7,320,872</u>
Total equity shareholder's funds	<u>35,968,201</u>	<u>102,188</u>	<u>36,070,389</u>
Total liabilities and equity shareholder's funds	<u>35,968,201</u>	<u>102,188</u>	<u>36,070,389</u>

*Being the change from holding investments in the statement of financial position at cost to fair value.

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

20 Explanation of transition to FRS 102 from previous UK accounting standards GAAP (continued)

Reconciliation of profit/(loss) for comparative year

	Old UK GAAP	Effect of transition to FRS 102	FRS 102
	Year ended 31 Dec 13 £Stg	2014 £Stg	2014 £Stg
Interest receivable	386,908	-	386,908
Interest payable	(104,570)	-	(104,570)
	<u>282,338</u>	<u>-</u>	<u>282,338</u>
Foreign exchange gain/(loss)	29,639		29,639
Commission receivable	101,448		101,448
Fair value gain	-	*154,159	154,159
Other income	73,887	-	73,887
	<u>487,312</u>	<u>154,159</u>	<u>641,471</u>
Total income			
<i>Less:</i>			
Administration expenses	374,519	-	374,519
Management charge	21,000	-	21,000
Directors' fees	27,000	-	27,000
Audit fees	14,629	-	14,629
Depreciation	23,171	-	23,171
	<u>(460,319)</u>	<u>-</u>	<u>(460,319)</u>
Profit before taxation for the year	26,993	-	181,152
Isle of Man income tax	(3,163)	-	(3,163)
	<u>23,830</u>	<u>154,159</u>	<u>177,989</u>
Loss after taxation for the year			

Habib European Bank Limited

Notes (continued)

(forming part of the financial statements for the year ended 31 December 2015)

20 Explanation of transition to FRS 102 from previous UK accounting standards GAAP (continued)

Reconciliation of profit/(loss)

	Old UK GAAP	Effect of transition to FRS 102	FRS 102
	31 Dec 14 £Stg	2014 £Stg	2014 £Stg
Interest receivable	301,282	-	301,282
Interest payable	(57,300)	-	(57,300)
	<u>243,982</u>	<u>-</u>	<u>243,982</u>
Foreign exchange gain/(loss)	(163,894)	-	(163,894)
Commission receivable	93,686	-	93,686
Fair value loss	-	* (51,971)	(51,971)
Other income	76,976	-	76,976
Total income	<u>250,750</u>	<u>(51,971)</u>	<u>198,779</u>
<i>Less:</i>			
Administration expenses	394,308	-	394,308
Management charge	-	-	-
Directors' fees	27,000	-	27,000
Audit fees	17,864	-	17,864
Depreciation	21,268	-	21,268
	<u>(460,440)</u>	<u>-</u>	<u>(460,440)</u>
Loss before taxation for the year	(209,690)	-	(261,661)
Isle of Man income tax	1,729	-	1,729
Loss after taxation for the year	<u>(207,961)</u>	<u>(51,971)</u>	<u>(259,932)</u>

*Being the fair value gain on investments.