Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

50 YEARS

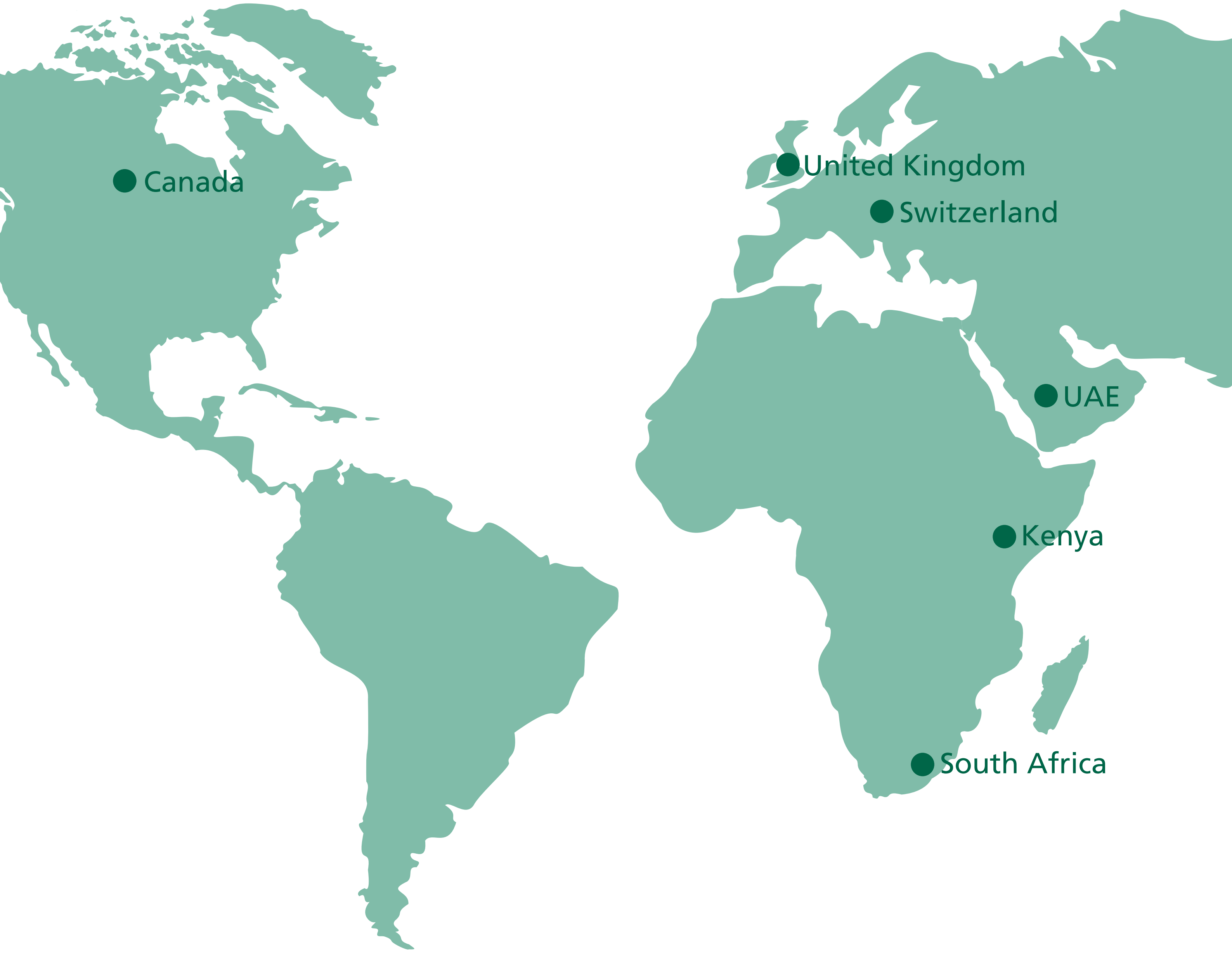
BUILDING TOGETHER

Habib Bank AG Zurich

SINCE 1967

Habib Bank Zurich Plc

Annual Report 2016


Canada
United Kingdom
Switzerland
UAE
Kenya
South Africa

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Corporate Information

Board of Directors	Mr Muhammad H. Habib (Chairman)		Non-Executive Director	
	Mr Stuart Barnett		Independent Non-Executive Director	
	Mr Carey Leonard		Independent Non-Executive Director	
	Mr Anjum Iqbal		Non-Executive Director	
	Mr Rajat Garg		Non-Executive Director	
	Mr Satyajeet Roy (CEO)		Executive Director	
Board Committees	**Risk Committee**		**Audit & Compliance Committee**	
	Mr Carey Leonard	Chairman	Mr Stuart Barnett	Chairman
	Mr Stuart Barnett	Member	Mr Carey Leonard	Member
	Mr Anjum Iqbal	Member	Mr Anjum Iqbal	Member
	Mr Rajat Garg	Member	Mr Rajat Garg	Member
Management Committees	Executive Committee (EXCO)			
	Asset and Liability Committee (ALCO)			
	Audit, Risk and Compliance Committee			
	Country Credit Committee (CCC)			
	Operations and Technology Committee (OTCO)			
	Human Risk Committee			
Company Secretary	Taylor Wessing			
	5 New Street Square			
	London EC4A 3TW			
	UK			
Registered Office	Habib Bank Zurich Plc			
	Habib House			
	42 Moorgate			
	London EC2R 6JJ			
	UK			
Auditors	KPMG LLP, Statutory Auditor			
	Chartered Accountants			
	15 Canada Square			
	London			
	E14 5GL			
Legal Advisors	Saleem Malik			
	40 Eagle Lane			
	Snaresbrook			
	London E11 1PF			
	UK			

Strategic Report

The Directors are pleased to present the Strategic Report for the year ended 31 December 2016 for Habib Bank Zurich plc (the "Bank" or "HBZ UK"). The Strategic Report is a part of the Bank's Annual Report and Financial Statements.

Overview

The purpose of the Strategic Report is to provide members and other stakeholders a fair review of business performance during the period and its position at the end of the reporting period. This report includes a description of key risks associated with the Bank's business and an analysis of major developments and overall strategy.

The Strategic Report also includes forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward looking information.

The directors are not aware, at the date of this report, of any likely major changes to the Bank's activities in the next year, and expect the Bank to continue as a going concern for the foreseeable future.

Principal activity

Habib Bank AG Zurich (HBZ or Parent bank) established its branch in UK in the year 1974. The Branch operations were successfully managed through a network of 8 branches. In 2014, HBZ established a 100% owned subsidiary, Habib Bank Zurich plc. The Bank acquired the operations of the branch on 01 April 2016, subsequent to authorisation from the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and successful transfer of business of UK Branch of Habib Bank AG Zurich, Switzerland, vide business transfer scheme ("Scheme") under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). The Scheme was approved by Companies Court, Chancery Division, High Court of Justice on 24 February 2016. In accordance with the Scheme, the Bank acquired all the assets and liabilities of its predecessor – UK Branch of Habib Bank AG Zurich. All agreements covering employees, customers and suppliers were also transferred in the name of the Bank pursuant to the Scheme.

The Bank offers a range of products covering retail banking, commercial banking, trade finance and treasury services to its customers. The Bank is covered by the Financial Services Compensation Scheme (FSCS).

Capital Structure

The Parent bank invested a share capital of £60 million in the Bank and provided a five year subordinated loan of £20 million. Capital invested by the Parent bank is with a view to support business growth of the Bank over the next five years.

Strategy and Objectives

The Bank's strategy is built upon providing banking services in a relationship-based model to small and medium size enterprises and affluent individuals. The brand value is grounded in 'Service with Security'. Accordingly, HBZ UK is focussed on its niche to deliver excellent service quality to its customers and sustainable growth for its shareholders with priority for quality of earnings.

The Bank's primary customer base is family-owned and managed businesses with a focus on South Asian communities. These traditionally mercantile communities are known for their business and entrepreneurial traits. The key attribute of this segment is generational continuation and expansion of their business interests across generations.

The Bank's target market in the UK is frequently geared towards property investments, trading activities and small-scale manufacturing. Their banking needs is centred on conventional commercial banking products. Accordingly, the Bank's suite of products is aligned to meet the customer needs.

Business Model

The Bank's business model is built upon delivering high quality personalised service and taking a long-term view on building customer relationships. The model is geared towards focussing on selected segments to deliver on their strategic objectives.

The Bank offers product lines combined with personalised relationship management through conveniently located network of eight branches in London, Manchester, Leicester and Birmingham. It also offers fixed term bonds accessible directly though the web-based channel.

The Bank offers two main products; real estate finance and commercial banking services apart from regular retail banking. In line with the customer needs, the Bank's product suite is comprised of real estate loans, commercial loans, working capital finance, current accounts, savings accounts, deposits and treasury services.

Financial Review

The Bank's net profit after taxation for the period ended 31 December 2016 was £3,031,496. The Bank progressed execution of its business strategy to target and maintains higher value customer accounts within its niche market. The financial highlights for the period are supplemental to the financial statements prepared in accordance with International Financial Reporting Standards (IFRS) provided below.

	2016 (£)
Profit and Loss Analysis	
Operating Profit	
Net interest income	11,799,991
Net fee and Commission income	1,194,337
Net other income	592,274
Net operating income	**13,586,602**
Total operating expenses	(9,808,547)
Operating profit before impairment losses on loans and advances and tax expenses	**3,778,055**
Impairment losses on loans and advances	(1,295,574)
Profit before tax	**2,482,481**
Taxation	549,015
Profit after Tax	**3,031,496**

Total interest income of £11.8 million includes the interest received from loans, return from investment portfolio and interest on placement with banks. The Bank remained focused on its strategy towards new loan origination through acquisition of new customers and expanding business activities with existing customers. The Bank also kept its focus on recoveries from non-performing loans during the period under review.

Non- interest income of £1.8 million further contributed towards the total profitability of the Bank. This includes fee & commission generated from trade finance activities and other ancillary banking services provided to customers.

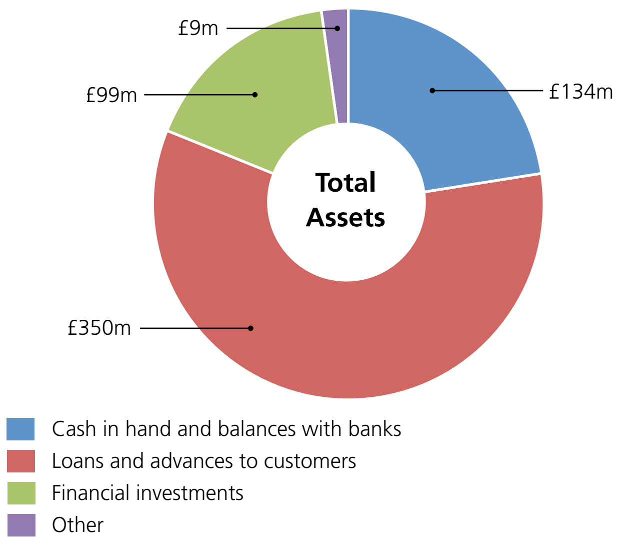
Operating expenditure mainly represents staff and other operating expenses incurred during the period for the purpose of Bank's operations. There were no unusual items in operating expenses.

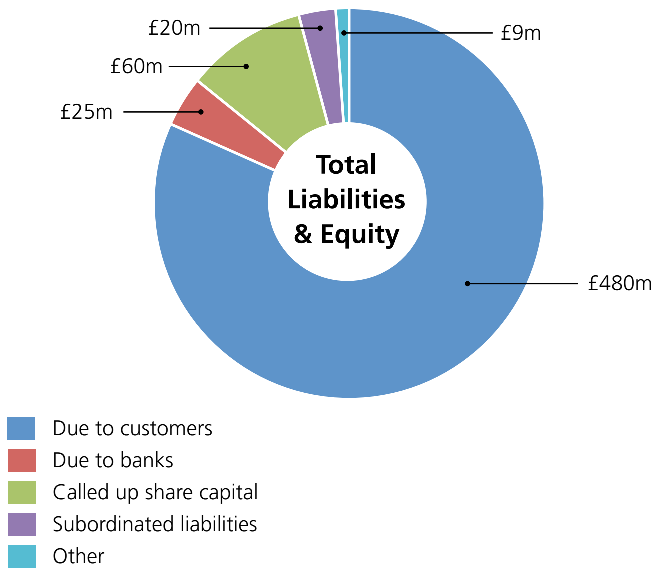
	2016 (£)
Balance Sheet Analysis	
Assets	
Loans and advances to customers	350,395,286
Balances with banks	134,457,165
Financial investments	99,139,322
Other	9,154,349
Total Assets	**593,146,122**
Liabilities and Equity	
Due to customers	479,619,902
Subordinated liabilities	20,000,000
Tier 1 Capital	60,000,000
Other	33,526,220
Total Liabilities and Equity	**593,146,122**

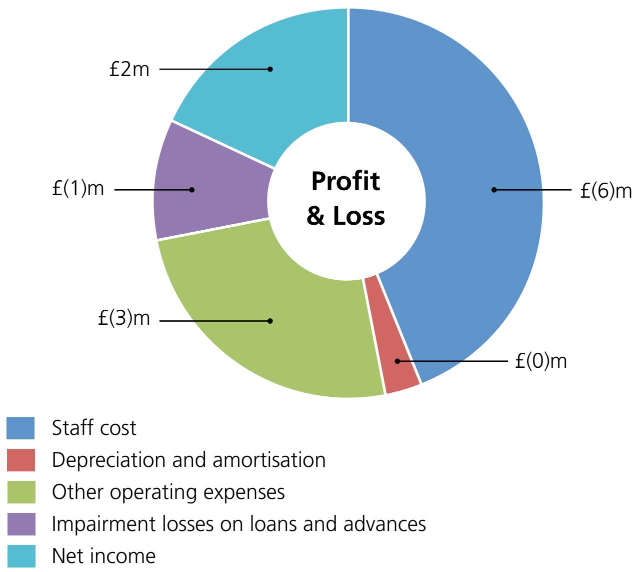
The Bank's balance sheet depicts strong growth in line with its strategy. Deposits increased significantly over the 2015 position of HBZ UK-branch. The Bank also disbursed significant volume of new loans during the period. However, the growth of the lending book was to an extent offset by the settlement of some of the existing loans during the period. The Bank aims to increase retention of lending customers through proactive measures.

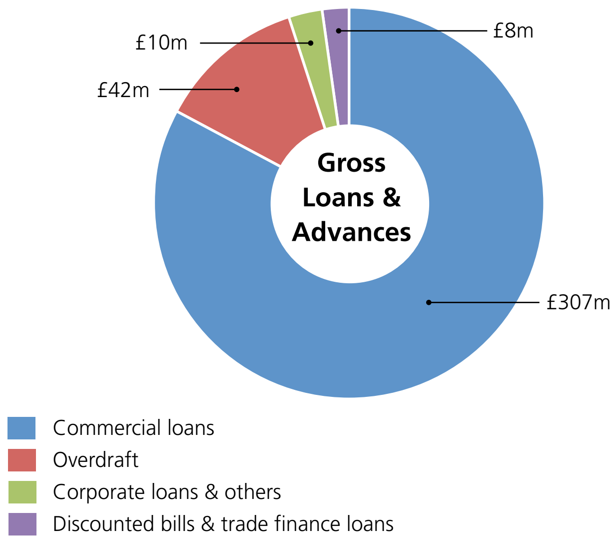
The Bank also aims to increase and broaden its horizon of investments activities. Currently the Bank invests in Level 1 High Quality Liquid Assets (HQLA) for meeting its Liquidity Coverage Ratio (LCR). While maintaining HQLA would still be the main objective of these investments, the bank will explore investing in securities, mainly representing investment grade corporate bonds, in order to optimize the yield.

Below graphs provides the category wise break-up of Total Assets, Total Liabilities and Equity, Gross Loans and Advances and Profit and Loss.









The Bank's capital comprises of net equity of £63.25 million being the share capital and retained earnings. The regulatory capital base differs slightly from amount reported above due to differential treatment of certain reserves. The Bank's regulatory capital and risk-weighted assets as at 31 December 2016 are summarized as under:

Description	£ in million
Share capital – Tier 1	63
Subordinated loan – Tier 2	20
Risk weighted assets	336

The capital adequacy ratio as at 31 December 2016 was 25% which was in surplus of the regulatory requirements and internal management buffer.

The Bank maintained sufficient High Quality Liquid Assets (HQLA) against the net cash outflows over a 30 day horizon on a daily basis. The Bank maintains its Liquidity Coverage Ratio (LCR) above regulatory threshold at all times as set out by PRA. The Bank maintained LCR of 291% as at 31 December 2016 as compared to 110% internal threshold.

Customer related contingent liabilities largely comprise trade finance business including letters of credit and guarantees and undrawn commitments.

Key Performance Indicators (KPIs)

The Bank uses KPIs in order to measure and quantify the financial performance and progress against the strategic objectives. As these are the first operational results of the Bank as a subsidiary, KPIs, which have been considered more important by the directors, are associated with liquidity monitoring and capital adequacy. The Bank will continue to monitor these KPIs' along with others to identify and monitor trends in the performance of the strategies employed.

Capital adequacy measures the Bank's capital strength, expressed as a ratio of total capital to risk weighted assets. By having a mix of high quality assets and capital free of deductions, the Bank maintained a high level of capital adequacy ratio. The Parent bank injected share capital (CET1) of £60 million and subordinated loan (Tier 2 capital) of £20 million. Total regulatory capital injection of £80 million has been made with a view to support the business over a 5 year period.

The Bank maintains a fairly liquid balance sheet in the form of high quality liquid assets and placement with banks with a tenor of up to 12 months. Customers deposit base is sticky and stable with a mix of relationship based retail and SME depositors. The Bank's liquidity risk is managed by Treasury function with oversight from ALCO.

An assessment of liquidity needs, known as the Internal Liquidity Adequacy Assessment Process ("ILAAP"), is undertaken at least annually and is presented to management committees and Board Risk Committee for review, challenge and approval by the Board of Directors. The ILAAP describes how liquidity risks are assessed, controlled, monitored, mitigated and reported and helps management to determine what might be required to maintain liquidity assuming certain stressed conditions. In addition, reverse stress testing is also performed at least annually.

Principal Risks and Mitigation Plan

The Bank's approach to Risk Management is built on the principle of low to medium risk appetite and Investment return horizon, which is medium to long term. In order to achieve this, the Bank offers conventional products where the focus is on personalised customer service.

The Bank's risk appetite is articulated in the risk appetite statements set by the Board of Directors. The Bank takes a conservative view on the inherent risks and has zero tolerance for financial crime, compliance and regulatory risks. All risk types are measured and monitored through identification, measurement, mitigation and escalation process from management to the Board level.

Below table highlights the key risks that the Bank is exposed to and provides details of the measures taken to mitigate these risks.

Risk Type	Tolerance & Mitigation
Credit Risk	The Bank's mitigation of credit risk is based on a combination of focussed strategy, defined target market, secured lending and quality of underwriting, ongoing monitoring and pre-set thresholds for single part exposure, industry concentration and type of collateral. The Bank has well defined and articulated Credit Risk Management Framework (CRMF), which comprises of credit risk appetite, credit policies, terms of reference of management and board level committees, target market analysis and other credit related policies. The Board Risk Committee has oversight responsibilities of CRMF. Credit exposures are reviewed by Country Credit Committee and Board Risk Committee based on delegated authorities.
Concentration Risk	The Bank has articulated appetite for concentration risk. This is monitored at individual, industry and portfolio basis at the management and board committee level.
Financial Crime Risk	The Bank has in place a robust Anti Money Laundering (AML) governance process supported by three lines of defence. Board Audit and Compliance Committee is primarily responsible for oversight of financial crime risk supported by Executive Committee of the Bank. A Compliance dashboard, risk events and regulatory updates is reviewed and reported to the aforementioned committees for oversight.
	The Bank has zero tolerance for Financial Crime and is vigilant to identify, report and take appropriate action to mitigate the inherent risk associated to financial crime. Risk identification and mitigation is undertaken through risk assessment, effective implementation of due diligence requirements and ongoing account and transaction monitoring process. The Bank has comprehensive AML policy and procedures in place and provides continuous training to its staff in the areas of AML and Compliance.
Conduct Risk	The Bank is a service-orientated institution and therefore managing customer outcomes is central to the Bank's philosophy, business strategy and operations. The Bank has in place robust controls, adequate skill sets and appropriate decision making arrangements to deliver on its objective of understanding customer needs, ensuring fair treatment and pro-actively preventing poor outcomes for its customers. The Bank has an articulated conduct risk appetite. The Audit, Risk & Compliance Committee and Board Audit & Compliance Committee monitor business performance against the risk appetite at management and board level respectively. The Bank has implemented the requirements under Senior Managers Regime including grandfathering arrangements, assigning prescribed responsibilities and application of certification and conduct regime requirements. The Bank arranged adequate training for its employees, including senior management and members of the board, to ensure awareness and assist in implementation of the requirements.
Interest rate risk	Interest rate risk at the Bank is well managed and contained and the Bank has no significant long term interest rate positions.
Foreign Exchange risk	As the Bank does not maintain a trading book it has significantly low FX exposure risk. The foreign exchange exposures are managed by the treasury front office with defined levels of maximum allowable net open position in a single currency.

Liquidity Risk	The Bank manages the maturities of its assets and liabilities and its cash flows on a daily basis. The Bank maintains substantial liquidity in Bank of England Reserve account and in short term deposits. The Bank has early warning indicators in place, which are monitored at operational and management committee levels.
Operational Risk	The Bank manages operational risk through articulated risk appetite and on going monitoring with oversight at management and board level committees. The Bank has a fully operational risk assurance function, which monitors various operational risks. The Bank set various tolerance trigger points in accordance with regulation and guidance from UK Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA"). In the event of these tolerances being breached, reporting to the Operations and Technology Committee (OTCO) is made. OTCO considers the breaches and consider whether further reporting to Audit, Risk and Compliance Committee (ARCC) is required. Reporting is made together with confirmation of remediation plans.
Capital Risk	The Bank's capital structure has been built up to support business over a long-term horizon and meet regulatory requirements, which includes capital resources to cover Pillar 1, Pillar 2, CRD Buffers and PRA Buffer. The Bank also maintains internal capital buffer over and above the minimum regulatory capital requirement.

Notes to the financial statements provide further information about most of these risks, the committees with responsibility for and the policies to manage the key risks including the derivative instruments used. The directors are confident that the current risk management structure is sufficient for identification, monitoring and management of significant financial risks to the business.

Employee Remuneration Policy

The Bank's remuneration policy is in line with market practice and is weighted towards performance-based development.

Performance is reviewed annually against pre-defined measures and efforts are recognized through a combination of monetary and non-monetary benefits. The performance management framework is managed through the Bank's HR Committee and senior executive management The Board is responsible for annual reviews of the remuneration of the senior management.

The Bank's objectives, organisation structure, and HR policies are integrated for best results. This works within an effective control framework and focus on the customer in order to implement the Bank's business strategy.

Going Concern

The Bank's operating model is simple, offering core lending and deposits products to its customers, who have a strong loyalty to the franchise. The Bank has prepared these financial statements taking into accounts that it operates on a self-sufficient basis. The Bank also expects to grow its lending book in line with its strategy and improve its credit quality which provides a steady stream of interest income from customers. In addition to net interest income the Bank has flow of revenue from fee and commission. In line with the Bank's strategy, there will also be an expected increase in flow of income from investments, which is likely to grow over the next two to three years.

The Bank has a sound governance structure in place, which comprises of Board of Directors, Committee of the Directors and Management Committees covering all key risk areas such as credit risk, liquidity risk, Anti Money Laundering, Compliance risk and Operational risk, etc. Capital base of Bank is sound with more than required capital invested by Parent bank. The Bank's liquidity position is also very strong with more than adequate liquid assets to cover a stress over a 180 days survivability period.

The Bank made a profit of £3.03 million during the period, which was in line with projections. The Bank is expected to meet its profit targets, which will gradually increase in future years. To this respect the Bank has prepared five years financial projections based on conservative assumptions.

Based on above, the directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Brexit

On 23rd June 2016, voters in the UK voted to leave the European Union ('EU') in a referendum. The Bank of England (BoE) announced a cut to its bank rate of 25 basis points to 0.25% and introduced a package of measures designed to provide additional monetary stimulus. The UK's unexpected decision to leave the EU was followed by an initial period of market volatility and a longer-term fall in the value of sterling. The Bank will continue to monitor ongoing development in relation to impact of Brexit.

Future Outlook

The Bank has delivered positive results in 2016 and expects to make more positive strides in the future periods. The Bank is confident of building on its performance from 2016 through execution of clearly defined growth plans set by Board of Directors. A strategic plan is drawn up to project future growth and a detailed annual budget is prepared to set yearly targets and to monitor progress against the projections.

The directors expects that the Bank's strategy will lead to reasonable growth in the profits provided there are no significant changes to the regulatory or legislative environment impacting the Bank's business and financial position.

The Bank recognises and appreciate that future is changing rapidly and business success will depend on adapting our business model to provide the service required to meet customer needs effectively. The Bank is working hard to ensure we have the plan, strategy and resources to meet ever-changing requirements of rapidly evolving market.

Hence, the future emphasis will be on optimising operational efficiency, refining marketing strategy, enhancing the customer relationship model and upgrading business capabilities.

Approved by the Board and signed on its behalf by:

Kamran Qazi
Chief Financial Officer

Directors' Report

On behalf of Board of Directors of Habib Bank Zurich plc. ("the Bank"), I am pleased to present the Directors Report on the Financial Statements of the Bank for the year ended 31 December 2016. The Bank is registered in England and Wales with number 08864609 and is authorised by the PRA and regulated by the FCA and PRA.

Transfer of Net Assets

The Bank commenced its operations on 01 April 2016, subsequent to authorisation from the PRA and FCA and successful transfer of business of UK Branch of Habib Bank AG Zurich, Switzerland, vide business transfer scheme ("Scheme") under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). Further details of the transfer are included in Note 1 of the financial statements.

Results

These are the first operational results of the Bank covering period from 01 April 2016 to 31 December 2016. During this period the Bank posted a profit after taxation of £3.03 million.

Share Capital and Dividend

During the year 2016 the Parent bank, Habib Bank AG Zurich introduced share capital of £59.95 million. As a result the share capital of the Bank at the start of operations on 01 April 2016 increased from £50,000 to £60 million divided into 60 million ordinary shares of £1 each.

Being the first operational year of the Bank, the Directors have decided not to propose any dividend for the year 2016.

Board of Directors

Following Directors have been appointed to serve on the Board of the Bank

Mr Muhammad H. Habib	Non-Executive Director (NED) Chairman
Mr Stuart Barnett	Independent NED
Mr Carey Leonard	Independent NED
Mr Anjum Iqbal	Non-Executive Director
Mr Rajat Garg	Non-Executive Director – Appointed 26th May 2016
Mr Moorad Choudhry	CEO / Executive Director – Resigned 18th March 2016
Mr Satyajeet Roy	CEO / Executive Director – Appointed 26th September 2016

Mr Satyajeet Roy was appointed to serve on the Board of the Bank on 13 February 2017.

The Bank's Board membership represents a suitable mix of experience and knowledge relevant to the services offered.

Board meetings are held at least four times a year, and additional meetings can be held at any time to discuss urgent issues.

Directors' Representation

In the case of each of the persons who are Directors at the time the report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Bank's auditor is unaware, and
- the director has taken all the 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.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent Auditors

KPMG LLP has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be considered at the forthcoming Annual General Meeting.

Post-balance Sheet Events

There have been no reportable events subsequent to the balance sheet date.

Acknowledgement

The Board of Directors takes the opportunity to express its thanks and gratitude to all stakeholders for their continued support.

The Board of Directors also records its appreciation to the Management and Staff for their efforts, dedication, commitment and teamwork during 2016.

Approved by the Board and signed on its behalf by:

Satyajeet Roy
Chief Executive Officer

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Bank's financial statements for each financial year. Under that law they have elected to prepare Bank's financial statements in accordance with IFRS, as adopted by the EU and applicable law.

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 Bank and of its profit or loss for that period. In preparing Bank 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 IFRSs' as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable it to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as is reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

Satyajeet Roy
Chief Executive Officer

Corporate Governance Report

The Board

The primary role of the Board is to set the overall strategy for the Bank and to protect and enhance the long-term strategic value of the Bank. The Board ensures that the business of the Bank is conducted in an efficient and effective manner in order to promote the success of the Bank within an established framework of effective systems of internal control, risk management process, and compliance and in accordance with regulatory requirements. The Board also ensures that good corporate governance policies and practices are implemented within the Bank. In the course of discharging its responsibilities, the Board acts in good faith, with due diligence and care, and in the best interests of the Bank and its shareholders.

The primary responsibilities, which the Board undertakes in this respect, are to:

- consider changes to the structure, size and composition of the Board and Board committees and approve terms of reference;
- define, oversee and be accountable for the implementation of governance arrangements that ensure effective and prudent management of the Bank, including the segregation of duties in the organisation and the prevention of conflicts of interest;
- set the Bank's strategic objectives and goals and reviewing the performance of the executive team;
- review and approve the overall risk appetite of the Bank and individual risk appetite statements;
- establish and maintain a framework for the overall sound and proper internal control and risk management processes;
- review and challenge the business performance of the Bank, set the budget and financial forecasts, and ensure that the business of the Bank is managed to balance risk and reward;
- ensure adequate succession planning for the of governance arrangements and takes appropriate steps to address any deficiencies related senior management so as to maintain an appropriate balance of skills and experience within the Bank.

The Directors keep close liaison with the executive management of the Bank for better understanding of business operations of the Bank. Furthermore, the Board has independent access to the senior management and the Board Secretary at all times.

Board Committees

To help carry out its responsibilities, the Board has also established the following committees with terms of reference setting out matters relevant to the committees' composition, responsibilities and administration:

Board Risk Committee

Membership

Mr Carey Leonard	Chairman
Mr Stuart Barnett	Member
Mr Anjum Iqbal	Member
Mr Rajat Garg	Member

Board Audit and Compliance Committee
Membership

Mr Stuart Barnett	Chairman
Mr Carey Leonard	Member
Mr Anjum Iqbal	Member
Mr Rajat Garg	Member

Board Risk Committee

Primary responsibilities are to:

- Review the overall approach of the Bank to risk, its management and reporting line framework to ensure the effective application of the risk management framework.
- Assess and regularly review the three lines of defence model implemented by the Bank for its effectiveness.
- Provide assurance on the Bank-wide risk framework and monitor the overall risk profile of bank through effective control processes.
- Annually review the Risk Appetite Statement and consider the adequacy of risk limits and returns.
- Set guidelines for maintaining risk control parameters for all types of risk across the business, including policies, control standards, underwriting standards, risk exposure limits or other control levers.
- Receive information on any material breaches of risk limits, policies or procedures and agree proposed action as soon as practically possible.
- Consider & make recommendations to the Board regarding the appointment, removal and resignation of employees with Senior Management Function (SMF) s responsibilities under the Senior Management Regime (SMR) with the exception of Directors.
- Consider & make recommendations to the Board regarding the remuneration including increment and bonus of employees with SMF responsibilities with the exception of Directors.

Board Audit and Compliance Committee

An independent Audit and Compliance Committee is responsible for challenging executive management and the Bank's internal and external auditors as part of a good governance process. Primary responsibilities are:

- Review key internal control policies, processes and procedures and assess the effectiveness of those keeping in view the size, nature and complexities of Bank's operations
- Review the effectiveness of the Bank's internal audit in the context of the Bank's overall risk management system
- Review and assess independence of internal audit function.
- Make recommendations on the auditors' appointment, re-appointment and removal
- Review and monitor the independence of the external auditors
- Discuss the financial statements and the quality of the underlying accounting processes with the member of management responsible for accounting and finance
- Review and approve accounting policies and changes therein
- Review policies to ensure the Bank's on-going compliance with relevant legal and regulatory requirements
- Ensure that its recommendations to combat money laundering, terrorist financing and financial crime risks are incorporated into the Bank's on-going procedures and monitoring infrastructure

- Oversight of adequacy of processes put in place by the management to manage Conduct Risk
- Oversight of the adequacy of the training and competency framework required fulfilling the Bank's obligations under the SMR and the Certification Regime.

Board Meetings

The Board meets regularly at least four times a year at quarterly intervals and holds additional meetings as and when the Board thinks appropriate. Five Board meetings were held during 2016. The agenda, together with Board papers, were sent in full to the Directors' not less than three business days before the intended date of the Board meeting. Board Secretary prepared minutes of Board meetings, with details of decisions reached.

At each regular Board meeting, executive management of the Bank made presentations to the Board on various aspects, including the business performance, financial performance, corporate governance and outlook. Throughout 2016, Directors of the Bank also participated in the consideration and approval of matters of the Bank by way of written resolutions circulated to them. Supporting written materials were provided in the circulation and the Board Secretary when required gave verbal briefings.

Management Committees

Management Committees are responsible for oversight of various operational processes through which the strategy and objectives set by the Board are achieved.

The Executive Committee represents the principal forum for conducting the day- to- day business of the Bank. Whilst retaining the ultimate responsibility for the actions taken, the Executive Committee at its discretion has delegated certain responsibilities to the following standing sub-committees:

- Asset & Liability Committee
- Audit Risk & Compliance Committee
- Country Credit Committee
- Operations and Technology Committee
- Human Resource Committee

HBZ UK Team

Independent Auditor's Report

to the Members of Habib Bank Zurich PLC

We have audited the financial statements of Habib Bank Zurich Plc for the year ended 31 December 2016 set out on pages 20 to 65. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; 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.

Suvro Dutta (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Income statement

For the year ended 31 December 2016

	Notes	2016 (£)	2015 (£)
Continuing operations			
Interest income		15,201,547	-
Interest expense		(3,401,556)	-
Net interest income	5	**11,799,991**	**-**
Fees and commission income		1,363,218	-
Fees and commission expense		(168,881)	-
Net fee and commission income	6	**1,194,337**	**-**
Foreign exchange income		346,403	-
Loss on sale of available for sale investment		(3,036)	-
Other income	7	248,907	-
Net other income		**592,274**	**-**
Staff costs	8	(5,968,993)	-
Depreciation and amortisation	18	(409,031)	-
Other operating expenses	9	(3,430,523)	-
Operating expenses before credit impairment losses		**(9,808,547)**	**-**
Operating profit before impairment losses on loans and advances and tax expenses		**3,778,055**	**-**
Impairment losses on loans and advances	10	(1,295,574)	-
Profit before tax		**2,482,481**	**-**
Tax credit	11	549,015	-
Profit after tax from continuing operations		**3,031,496**	**-**
Attributable to:			
Equity holders		**3,031,496**	-

The accompanying notes on pages 26 to 65 form an integral part of the financial statements.

Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 (£)	2015 (£)
Profit after tax		**3,031,496**	**-**
Items that may be reclassified subsequently to profit or loss:			
Fair value gain taken to equity on financial investments	16	273,226	-
Deferred tax charge	27	(54,645)	-
Other comprehensive income for the period net of tax		**218,581**	**-**
Total comprehensive income for the period attributable to equity holders		**3,250,077**	

The accompanying notes on pages 26 to 65 form an integral part of the financial statements.

Statement of Financial Position

As at 31 December 2016

	Notes	2016 (£)	2015 (£)
Assets			
Cash in hand and with central bank	13	92,224,488	12,500
Due from banks	14	42,232,677	5,000,000
Loans and advances to customers	15	350,395,286	-
Financial investments	16	99,139,322	
Derivative financial instruments	17	548,009	-
Property and equipment	18	6,163,798	-
Other assets	19	1,646,522	-
Deferred tax assets	12	796,020	
Called-up capital unpaid	25	-	37,500
Total assets		**593,146,122**	**5,050,000**
Liabilities and Equity			
Liabilities			
Due to banks	20	24,918,790	-
Due to customers	21	479,619,902	-
Derivative financial instruments	17	502,923	-
Accruals, deferred income and other liabilities	22	4,399,785	-
Current tax liabilities	23	400,000	-
Deferred tax liabilities	27	54,645	-
Subordinated liabilities	24	20,000,000	-
Total liabilities		**529,896,045**	**-**
Equity			
Called up share capital	25	60,000,000	50,000
Retained earnings		3,031,496	-
Available for sale reserves	27	218,581	-
Prepaid share reserve	26	-	5,000,000
Total equity		**63,250,077**	**5,050,000**
Total liabilities and equity		**593,146,122**	**5,050,000**

These financial statements were approved by the Board of Directors and authorised for issue on 25 April 2017.

Signed on behalf of the Board of Directors

Chairman

Director

The accompanying notes on pages 26 to 65 form an integral part of the financial statements.

Statement of Changes in Equity

Year ended 31 December 2016

	Called up Share Capital £	Available for Sale Reserve £	Prepaid Share Reserve £	Retained earnings £	Unpaid share capital £	Total £
Balance as at 01 January 2016	12,500	-	**5,000,000**	-	**37,500**	**5,050,000**
Issue of new ordinary shares	5,000,000	-	(5,000,000)	-	-	-
Acquisition of branch on 01 April 2016	54,987,500	104,930	-	-	**(37,500)**	**55,054,930**
Profit after tax (From 01 April 2016 to 31 Dec 2016)	-	-	-	3,031,496	-	**3,031,496**
Available for sale (Movement during the period)	-	113,651	-	-	-	**113,651**
Balance as at 31 December 2016	**60,000,000**	**218,581**	**-**	**3,031,496**	**-**	**63,250,077**

Year ended 31 December 2015

	Called up Share Capital £	Unpaid share capital £	Prepaid share Reserve £	Total Equity £
Balance as at 01 January 2015	**12,500**	**37,500**	**-**	**50,000**
Prepaid share reserve	-	-	5,000,000	**5,000,000**
Balance as at 31 December 2015	**12,500**	**37,500**	**5,000,000**	**5,050,000**

The accompanying notes on pages 26 to 65 form an integral part of the financial statements

Cash Flow Statement

Year ended 31 December 2016

	Notes	2016 (£)	2015 (£)
Cash flows from operating activities			
Profit before tax		2,482,481	-
Adjusted for:			
Impairment losses on loans and advances		1,295,574	-
Loss on sale of Available for Sale investments		3,036	-
Depreciation and amortisation		409,031	-
		4,190,122	**-**
Net (increase)/decrease in operating assets			
Due from banks		30,115,467	-
Loans and advances to customers		9,474,194	-
Derivative financial instruments		(374,917)	-
Other Assets		495,587	-
Net increase/(decrease) in operating liabilities			
Due to banks		(22,108,648)	-
Due to customers		85,298,030	-
Derivative financial instruments		337,926	-
Accruals, deferred income and other liabilities		(2,195,441)	-
Current tax liabilities		(328,000)	-
Tax paid		(312,000)	-
Net cash inflow from operating activities		**104,592,320**	**-**
Cash flows from investing activities			
Purchase of property and equipment		(238,556)	-
Purchase financial investments		(13,361,208)	-
Net cash outflow from investing activities		**(13,599,764)**	
Cash flows from financing activities			
Prepaid share reserve		-	5,000,000
Net cash inflow from financing activities		**-**	**5,000,000**
Net increase in cash and cash equivalents		**90,992,556**	**5,000,000**
Cash and cash equivalents as at 01 April 2016		1,231,932	12,500
Cash and cash equivalents at the end of the year		**92,224,488**	**5,012,500**

On 01 April 2016, the cash and cash equivalents of the branch were transferred to Habib Bank Zurich plc. The cash flows above represent movements between 01 April 2016 and 31 December 2016. Refer Note 28 for details.

The accompanying notes on pages 26 to 65 form an integral part of the financial statements


Big Ben, London

Notes to the Financial Statements

For the year ended 31 December 2016

1. The company and its operation

Habib Bank Zurich plc ("the Bank or HBZ UK") was incorporated in the United Kingdom on 28 January 2014 as a public limited company. The Bank is a wholly owned subsidiary of Habib Bank AG Zurich, Switzerland ("The Group). The Group's financial statements are available at www.habibbank.com.

The Bank commenced its operations from 01 April 2016 subsequent to the transfer of the banking business from Habib Bank AG Zurich, Switzerland, UK Branch wide banking business transfer scheme ("Scheme") pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA").

The Scheme was sanctioned on 24 February 2016 by Companies Court, Chancery Division, High Court of Justice. The Prudential Regulation Authority and the Financial Conduct Authority also approved the Scheme.

As per the Scheme the entire assets and liabilities of the HBZ UK branch appearing in its books at the end of day on 31 March 2016 were transferred to Habib Bank Zurich plc on 01 April 2016. As part of the transfer of the net assets, the Bank issued share capital and subordinated debt to the Parent bank, and the existing unpaid share capital creditor was settled.

The transfer of the net assets was treated as a common control transaction. The assets and liabilities of the branch transferred to the bank were recorded at their book values as previously stated in Habib Bank AG Zurich under Swiss GAAP but converted to IFRS. The Available for Sale (AFS) reserve at the date of transition has been recognised on transfer as if it existed at the date of the transition.

Net assets in the books of Habib Bank AG Zurich UK branch as at 31 March 2016 were as follows:

Description	(£)
Assets	528,636,696
Liabilities	453,544,266
Net Assets	**75,092,430**

Net assets of £75,092,430 were represented in Habib Bank Zurich plc books as follows:

Description	(£)
Issue of shares	**54,950,000**
Subordinated liabilities due to parent	20,000,000
Settlement of pre-existing creditors	37,500 *
	74,987,500
Available for sale reserve as at 01 April 2016	104,930
	75,092,430

*As a result of the transaction, £37,500 of debtor in respect of share capital was settled which was previously unpaid.

The financial statements of Habib Bank AG Zurich UK Branch were prepared under Swiss GAAP. On transition of the financial statements to IFRS, the Bank assessed transitional adjustment under IFRS 1. There were no material adjustments except for the fair value of available for sale financial instruments, which were shown as opening available for sale reserve in statement of changes in equity.

2. Basis of preparation

These financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements."

The functional currency of the Bank is Pound Sterling, which is also the presentational currency of these financial statements.

3. Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources. The bank has capital and liquidity in excess of its regulatory requirements.

4. Accounting Policies

Compliance with International Financial Reporting Standards
The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body.

Adoption of new and revised standards
The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IAS 1 Disclosure Initiative is effective for annual periods beginning on or after 01 January 2016.

- IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations IFRS 11 was issued in May 2011 and applies to annual reporting periods beginning on or after 01 January 2016.

- IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation are effective for annual periods beginning on or after 01 January 2016.

- IFRS 10, IFRS 12 and IAS 28 (amendments) Investment Entities: Applying the Consolidation Exemption.

- Annual Improvements to IFRSs: 2012-2014 Cycle Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

Standards issued but not effective

- IFRS 9 Financial Instruments, which is effective for annual reporting periods beginning on or after January 01 2018, replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and new general hedge accounting requirements. Although the permissible measurement bases for financial assets - amortised cost, fair value through other comprehensive income and fair value though profit or loss - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

- IFRS 15 Revenue from Contracts with Customers was issued in May 2014. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 01 January 2018 with early application permitted.

- IAS 27 (amendments) Equity Method in Separate Financial Statements.

- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Bank in future periods, except as follows:

IFRS 9

- The Bank will transition to IFRS 9 on 01 January 2018, with no early adoption of any parts of the standard. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods.

  IFRS 9 will impact both the measurement and disclosures of financial instruments.

  HBZ UK has commenced a group wide project of assessing the implementation requirements of IFRS 9. The Parent bank is leading the project with input from the Bank. Preparation for Model development for expected loss calculations under IFRS 9 are underway and expected to be completed in the second half of 2017. HBZ UK has a significant portfolio of assets carried at amortised cost for which expected credit losses will need to be recognised under IFRS 9.

  The 2017 annual accounts will include qualitative disclosures on the impact of IFRS 9.

IFRS 15

- In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 01 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligation, as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Bank is currently evaluating revenue contracts under the new guidance and has not yet identified any material changes in the timing and amount of revenue recognition, however this evaluation remains ongoing.

Standards not endorsed by EU and not yet effective

IFRS 16

- In January 2016 the IASB issued IFRS 16 'Leases' (IFRS 16), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. IFRS 16 includes disclosure requirements to provide more information about the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting is substantially unchanged compared to the current accounting guidance. Under the current lessee accounting model the bank is required to distinguish between finance leases, which are recognized on balance sheet, and operating leases, which are not. IFRS 16 will require lessees to present a right-of-use asset and a corresponding lease liability on the balance sheet for all leases with a lease term of greater than twelve months, unless the underlying asset is of low value. IFRS 16 is effective for annual periods beginning on or after 01 January 2019. The Bank is currently evaluating its existing contracts to determine the impact of the adoption of IFRS 16.

Amendments to IAS 12

- Income Taxes: In January 2016, the IASB issued'Recognition of Deferred Tax Assets for Unrealised Losses' (Amendments to IAS 12). The Amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Amendments to IAS 12 are effective for annual periods beginning on or after 01 January 2017, with retrospective application required. The Bank is currently evaluating the impact of adopting the Amendments to IAS 12.

Disclosure initiative (Amendments to IAS 7)

- In January 2016, the IASB issued amendments to IAS 7 as part of their Disclosure Initiative. The Amendments require enhanced statement of cash flow disclosures regarding changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The Amendments are effective for annual periods beginning on or after 01 January 2017. The Bank is currently evaluating the impact of adopting the Amendments to IAS 7.

IFRIC 22

- In December 2016, the IASB issued IFRIC 22 "Foreign Currency Transactions and Advance Consideration". IFRIC 22 clarifies the date of the transaction for the purposes of determining the exchange rate used on initial recognition of related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after 1 January 2018. The Bank is currently evaluating the impact of adopting IFRIC 22.

Annual improvements to IFRS 2014-2016 Cycle

- In December 2016, the IASB issued 'Annual Improvements to IFRSs 2014-2016 cycle' (Improvements to IFRSs 2014-2016), which are effective for annual periods beginning on or after 01 January 2017. The Bank is currently evaluating the impact of adopting Improvements to IFRSs.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

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 as actual results may differ from estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively.

The critical accounting judgements are noted below.

(i) Impairment losses on loans and advances

The Bank reviews all loans and advances on an individual and collective basis at each balance sheet date to assess whether an impairment loss should be recorded in the income statement.

Individual impairment

In particular, judgement by management is required in estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrowers' financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment loss allowance.

Collective impairment

The Bank also accounts for collective impairment provision. The assumptions used involves the use of historical information related to past loan losses, which is supplemented with management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses which have been incurred but not reported is likely to be greater or less than that suggested by historical experience.

Loss emergence period

The Bank recognises that there will be a period between the occurrence of a specific / individual impairment or loss event and objective evidence of impairment becoming apparent or being identified on an individual basis in normal circumstances. To account for the impact of such period the Bank closely monitors macroeconomic data related to the sectors in which it has credit exposures. The Bank has a relationship based model with a credit monitoring process, which ensures that the Bank is in constant touch with credit customers. This allows proactive approach towards identification of any credit issues, which the borrower may face. All credit exposure is annually reviewed based on information received from the customers.

The Bank's credit exposure is in loans covered by commercial and residential properties as collateral. Most of these properties are income generating in form of rentals, which are received monthly/ quarterly. Delays or non-receipts of rentals provide reliable information to identify any possible impairment issues.

In view of above the Bank considers that individual historical loss experience along with loss emergence period provides the most objective and relevant information to form basis of collective impairment provision along with management assessment of broader macroeconomic analysis.

(ii) Impairment of financial investments
At each reporting date, the Bank assesses whether there is objective evidence that the financial investments are impaired. A financial investment is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition and that the loss event has an impact on the future cash flows of the investment that can be estimated reliably.

Objective evidence that the financial investments are impaired includes:

- Significant financial difficulty of a borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the group on terms that the group would not consider otherwise;
- Indications that a borrower or issuer will enter bankruptcy;
- The disappearance of an active market for a security; or
- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair values, less any impairment loss previously recognised in profit or loss.

(iii) Recognition of deferred tax assets
Deferred tax asset is recognised based on availability of future taxable profit against which carry-forward tax losses can be used. Future profits are based on financial projections prepared based on some key assumptions, which may vary in future due to internal and external factors such as projected growth, economic outlook, interest rates.

Significant accounting policies

(i) Interest income and expense
The Bank applies IAS 39 Financial Instruments: Recognition and Measurement. Interest income on loans and advances at amortised cost, available for sale debt investments, and interest expense on financial liabilities held at amortised cost, are calculated using the effective interest method, which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest method requires the Bank to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), in the normal course of business there are no individual estimates that are material to the results or financial position.

The Bank continues to accrue interest on impaired loans using the effective interest rate method. The interest is also considered as part of the cash flows when assessing for impairment.

(ii) Non-interest income: Fee and commission income

The Bank applies IAS 18 Revenue. Fees and commissions earned from a range of services provided by the Bank to its customers.

Fee and commission income is accounted for depending on the services to which the income relates:

- Income earned on the execution of a significant act is recognised in fee income when the act is completed including trade finance income;
- Income earned in respect of services is recognised in fee income as the services are provided including customer transaction fees and other fees and commission on banking and credit products;
- Commitment fee forms an integral part of the effective interest rate of a financial instrument. This is recognised as an adjustment to the effective interest rate and is recorded in interest income.
- Loan termination represents fee paid by customers on early repayment of loans

(iii) Financial assets and liabilities

The Bank applies IAS 39 Financial Instruments: Recognition and Measurement for recognition, classification and measurement, and de-recognition of financial assets and financial liabilities and the impairment of financial assets.

Financial assets

The Bank classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss;
- Loans and advances to customers;
- Held to maturity investments; and
- Available for sale financial assets.

Management determines the classification of financial assets at initial recognition

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading, and those designated by management as being at fair value through profit or loss on initial recognition.

Financial assets are classified as held for trading if they are acquired principally for the purposes of generating a profit from short-term fluctuations in price or dealers' margin, or form part of a portfolio of similar assets for which there is evidence of a recent actual pattern of short-term profit-taking, or are derivatives (not designated into a qualifying hedge relationship).

Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified upon initial recognition as available for sale or at fair value through profit and loss.

Loans and advances to customers 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.

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.

Available for sale financial assets
Available for sale assets are non-derivative financial assets including debt securities that are designated as available for sale on initial recognition or are not classified into any of the other categories described above.

Available for sale assets 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 as a separate component of shareholders' equity in other comprehensive income (OCI), until sale or impairment, when the cumulative gain or loss is transferred to the income statement. Interest determined using the effective interest method, impairment losses, and translation differences on monetary assets and dividends received where the right to receive payment is established are recognised in the income statement.

Impairment of financial assets
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets not carried at fair value through the profit or loss is impaired.

A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as held to maturity or Loans and advances to customers has been incurred, the amount of impairment loss is measured as the difference between the asset or group of assets carrying amount and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate determined on initial recognition.

Individual Impairment
The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment, and found to be individually impaired, and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

The values of collateral taken into consideration are assessed by professional valuers. The Bank applies appropriate haircut to collateral values when using them for the purpose of calculating individual impairment. Haircuts applied to collateral values are based on sale of similar properties under distressed conditions.

Impairment losses are recognised in the income statement and the carrying amount of the financial assets or group of financial assets are 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.

When an asset is uncollectable, it is written off against the related provision for impairment. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement.

Allowances for impairment represent management's estimate of losses incurred at the balance sheet date. Impairments are calculated on an individual basis using discounted expected future cash flows. Subjective judgements are made in this process. Changes in these estimates could result in a change in allowances and have a direct impact on the impairment charge.

For all reversals of impairments, it is noted that the decrease in the impairment loss related objectively to an event occurring after the initial impairment was recognised. None of the reversals of impairments has caused the assets to have a carrying value higher than its amortised cost if the impairment had never been recognised.

All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment.

Collective impairment
A collective component of the total allowance is established for:

- Groups of homogenous loans that are not considered individually significant; and
- Group of assets that are individually significant but were not found to be individual impaired (loss 'incurred but not reported' or IBNR)

The IBNR allowance is based on historical loss rates, adjusted to reflect the current economic conditions affecting the portfolio. It also reflects assumptions made about the loss emergence period. The factors that may influence the loss emergence period include economic and market information, customer behaviour, portfolio management information, credit management process and collection experience.

In assessing the collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

Available-for-sale financial assets
Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. In assessing objective evidence of impairment at the reporting date, the Bank considers all available evidence, including observable data or information about events specifically relating to the securities, which may result in a shortfall in the recovery of future cash flows. A subsequent decline in the fair value of the instrument is recognised in the income statement when there is objective evidence of impairment as a result of decreases in the estimated future cash flows. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and

the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement

When a decline in the fair value of an available for sale financial asset has been recognised in OCI and there is objective evidence of impairment, the cumulative loss, being the difference between the asset's acquisition cost and its current fair value, less any impairment loss on that asset previously recognised in the income statement, 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 an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement to the extent of the increase in fair value

Financial liabilities

Management determines the classification of all financial liabilities at initial recognition.

The Bank classifies its financial liabilities as other financial liabilities as at balance sheet date. Other financial liabilities are measured at amortised cost, using the effective interest rate method.

The Bank will classify its financial liabilities as financial liabilities designated at fair value through profit or loss if they are acquired principally for the purposes of generating a profit from short-term fluctuations in price or dealers margin, or form part of a portfolio of similar liabilities for which there is evidence of a recent actual pattern of short-term profit-taking, or they are derivatives (not designated into a qualifying hedge relationship).

Financial liabilities may be designated at fair value through profit or loss only if such a designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; (b) applies to a group of financial assets, financial liabilities, or both that the Bank manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Financial liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the income statement. Subsequently, gains and losses arising from changes in fair value are recognised as they arise in the income statement.

De-recognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognised when they are extinguished, that is when all obligations are discharged, cancelled or have expired.

(iv) Derivatives

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset, if they meet the offsetting criteria under IAS 32.

(v) Employee benefit

Short-term employee benefit, such as salaries, paid absences and other benefits, are accounted for on an accrual basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Bank has a present obligation to its employees that can be measured reliably. All expenses related to employee benefits are recognised in the income statement in staff costs, which is included within operating expenses.

The Bank provides a defined contribution pension scheme for its staff. For this scheme, the Bank recognizes contributions due in respect of the accounting period in the income statement. Any contributions unpaid at the balance sheet date are included as a liability.

(vi) Cash and cash equivalents

The captions Cash and cash equivalents and Cash in bank represent cash and current account balances held with other group company.

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid financial assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in their fair value.

Such financial assets are normally those with less than three months' maturity from the date of acquisition, and include cash and balances at central banks, loans and advances to banks and available for sale investments.

(vii) Property and equipment

Property and equipment are initially recognised at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Bank's management.

Property and equipment are subsequently measured using the cost model at cost less accumulated depreciation and impairment losses, if any. The Bank adheres to IAS 36, Impairment of Assets which, seeks to ensure that property and equipment assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use).

At the end of each reporting period, the Bank assesses whether there is any indication that a property and equipment may be impaired (i.e. its carrying amount may be higher than its recoverable amount). If there is an indication that a property and equipment may be impaired, then the asset's recoverable amount is calculated.

Depreciation is provided on a straight line basis over estimated useful lives as follows:

Freehold improvements	25 Years
Leasehold improvements	Over the remaining period of the lease
Motor vehicles	5 years
Fixtures, fittings and office equipment	3 - 7 years
Computer hardware	4 years
Buildings	40 years

The assets' useful lives are reviewed, and adjusted if appropriate, at the reporting date. Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other operating income.

(viii) Intangible assets

Intangible assets consist of computer licences and software development costs including capitalised staff costs. An intangible asset shall be recognised if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably.

Intangible assets are stated at cost less accumulated amortisation and impairment losses if any. Amortisation is provided on a straight-line basis over a current estimated useful life of four years and is reported within "Depreciation and amortisation".

(ix) Provisions and contingent liabilities

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(x) Taxes

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous year.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is determined using tax rates and legislation enacted, or substantively enacted, by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(xi) Foreign currency translation

Transactions in foreign currencies are initially recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rate of exchange ruling at the reporting date.

(xii) Segment Reporting

The Bank undertakes commercial banking, which is carried on mainly within the United Kingdom and all other services are ancillary to commercial banking activities. The management information system and reporting to Board is also aligned to this business model.

The Bank currently manages its business activities on a centralised basis; as a result the revenue and costs are not attributable to any one operating and geographic segment. No revenue transaction with a single external customer or counterparty amounted to 10% of total revenue for the year.

5. Net interest income

	2016 (£)	2015 (£)
Interest income		
Funds held with central bank	64,359	-
Due from banks	620,105	-
Loans and advances to customers	14,000,284	-
Financial investments	516,799	-
Total interest income	**15,201,547**	**-**
Interest expense		
Due to banks	(176,532)	-
Due to customers	(2,935,794)	-
Subordinated liabilities	(289,230)	-
Total interest expense	**(3,401,556)**	**-**
Net interest income	**11,799,991**	**-**

Interest income against loans and advances to customers included total of £623,622 relating to impaired financial assets and has been considered as part of the cash flows when assessing for individual impairment provisions.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6. Net fee and commission income

	2016 (£)	2015 (£)
Fee and commission income		
Loan termination fee	165,823	-
Customer transaction fees	335,286	-
Trade Finance	425,868	-
Other fees and commission on banking and credit products	436,241	-
Total fee and commission income	**1,363,218**	**-**
Fee and commission expense		
Bank charges	(76,480)	-
Commission on internet deposits	(40,743)	-
Other fees and commission	(51,658)	-
Total fee and commission expense	**(168,881)**	**-**
Net fee and commission income	**1,194,337**	**-**

7. Other income

Rental income – Note 7.1	202,819	-
Other	46,088	-
Total other income	**248,907**	**-**

7.1 Rental receivable under operating leases are recognised in the income statement on a straight-line basis over the period of the leases. The future minimum lease payments under operating leases are:

Less than one year	267,521	-
Later than one year but less than five years	600,904	-
	868,425	-

8. Staff costs, including Directors' emoluments

Salaries and allowances	(4,936,184)	-
Social security costs	(681,613)	-
Pension costs - defined contribution plan	(351,196)	-
Total staff costs	**(5,968,993)**	**-**

Total number of employees	135
Directors' emoluments	
- Total emoluments of Independent NEDs'	£99,548
- Salary and benefits paid to the highest paid Director	Equal amount paid to both Independent NED
The Parent bank paid emoluments of other Non-Executive directors' and has not recharged the Bank specifically for their services.	

Key management personnel:
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank.

The key management personnel are the members of the Bank's Executive Committee together with its Directors. The table below details, on an aggregated basis, key management personnel compensation:

	2016 (£)	2015 (£)
Salaries and other short-term benefits	627,234	-
Post-employment benefits	103,821	-
Total staff costs	**731,055**	**-**
Loan outstanding	178,631	-
No of persons	1	-

The loan is on secured basis and is expected to be settled in cash. The loan attracted interest rate of 3%.
No provisions have been recognised in respect of loans given to key management personnel.

Deposits placed	83,372	-
No of persons	3	-

9. Other operating expenses

Premises running costs		(1,199,955)	-
Legal and Professional charges		(237,460)	-
Auditors remuneration	9.1	(137,500)	-
IT and communication costs		(398,331)	-
Branches operation charges		(396,501)	-
Group direct expenses		(912,752)	-
Miscellaneous		(148,024)	-
Total other operating expenses		**(3,430,523)**	**-**

9.1 Auditors remuneration

	2016 (£)	2015 (£)
Statutory audit and group reporting	(119,000)	-
Audit related assurance services	(11,000)	-
Tax compliance services	(7,500)	-
Total Auditors remuneration	**(137,500)**	**-**

10. Impairment losses on loans and advances

Loans and advances to customers		
Charged during the period	2,345,334	-
Recovered/released during the period	(1,049,760)	-
Impairment losses on loans and advances	**1,295,574**	-

11. Taxation

Corporate tax:		
Current year	(332,000)	-
Prior year	131,522	-
	(200,478)	-
Deferred tax:		
Current year	749,493	-
	549,015	-
Tax reconciliation		
Profit before tax	**2,482,481**	**-**
Expected tax charge at 20%	(496,496)	-
Permanent disallowable expenses	(86,076)	-
Release of provision	160,000	-
Timing differences	(40,940)	-
Recognition of deferred tax on losses carried forward	796,020	-
Utilisation of previously unrecognised losses	84,985	-
Prior year adjustment	131,522	-
Total tax charge	**549,015**	**-**

The corporation tax rate from 01 April 2017 to 31 March 2020 is set at 19%. Reduction into UK corporate tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016.

12. Deferred tax assets

Deferred taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised.

Deferred tax assets mainly relate to carry forward losses. The amount of carry forward losses available as at 31 December 2016 was £25 million on, which estimated amount of deferred tax not recognised amounted to £4.2 million due to the uncertainty of their recoverability.

The table below shows the deferred tax assets including the movement in the deferred tax account during the year:

	Tax losses carried Forward	Others (£)	Total (£)
Transferred from branch as at 01 April 2016	-	46,527	46,527
Charged to P&L	796,020	(46,527)	749,493
Closing balance as at 31 Dec 2016	**796,020**	**-**	**796,020**

13. Cash in hand and with central bank

	2016 (£)	2015 (£)
Balance with central bank	91,200,000	-
Cash in hand	1,024,488	12,500
Total cash in hand and with central bank	**92,224,488**	**12,500**

14. Due from banks

Money market placements	19,007,256	-
Cash in current accounts	21,911,193	-
Bankers acceptances	1,164,228	-
Cash in margin accounts*	150,000	-
Cash at bank	-	5,000,000
Total due from banks	**42,232,677**	**5,000,000**

*This represents cash held with counterparty in accordance with collateral requirement under CSA.

15. Loans and advances to customers

		2016 (£)	2015 (£)
Commercial loans		306,650,599	-
Overdraft		42,451,005	-
Corporate loans		8,980,000	-
Discounted bills & trade finance loans		8,495,135	-
Other loans including staff loans		679,415	-
Gross loans and advances to customers		**367,256,154**	**-**
Less: Provision for impairment	15.1	(16,860,868)	-
Net loans and advances to customers		**350,395,286**	**-**

15.1 Provision for impairment

Balance transferred from branch as at 01 April 2016	16,011,820	-
Impairment charged to profit and loss	2,345,334	
Recovered/reversed during the period	(1,049,760)	-
Written off/ others	(446,526)	-
Total provision for impairment *	**16,860,868**	**-**

* This includes the collective provision of £1.2million

16. Financial investments

Available for sale investment - Debt instruments		
Book value	98,866,096	-
Fair value gain on mark to market of the investment	273,226	-
Total available for sale investments	**99,139,322**	**-**
Total financial investments	**99,139,322**	**-**

This includes exposures to sovereigns and central banks.

17. Derivative financial instruments

The Bank transacts derivatives to manage and hedge own risk and that of its customers.

The Bank uses derivatives (cross currency swaps) for hedging purposes in the management of its own asset and liability portfolios. This enables the Bank to mitigate the market risk, which would otherwise arise from structural imbalances.

Forward foreign exchange currency contracts are Over the Counter agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on a specific rate applied against the underlying asset or financial instrument, at a specific date.

Derivatives are measured at their fair value, which is calculated as the present value of the future expected net contracted cash flows at market related rates as of the balance sheet date.

The fair values and notional amounts of derivative instruments are as follows:

	2016 (£)	2015 (£)
Sales	35,947,543	-
Purchase	35,457,760	-
Fair value asset	548,009	-
Fair value liability	502,923	-

18. Property and equipment

	Land £	Freehold and leasehold £	Property and other improvements £	Furniture, fixture and equipment £	Motor vehicles fittings £	Total £
Cost						
Transferred from branch as at 01 April 2016	1,050,000	10,478,836	1,411,583	1,742,177	106,102	14,788,698
Additions	-	76,359	62,251	99,948	-	238,558
Balance as at 31 December 2016	**1,050,000**	**10,555,195**	**1,473,834**	**1,842,125**	**106,102**	**15,027,256**
Accumulated Depreciation						
Transferred from branch as at 01 April 2016	-	5,588,428	1,243,415	1,516,482	106,102	8,454,427
Depreciation charged during the period	-	296,118	65,269	47,644	-	409,031
Balance as at 31 December 2016	**-**	**5,884,546**	**1,308,684**	**1,564,126**	**106,102**	**8,863,458**
Net book value as at 31 December 2016	**1,050,000**	**4,670,649**	**165,150**	**277,999**	**-**	**6,163,798**

19. Other assets

	2016 (£)	2015 (£)
Accrued interest receivable	715,097	-
Advance tax	358,522	-
Prepayments	229,036	-
Receivable from Parent bank	101,981	-
Value added tax refundable	88,769	-
Customer transaction fee receivable	65,600	-
Other	87,517	-
Total other assets	**1,646,522**	**-**

20. Due to banks

Due to Parent bank (Habib Bank AG Zurich, Switzerland)	20,023,438	-
Due to associates (fellow subsidiaries)	4,622,441	-
Other deposits	272,911	-
Total due to banks	**24,918,790**	**-**

21. Due to customers

Time deposits	306,689,442	-
Current and demand accounts	171,605,397	-
Margin accounts	773,488	-
Call deposits	551,575	-
Total due to customers	**479,619,902**	**-**

22. Accrual, deferred income and other liabilities

Interest payable	1,591,316	-
Bills payable	844,477	-
Staff costs payable	717,522	-
Accrued expenses	616,780	-
Deferred income	265,023	-
Other	364,667	-
Total accrual, deferred income and other liabilities	**4,399,785**	**-**

23. Current tax liabilities

	2016 (£)	2015 (£)
Provision for corporation tax (HBZ Plc – Apr 16 to Dec 16)	332,000	-
Provision for corporation tax (HBZ branch – Jan 16 to Mar 16)	68,000	-
Total current tax liabilities	**400,000**	**-**

24. Subordinated liabilities

Habib Bank AG Zurich, Switzerland, the Parent bank issued subordinated loan of £20m being the Tier 2 capital to the Bank. The loan carries interest at a rate of 6 month libor plus 125 bps per annum to be paid semi-annually.

The initial term of the loan is five years. The term of loan can be extended for one additional year on each anniversary with the mutual consent of both lender and borrower after the expiry of the initial term.

25. Share capital

	2016 (£)	2015 (£)
Called up and fully paid		
60 million authorised and fully paid ordinary shares of £1 each (2015: 12,500 ordinary shares of £1 each)	60,000,000	12,500
Called up capital unpaid	-	37,500
Total share capital	**60,000,000**	**50,000**

25.1 Called up and fully paid share capital

In issue at 1st January		12,500	12,500
Issues of new ordinary shares – converted prepaid share reserve to paid up capital		5,000,000	-
Issue of new ordinary – un paid shares converted to paid up share capital from net assets transferred from the branch	(refer note 1)	37,500	-
Issues of new ordinary shares – net assets transferred from the branch	(refer note 1)	54,950,000	-
Total share capital		**60,000,000**	**12,500**

26. Prepaid share reserve

This represented amount received in 2015 from Parent bank Habib Bank AG Zurich to meet minimum regulatory capital requirement for a UK bank as required under Financial Services and Market Act 2000. This was converted to ordinary share capital in 2016.

27. Available for sale reserves

	2016 (£)	2015 (£)
Revaluation reserves in respect of available for sale securities	273,226	-
Deferred tax charge	(54,645)	-
Total available for sale reserves	**218,581**	**-**

28. Transfer of Net Assets from HBZ UK branch

The details of assets and liabilities transferred from UK Branch of the Parent bank to the wholly owned subsidiary, Habib Bank Zurich plc are as under:

	Amount in £ 01 April 2016
Assets	
Cash in hand	1,231,932
Due from banks	72,348,144
Loans and advances to customers	361,165,053
Financial investments	85,639,087
Derivative financial instruments	173,092
Property and equipment	6,334,274
Other assets	1,698,587
Deferred tax assets	46,527
	528,636,696
Liabilities & Equity	
Due to banks	47,027,438
Due to customers	394,321,872
Derivative financial instruments	164,997
Accruals, deferred income and other liabilities	6,621,459
Current tax liabilities	396,000
Prepaid share reserve	5,000,000
Called up share capital	12,500
	453,544,266
Net Assets	**75,092,430**

Cash and cash equivalents representing balances due from Parent bank of £5,012,500 at 31 December 2015 was adjusted against the net assets acquired from the branch on 01 April 2016 and the cash and cash equivalent acquired on 01 April 2016 from the branch amounted to £1,231,932.

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29. Contingent liabilities and commitments

The Bank enters into transactions, which expose it to tax, legal and business risks in the ordinary course of business. Provisions are made for known liabilities, which are expected to materialise. Contingent obligations and banking commitments, which the Bank has entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities.

	2016 (£)	2015 (£)
Direct credit substitutes		
- Guarantees	9,319,056	-
Trade related contingent liabilities		
- Letters of credit	1,832,181	-
- Acceptances	1,741,499	-
Unused credit facilities	24,550,485	-

Unused credit facilities refer to commitments to make loans and revolving credits.

Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The potential credit loss is less than the total commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

30. Related party disclosure

Details of transactions between the Bank and related parties are summarized below.

	2016 (£)	2015 (£)
Banking transactions:		
- Interest earned from Parent bank	780	-
- Interest and expenses paid to Parent bank*	1,353,790	-
- Due to Parent bank including subordinated loan	39,535,166	-
- Due to fellow subsidiaries	4,622,441	-
- Due from related parties	523,085	-

Bank's related parties include Parent bank and fellow subsidiaries.

*Interest and expenses represents interest of £441,038 charged on borrowings and allocation of group expenses of £912,752 charged from 01 April 2016 to 31 December 2016.

The transactions arose from the ordinary course of business and on the same terms and conditions as for comparable transactions with third party counterparties.

Key management personnel information is disclosed in note 8.

31. Fair value of financial instruments

Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is a measure as at a specific date and may be significantly different from the amount, which will actually be paid or received on maturity or settlement date. Fair values of financial assets and liabilities measured at fair value are determined on the basis of their gross exposures. The carrying amount of the financial instruments is a reasonable approximation of fair values as illustrated in the table below.

Valuation of financial assets and liabilities

Assets and liabilities carried at fair value or for which fair values are disclosed has been classified into three levels based on significance and observability of inputs to determine the fair values.

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 predominantly comprise debt securities where observable prices are available in the market.

Level 2 This category comprises forward currency contracts, valued using external exchange rates.

Level 3 portfolios are those where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. Where the fair value cannot be reliably determined for an investment, the instrument is measured at cost.

The Bank had no level 3 financial instruments

Financial instruments carried at fair value and basis of valuation

	Level 1	Level 2	Level 3	Amount in £ Total
Financial investments				
- Available for sale	**99,139,322**	**-**	**-**	**99,139,322**
Derivative financial instruments-assets	**-**	**548,009**	**-**	**548,009**
Total financial assets carried at fair value	**99,139,322**	**548,009**	**-**	**99,687,331**
Derivative financial instruments-liabilities	**-**	**502,923**	**-**	**502,923**
Total financial liabilities carried at fair value	**-**	**502,923**	**-**	**502,923**

The following table sets out the fair value of financial instruments not measured at fair value and analyse them by the level in the fair value hierarchy into which each fair value measurement is categorised

Financial instruments not measured at fair value

	Level 1	Level 2	Level 3	Total fair value	Amount in £ Total carrying amount
Assets					
Cash in hand and with central bank	92,224,488	-	-	92,224,488	**92,224,488**
Due from banks	42,232,677	-	-	42,232,677	**42,232,677**
Loans and advances to customers	-	337,809,670	-	337,809,670	**350,395,286**
Liabilities					
Due to banks	-	24,918,790	-	24,918,790	**24,918,790**
Due to customers	478,181,522	-	-	478,181,522	**479,619,902**
Subordinated liabilities	-	18,465,326	-	18,465,326	**20,000,000**

The fair value of cash in hand and with central bank, due from banks and due to banks approximate to their carrying amount due to their short dated nature of less than 1 year maturity.

The fair value of loans and advances to customers, due to customers and subordinated liabilities is estimated using valuation models, such as discounted cash flow techniques. Inputs into the valuation techniques include interest rates and outstanding maturities.

The fair value of other financial instruments is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates and outstanding maturities.

32. Risk management

The Bank has an overall risk management framework set out in line with risk appetite, documented within a set of risk management policies approved by the Board. Risk appetite defines the types and amounts of risk that the Bank is willing to take in pursuit of its business strategy. This is reviewed regularly and provides qualitative statements and quantitative measures to assist with the monitoring of various risk types. This process is underpinned by comprehensive, proportionate, transparent and objective disclosure of risk exposures to Board and the senior management,

The Bank's approach to Risk Management is built on the principle of low to medium risk appetite and Investment return horizon, which is medium to long term. In order to achieve this, the Bank offers conventional products where the focus is on personalised customer service.

The Bank maintains an internal controls system, with clear responsibilities for risk management, applying governance model, which enables oversight and management of risks. These specific responsibilities include:

- Review and determine the risk appetite of the Bank;
- Identify and evaluate the principal risks to the Bank's Business model and the achievement of its strategic objectives, including risks that could threaten its capital or liquidity;
- Review of the risk management and internal control systems and satisfy itself that they are functioning effectively and corrective action is being taken where necessary;
- Capital, liquidity and earnings are protected by the effective controlling of the risk exposures across all material risk types and businesses;
- Ensure that an appropriate risk culture is instilled in the Bank; and
- A strong ethical and risk culture is maintained so that risk awareness is embedded into all activities.

32.1 Board Committees

The Board of Directors has established Committees of the Board for effective oversight of business strategy and key risks. The Board Risk Committee (BRC) oversees and challenges the risk management function to ensure that governance arrangements, risk framework and systems and controls are evaluated and managed properly. BRC periodically review the risk framework to evaluate its adequacy and appropriateness under the prevailing business environment and in light of major changes in internal or external factors. It provides assurance on the Bank-wide risk framework and monitors the overall risk profile of bank through effective control processes. BRC annually review the Risk Appetite Statement and consider the adequacy of risk limits and returns.

32.2 Management responsibilities

At an operational level the Risk Management Framework is managed through a management committee structure with delegated authorities from the Board. The Executive Committee presides over the committees and is responsible for implementing Bank's strategic objectives and managing the business with adequate controls within the risk appetite of the Bank. The Executive Committee reports into the Board of Directors through the CEO.

The management of the Bank through committee structure allows for Enterprise Wide Risk Management through the consideration of different aspects and challenge at decision-making levels. Significant and relevant decisions and issues at other committees are escalated to EXCO for information and consideration as appropriate. This structure ensures that management of the Bank's operations, strategic decision-making and risk management are undertaken on a consultative basis at committee level by experienced functional and business personnel.

The ALCO is the committee responsible to review and recommend to the EXCO the capital and liquidity related matters. The EXCO reviews and further recommend the same to the Board for its consideration, review and approval.

32.3 Credit risk

Credit Risk is defined as of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation resulting in financial loss to the Bank. It is also measured in terms of credit losses or provisions charged to the profit and loss account. Qualitative information also used to assess issues related to the effectiveness of the risk appetite.

The Bank's risk appetite statement is approved by the Board of Directors (BOD), and the BRC maintains oversight of the Business Performance against the Risk Appetite (RA). Management review is conducted by the Country Credit Committee (CCC) and monitoring by the Audit Risk & Compliance Committee (RCC).

Impairment

Impairment reviews including recommendations for new impairment provisions or releases of previously recognized impairment provisions are carried our regularly. These include both specific and collective impairment provisions.

Certain factors determine whether a specific impairment / individual should be considered, and these include, but are not limited to:

- Significant financial difficulty of the borrower;
- A breach of contract such as default or delinquency in payment of interest or principal;
- Forbearance, where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that it would not otherwise consider;
- It becoming probable that the borrower will enter insolvency or other financial reorganization;
- The disappearance of an active market because of financial difficulties; or
  Observable data indicating that there is measurable decrease in the estimated future cash flows.

In addition, a collective impairment assessment has been carried out for a set of financial assets with similar risk characteristics using management's best judgement. This involves application of judgemental assumptions including impairment on default and forced sale discounts supported by discounted cash flow analysis prepared on a case by cases basis for the relevant assets, which are impaired as at the period end.

Credit Quality of Assets

Amount in £

	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Total
Neither past due or impaired	92,224,488	42,232,677	295,150,858	99,139,322	548,009	529,295,354
Past due but not impaired	-	-	40,247,126	-	-	40,247,126
Past due or impaired	-	-	31,858,170	-	-	31,858,170
Gross exposure	**92,224,488**	**42,232,677**	**367,256,154**	**99,139,322**	**548,009**	**601,400,650**
Less: Individual impairment	-	-	(15,660,868)	-	-	(15,660,868)
Collective impairment	-	-	(1,200,000)	-	-	(1,200,000)
Net exposure	**92,224,488**	**42,232,677**	**350,395,286**	**99,139,322**	**548,009**	**584,539,782**

Past due but not impaired – Loans and advances to customers

Amount in £

Age bracket	Loan amount overdue	Total loan amount
< 30 days	165,774	30,938,679
> 30 days to 60 days	50,083	4,231,871
> 60 days to 90 days	35,344	1,943,195
> 90 days to 180 days	310,510	1,299,994
> 180 days	163,148	1,833,387
	724,859	**40,247,126**

Credit Risk Ratings

For the purpose of credit risk ratings, the Bank segregates its loans and advances portfolio into two categories namely, Property Sector lending and Other Lending (primarily comprising of commercial lending). Property sector lending covers major portion of the total lending portfolio. The Bank follows a program based lending approach for property sector lending with clearly defined Risk Acceptance Criteria (RAC) for this segment rather than a credit risk rating methodology.

The Bank recognises loans and advances as past due when the customer does not meets its contractual payment obligations.

The Bank regards a loan and advance or a debt security as impaired if there is objective evidence that a loss event has an impact on future estimated cash flows from the asset.

Financial assets split by external rating, where applicable:

Amount in £

	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
AAA to AA-	91,200,000	532,133	-	99,139,322	-	-	190,871,455
A+ to A-	-	277,582	-	-	-	-	277,582
BBB+ to B-	-	35,338,688	-	-	483,383	17,951,129	53,773,200
Unrated	1,024,488	6,084,274	350,395,286	-	64,626	54,949,852	412,518,526
	92,224,488	**42,232,677**	**350,395,286**	**99,139,322**	**548,009**	**72,900,981**	**657,440,763**

Concentration of Risk

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar features that would cause their ability to meet contractual obligations to be affected by changes in economic, political or other conditions. The Country Credit Committee primarily manages concentration risk. The Bank Assets and Liabilities Committee also monitor credit concentration. All material exposures are reported to the Board Risk Committee, which escalates material concerns to Board of Directors.

Segmental concentration of financial assets and credit related contingent liabilities:

Amount in £

	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernationals	91,200,000	-	-	99,139,322	-	-	190,339,322
Financial Institutions	-	42,232,677	-	-	483,383	17,951,020	60,667,080
Industrial & commercial	-	-	285,993,365	-	64,626	52,235,356	338,293,347
Individual	-	-	64,401,921	-	-	2,714,605	67,116,526
Other	1,024,488	-	-	-	-	-	1,024,488
	92,224,488	**42,232,677**	**350,395,286**	**99,139,322**	**548,009**	**72,900,981**	**657,440,763**

Supernationals include investment made by the Bank in high rated bonds issued by sovereigns and multilateral development banks.

Geographical concentration of financial assets and credit related contingent liabilities:

Amount in £

	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
United Kingdom	92,224,488	25,842,165	348,386,633	5,667,800	361,179	62,081,239	534,563,504
Luxembourg	-	-	-	55,939,410	-	-	55,939,410
United States of America	-	5,209,536	-	16,172,872	-	-	21,382,408
Finland	-	-	-	14,161,700	-	-	14,161,700
France	-	-	-	7,197,540	-	-	7,197,540
Belgium	-	-	-	-	186,830	5,905,746	6,092,576
South Africa	-	5,291,550	-	-	-	3,661,712	8,953,262
India	-	3,260,282	-	-	-	-	3,260,282
Switzerland	-	1,213,105	-	-	-	-	1,213,105
Germany	-	771,655	-	-	-	-	771,655
Other	-	644,384	2,008,653	-	-	1,252,284	3,905,321
	92,224,488	**42,232,677**	**350,395,286**	**99,139,322**	**548,009**	**72,900,981**	**657,440,763**

Collateral Management

Collateral Risk is mitigated through the use of readily marketable collateral, avoidance of collateral with high volatility and use of haircuts as per approved Bank's policy.

Collateral values are assessed by professional valuers. The Bank uses panel of valuers selected through a robust due diligence process. Residential or commercial collateral used by the Bank are on vacant possession, which provides fair degree of conservativeness to the values used for calculating LTV. The Bank generally performs valuation of properties every five years.

Key threat arising along with controls & mitigations in place are tabulated below:

Collateral Risk	Controls & Mitigation in Place
Risk Arising from reduction collateral values	• Generally acceptable collateral - Cash, Residential & Commercial Property, Bank Guarantees, Shares & Bonds & life insurance with surrender value. • Lien is marked against cash taken as collateral • Charge is recorded in Bank's name in land registry relating to residential and commercial properties taken as collateral. • Other collateral like Bank Debenture, Stocks, Receivables, Personal Guarantees also available but discounted for lending and provision decisions. • Well defined haircuts for all collateral with Property haircuts arrived at on the basis of type of property, location and market conditions • Property Stress tests conducted every six months
Risk arising from inadequate perfection of Security for Customer Borrowing	• Credit Administration unit centralised • Standardisation of documents and processes for Risk mitigation • Duly reviewed & approved panel of solicitors & valuation firms

The Bank accepts collateral subject to legal review and appropriate documentation in accordance with the Credit Risk Management Policy. The Credit Department keeps a comprehensive record of collateral received and is responsible for regular updates to the valuation of the underlying collateral. The documentation entered into with the obligor specifies the Bank's rights and ability to liquidate the collateral, if required. The Country Credit Committee is responsible for decisions regarding liquidation or appropriation of collateral based on recommendations from the Head of Credit and advice from the Legal Department.

The carrying amount of financial assets recorded in the balance sheet, net of any allowances for losses, represents the Bank's maximum exposure to credit risk without taking account of any collateral obtained. The fair value of collateral and security enhancements held against loans or advances to customers is shown below:

Collateral Type	Collateral Value (£)	Advances in £
Commercial real estate	572,711,965	215,654,178
Residential real estate	226,566,630	99,640,670
Cash collateral	32,583,336	14,745,244
Other collateral	6,229,486	1,415,779
Guarantees	3,339,235	2,138,491
Unsecured	-	33,661,792
Total	**841,430,652**	**367,256,154**

The following table stratify credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of gross amount of the loan – to the value of the collateral. The Value of the collateral for mortgage loans is based on the collateral value at origination updated based on changes in valuation. For credit-impaired loans the value of collateral is based on the most recent appraisals and taking into account any reduction in values as a result of forced sales.

Loans and Advances

LTV Bracket	Regular Portfolio	Non-Performing	Amount in £ Total Portfolio
Less than 50%	149,505,455	3,866,701	153,372,156
51-70%	148,160,428	850,071	149,010,499
71-90%	10,328,522	204,154	10,532,676
91-100%	3,882,283	2,911,295	6,793,578
More than 100%	23,521,296	24,025,949	47,547,245
Grand Total	**335,397,984**	**31,858,170**	**367,256,154**

Forbearance

The Bank renegotiates loans to customers in financial difficulties as process referred to as forbearance activities to maximise collective opportunities and minimise risk of default. Under the forbearance process, loans to customers who face financial difficulties in maintaining the repayments are reviewed and analysed to assess the nature and extent of these difficulties. All such customers are either currently in default or there is a high risk of default. There is clear evidence that the customer has made all efforts to meets its financial obligation under the original contractual obligations.

All such situations are discussed and approved as per credit sanction process by the Country Credit Committee. The Bank accommodates the forbearance situations by deferring the principal repayments, Interest moratorium, converting the overdraft into the amortising loan, using the letter of credit to finance trade finance rather then Overdraft.

All customers once assessed under forbearance process with revised repayment terms are kept under close monitoring process. Once the circumstances leading to forbearance process related to a loan no longer exists, and customers demonstrate continuous repayment history, the loan is no longer considered as forborne.

During the year, loan amounting to £18 million was considered as forborne of which £10 million was classified as impaired. A provision of £2.5 million was made against forborne loans.

32.4 Market risk

Market risk refers to the risk to an institution resulting from movements in market prices, in particular, changes in interest rates, foreign exchange rates, and equity and commodity prices.

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial markets. Banks involved in proprietary trading are exposed to market risk due to change in interest or foreign exchange rates.

Financial district of the City, London

32.5 Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. Interest rate risk at the Bank is well managed and contained and the Bank has no significant long term or complex interest rate positions. The Bank seeks to minimize the negative impact on net interest income of adverse movement in interest rates.

The Bank uses its own base rate for pricing of products, which can be changed with 30 days' notice to the customers. Therefore any significant fluctuation in interest rate is unlikely to have a material impact on the Bank as it can re-price its lending and customer deposit books. The Bank is exposed to interest rate risk on its fixed rate investment portfolio maintained to meet the Liquidity Coverage Ratio (LCR) requirement. However, this is only limited to a portion, which is monitored in ALCO.

Customers' deposits are mostly short tenors (<1year) and priced in accordance with market conditions and the Bank's cost of funds. Hence the interest rate risk on the same is limited.

The following table provides a summary of the interest rate re-pricing profile of the Bank's financial assets and liabilities. Items have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date.

Amount in £

	Within 3 months	<3 to 6 months	<6 months to 1 year	<1 to2 years	<2 to 3 years	< 4 to 5 years	> 5 years	Total
Assets								
Cash in hand & with central bank	92,224,488	-	-	-	-	-	-	92,224,488
Due from banks	31,705,073	10,227,822	299,782	-	-	-	-	42,232,677
Loans & advances to customers	2,302,547	347,920,289	137,950	-	34,500	-	-	350,395,286
Financial investments								-
Available for sale	43,206,197	-	-	34,556,223	-	10,082,600	11,294,302	99,139,322
Derivative financial instruments	134,248	247,500	162,322	3,939	-	-	-	548,009
Total assets	**169,572,553**	**358,395,611**	**600,054**	**34,560,162**	**34,500**	**10,082,600**	**11,294,302**	**584,539,782**
Liabilities								
Due to banks	24,918,790	-	-	-	-	-	-	24,918,790
Due to customers	289,518,780	84,010,652	100,842,153	5,248,317	-	-	-	479,619,902
Derivative financial instruments	132,097	37,754	331,965	1,107				502,923
Total Liabilities	**314,569,667**	**84,048,406**	**101,174,118**	**5,249,424**	**-**	**-**	**-**	**505,041,615**
Net Gap (Assets - Liabilities)	**(144,997,114)**	**274,347,205**	**(100,574,064)**	**29,310,738**	**34,500**	**10,082,600**	**11,294,302**	**79,498,167**

Interest Rate Sensitivity Analysis

The sensitivity to the income statement to various interest risk variables is considered on daily basis. An analysis of sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows at the financial year end.

	2016 Impact on P&L £
25bps increase in interest rate	(11,079)
25bps decrease in interest rate	11,079
50bps increase in interest rate	(22,158)
50bps decrease in interest rate	105,374

32.6 Foreign Currency (FX) Risk Management

Foreign Exchange risk – is the risk that the Bank will suffer a loss as a result of an adverse movement in exchange rates.

The Bank has identified FX risk component of the market risk that could lead to losses considering the nature of Bank's business. As the Bank is not running a trading book it is not exposed to FX risk to a large extent.

The Bank has developed various management reports to measure and manage foreign exchange risk. The Bank's open foreign exchange positions are monitored intraday. The foreign exchange exposures are managed by the treasury front office with a maximum allowable net open position ("NOP") of £1m with a maximum amount of £250,000 in a single currency. The Bank considers this an acceptable risk exposure. Client transactions are generally executed on a matched basis reducing the risk of losses. The Bank's does not engage in proprietary trading. This eliminates the likelihood of FX losses.

Key Risk Indicators exceeding tolerance are reviewed in the CCC & ALCO & reported to the Audit Risk and Compliance Committee (ARCC) together with remedial action plans.

The Bank's net open position (NOP) as at 31 December 2016 was £6,630

Currency	NOP (£)
USD	(35,574)
EUR	(15,400)
PKR	16,767
ZAR	46,852
CAD	(14,772)
INR	9,725
Others	(968)

32.7 Liquidity Risk Management

The Bank's liquidity risk is clearly articulated in its "Liquidity Risk Management Policy" (LRMP) approved by the Board of Directors. The Bank maintains adequate liquidity levels all the time to cover its short and medium term liquidity risks over an appropriate set of time horizons for both BAU and stressed conditions. The Bank keeps a liquid asset buffer of High Quality Liquid Assets as required by European Union (EU) regulations. The Bank also maintains substantial liquidity in the Bank of England Reserve account and in short term deposits to meets its liquidity requirements.

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due and in the currency in which they are due. Typically this arises from a mismatch in the cash flows arising from assets, liabilities and contingencies. To limit this risk, the Bank manages the maturities of its assets and liabilities and its cash flows on a daily basis.

The Bank has put in place strategies, policies, processes and systems that enable it to identify measure, manage and monitor liquidity risk over an appropriate set of time horizons, including intraday, so as to ensure that it maintains adequate levels of liquidity buffers. The Bank's liquidity policy is based on maintaining sufficient liquid resources to ensure there is no significant risk that its liabilities cannot be met as they fall due.

The Board oversees liquidity risks. The risks identified in the Bank's risk profiles are all at a level, which are in line with the current business operations and the Business Plan. The Bank has a clearly defined liquidity risk appetite approved by the Board. This forms the basis of its liquidity risk policy as well as systems and controls around the management of liquidity adequacy. The Bank will continue to review and update its liquidity risk management framework based on feedback from PRA experience and from developments in market and industry best practices.

In order to achieve the above, the Bank has identified several risk factors, which form components of the Bank's overall liquidity risk profile. These include but are not limited to:

- Wholesale secured and unsecured funding risk
- Retail funding risk
- Intra-day liquidity risk
- Intra-group liquidity risk
- Cross-currency liquidity risk
- Off-balance sheet liquidity risk
- Franchise viability risk
- Marketable assets risk
- Non-marketable assets risk
- Funding concentration risk

The Treasury Department is responsible for day-to-day management of funding and liquidity with particular attention to the level of mismatch between assets and liabilities as well as currency exposure. The Finance Department provides daily monitoring reports against the regulatory and MI requirements, with a clear escalation process for reporting adverse outcomes. The ALCO coordinates and provides direct oversight on the whole process of liquidity risk management in accordance with their terms of reference approved by the Board.

The Bank has the following liquidity profile that analysis assets and liabilities into relevant maturity buckets based on the remaining period to contractual maturity. The maturity profile is the representative of its contractual undiscounted cash flows.

Amount in £

	Carrying amount	Gross nominal inflow / outflow	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	> 5 years
Financial asset by type							
Non-derivative assets							
Cash in hand & with central bank	92,224,488	92,243,852	92,243,852	-	-	-	-
Due from banks	42,232,677	42,466,474	27,364,919	5,618,635	9,482,919	-	-
Loans & advances to customers	350,395,286	394,254,893	56,727,967	13,773,866	24,870,315	81,449,972	217,432,774
Financial investments							
- Available for sale	99,139,322	100,010,302	-	11,022,311	6,495,080	70,945,768	11,547,143
	583,991,773	**628,975,521**	**176,336,738**	**30,414,812**	**40,848,313**	**152,395,740**	**228,979,917**
Derivative assets							
Risk management	548,009						
Outflow		18,460,295	3,521,415	8,251,312	6,687,568	-	-
Inflow	-	(17,893,949)	(3,300,972)	(8,006,533)	(6,586,444)	-	-
	548,009	**566,346**	**220,443**	**244,779**	**101,124**	**-**	**-**
Financial liability by type							
Non-derivative liabilities							
Due to banks	24,918,790	(24,934,719)	(24,934,719)	-	-	-	-
Due to customers	479,619,902	(482,766,840)	(233,287,502)	(56,952,893)	(187,046,742)	(5,479,703)	-
Subordinated liabilities	20,000,000	(20,179,000)	-	-	-	(20,179,000)	
	524,538,692	**(527,880,559)**	**(258,222,221)**	**(56,952,893)**	**(187,046,742)**	**(25,658,703)**	**-**
Derivative liabilities							
Risk management	502,923	-	-	-	-	-	-
Outflow	-	17,532,669	3,116,939	7,819,153	6,596,577	-	-
Inflow	-	(18,053,593)	(3,328,880)	(8,047,036)	(6,677,677)	-	-
	502,923	**(520,924)**	**,**	**(227,883)**		**-**	**-**

The Bank has disclosed a contractual maturity analysis for its financial instruments. This includes a maturity analysis for financial assets that it holds as part of its managing liquidity risk - e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities - because the Bank considers that such information is necessary to enable financial statement users to evaluate the nature and extent of its liquidity risk.

32.8 Encumbered assets

Certain assets are pledged as collateral to secure liabilities under Credit Support Annex ("CSA") for derivative liabilities and as security deposits relating to FX forward transactions. The holders of these securities do not have the right to sell or re-pledge the asset except where specifically disclosed. The aggregate amount of collateral pledged under CSAs is £150,000.

32.9 Operational Risk Management

Operational Risk is the risk that the Bank triggers one or more of the below situations due to failed internal processes, people and systems – these can be internal or external to the Bank:

- Adversely impacts customers (customers are defined as customer of the Bank as well as internal "customers" such as colleagues with a dependency on particular output or service)
- Incurs losses e.g. operational losses (this includes temporary losses i.e. where recovery is made or is in progress of being made)
- Breaches in regulatory requirements or other policies and practices of the Bank

The Bank's operational processes exist to support the servicing of customers and to maintain compliance with relevant regulation. These imperatives will be robustly protected. The Bank will ensure that it remains compliant with the latter but its approaches to the former will vary according to priority and need. In terms of customer service the Bank will actively employ flexible approaches to maintaining and protecting delivery and to this end will incur reasonable costs as required.

The Bank set various tolerance trigger points in accordance with regulation and guidance from UK Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA"). In the event of these tolerances being breached, reporting to the Operations and Technology Committee (OTCO) is made. OTCO considers the breaches and consider whether further reporting to Audit, Risk and Compliance Committee (ARCC) is required. Reporting is made together with confirmation of remediation plans.

The Bank adopts the Basic Indicator approach for calculating Operational Risk capital as set out in the CRR and consequently embarks on rigorous risk identification exercises to establish any Pillar 2 requirements for Operational Risk.

32.10 Capital Management and Risk

The primary objective of capital management is to maintain strong capital to support medium to long-term business growth. An effective capital management process provides resilience arising from both internal and external factors resulting in additional capital requirements. The Bank maintains strong capital ratios not only to support its business and maximise shareholders' value but also to maintain depositors' and market confidence. The Prudential Regulation Authority sets and monitors the capital requirement for the Bank.

The Bank's capital has been invested by the Parent bank to support long-term business growth of the Bank, which includes capital resources to meet Pillar 1, Pillar 2, CRD Buffers and PRA Buffer. The Bank also maintains internal capital buffer over and above the minimum regulatory capital requirement. The Bank also takes into account changes in economic conditions; risk characteristics of its activities and regulatory requirement in managing its capital structure and make adjustments to it in the light of such changes. The bank has put in place processes and controls to monitor and manage its own funds and no breaches were reported to the PRA during the period.

Description	Amount (£)
Share Capital –Tier 1	60,000,000
Subordinated liability – Tier 2	20,000,000
Own funds	80,000,000

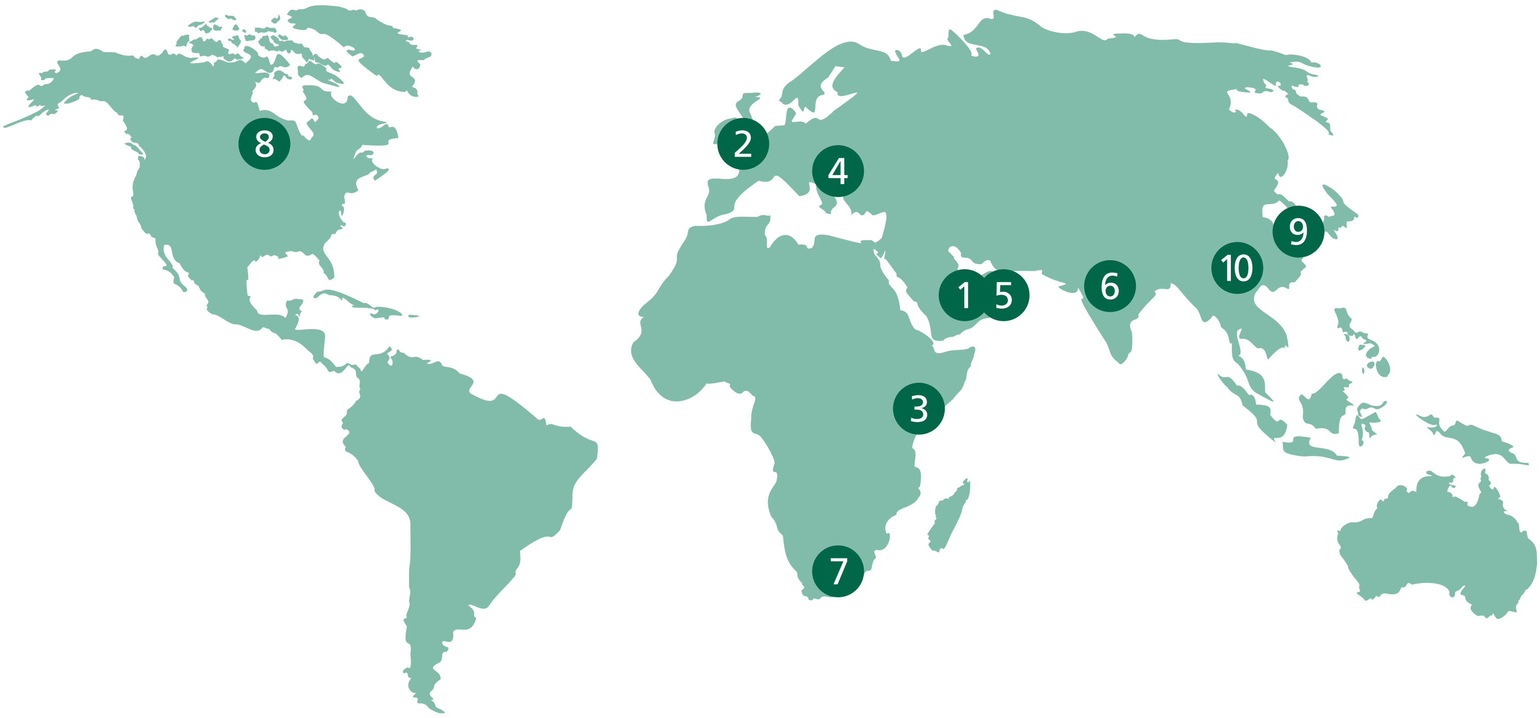
33. Significant Events after the Balance Sheet Date

The Directors confirm that there have been no significant events since the reporting date what require to be disclosed.

Branch Network

Moorgate Branch		Habib House
		42 Moorgate
		London EC2R 6JJ
	Telephone:	020 7452 0200
Manchester		5, The Point
		173-175 Cheethamhill Road
		Manchester M8 8LG
	Telephone:	0161 832 2166
West End Branch		142 Wigmore Street
		London W1U 3SH
	Telephone:	020 7487 4571
Leicester		160 Belgrave Road
		Leicester LE4 5AU
	Telephone:	0116 261 3300
Southall		5/7 High Street
		Southall
		Middlesex UB1 3HA
	Telephone:	020 8893 5059
Birmingham		Ground Floor - Pinnacle House,
		8 Harborne Road
		Edgbaston
		Birmingham B15 3AA
	Telephone:	0121 777 8999
Tooting Branch		264 Upper Tooting Road
		London SW17 0DP
	Telephone:	020 8767 5555
Harrow on the Hill Branch		377 Station Road
		Harrow
		Middlesex HA1 2AW
	Telephone:	020 8515 1380

International Network



1.	UNITED ARAB EMIRATES	Habib Bank AG Zurich	**8 Branches**
2.	UNITED KINGDOM	Habib Bank Zurich Plc	**8 Branches**
3.	KENYA	Habib Bank AG Zurich	**5 Branches**
4.	SWITZERLAND	Habib Bank AG Zurich	**1 Branch**
5.	UNITED ARAB EMIRATES	HBZ Services FZ LLC	**1 Branch**
6.	PAKISTAN	Habib Metropolitan Bank	**307 Branches**
7.	SOUTH AFRICA	HBZ Bank Ltd	**8 Branches**
8.	CANADA	Habib Canadian Bank	**3 Branches**
9.	HONG KONG	Habib Bank Zurich (Hong Kong) Limited	**5 Branches**
10.	BANGLADESH	Habib Bank AG Zurich	**Representative Office**

YEARS

BUILDING TOGETHER

Habib Bank AG Zurich

SINCE 1967