Habib Bank AG Zurich

Habib Bank Zurich Plc

Annual Report 2017

50 YEARS
BUILDING TOGETHER
Habib Bank AG Zurich
SINCE 1967


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United Kingdom
Switzerland
UAE
Kenya
South Africa

Contents

Corporate Information

Board of Directors

Mr Muhammad H. Habib (Chairman)	Non-Executive Director
Mr Carey Leonard	Independent Non-Executive Director
Mr Gerald Arthur Gregory	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 Gerald Arthur Gregory	Chairman
Mr Gerald Arthur Gregory	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 (ARCC)
Country Credit Committee (CCC)
Operations and Technology Committee (OTCO)
Human Risk Committee (HRC)

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

Chairman's Message

It is my pleasure to present you with the second annual report of Habib Bank Zurich plc.

By the grace of God, I am pleased to report on a year of sound performance and growth. The Bank recorded a profit after tax of £4.4m and a balance sheet growth of 2% over the last year. The growth was driven by a well-articulated strategy and focus on relationship management in alignment with our motto 'service with security'. I find these results to be satisfactory in the context of the UK economy, which saw a growth of 1.4% in 2017.

The Bank has successfully positioned itself in the targeted customer segments as a service provider to SMEs and business owners for real estate, working capital finance and retail banking. During the year, the business focus was on acquiring new customers. I am delighted that the customer relationships grew by 11%. On the asset book, 65% of lending was provided to new customers, which reflects that we remain attractive for our target market. The introduction of the business visa debit card was another step to meet the needs of our growing customers, which was well received. In view of 2017 performance and customer feedback, the Bank remains confident to further cement its value proposition through personalised relationship management.

The back-office operations & IT are often the unsung heroes in most organisations. They deserve a special mention for their efforts in acquiring direct membership of Image Clearing System as one of only 17 banks in the UK. This is a significant achievement for a Bank of our size and reflects the robustness of our infrastructure and the skill set of our employees.

We completed 50 years of Habib Bank AG Zurich group in 2017, which is a very important milestone for all our stakeholders. The Bank celebrated this event by hosting a gala dinner in London. The Board and the management were delighted to welcome and thank the several generations of customers who bank with us. It reflects the trust of our customers in our ability to serve their banking requirements. The Habib Bank AG Zurich Group values greatly it's franchise in the UK and considers the Bank as one of its key operations.

The Board remains committed to strong and effective governance arrangements with the balanced composition and broad cumulative experience of the members. I take this opportunity to thank Stuart Barnett, for his valuable contribution, who after being a founding member of the board left in June 2017. I am also thankful to Carey Leonard for his responsibility as Chairman of the Board Risk Committee and who also took over additional responsibilities during the transition. I welcome Gerald Arthur Gregory who joined us in August 2017 as an Independent Non-Executive Director assuming the responsibility of Chairman of Board Audit & Compliance Committee.

During the year the Board worked closely with the CEO and the executive team to ensure that the Bank remains aligned with its business strategy, regulatory expectations and good practice. The Board takes comfort in the positive outcome of its regulatory engagements and major project of IFRS9 implementation.

Looking forward, we remain committed to serving entrepreneurs and SMEs, both of whom are the engine for growth of the UK economy. Combined with our operating capabilities, this segment provides a significant opportunity for growth. With a history of over forty years in the UK, we are confident in our ability to navigate through any economic uncertainty and continuity in delivering on our Board's primary objectives of maintaining financial soundness, profitability and achieving sustainable growth with low risk.

I would like to thank our customers for their patronage during our journey so far and expect their continued support on our onward journey.

Finally, I want to thank the management and all the employees of the Bank for their hard work and dedication and support of their families, which contributed significantly in the achievement of our positive results.

Muhammad H. Habib
Chairman

Strategic Report

The Directors are pleased to present the Strategic Report for the year ended 31 December 2017 for Habib Bank Zurich plc (the "Bank"). 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 stakeholders with a fair review of business performance during the year and the Bank's position at the end of the reporting period. This report includes a description of the key risks associated with the Bank's business and an analysis of its overall strategy and major developments during the reporting period.

Principal activity

The Bank offers standard commercial, SME and retail products combined with personalised relationship management. Service is delivered through the branch managers, specialist lending relationship managers and personal bankers for deposit mobilisation. The customer takes comfort in continuity with a relationship manager and quick turnaround on their requests as well as continued access to the decision makers at the Bank.

The products offered to its customers include retail banking, saving accounts and deposits, commercial lending, trade finance, Internet deposits, cash management and treasury services. The Bank is covered by the Financial Services Compensation Scheme (FSCS).

Strategy and Objectives

The Bank's strategy is built upon providing banking services to small and medium size enterprises and affluent individuals. The brand value is grounded in 'Service with Security'. Accordingly, the Bank is focussed on its niche to deliver excellent service to its customers.

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, services and small-scale manufacturing. Their banking needs are centred on conventional commercial banking products.

Business Model

The Bank's business model is built upon delivering high quality 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 through a 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 services; real estate finance and commercial banking services. The Bank also offers regular cash management, trade finance and retail banking in line with the customer needs. The Bank's product and service

offering is comprised of buy to let finance, commercial loans, working capital finance, current accounts, savings accounts, notice accounts, fixed term deposits and treasury services.

Capital Structure

The Bank has a strong capital base with a net equity of £68 million and a five-year subordinated loan of £20 million to support long-term growth and cover risks inherent to the business. Such strength in capital allows the Bank to deploy funds in the avenues that provides sustainable returns in line with the set objectives.

Business Review

The year 2017 offered new challenges to the banking industry in the form of post Brexit impact. The political and economic uncertainties owed to the outlook of the UK when it finally leaves the European Union in 2019 are being very keenly monitored through the Bank's committees. Although the Bank has no direct impact of Brexit as the majority of its business is domestic, the impact through increase in competition, rising cost of funds and pressure on property prices cannot be ruled out. The Bank continued to focus on maintaining a sustainable business model through proactive risk management, effective liquidity and capital management and meeting the requirements of the changing regulatory environment.

The Bank's business performance during the year was in line with the targets set by the Board. The key focus of management was responsible lending through acquisition of new business customers to broaden the customer base. The Bank was also steadfast on the continuous improvement of the service level and to further upscaling the standard of culture and ethics within the organisation. The Bank continued its focus on client engagement and growth in business volume. This was enhanced through feedback received from customer surveys and the interaction of relationship managers with customers.

The Bank's real estate and commercial lending book performed well during the year. To maintain profitability momentum, the Bank has placed a lot of emphasis on the retention of existing clients and effective balance sheet management. This was achieved through an increase in the yield on investments and banks placements and maintaining customers' cost of funds at a manageable level.

Financial Review

2017 was a good year for the Bank, with improved results and continued progress towards the strategic objectives. The Bank's net profit after taxation for the year ended 31 December 2017 was £4.40 million (2016: £3.03 million for nine months period). Despite the rapidly changing business environment, increased competitive pressure and elevated regulatory requirements, the Bank generated comparatively better results than last year. The Bank continued its forward momentum in the underlying business and progressed execution of its business strategy to target and maintain higher value customer accounts within its niche market. The financial highlights for the period are supplemental to the financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) provided overleaf:

Profit and Loss Analysis

	2017 (£)	2016 (£)*
Operating Profit		
Net interest income	15,782,250	11,799,991
Net fee and Commission income	1,344,209	1,194,337
Net other income	2,125,082	592,274
Net operating income	**19,251,541**	**13,586,602**
Total operating expenses	(14,438,905)	(9,808,547)
Operating profit before impairment losses on loans and advances and tax expenses	**4,812,636**	**3,778,055**
Reversal / (Impairment) losses on loans and advances	178,880	(1,295,574)
Profit before tax	**4,991,516**	**2,482,481**
Taxation	(590,937)	549,015
Profit after Tax	**4,400,579**	**3,031,496**

* 2016 figures represent nine months financial result

Total interest income of £15.8 million (2016: £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 the acquisition of new customers and expanding business activities with existing customers.

The substantial increase in net other income as compared to previous year was due to the receipt of an insurance claim of £1.5 million against an operational event that had been charged as a loss in previous years.

Operating expenditures mainly represents staff and other operating expenses incurred during the year for the Bank's operations. There were no unusual items in the operating expenses.

Balance Sheet Analysis

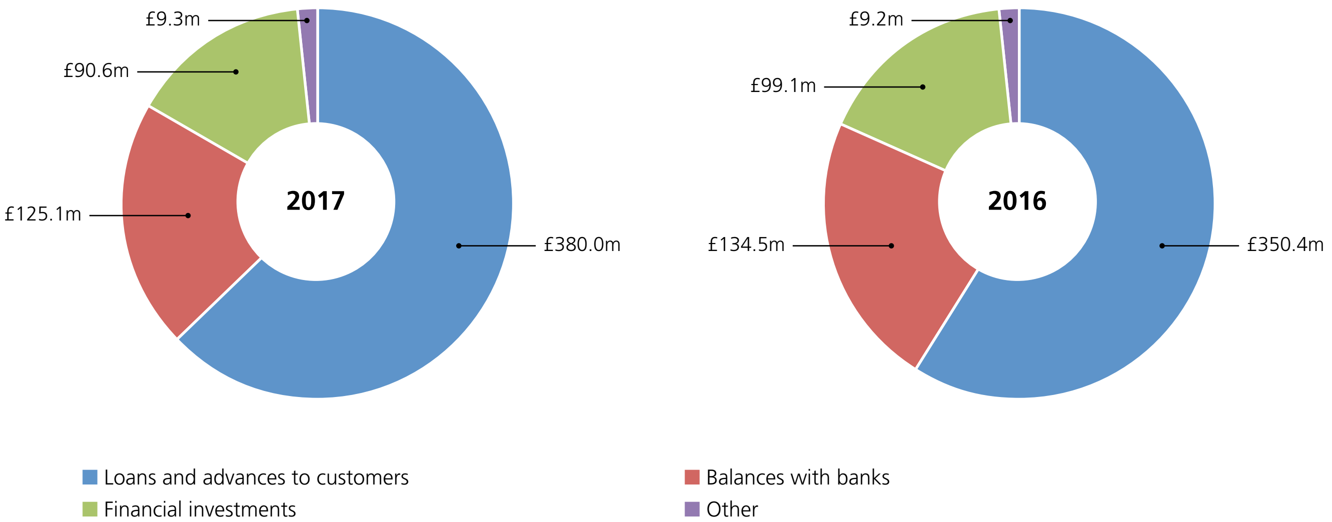
	2017 (£)	2016 (£)
Assets		
Loans and advances to customers	379,996,167	350,395,286
Balances with banks	125,056,676	134,457,165
Financial investments	90,643,291	99,139,322
Other	9,251,952	9,154,349
Total Assets	**604,948,086**	**593,146,122**
Liabilities and Equity		
Due to customers	495,251,794	479,619,902
Subordinated liabilities	20,000,000	20,000,000
Tier 1 Capital / Equity	67,432,075	63,031,496
Other	22,264,217	30,494,724
Total Liabilities and Equity	**604,948,086**	**593,146,122**

The sustainable growth momentum in the balance sheet is evidence of the Bank's continued progress towards its strategic plans. Both deposits and advances increased over the 2016 position. The growth of the lending book was to an extent reduced by the early settlement of some of its existing regular loans of £25m during the year. The Bank aims to increase retention of lending customers through more effective proactive measures.

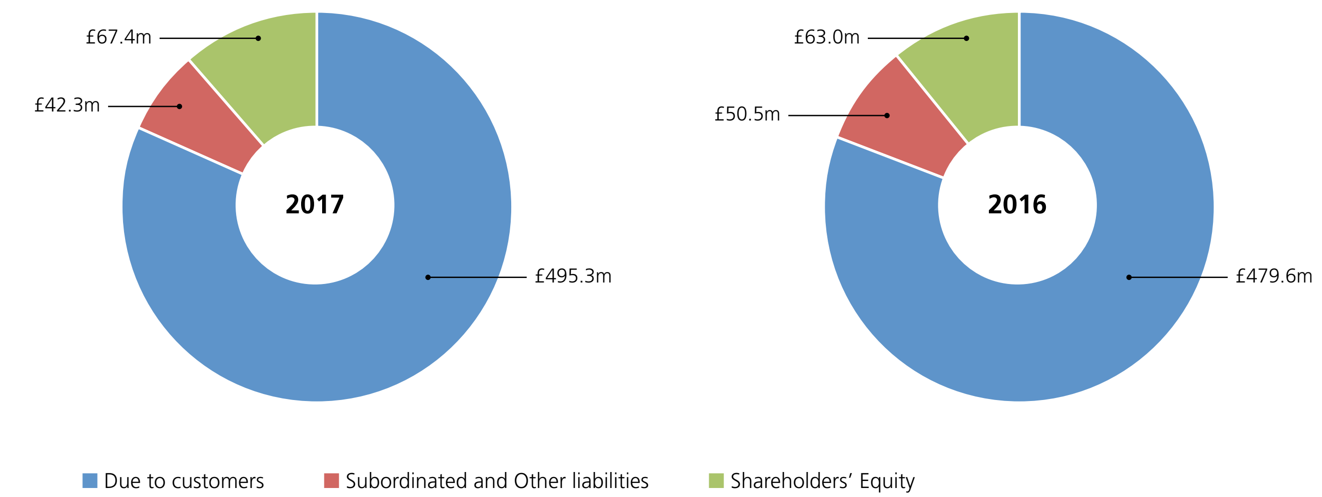
The Bank successfully broadened its prospects of investments activities during the year by replacing some of its Level 1 High Quality Liquid Assets (HQLA) portfolio into investment grade bonds and short-term bank placements to optimize the yield.

The charts below provide an analysis by category of Total Assets, Total Liabilities and Equity, Gross Loans and Advances and Profit and Loss.

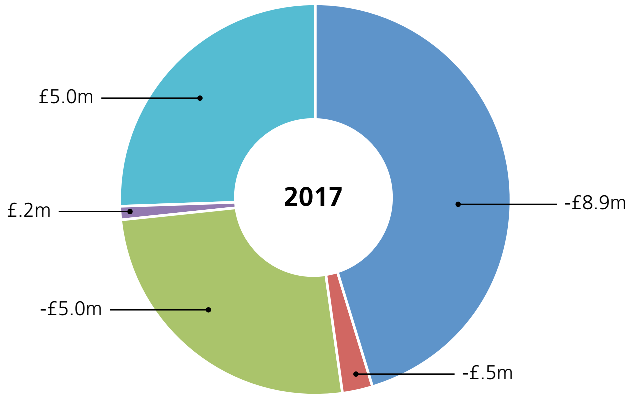
Total Assets

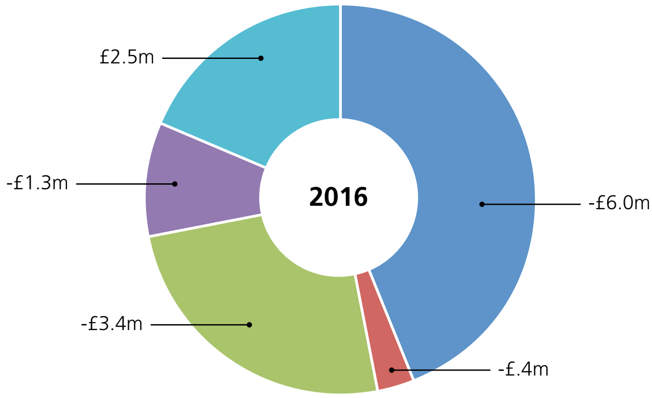


Total Liabilities & Equity



Profit & Loss





- Staff cost
- Other operating expenses
- Net income
- Depreciation and amortisation
- Impairment losses on loans and advances

The Bank's capital comprises of net equity of £67.43 million (2016: £63.03 million) comprised of share capital and retained earnings. The regulatory capital base differs slightly from the amount reported above due to different treatment of certain reserves. The Bank's regulatory capital and risk-weighted assets as at 31 December 2017 are summarized below:

		£ in million
Description	**2017**	**2016**
Share capital – Tier 1	67.4	63.0
Subordinated loan – Tier 2	20.0	20.0
Risk weighted assets	360.0	336.0

The capital adequacy ratio as of 31 December 2017 was 24.30% (2016: 24.8%), which was in surplus of the regulatory requirements and internal management buffer.

The Bank's Total Capital Requirement (TCR) is calculated as follows:

	2017	2016
Risk Weighted Assets (£ million	359.94	336.35
Total Capital Requirement - TCR (£ million)	42.08	39.32
Capital		
Net Equity - Tier 1 (£ million)	67.43	63.03
Subordinated liabilities - Tier 2 (£ million)	20.00	20.00
	87.43	83.03
Excess capital over requirement (£ million)	**45.35**	**43.71**

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 the regulatory threshold at all times as set out by PRA. The Bank maintained LCR of 236% as at 31 December 2017 (2016: 291%) as compared to 100% regulatory threshold.

The Bank's Leverage Ratio as of 31 December 2017 was 9.92% (2016: 9.35%) as against the Regulatory threshold of 3%.

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 to measure and quantify the financial performance and progress against the strategic objectives, which have been considered more important by the Directors, are associated with capital adequacy and liquidity monitoring. 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 available Capital Resources of £87.43 million are considered sufficient with a view to support the business over a 5-year period, which is demonstrated through the Individual Capital Adequacy and Assessment Process (ICAAP).

The ICAAP document summarises and demonstrates to the Board and to the Senior Management that the Bank has adequate financial and capital resources to support its business and the risks attached to its Business Plan and model. The ICAAP also demonstrates the adequacy of non-financial resources (in the form of people, systems, policies and procedures) to manage the adequacy of these financial resources on an on-going basis.

The ICAAP document also summarises the results of the Board's assessment of the amounts, types and distribution of capital that it considers adequate to cover the level and nature of the risks to which the Bank is or might be exposed based on 5 years financial projections.

The ALCO performs a detailed assessment of the assumptions and overall conclusions of the ICAAP on an annual basis in order to confirm that they remain essentially valid. The EXCO review the ICAAP document to ensure that it's aligned with the overall business strategy and takes into account emerging risks owing to changing market conditions. Following this, the BRC considers the ICAAP, challenges the appropriateness of the assumptions used and the resulting capital requirements and capital adequacy. The Board is ultimately responsible for the Bank's capital arrangements.

The Bank maintains a liquid balance sheet in the form of high quality liquid assets and placements with banks with a tenor of up to 12 months. The customer deposit base is sticky and stable with a mix of relationship-based retail depositors and business owners. The Bank's liquidity risk is managed by the Treasury function with oversight from ALCO and Board Risk Committee.

An assessment of liquidity needs, known as the Internal Liquidity Adequacy Assessment Process ("ILAAP"), is undertaken at least annually and is presented to ALCO, EXCO and the 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.

The Bank updated its ICAAP and ILAAP during the year.

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. The Bank offers conventional products and services to its customers, which reflects its low risk approach.

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.

The table below 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 focused strategy, defined target market, secured lending and quality of underwriting, on going monitoring and pre-set thresholds for single part exposure, industry concentration and type of collateral. The Bank has a 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, collateral management, credit monitoring and other credit related policies. The Board Risk Committee has oversight responsibilities of the CRMF.
	The Country Credit Committee and Board Risk Committee review and approve credit exposures 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 committee and board committee level.
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 review the breaches and consider whether further escalation to Audit, Risk and Compliance Committee (ARCC) and Executive Committee is required. Reporting is made together with confirmation of remediation plans.

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, which incorporates risk events and regulatory updates, is reviewed and reported to the 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 customers due diligence requirements and on going account and transaction monitoring process. The Bank has comprehensive AML policy and procedures in place, which are reviewed and up dated regularly. The Bank 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 and Compliance Committee and Board Audit and Compliance Committee monitor business performance against the risk appetite at management and board level respectively. The Bank has implemented the requirements under Senior Managers and Certification Regime 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. Staff members meeting the certification requirements are identified through a robust process and undergo relevant training on an on-going basis.
Cyber Risk	The Bank recognises risk associated with Cyber threats and is constantly taking proactive measures to strengthen its operating environment to provide secure banking experience to internal as well as external stakeholders. The Bank takes risks associated with Cyber Security extremely seriously and is constantly engaged in not only improving and strengthening its transactional gateways but also its internal operating environment.
Capital Risk	The Bank's capital structure has been built up to support business over a long-term horizon and meet regulatory requirements. These include 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. ALCO and Executive Committee monitor adequacy of capital with oversight from Board Risk Committee.
Liquidity & Funding 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, High Quality Liquid Assets and in short term deposits. The Bank has early warning indicators in place, which are monitored at operational and management committee levels. The Bank's customer deposit base is stable and considered sticky based on long-term relationship. The Bank depositors' base mainly comprises of relationship-based retail and SME deposits. The Bank also offers 6 and 12 months fixed rate web-based deposits, which are mainly rate driven source of funding.

Interest rate risk	Interest rate risk at the Bank is well managed and contained and the Bank has no significant or complex 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.

The notes to the financial statements and Pillar 3 Disclosures provide further information about most of these risks, the committees, which have the relevant responsibility for these risks and the policies to manage the key risks. 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 a performance-based compensation plan. The Bank does not have an incentivised compensation scheme for its staff. However, all staff members are included under a performance-based bonus scheme, which is paid out once a year.

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.

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 and senior executive teams. The Board is responsible for annual reviews to determine the remuneration of senior management with SMF roles.

Annual performance is a self- assessment process where employees assess their own performance against their job profile. This is evaluated and agreed upon with the line manager through a documented feedback process. Compliance function also provides their input on adherence of certification regime staff with their required competencies.

Brexit

The Bank's business is mainly concentrated in UK with no presence in the EU. Keeping in view the uncertainties related to the outcome of a deal with the EU, the Bank continues to monitor on going development to assess the impact on its business activities and future plans.

IFRS 9

The Bank is in the final stages of completing its IFRS 9 implementation project. Work on business model test and classification and measurement of financial instruments within the scope of IFRS9 has been completed and approved by the Board. To arrive at an Expected Credit Loss (ECL) in relation to financial assets held by the Bank, models have been developed with support of external consultants, which underwent detailed user acceptance testing. The Bank has completed the process of assessing the initial impact of ECL, which mainly relates to lending portfolio. Further details related to IFRS9 are provided in Note 4 of the financial statements.

Future Outlook

The Bank's operating results were in line with expectations despite somewhat challenging economic and regulatory environment. The Bank is confident of building on its performance from 2017 into 2018 through execution of clearly defined growth plans set by the Board. 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 Bank recognises and appreciates that the future is changing rapidly and business success will depend on successfully aligning and implementing the business model to provide the service required to meet customer needs effectively. The Bank is confident to execute the business plan, follow the strategy and have the right resources to meet the ever-changing requirements of rapidly evolving market. 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.

Hence, the future emphasis will be on enhancing the customer relationship, improving operational efficiency, technological enhancement and upgrading business capabilities. The Bank intends to do this through a strong and robust control process through the 3 Lines of defence model and strong EXCO / Senior Management Team and continuing Board oversight.

Approved by the Board and signed on its behalf by:

Kamran Qazi
Chief Financial Officer

Tower Bridge, London

Directors' Report

On behalf of the 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 2017. The Bank is registered in England and Wales with number 08864609 and is authorised by the PRA and regulated by the FCA and PRA. The Bank is a wholly owned subsidiary of Habib Bank AG Zurich.

Results

These are the first operating results of the Bank as a subsidiary covering a full period of twelve months for the year ended 31 December 2017. During this period the Bank posted a profit after taxation of £ 4.40 million (2016: £3.03 million). The Bank focus remains on developing its core business activities real estate finance and commercial banking services. The Bank also benefited from increase in US$ Libor rates through investments in floating rate bonds.

The UK's vibrant SME sector offers tremendous business opportunities for the Bank to grow its market share. Despite economic and political uncertainties, which impacts investors' confidence, the Bank was able to grow its lending business, which depicts the strength of its relationship-based banking. The Bank has financial and operational capacity in place to expand its business activities and also explore new opportunities.

Share Capital and Dividend

The share capital of the bank remained unchanged at £60 million, which is divided into 60 million ordinary shares of £1 each.

Board of Directors

The following Directors have been appointed to serve on the Board of the Bank:

Mr Muhammad H. Habib	Non-Executive Director (NED) Chairman
Mr Carey Leonard	Independent NED
Mr Gerald Arthur Gregory	Independent NED – Appointed 01 August 2017
Mr. Stuart Barnett	Independent NED – Resigned 30 June 2017
Mr Anjum Iqbal	Non-Executive Director
Mr Rajat Garg	Non-Executive Director
Mr Satyajeet Roy	CEO / Executive Director

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 an unqualified opinion on the 2017 financial statements.

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.

Senior Management and Certification Regime

The Bank has established adequate documented processes over monitoring and governance of SM&CR, including the certified population. This includes:

- adequate governance and oversight exercised by the Board
- updating of management responsibility and related business activities
- training of staff in particular with SMF role
- assessing fitness and propriety of SM&CR staff

The Bank successfully implemented the requirements of the Certificate Regime in March 2017 for employees identified in the role who could pose a risk of significant harm to the Bank or any of its customers.

Image Clearing System

The Bank became a direct settlement participant in the Cheque Image Clearing Service that went live in the UK on 30th October 2017. The Bank is now a member along with 17 member banks across the UK with full-fledged capabilities of inward and outward cheque clearing.

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; this is the bedrock of the value proposition for HBZ. Service is delivered through dedicated branch and relationship managers. The customer takes comfort in continuity with a relationship manager and quick turnaround on their requests as well as access to the decision makers at the Bank. The expertise of the Bank in understanding and dealing with SME customers and business owners has positioned the Bank very strongly amongst its peer banks. This has enabled longevity of customers relationships spreading over two to three generations.

The Bank has prepared these financial statements taking into account that it operates on a self-sufficient basis with minimum dependency on Habib Bank AG Zurich (Parent bank). 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 a flow of revenue from fees 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 the Board of Directors, Committees 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. The Capital base of the Bank is sound with more than the required capital invested by the 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 profit after tax of £4.40 million during the year. The Bank is expected to gradually increase its profitability in future years. To this respect the Bank has prepared five years financial projections based on conservative assumptions.

Based on above, the Directors are confident that the Bank has adequate resources to continue and grow the franchise for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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 gratitude to all stakeholders for their continued support.

The Board of Directors also records its appreciation to the EXCO and Staff for their efforts, dedication, commitment and teamwork during 2017.

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 the Bank's financial statements for each financial year. Under that law they have elected to prepare the 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 the Bank and of its profit or loss for that period. In preparing the Bank's 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 of Directors

The Board of Directors ("the Board") is committed to follow best practice in Corporate Governance. The Financial Reporting Council updated the UK Corporate Governance Code ("the Code") in April 2016 and while the code does not apply directly to the Bank, the Board agrees with and supports its general principles. This report sets out how the Bank has regard to the principles of the Code.

Board profile

Board of Directors
From left to right: Carey Leonard, Gerald Arthur Gregory, Rajat Garg, Muhammad H. Habib, Satyajeet Roy, Anjum Iqbal.

Muhammad H. Habib	Chairman
Roles & Committees	Chairman & Non-Executive Director
Skills & Experience	Muhammad H. Habib became an AGM and a Member of General Management in 1992; and he was appointed as the President & Chief Executive Officer of Habib Bank AG Zurich, on 23rd February 2011. His banking journey; spanning over 37 years, started in 1981 from Dubai, where he went through extensive trainings and manager level positions, in all aspects of banking, over the next 11 years. After entering General Management in 1992, his remit and responsibilities took him across Africa, the UK, North America and Switzerland. Under his leadership, the Bank ventured into newer geographies, inclusive of but not limited to South Africa (1995) and Canada (2001). During this period, he was elevated to the rank of Joint President in 1996. He is currently Member of the General Management and President of Habib Bank AG Zurich.
Principal external appointments	- Chairman, Habib Canadian Bank, Canada - Director, Habib Metropolitan Bank, Pakistan - Chairman, HBZ Bank Limited, South Africa. - Vice Chairman, Gefan Finanz AG Zug, Switzerland. - Member Board of Trustees, Habib University Foundation. - Member Board of Trustees, Habib Public School, Karachi (Pakistan) - Member Global Advisory Board, Babson College

Carey Leonard	Independent Non-Executive Director
Roles & Committees	- Independent Non-Executive Director - Chair of the Board Risk Committee - Member of the Board Audit & Compliance Committee
Skills & Experience	Carey Leonard has over 40 years of banking experience in Asia, the Middle East, Africa and the UK. He has strong commercial banking disciplines in the areas of Governance, Strategy, Business Development, Wholesale Banking and Risk Management.
Principal external appointments	- Independent Non-Executive Director and Chair of Board Credit Committee and Member of the Board Audit and Risk Committee Diamond Bank (UK) Plc - Trustee and Treasurer to the Council, Malvern College - Governor and Chairman of the Commercial Committee, The Downs Malvern Preparatory School
Former Appointments	Standard Chartered Bank - Regional Head, Special Assets Management Africa - Chief Executive Officer, South Africa - Managing Director and CEO, Nigeria - Chief Executive Officer, Sri Lanka - Member of Business Leadership Team

Gerald Arthur Gregory	Independent Non-Executive Director
Roles & Committees	- Independent Non-Executive Director - Chair of the Board Audit & Compliance Committee - Member of the Board Risk Committee
Skills & Experience	Gerald Arthur Gregory brings extensive experience both in practice and in independent non-executive functions. His experience covers Treasury, Lending, Strategy, Marketing and Risk Management.
Principal external appointments	- Independent Non-Executive Director, Chair of Risk Committee and Chair of Audit Committee, Gatehouse Bank Plc
	- Independent Non-Executive Director and Chair of Risk Committee, Northern Bank Limited
Former Appointments	- Managing Director, Britannia Capital Investment Group - Executive Director, Britannia Building Society - Sales and Marketing Director, Britannia Building Society

Anjum Iqbal	Non-Executive Director
Roles & Committees	- Member of the Board Risk Committee - Member of the Board Audit & Compliance Committee
Skills & Experience	Anjum Iqbal has extensive experience in managing countries in various parts of the World in Corporate and Commercial Banking. He has worked in several regions including Latin America, Europe, the Middle East, Africa and South Asia.
Principal external appointments	- Member of General Management and Regional CEO (Developing markets), Habib Bank AG Zurich (Switzerland) - Non-Executive Director and Member of Board Audit Committee, Board Risk Committee, HBZ Bank Ltd (South Africa) - Chair of Risk and Compliance Committee, and Member of the Board Audit Committee, Habib Metropolitan Bank (Pakistan)
Former Appointments	Citigroup - Managing Director Commercial Banking Group (EMEA) - Strategy & Business Development Head - CEO Africa Division - Regional CEO , Turkey & Central Asia Habib Bank AG Zurich - Chief Executive Officer, Habib Bank Zurich plc (UK) - President, Habib Metropolitan Bank (Pakistan)

Rajat Garg	Non-Executive Director
Roles & Committees	- Member of the Board Risk Committee - Member of the Board Audit & Compliance Committee
Skills & Experience	Rajat Garg possesses over 25 years of experience in senior banking positions spanning Asia, Europe and Middle East. His professional background includes extensive experience in Corporate & Retail banking and Wealth Management business.
Principal external appointments	- Member of General Management and Regional CEO (Developed markets), Habib Bank AG Zurich (Switzerland)
	- Non-Executive Director and ADD Committee Membership, HBZ Bank (Hong Kong) Ltd
	- Non-Executive Director and ADD Committee Membership, Habib Canadian Bank
Former Appointments	Citigroup - Head of Retail Banking & Wealth Management, EMEA - Country Business Manager, Turkey - Cards Business Manager, Saudi Arabia - Regional CFO - Asia Pacific Cards, Singapore - Global Wealth Management Head (NRI), Singapore - Banking Financial Controller & Business Planning & Analysis Head, India - UK)

Satyajeet Roy	Chief Executive Officer
Roles & Committees	- Executive Director - Chief Executive Officer
Skills & Experience	Satyajeet Roy is a seasoned executive with 25 years of international banking experience across the Middle East, UK, Europe & India spread over commercial, SME and retail segments. He brings cross-functional experience covering business strategy, risk, audit and operations. His leadership experience in diverse locations is an added advantage for the Bank.
Principal external appointments	None
Former Appointments	Commercial Bank International, UAE - Head of Business Banking
	Citigroup - Head of Commercial Banking –UAE/Bahrain - EMEA Head of Business Development, Business Banking, UK - EMEA Audit & Risk Review, Lead Auditor, UK

Executive Committee

Satyajeet Roy	CEO and Executive Director
Irshad Shakir	Head of Operations & IT
Kamran Qazi	Chief Financial Officer
Kauser Kazmi	Head of Commercial Banking
Nadia Saleem	Head of Compliance & MLRO
Parmod Garg	Head of Credit
Waqar Haider	Head of Governance & Strategy and Board Secretary

Executive Committee
From left to right: Kamran Qazi, Nadia Saleem, Syed Kausar Kazmi, Satyajeet Roy, Parmod Garg, Waqar Haider, Irshad Shakir.

LEADERSHIP

The Role of 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 to promote the success of the Bank within an established framework of effective systems of internal control, robust risk management process and compliance 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 risk appetite statements of the Bank ;
- 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; and
- Ensure that adequate succession planning arrangements are in place related to senior management so as to maintain an appropriate balance of skills and experience within the Bank.

The responsibilities of the Board are clearly set out in its Terms of Reference (TORs), which is reviewed and approved annually by the members of the Board. Schedule of Board meetings along with recurring items is approved in advance with the permission of the Chairman and circulated to all members.

Division of responsibilities

The responsibilities of the Board members are set out in the Board TORs, which are aligned with respective statement of responsibilities prepared under the senior management regime for each Board member. The Chairman is responsible for leading the development of and monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the Board.

The Chairman sets the Board's agenda primarily focusing on strategy, performance, value creation and accountability and ensures that adequate time is available for discussion on all agenda items, in particular strategic issues. Along with other Board members, the Chairman is also responsibility for leading the development of the Bank's culture as a whole.

The two appointed INEDs support the Board in the oversight functions on the basis of requisite skill sets and experience needed for effectively performing their respective SMF roles. Collectively and individually the INEDs provides adequate challenge to other members of the Board and the senior management team in the course of discharging their oversight responsibilities as board members.

The non-executive directors along with INEDs are responsible for setting the Bank's strategic objectives and goals and reviewing the performance of the executive team. They approve and keep an oversight of the Bank's strategy and business plan prepared by the executive team. They also review and challenge the business performance of the Bank, approve the budget and financial forecasts, and ensure that the business of the bank is managed to balance risk and reward. They also scrutinise the delivery of the strategy within the risk and control framework set by the Board and satisfy themselves on the integrity of financial reporting.

The Executive Director is the responsible for the management of the Bank's business on a day-to-day basis on behalf of the Board. The business is managed within the strategy, risk appetite and control frameworks set and overseen by the Board. The Executive Director has specific management responsibilities for which he is accountable to the Board, such as the execution of the business plan, the delivering of planned results, the management of risk, systems and control framework, and the delivery of timely and accurate information to the Board.

EFFECTIVENESS

The composition of the Board

The size of the Board is aligned with the overall governance structure required for the effective oversight of business, risk and control framework, operational, regulatory and compliance and financial performance of the Bank. The composition of the Board has been established to ensure the availability of pool of resources with relevant knowledge and experience to manage the strategic objective of the Bank.

The Board comprises of six Directors; Chairman, two Independent Non-Executive Directors, two Non-Executive Directors and one Executive Director. The relevant knowledge of Board members and diversity of their experience allows all directors to actively and effectively participate in the meetings.

The Board considers Carey Leonard and Gerald Arthur Gregory to be independent within the meaning of the UK Corporate Governance Code. They do not perform any executive or other role or have any relationship with the Bank that, in the Board's view, would affect their objectivity and judgement in performing their respective function.

Appointment to the Board

Appointments to the Board are made by carrying out a formal and rigorous process of evaluation of candidates by the Board members, selected on the skills and experience required for particular appointment. The Bank usually uses an external executive search firm for shortlisting of candidates.

Commitment

The Bank has a balanced combination of the non-executive, independent non-executive and executive director keeping in view the complexity and nature of Bank's operations. All directors in accordance with their terms of appointment are required to allocate sufficient time to the Bank to discharge their responsibilities effectively and efficiently.

Development

The Bank provides a detailed overview of the business to all directors upon their joining of the Board. The process includes a formal presentation conducted by senior executive management covering their respective areas including but not limited to strategy and risk management, business development, credit, AML and compliance, operations, treasury and finance and information technology. There is also continuous interaction between executive management and the Board members, which allows the new directors to gain further knowledge and insight about Bank's business.

All Directors are required to complete in house online courses, which comprehensively covers areas such as AML, information security, fraud prevention, anti bribery and corruption, whistleblowing, complaints handling, data protection. In addition Directors are also provided face-to-face training related to emerging risks to keep them abreast of new challenges within financial services.

Information and Support

The Chairman ensures that the Board members receive accurate, timely and clear information for effective decision-making processes and applies sufficient challenge to major proposals. The Directors keep close liaison with the executive management of the Bank for a better understanding of the business operations of the Bank. Furthermore, the Board has independent access to the senior management and the Board Secretary at all times.

The Board Secretary ensures timely and accurate information flows within the Board and its Committees and between senior management and the non-executive Directors. Senior management of the Bank present information related to all key areas such as risk management, credit, compliance, operations, finance and audit to the Board through its committees.

Evaluation

Each Board member undergoes an annual evaluation process by completing a self-assessment questionnaire, which is discussed with the Chairman of the Board. The assessment aims at assessing performance evaluation of each member by recognising his strengths and addressing on his weaknesses.

To assess the overall performance of the Board, each member also completes a questionnaire on Board Effectiveness, which includes areas of strategic goals and objectives, governance, risk management, quality of information and leadership.

Re-election

In accordance with the provisions in the Articles of Association, all directors who have been appointed by the Board must stand for re-election every three years

ACCOUNTABILITY

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

Carey Leonard	Chairman
Gerald Arthur Gregory	Member
Anjum Iqbal	Member
Rajat Garg	Member

Board Audit and Compliance Committee

Membership

Gerald Arthur Gregory	Chairman
Carey Leonard	Member
Anjum Iqbal	Member
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 management 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) 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 internal and external auditors' appointments, re-appointments 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 the non-audit services policy in respect of the external auditors
- 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.
- Review and ensure the implementation and compliance of EU audit legislation in liaison with external auditors

Board Meetings

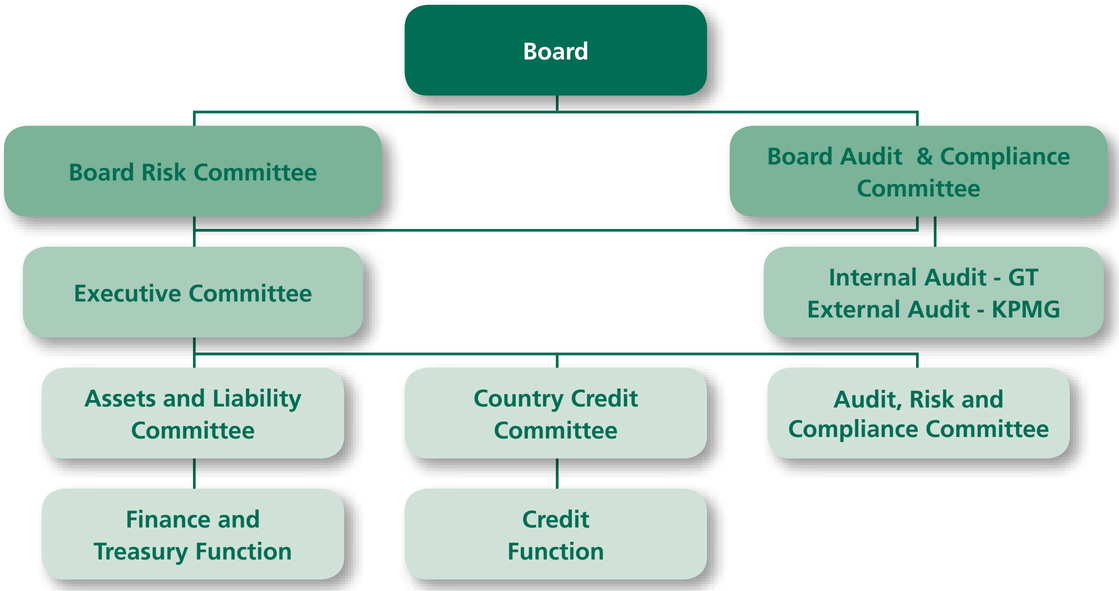
The Board meets regularly at least four times a year at quarterly intervals and holds additional meetings as and when the Board thinks appropriate. Four Board meetings were held during 2017. The agenda, together with Board papers, are sent in full to the Directors not less than three business days before 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 2017, 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.

All Directors attended the Board and its Committees meetings held during the year 2017.

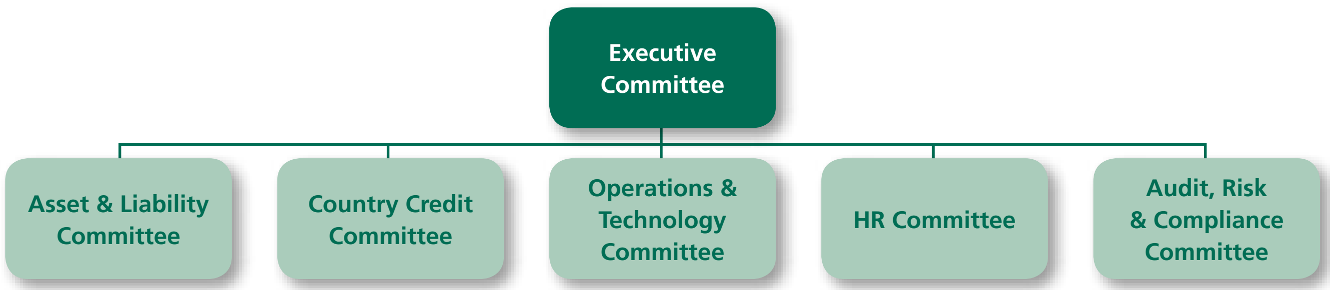
Interaction with Management Committees

There is a formal division of responsibilities matrix, which identifies the responsibilities of the Board of those of the management through its respective committees. Management Committees are responsible for oversight of various operational processes through which the strategy and objectives set by the Board are achieved. These are clearly defined and approved in terms of reference of each management committee.



The CEO and Executive Committee (EXCO) represent the principal forum for conducting the day-to-day business of the Bank. The terms of reference of EXCO is approved by the Board. EXCO is represented in the Board through the CEO. While retaining the ultimate responsibility for the actions taken, the CEO and EXCO 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



The Chairman of the respective committee presents key matters arising from each of the above committees to the EXCO, which are also reported to the Board or its committees through various management information presented in Board or its committee meetings.

Financial and Business Reporting

The Board has put in place appropriate checks and controls to ensure that financial and business information presented in the financial statements provides the users a balanced and fair assessment of the Bank's performance, business model and strategy.

Risk Management and Internal Control

The Board reviews and approves the overall risk appetite of the Bank. The Board has established and maintained a framework for the overall sound and proper internal control and risk management processes. The Board regularly receive reports on, and review the effectiveness of, the risk and control processes to support the strategy and objectives.

REMUNERATION

The Board is responsible for the review and approval of the Bank's HR Policy including remuneration practices. The Board, on the recommendation of the Chief Executive Officer, approves the annual staff remuneration plan along with the total remuneration for senior executive staff.

The Bank's remuneration policy is in line with market practice and is weighted towards performance-based development. The Bank is fully cognisant of having a remuneration policy, which is aligned with its long-term objectives and can provide support in the successful implementation of its business strategy. The remuneration policy has been developed while keeping in view the core values of the Bank, which has trust as its core supported by integrity, team work, respect, responsibility and commitment. Values are upheld continuously and embedded at all levels of the organization.

The Bank recognises that robust performance assessment is essential for the sustained success and development of the Bank and its employees. The Bank's performance assessment creates a shared vision of the purpose and aims of the Bank and ensures that each employee understands how he or she makes their contribution.

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 senior executive management.

The Bank's remunerations structure is not linked to any pre-defined business targets for front-end staff. Annual performance rewards are based on overall performance of the Bank and then of the employee based on overall achievement during the year. A key consideration given in evaluating the performance of employees is there overall conduct and compliance with relevant rules and competencies demonstrated during the year.

RELATIONS WITH SHAREHOLDERS

The Bank is a wholly owned subsidiary of Habib Bank AG Zurich ("the Parent bank"). The Chairman discuses matters relating to governance and business strategy of the Bank with the other shareholders. He ensures that views of the shareholders are shared with the Board.

Constructive use of Annual General Meeting

All members of the Board are encouraged to attend the annual general meeting of the Bank to be used as an opportunity to interact and communicate with the shareholders.

Independent auditor's report

To the members of Habib Bank Zurich plc

1. Our opinion is unmodified

We have audited the financial statements of Habib Bank Zurich plc (the "Company") for the year ended 31 December 2017 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion:

— the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;

— the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor for the period ended 31 December 2015. The period of total uninterrupted engagement is for the 3 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Financial statement as a whole		£250k (2016: £430k) 5.0% of profit before tax (2016: 10.0% of adjusted profit before tax)
Risks of material misstatement		**vs 2016**
Recurring risk	Provision for impairment on loans and advances	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Key audit matter	The risk	Our response
Provision for impairment on loans and advances to customers (£12.9 million; 2016: £16.9 million) Refer to page 42 (accounting policy) and page 55 (financial disclosures)	**Subjective estimate:** A provision for impairment is made which represents the Company's best estimate of losses incurred within the portfolio of loans and advances to customers at the balance sheet date. This is a key judgemental area due to the level of subjectivity inherent in estimating the recoverability of loan balances, compounded by the fact the bespoke nature of lending does not always enable direct comparison of loan performance from one loan to another. *Individual impairment* - the Company identifies individual loan cases for a specific impairment assessment based on impairment triggers including arrears, breach of loan covenants or decline in profitability. The individual impairment requirement for the loan is determined based on estimated future cash flows discounted to present value at the rate inherent in the loan. This is a manual process, with a number of data inputs and assumptions including, for example, the cost of obtaining and selling the repossessed property, probable sale proceeds and strategy being followed in respect of that particular customer. *Collective impairment* - an assessment is performed collectively on all other loans for impairment, with the key assumptions being: - historical loss rate; and - the emergence period for losses. There is a risk that the overall provision (comprising the individual and collective provision) is not reflective of the incurred losses at the end of the period due to changes in customer credit quality, the period of time assumed that it takes for incurred losses to emerge, or other market factors not sufficiently incorporated into the model, such as property prices.	Our procedures included: — **Controls design:** We tested the key controls over the acceptance, monitoring, measuring and reporting impairment in respect of loans; — **Credit reviews:** We tested a sample of loans and advances through credit file reviews to form our own judgement as to whether the event that triggered the recognition of the impairment had been identified appropriately. — **Data comparison:** We compared a sample of the data used in the models (for example balance and arrears status) back to the Company's underlying source systems; and — **Assessing transparency:** We assessed the adequacy of the Company's disclosures regarding the degree of estimation involved in arriving at the provision. For loans assessed individually for impairment: — **Our sector experience:** We challenged the completeness of the individually assessed loans identified by the Company by consideration of the loan portfolio for potential risk factors such as magnitude, arrears, and historical performance; — **Independent reperformance:** We re-performed the calculations of individual impairment and agreed the key data inputs to source documentation, including customer status to credit files, collateral valuations to independent valuation reports, and discount rates to the interest rate of the loan; and — **Our sector experience:** We challenged and assessed the reasonableness of the key judgemental areas of the individual impairment calculation for a sample of cases, particularly the age of the property values, forecast sale discounts applied and whether the expected cash flows were appropriate given the customers' circumstances and strategy being followed in respect of that particular customer. For loans assessed collectively for impairment: — **Historical comparisons:** We considered the trend and accuracy of previous estimates of the collective provision against the current book profile and performed sensitivity analysis over the Company's key assumptions of expected loss rate and emergence period to help us assess the reasonableness of the assumptions; and — **Benchmarking assumptions:** We compared the key assumptions used in the model of loss rate and emergence period against those of comparable lenders. O**ur results** — We found the resulting estimate of the provision for impairment to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £250k (2016: £430k), determined with reference to a benchmark of Company's profit before tax of which it represents 5.0% (2016: 10% of profit before tax adjusted for one-off costs related to the transfer of branch to subsidiary).

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £13k (2016: £22k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in London.

Scope – disclosure of IFRS 9 effect

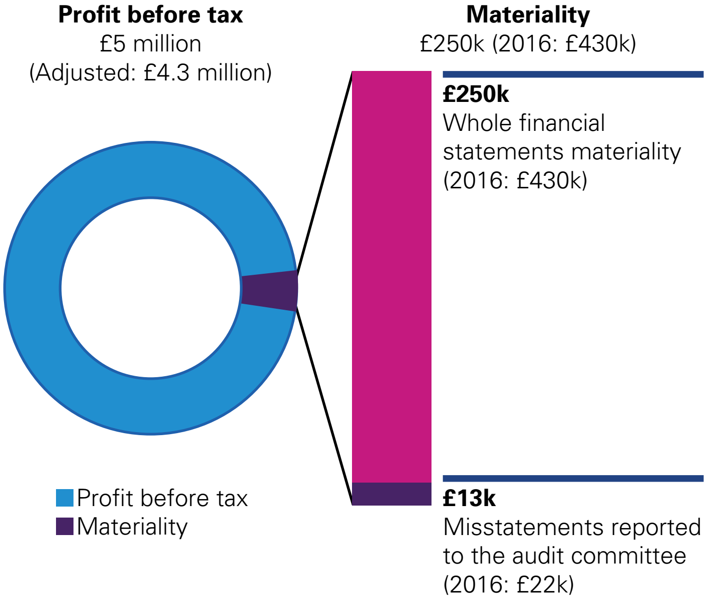
The Company is adopting IFRS 9 Financial Instruments from 1 January 2018 and has included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 Changes in Accounting Estimates and Errors as set out in note 4.

This disclosure notes that the Group continues to refine its expected credit loss model and embed its operational processes which may change the actual impact on adoption. While further testing of the financial impact will be performed as part of our 2018 year end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have:

Obtained an understanding of and evaluated management's process for the calculation of the IFRS 9 transition adjustment. This included a review of management judgement papers prepared during the transition process as part of our assessment of the effectiveness of the implementation;

Considered classification and measurement decisions, including Business Model Assessments and Solely Payment of Principal and Interest outcomes;

Assessed the adequacy of the Group's transitional disclosure in note 1



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Strategic Report and Directors' Report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work:

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

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

— adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 19, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at

www.frc.org.uk/auditorsresponsibilities

Irregularities – ability to detect

We identified areas of laws and regulations the could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company'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 Company'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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

M Davidson

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

17 April 2018

Income statement

For the year ended 31 December 2017

	Notes	2017 (£)	2016* (£)
Continuing operations			
Interest income		19,955,827	15,201,547
Interest expense		(4,173,577)	(3,401,556)
Net interest income	5	**15,782,250**	**11,799,991**
Fee and commission income		1,650,925	1,363,218
Fee and commission expense		(306,716)	(168,881)
Net fee and commission income	6	**1,344,209**	**1,194,337**
Foreign exchange income		506,239	346,403
Gain / (loss) on sale of available for sale investments		57,649	(3,036)
Other income	7	1,561,194	248,907
Net other income		**2,125,082**	**592,274**
Staff costs	8	(8,901,621)	(5,968,993)
Depreciation and amortisation	18	(540,781)	(409,031)
Other operating expenses	9	(4,996,503)	(3,430,523)
Operating expenses before credit impairment losses		**(14,438,905)**	**(9,808,547)**
Operating profit before impairment losses on loans and advances and tax expenses		**4,812,636**	**3,778,055**
Impairment gains / (losses) on loans and advances	10	178,880	(1,295,574)
Profit before tax		**4,991,516**	**2,482,481**
Tax (charge) / credit	11	(590,937)	549,015
Profit after tax from continuing operations		**4,400,579**	**3,031,496**
Attributable to:			
Equity holders		**4,400,579**	**3,031,496**

The accompanying notes on pages 42 to 86 form an integral part of the financial statements.

* 2016 figures represent nine months for the period ended 31 December 2016

Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 (£)	2016 (£)
Profit after tax		**4,400,579**	**3,031,496**
Items that may be reclassified subsequently to profit or loss:			
Fair value gain taken to equity on financial investments	16	379,900	273,226
Deferred tax charge	27	(72,181)	(54,645)
Other comprehensive income for the period net of tax		**307,719**	**218,581**
Total comprehensive income for the period attributable to equity holders		**4,708,298**	**3,250,077**

The accompanying notes on pages 42 to 86 form an integral part of the financial statements.

Statement of Financial Position

As at 31 December 2017

	Notes	2017 (£)	2016 (£)
Assets			
Cash in hand and with central bank	13	65,597,043	92,224,488
Due from banks	14	59,459,633	42,232,677
Loans and advances to customers	15	379,996,167	350,395,286
Financial investments	16	90,643,291	99,139,322
Derivative financial instruments	17	279,254	548,009
Property and equipment	18	6,005,261	6,163,798
Other assets	19	2,041,174	1,646,522
Deferred tax assets	12	926,263	796,020
Total assets		**604,948,086**	**593,146,122**
Liabilities and Equity			
Liabilities			
Due to banks	20	15,847,500	24,918,790
Due to customers	21	495,251,794	479,619,902
Derivative financial instruments	17	225,482	502,923
Accruals, deferred income and other liabilities	22	5,038,335	4,399,785
Current tax liabilities	23	773,000	400,000
Deferred tax liabilities	27	72,181	54,645
Subordinated liabilities	24	20,000,000	20,000,000
Total liabilities		**537,208,292**	**529,896,045**
Equity			
Called up share capital	25	60,000,000	60,000,000
Retained earnings		7,432,075	3,031,496
Available for sale reserve	27	307,719	218,581
Total equity		**67,739,794**	**63,250,077**
Total liabilities and equity		**604,948,086**	**593,146,122**

These financial statements were approved by the Board of Directors and authorised for issue on 04 April 2018.

Signed on behalf of the Board of Directors

Chairman

Director

The accompanying notes on pages 42 to 86 form an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2017

	Called up Share Capital £	Available for Sale Reserve £	Retained earnings £	Total £
Balance as at 1 January 2017	**60,000,000**	**218,581**	**3,031,496**	**63,250,077**
Profit after tax	-	-	4,400,579	**4,400,579**
Available for sale (net gains during the year)	-	89,138	-	**89,138**
Balance as at 31 December 2017	**60,000,000**	**307,719**	**7,432,075**	**67,739,794**

For the 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 1 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 1 April 2016	54,987,500	104,930	-	-	**(37,500)**	**55,054,930**
Profit after tax (from 1 April 2016 to 31 Dec 2016)	-	-	-	3,031,496	-	**3,031,496**
Available for sale (net gains during the period)	-	113,651	-	-	-	**113,651**
Balance as at 31 December 2016	**60,000,000**	**218,581**	**-**	**3,031,496**	**-**	**63,250,077**

The accompanying notes on pages 42 to 86 form an integral part of the financial statements.

Cash Flow Statement

For the year ended 31 December 2017

	Notes	2017 (£)	2016 (£)
Cash flows from operating activities			
Profit before tax		4,991,516	2,482,481
Adjusted for:			
- (Reversal) / Impairment losses on loans and advances	10	(178,880)	1,295,574
- Gain / (loss) on sale of available for sale investments		(57,649)	3,036
- Depreciation and amortisation	18	540,781	409,031
- Gain on sale of property and equipment		(526)	-
		5,295,242	**4,190,122**
Net (increase)/decrease in operating assets			
Due from banks		(17,226,956)	30,115,467
Loans and advances to customers		(29,422,002)	9,474,194
Derivative financial instruments		268,755	(374,917)
Other assets		69,499	495,587
Net increase/(decrease) in operating liabilities			
Due to banks		(9,071,290)	(22,108,648)
Due to customers		15,631,892	85,298,030
Derivative financial instruments		(277,441)	337,926
Accruals, deferred income and other liabilities		638,550	(2,195,441)
Current tax liabilities		(400,000)	(328,000)
Tax paid		(412,330)	(312,000)
Net cash inflow from operating activities		**(34,906,081)**	**104,592,320**
Cash flows from investing activities			
Purchase of property and equipment		(382,418)	(238,556)
Proceeds from sale of property and equipment		700	-
Sale / (purchase) of financial investments		8,660,354	(13,361,208)
Net cash inflow / (outflow) from investing activities		**8,278,636**	**(13,599,764)**
Net decrease / (increase) in cash and cash equivalents		**(26,627,445)**	**90,992,556**
Cash and cash equivalents as at 1 April 2016		-	1,231,932
Cash and cash equivalents at the beginning of the year		92,224,488	-
Cash and cash equivalents at the end of the year		**65,597,043**	**92,224,488**

On 1 April 2016, the cash and cash equivalents of the branch were transferred to Habib Bank Zurich plc. The 2016 cash flows above represent movements between 1 April 2016 and 31 December 2016.

The accompanying notes on pages 42 to 86 form an integral part of the financial statements.

Millennium Bridge, Salford Quays, Manchester

Notes to the Financial Statements

For the year ended 31 December 2017

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.

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.

4. Accounting Policies

Compliance with International Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with the Companies Act 2006 and with International Financial Reporting Standards ("IFRS") as adopted by the European Union. IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB"), as well as interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC").

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

Standards issued but not effective

A number of new standards and amendments to standards have been issued by the International Accounting Standards Board, which are not yet effective for these financial statements. Only three of these standards, IFRS 9, 15 and 16 would be applicable to the Bank with effect of 1 January 2018. Their key requirements are described below:

IFRS 9 Financial Instruments

IFSR 9 is effective from 1 January 2018 and the Bank has adopted it from that date. As a result, there is no impact arising from this standard on the accounts for the year ended 31 December 2017.

IFRS 9 replaces the existing standard IAS 39 "Financial Instruments: Recognition and Measurement" and covers three main areas:

i) Classification and measurement;
ii) Impairment; and
iii) Hedging.

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" (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

Approach

The Bank commenced a group wide project of assessing the implementation requirements of IFRS 9. The most significant impact from IFRS 9 for the Bank is in relation to the Impairment part of the standard. Habib Bank AG Zurich (the Parent bank) led the project with input from the Bank. Model development for expected loss calculations under IFRS 9 were completed in last quarter of 2017 for financial assets within the scope of IFRS 9.

The Bank has followed a simplified approach in designing ECL methodologies, which are commensurate with its size, complexity, structure, economic significance and profile of exposure. The approach taken is considered proportionate in the context of the size of the Bank within the UK financial market, its relative lack of complexity as well as minimal volatility in its credit losses over the past five years.

i) Classification and measurement

Financial assets

As required by IFRS 9 classification and measurement of financial assets is based on the Bank's business model for managing the asset and the asset's contractual cash flow characteristics. A financial asset is measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

Financial assets not meeting the above requirements are classified and measured at fair value through other comprehensive income if the business model's objective includes both collecting contractual cash flows and receiving cash flows by selling financial assets.

Any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

A financial asset is classified into one of these categories on initial recognition. The Bank's business models are required to be assessed based on the way the business is managed and information is provided to the Directors.

The Bank has considered the business model objective for each category of financial assets. For all loans and advances to banks and customers, the objective is to collect the contractual cash flows and for financial investments, the objective is to collect the contractual cash flows and sell the assets.
The Bank has also made an assessment of the cash flow characteristics (SPPI test) of financial assets and concluded that loans and advances to banks and customers will continue to be recognized at amortized cost and financial investments at fair value through other comprehensive income.

As a result of the assessments made, the Bank does not consider there is any material impact to the classification and measurement of its financial assets and liabilities.

Based on Bank's assessment it does not hold any financial assets, which fail to meet the SPPI test.

Financial liabilities

All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that an entity designates to be measured at fair value through profit or loss.

ii) Impairment

IFRS 9 Impairment applies to financial instruments that are not measured at fair value through profit and loss (FVTPL). Financial assets falling within the scope of impairment are provided for by calculating their Expected Credit Loss (ECL). This requires considerable judgement regarding how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. ECL is an estimate of present value of cash shortfalls over the life of the financial instrument, and is computed as a product of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The present value of cash shortfalls is calculated by taking into account the time value of money and forward-looking information.

The PD represents the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

The LGD represents the expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realized, and the time value of money.

The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluation of a range of possible outcomes that incorporates forecasts of future economic conditions. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

In determining ECLs, the Bank has considered three economic scenarios for selected macroeconomic variables, (i) government debt to GDP and (ii) unemployment rate and weighted these according to their likely occurrence. The scenarios include a baseline scenario, based on the current economic environment, an upturn scenario and a downturn scenario. Scenario forecasts were weighted by the scenario's probability of occurrence in order to arrive at the probability-weighted macroeconomic impact over the 5 year forecast horizon.

The estimation and application of this forward-looking information will require significant judgement and be subject to appropriate internal governance and scrutiny.

Staging Criteria

A critical element to the implementation of IFRS 9 Impairment is determining whether there has been a significant increase in risk of a credit exposure since origination to classify the assets into one of three stages as set out below.

The Bank considers 30 days past due (DPD), marking the status of a loan as non-performing, a rating downgrade, restructure tag, or cross product defaults as being strong indicators of a significant increase in credit risk of an account. Hence, staging rules have been determined based on these criteria, as explained below:

Impairment is measured as either 12 months ECL, or Lifetime ECL depending on the change in credit risk associated with the financial instrument. The approach allocates financial instruments into three stages:

Stage	Description	Loss Recognition
1	The Bank assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination.	12 months ECL
2	The Bank assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. Bank recognizes a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).	Lifetime ECL
3	The Bank identifies ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a negative impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized as a specific provision, and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.	Lifetime ECL

iii) Hedge accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. There is also an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. As the Bank does not currently adopt hedge accounting, this part of the standard does not currently impact the Bank.

Estimated impact of the adoption of IFRS 9

The Bank has assessed the estimated impact that the initial application of IFRS 9 will have on its financial statements. The estimated impact of the adoption of IFRS 9 on the Bank's equity as at 1 January 2018 is based on assessments undertaken to date and is estimated be in the range of 1.4% to 1.6% as a result of the application of the impairment part of the standard, which will:

- increase provisions for impairment by c£ 1.0 million, resulting in a reduction in loans and advances to customers of this amount in the Statement of Financial Position; and
- increase in deferred tax assets by c£0.19 million

The actual impact may vary due to:
- the final outcome of the software testing, which is currently in progress;
- parallel runs of the existing and new impairment provision models during 2018 which may result in enhancements to policies, assumptions and processes; and
- changes in the macro economic environment whilst may refine assumptions and judgements used in the impairment calculation.

The Bank's Audit Committee has reviewed the assumptions and judgements made within the impairment provision calculation, to assess the significance of assumptions used. As a result, the following areas are considered to be the key assumptions:

- Future economic forecasts, particularly relating to changes in property prices and unemployment rate
- Significant change in financial position/ operational results of the lending customers
- Any major increase in watch list customers The weighting given to the different economic scenarios; and
- The extent to which the borrower credit score can reduce before it is considered to constitute a significant increase in credit risk.

The Bank has applied to make use of the transitional arrangements on capital that have been proposed by the Prudential Regulation Authority. The transitional arrangements spread the impact of the change in impairment provisions as result of implementing IFRS 9 on regulatory capital over a four-year period. As a result, the Bank does not expect there to be material change in regulatory capital following the implementation of IFRS 9.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS18 Revenue.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank Has completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated financial statements. This focussed on a review of fees and commission income.

The Bank earns fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of the following services:

- Commercial Banking
- Trade Finance
- Financial guarantees

The initial review indicates that IFRS 15 will not have a material impact on the timing of recognition or measurement of fees and commission income. The Bank is currently performing a detailed impact assessment.

IFRS 16 Leases
IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains a similar to the current standard - i.e. Lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

The Bank has started an initial assessment of the potential impact on its financial statements. The standard is not expected to have a significant impact on the Bank.

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 in relation to IFRS 9.

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 estimate is 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 a 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.

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, to which it uses its experience of customers' behaviour and considers all contractual terms of the financial instrument to estimate its expected lives. 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 fees form an integral part of the effective interest rate of a financial instrument. These are recognised as an adjustment to the effective interest rate and recorded in interest income; and
- 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 an 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.

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.

When a decline in the fair value of an available for sale financial asset has been recognised in Other Comprehensive Income (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 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).

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.

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) Derivative financial instruments
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

Cash and cash equivalents represent Cash in bank in current account and balances held with the central bank.

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 [IAS 36.9].

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
Furniture, fixture and fittings	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 other comprehensive income, in which case it is recognised in other comprehensive income.

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 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.

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 re-translated 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

	2017 (£)	2016 (£)
Interest income		
Funds held with central bank	168,727	64,359
Due from banks	855,029	620,105
Loans and advances to customers	17,851,656	14,000,284
Financial investments	1,080,415	516,799
Total interest Income	**19,955,827**	**15,201,547**
Interest expense		
Due to banks	(249)	(176,532)
Due to customers	(3,817,499)	(2,935,794)
Subordinated liabilities	(355,829)	(289,230)
Total interest Expense	**(4,173,577)**	**(3,401,556)**
Net Interest Income	**15,782,250**	**11,799,991**

Interest income against loans and advances to customers included total of £1,012,542 (2016: £623,622) relating to impaired financial assets and has been considered as part of the cash flows when assessing for individual impairment provisions.

6. Net fee and commission income

	2017 (£)	2016 (£)
Fee and commission income		
Loan termination fee	177,486	165,823
Customer transaction fees	431,319	335,286
Trade Finance	498,134	425,868
Other fees and commission on banking and credit products	543,986	436,241
Total fee and commission income	**1,650,925**	**1,363,218**
Fee and commission expense		
Bank charges	(194,759)	(76,480)
Commission on internet deposits	(25,465)	(40,743)
Other fees and commission	(86,492)	(51,658)
Total fee and commission expense	**(306,716)**	**(168,881)**
Net fee and commission income	**1,344,209**	**1,194,337**

7. Other income - net

Receipt of insurance claim – Note 7.1	1,526,105	-
Rental income – Note 7.2	267,901	202,819
Other	(232,812)	46,088
Total other income	**1,561,194**	**248,907**

7.1 During the year the Bank received insurance proceeds relating to a claim settled with a customer in previous years.

7.2 Rent 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	267,521
Later than one year but less than five years	358,690	600,904
	626,211	**868,425**

Birmingham Library, Birmingham

8. Staff costs, including Directors' emoluments

Salaries and allowances	(7,117,423)	(4,936,184)
Social security costs	(1,273,645)	(681,613)
Pension costs - defined contribution plan	(510,553)	(351,196)
Total staff costs	**(8,901,621)**	**(5,968,993)**

	2017	2016
Average number of employees	136	134
Directors' emoluments		
- Total emoluments of Directors'	£580,550	£99,548
- Salary and benefits paid to the highest paid Director	£451,725	£49,774

The emoluments of Directors disclosed above include salary and social security cost. Pension contribution included in Directors emoluments is £24,000.

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:

	2017 £	2016 £
Salaries and other short-term benefits	1,119,568	627,234
Post-employment benefits	71,147	103,821
Total staff costs	**1,190,715**	**731,055**
Loan outstanding	174,017	178,631
No of persons	2	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	73,688	83,372
No of persons	5	3

9. Other operating expenses

		2017 £	2016 £
Premises running costs		(1,747,764)	(1,199,955)
Legal and Professional charges		(425,572)	(232,460)
Auditors remuneration	9.1	(110,000)	(142,500)
IT and communication costs		(605,569)	(398,331)
Branches operation charges		(551,026)	(396,501)
Group direct expenses		(1,030,597)	(912,752)
Travelling and conveyance		(120,312)	(105,249)
Marketing and advertisement		(278,765)	(4,001)
Miscellaneous		(126,898)	(38,774)
Total other operating expenses		**(4,996,503)**	**(3,430,523)**

9.1 Auditors remuneration

	2017 £	2016 £
Statutory audit fee	(100,000)	(119,000)
Audit related assurance services	(5,000)	(11,000)
Non- audit services	(5,000)	(5,000)
Tax compliance services	-	(7,500)
Total Auditors remuneration	**(110,000)**	**(142,500)**

10. Impairment gains / (losses) on loans and advances

Loans and advances to customers		
Charged during the period	(2,283,638)	(2,345,334)
Recovered/released during the period	2,462,518	1,049,760
(Reversal) / Impairment losses on loans and advances	**178,880**	**(1,295,574)**

11. Taxation

Corporate tax:		
Current year	(773,000)	(332,000)
Prior year	51,821	131,522
	(721,179)	(200,478)
Deferred tax:		
Current year	130,242	749,493
	(590,937)	**549,015**
Tax reconciliation		
Profit before tax	**4,991,516**	**2,482,481**
Expected tax charge at 19.25% (2016: 20%)	(960,867)	(496,496)
Permanent disallowable expenses	(105,191)	(145,300)
Deferred tax not recognized	52,122	178,284
Deferred tax on losses not previously recognized	371,178	881,005
Prior year adjustment	51,821	131,522
Total tax charge	**(590,937)**	**549,015**

The corporation tax rate from 01 April 2017 to 31 March 2020 is set at 19%. A reduction in 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 2017 was £22.5 million (2016: £25.3 million) on which estimated amount of deferred tax not recognised amounted to £ 3.8 million (2016: £4.2 million). The Bank only account for deferred tax on the basis of future profits for a foreseeable period not exceeding four years. The Bank is of the view that assumptions used for preparing cash flow projections beyond such period are subject to significant change.

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

	Tax losses carried forward	Total
Opening balance as at 01 January 2017	796,020	796,020
Charged to P&L	130,243	130,243
Closing balance as at 31 December 2017	**926,263**	**926,263**

	Tax losses carried forward	Other	Total
Transferred from branch as at 1 April 2016	-	46,527	46,527
Charged to P&L	796,020	(46,527)	749,493
Closing balance as at 31 December 2016	**796,020**	**-**	**796,020**

13. Cash in hand and with central bank

		2017 £	2016 £
Balance with central bank	Note 13.1	64,610,164	91,200,000
Cash in hand		986,879	1,024,488
Total cash in hand and with central bank		**65,597,043**	**92,224,488**

13.1 This includes an amount of £3 million held as a settlement cap for Image Clearing System

14. Due from banks

Money market placements	43,936,429	19,007,256
Cash in current accounts	15,234,834	21,911,193
Bankers acceptances	118,370	1,164,228
Cash in margin accounts*	170,000	150,000
Total due from banks	**59,459,633**	**42,232,677**

*This represents cash held with counterparty in accordance with collateral requirement under Credit Support Annex (CSA) agreements.

15. Loans and advances to customers

	2017 £	2016 £
Commercial loans	341,816,575	306,650,599
Overdraft	40,898,487	42,451,005
Corporate loans	-	8,980,000
Discounted bills & trade finance loans	9,667,158	8,495,135
Other loans including staff loans	490,445	679,415
Gross loans and advances to customers	**392,872,665**	**367,256,154**
Less: Provision for impairment*	(12,876,498)	(16,860,868)
Net loans and advances to customers	**379,996,167**	**350,395,286**

15.1 Provision for impairment

	2017 £	2016 £
Balance as at 1 January 2017	16,860,868	-
Balance transferred from branch as at 01 April 2016	-	16,011,820
Impairment charged to profit and loss	2,283,638	2,345,334
Reversals during the period	(2,462,518)	(1,049,760)
Write off	(3,805,490)	(446,526)
Total provision for impairment*	**12,876,498**	**16,860,868**

* This includes the collective provision of £1.2million in which there was no movement during the year.

16. Financial investments

Available for sale investment - Debt instruments		
Book value	90,263,391	98,866,096
Fair value gain on mark to market of the investment	379,900	273,226
Total available for sale investments	90,643,291	99,139,322
Total financial investments	**90,643,291**	**99,139,322**

This includes exposures to sovereigns and central banks.

17. Derivative financial instruments

The Bank transacts derivatives to manage and hedge its 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:

	2017 £	2016 £
Sales	22,725,777	35,947,543
Purchase	23,209,613	35,457,760
Fair value asset	279,254	548,009
Fair value liability	225,482	502,923

18. Property and equipment

	Land	Freehold and leasehold improvements	Property and other equipment	Furniture, fixture and fittings	Motor vehicles	Total
Cost						
As at 1 January 2017	1,050,000	10,555,195	1,473,834	1,842,125	106,102	15,027,256
Additions	-	75,343	276,250	30,825	-	382,418
Disposals	-	-	-	(10,645)	-	(10,645)
As at 31 December 2017	**1,050,000**	**10,630,538**	**1,750,084**	**1,862,305**	**106,102**	**15,399,029**
Accumulated Depreciation						
As at 1 January 2017	-	5,884,546	1,308,684	1,564,126	106,102	8,863,458
Depreciation	-	390,534	83,176	67,071	-	540,781
Disposals	-	-	-	(10,471)	-	(10,471)
As at 31 December 2017	**-**	**6,275,080**	**1,391,860**	**1,620,726**	**106,102**	**9,393,768**
Net book value as at 31 December 2017	**1,050,000**	**4,355,458**	**358,224**	**241,579**	**-**	**6,005,261**
Net book value as at 31 December 2016	**1,050,000**	**4,670,649**	**165,150**	**277,999**	**-**	**6,163,798**

19. Other assets

	2017 £	2016 £
Accrued interest receivable	904,177	715,097
Corporation tax	464,151	358,522
Prepayments	268,998	229,036
Receivable from Parent bank	116,596	101,981
Value added tax refundable	71,938	88,769
Customer transaction fee receivable	55,000	65,600
Other	160,314	87,517
Total other assets	**2,041,174**	**1,646,522**

20. Due to banks

Due to Parent bank (Habib Bank AG Zurich, Switzerland)	10,035,943	20,023,438
Due to associates (fellow subsidiaries)	3,899,561	4,622,441
Other deposits	1,911,996	272,911
Total due to banks	**15,847,500**	**24,918,790**

21. Due to customers

Time deposits	302,447,174	306,689,442
Current and demand accounts	192,137,107	171,605,397
Margin accounts	56,457	773,488
Call deposits	611,056	551,575
Total due to customers	**495,251,794**	**479,619,902**

22. Accrual, deferred income and other liabilities

Interest payable	1,702,175	1,591,316
Bills payable	971,921	844,477
Staff costs payable	570,989	717,522
Accrued expenses	798,935	616,780
Deferred income	491,375	265,023
Other	502,940	364,667
Total accrual, deferred income and other liabilities	**5,038,335**	**4,399,785**

23. Current tax liabilities

	2017 £	2016 £
Provision for corporation tax (HBZ Plc)	773,000	332,000
Provision for corporation tax (HBZ branch)	-	68,000
Total current tax liabilities	**773,000**	**400,000**

24. Subordinated liabilities

Habib Bank AG Zurich, Switzerland, the Parent bank issued a subordinated loan of £20m in 2016, providing 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

	2017 £	2016 £
Called up and fully paid		
60 million authorised and fully paid ordinary shares of £1 each (2016: 60 million ordinary shares of £1 each)	60,000,000	60,000,000
	60,000,000	**60,000,000**

25.1 Called up and fully paid share capital

In issue at 1 January		60,000,000	12,500
Issues of new ordinary shares – converted prepaid share reserve to paid up capital		-	5,000,000
Issue of new ordinary – unpaid 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**	**60,000,000**

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

	2017 £	2016 £
Revaluation reserves in respect of available for sale securities	379,900	273,226
Deferred tax charge	(72,181)	(54,645)
Total available for sale reserves	**307,719**	**218,581**

28. Balances transfer from branch

The details of the assets and liabilities transferred from the UK Branch of the Parent bank into the wholly owned subsidiary during 2016, Habib Bank Zurich plc are stated below:

	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**

29. Contingent liabilities and commitments

The Bank enters into transactions, which exposes 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.

	2017 £	2016 £
Direct credit substitutes		
- Guarantees	7,124,160	9,319,056
Trade related contingent liabilities		
- Letters of credit	2,130,139	1,832,181
- Acceptances	357,033	1,741,499
Unused credit facilities	19,073,798	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.

Banking transactions:		
- Interest earned from Parent bank	157	780
- Interest and expenses paid to Parent bank*	1,386,426	1,353,790
- Due to Parent bank including subordinated loan	30,035,943	39,535,166
- Due to fellow subsidiaries	3,899,561	4,622,441
- Due from related parties	2,709,276	523,085

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

*Interest and expenses represents interest of £355,829 (2016: £441,038) charged on borrowings and allocation of group expenses of £1,030,597 (2016: £912,752).

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

				Amount in £
	2017 Level 1	2017 Level 2	2017 Level 3	2017 Total
Financial investments				
- Available for sale	**90,643,291**	**-**	**-**	**90,643,291**
Derivative financial instruments-assets	**-**	**279,254**	**-**	**279,254**
Total financial assets carried at fair value	**90,643,291**	**279,254**	**-**	**90,922,545**
Derivative financial instruments-liabilities	**-**	**225,482**	**-**	**225,482**
Total financial liabilities carried at fair value	**-**	**225,482**	**-**	**225,482**

Amount in £

	2016 Level 1	2016 Level 2	2016 Level 3	2016 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

Amount in £

	Level 1 2017	Level 2 2017	Level 3 2017	Total fair value 2017	Total carrying amount 2017
Assets					
Cash in hand and with central bank	65,597,043	-	-	65,597,043	**65,597,043**
Due from banks	59,459,633	-	-	59,459,633	**59,459,633**
Loans and advances to customers	-	349,141,844	-	349,141,844	**379,996,167**
Liabilities					
Due to banks	-	15,847,500	-	15,847,500	**15,847,500**
Due to customers	493,964,673	-	-	493,964,673	**495,251,794**
Subordinated liabilities	-	18,908,595		18,908,595	**20,000,000**

Amount in £

	Level 1 2016	Level 2 2016	Level 3 2016	Total fair value 2016	Total carrying amount 2016
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 its 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, its committees 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. To implement an effective governance process the Board established "Board Risk Committee" (BRC) and "Board Audit and Compliance Committee" (BACC).

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.

The independent internal audit function reports into BACC and conduct reviews of all key risk areas including the risk management framework. Reports are presented to BACC and the Board.

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 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 a 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 (ARCC).

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 £

2017	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Total
Neither past due or impaired	65,597,043	59,459,633	333,084,610	90,643,291	279,254	549,063,831
Past due but not impaired	-	-	26,818,757	-	-	26,818,757
Past due or impaired	-	-	32,969,298	-	-	32,969,298
Gross exposure	**65,597,043**	**59,459,633**	**392,872,665**	**90,643,291**	**279,254**	**608,851,886**
Less: Individual impairment	-	-	(11,676,498)	-	-	(11,676,498)
Collective impairment	-	-	(1,200,000)	-	-	(1,200,000)
Net exposure	**65,597,043**	**59,459,633**	**379,996,167**	**90,643,291**	**279,254**	**595,975,388**

Amount in £

2016	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	2017 Loan overdue	2017 Total loan	2016 Loan overdue	2016 Total loan
< 30 days	76,123	14,301,253	165,774	30,938,679
> 30 days to 60 days	82,921	11,912,678	50,083	4,231,871
> 60 days to 90 days	-	-	35,344	1,943,195
> 90 days to 180 days	3,159	4,826	310,510	1,299,994
> 180 days	600,000	600,000	163,148	1,833,387
	762,203	**26,818,757**	**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 & advances as past due when the customer does not meet 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 £

2017	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-	64,610,164	84,427	-	79,252,690	-	-	**143,947,281**
A+ to A-	-	184,121	-	11,390,601	-	-	**11,574,722**
BBB+ to B-	-	56,404,778	-	-	7,749	11,587,107	**67,999,634**
Unrated	986,879	2,786,307	379,996,167	-	271,505	40,222,464	**424,263,322**
	65,597,043	**59,459,633**	**379,996,167**	**90,643,291**	**279,254**	**51,809,571**	**647,784,959**

Amount in £

2016	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 £

2017	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernationals	64,610,164	-	-	79,252,690	-	-	143,862,854
Financial Institutions	-	59,459,633	-	11,390,601	7,749	12,281,379	83,139,362
Industrial & commercial	-	-	310,923,270	-	271,505	37,475,611	348,670,386
Individual	-	-	69,072,897	-	-	2,052,581	71,125,478
Other	986,879	-	-	-	-	-	986,879
	65,597,043	**59,459,633**	**379,996,167**	**90,643,291**	**279,254**	**51,809,571**	**647,784,959**

Amount in £

2016	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 £

2017	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
UK	65,597,043	22,753,906	337,697,945	4,354,852	271,697	36,949,924	**467,625,367**
Europe excl. UK	-	2,671,362	6,259,896	71,398,992	7,557	11,553,839	**91,891,646**
Asia	-	24,336,714	13,463,736	-	-	23,214	**37,823,664**
North America	-	203,112	17,676,963	-	-	220,370	**18,100,445**
Africa	-	9,193,114	4,897,627	-	-	3,062,224	**17,152,965**
USA	-	255,381	-	14,889,447	-	-	**15,144,828**
Australia	-	46,044	-	-	-	-	**46,044**
	65,597,043	**59,459,633**	**379,996,167**	**90,643,291**	**279,254**	**51,809,571**	**647,784,959**

Amount in £

2016	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
UK	92,224,488	25,842,165	348,386,633	5,667,800	361,179	62,081,239	**534,563,504**
Europe	-	2,189,365	-	77,298,650	186,830	5,905,746	**85,580,591**
USA	-	5,209,536	-	16,172,872	-	-	**21,382,408**
Africa	-	5,291,550	1,908,717	-	-	3,861,712	**11,061,979**
Asia	-	3,478,318	99,936	-	-	529,935	**4,108,189**
North America	-	162,818	-	-	-	522,349	**685,167**
Australia	-	58,925	-	-	-	-	**58,925**
	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 a panel of valuers selected through a robust due diligence process. Residential or commercial collateral values used by the Bank are based on vacant possession values, 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 in 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:

Amount in £

Collateral Type	2017 Collateral Value	2017 Advances	2016 Collateral Value	2016 Advances
Commercial real estate	558,914,497	268,466,689	590,706,965	215,654,179
Residential real estate	224,692,811	95,359,453	231,826,630	99,640,670
Cash collateral	36,840,896	24,420,145	32,593,707	14,745,244
Other collateral	2,331,453	1,049,011	6,290,179	1,415,779
Guarantees	300,000	280,878	5,479,839	2,138,491
Unsecured	-	3,296,489	-	33,661,791
Total	**823,079,657**	**392,872,665**	**866,897,320**	**367,256,154**

The following table stratifies 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

Amount in £

LTV Bracket	2017 Regular	2017 Non-Performing	2017 Total	2016 Regular	2016 Non-Performing	2016 Total
Less than 50%	122,674,836	4,605,338	127,280,174	149,505,455	3,866,701	153,372,156
51-70%	185,697,866	6,650,740	192,348,606	148,160,428	850,071	149,010,499
71-90%	14,001,372	-	14,001,372	10,328,522	204,154	10,532,676
91-100%	17,524,281	492,945	18,017,226	3,882,283	2,911,295	6,793,578
More than 100%	20,005,012	21,220,275	41,225,287	23,521,296	24,025,949	47,547,245
Grand Total	**359,903,367**	**32,969,298**	**392,872,665**	**335,397,984**	**31,858,170**	**367,256,154**

Forbearance

The Bank renegotiates loans to customers in financial difficulties through processes 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 the credit sanction process by the Country Credit Committee. The Bank accommodates the forbearance situations by deferring the principal repayments, providing an Interest moratorium, converting the overdraft into an amortising loan, or by using a letter of credit to finance trade finance rather than an Overdraft.

All customers assessed under a forbearance process with revised repayment terms are kept under a close monitoring process. Once the circumstances leading to a 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, loans amounting to £13 million (2016: £18 million) were considered as forborne of which £10 million (2016: £10 million) were classified as impaired. A provision of £2.6 million (2016: £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.

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 £

2017	Within 3 months	<3 to 6 months	<6 months to 1 year	<1 to 2 years	<2 to 3 years	< 4 to 5 years	> 5 years	No specific re-pricing	Total
Assets									
Cash in hand & with central bank	64,610,164	-	-	-	-	-	-	986,879	65,597,043
Due from banks	58,895,013	564,620	-	-	-	-	-	-	59,459,633
Loans & advances to customers	1,236,575	378,154,846	597,739	-	7,007	-	-	-	379,996,167
Financial investments									-
Available for sale	35,350,517	-	19,481,491	-	-	28,319,204	7,492,079	-	90,643,291
Derivative financial instruments	212,970	66,284	-	-	-	-	-	-	279,254
Total assets	**160,305,239**	**378,785,750**	**20,079,230**	**-**	**7,007**	**28,319,204**	**7,492,079**	**986,879**	**595,975,388**
Liabilities									
Due to banks	15,847,500	-	-	-	-	-	-	-	15,847,500
Due to customers	145,880,377	74,398,432	82,734,421	45,000	-	-	-	192,193,564	495,251,794
Derivative financial instruments	176,975	48,507	-	-					225,482
Total Liabilities	**161,904,852**	**74,446,939**	**82,734,421**	**45,000**	**-**	**-**	**-**	**192,193,564**	**511,324,776**
Net Gap (Assets - Liabilities)	**(1,599,613)**	**304,338,811**	**(62,655,191)**	**(45,000)**	**7,007**	**28,319,204**	**7,492,079**	**(191,206,685)**	**84,650,612**


Fountain in front of Leicester Town Hall, Leicester

Amount in £

2016	Within 3 months	<3 to 6 months	<6 months to 1 year	<1 to 2 years	<2 to 3 years	< 4 to 5 years	> 5 years	No specific re-pricing	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	117,139,895	84,010,652	100,842,153	5,248,317	-	-	-	172,378,885	479,619,902
Derivative financial instruments	132,097	37,754	331,965	1,107					502,923
Total Liabilities	**142,190,782**	**84,048,406**	**101,174,118**	**5,249,424**	**-**	**-**	**-**	**172,378,885**	**505,041,615**
Net Gap (Assets - Liabilities)	**27,381,771**	**274,347,205**	**(100,574,064)**	**29,310,738**	**34,500**	**10,082,600**	**11,294,302**	**(172,378,885)**	**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.

	2017 Impact on P&L £	2016 Impact on P&L £
25bps increase in interest rate	18,910	(11,079)
25bps decrease in interest rate	(55,360)	11,079
50bps increase in interest rate	37,821	(22,158)
50bps decrease in interest rate	(113,889)	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 its risk component of its 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 2017 was £26,738 (2016: 6,630)

Currency	2017 (£)	2016 (£)
USD	20,240	(35,574)
EUR	(40,687)	(15,400)
PKR	20,241	16,767
ZAR	(7,254)	46,852
CAD	5,767	(14,772)
INR	23,207	9,725
Others	5,224	(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 meet 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 the 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 analyses 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 £

2017	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	65,597,043	65,624,480	65,624,480	-	-	-	-
Due from banks	59,459,633	59,959,782	32,994,138	26,389,416	576,228	-	-
Loans & advances to customers	379,996,167	424,842,683	42,278,118	7,730,488	21,360,472	71,952,268	281,521,337
Financial investments							
- Available for sale	90,643,291	91,672,029	3,722,859	-	20,458,184	53,820,092	13,670,894
	595,696,134	**642,098,974**	**144,619,595**	**34,119,904**	**42,394,884**	**125,772,360**	**295,192,231**
Derivative assets							
Risk management	279,254						
Outflow	-	12,661,562	2,651,577	4,887,832	5,122,153	-	-
Inflow	-	(12,409,172)	(2,585,360)	(4,754,305)	(5,069,507)	-	-
	279,254	**252,390**	**66,217**	**133,527**	**52,646**	**-**	**-**
Financial liability by type							
Non-derivative liabilities							
Due to banks	15,847,500	(15,847,692)	(15,847,692)	-	-	-	-
Due to customers	495,251,794	(498,173,204)	(264,348,704)	(74,972,248)	(158,807,252)	(45,000)	-
Subordinated liabilities	20,000,000	(20,179,000)	-	-	-	(20,179,000)	
	531,099,294	**(534,199,896)**	**(280,196,396)**	**(74,972,248)**	**(158,807,252)**	**(20,224,000)**	**-**
Derivative liabilities							
Risk management	225,482	-	-	-	-	-	-
Outflow	-	10,360,308	2,453,510	4,757,717	3,149,081	-	-
Inflow	-	(10,316,614)	(2,266,926)	(4,865,531)	(3,184,157)	-	-
	225,482	**43,694**	**186,584**	**(107,814)**	**(35,076)**	**-**	**-**

Amount in £

2016	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	9,482,920	-	-
Loans & advances to customers	350,395,286	394,254,893	56,727,967	13,773,866	24,870,314	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**	**40,848,314**	**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)**	**(211,941)**	**(227,883)**	**(81,100)**	**-**	**-**

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 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 an 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.

	2017 £	2016 £
Share capital	60,000,000	60,000,000
Retained earnings	7,432,075	3,031,496
Tier 1 capital	**67,432,075**	**63,031,496**
Subordinated liability – Tier 2	20,000,000	20,000,000
Own funds	**87,432,075**	**83,031,496**

33. Ultimate Parent Company

The Bank is a wholly owned subsidiary undertaking of Habib Bank AG Zurich, which is the ultimate controlling parent, incorporated in Switzerland. The largest group in which the results of the company are consolidated is Habib Bank AG Zurich, Switzerland.

34. 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.


Banks of the River Thames, London

Branch Network

Moorgate Branch		Habib House
		42 Moorgate
		London EC2R 6JJ
	Telephone:	020 7452 0200
Manchester		Showroom 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 455 6213
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 Ltd	**320 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**

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Habib Bank AG Zurich
SINCE 1967