Habib Bank AG Zurich

Habib Bank Zurich plc

Annual Report 2021

Canada
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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 (resigned 30 June 2021)	Independent Non-Executive Director
	Mr Anjum Iqbal	Non-Executive Director
	Mr Rajat Garg	Non-Executive Director
	Mr Satyajeet Roy (CEO)	Executive Director
	Mr Masum Billah (resigned 31 May 2021)	COO / Executive Director

Board Committees	**Risk Committee**		**Audit & Compliance Committee**	
	Mr Carey Leonard	Chairman	Mr Gerald Arthur Gregory	Chairman
	Mr Gerald Arthur Gregory (resigned 30 June 2021)		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 Resources Committee (HRC)
	Business Development Committee (BC)
Company Secretary	Taylor Wessing
	5 New Street Square
	London EC4A 3TW
Registered Office	Habib Bank Zurich plc
	Habib House
	42 Moorgate
	London EC2R 6JJ
Auditors	Mazars LLP, Statutory Auditor
	Chartered Accountants
	Tower Bridge House
	St Katharine's Way
	London E1W 1DD
Legal Advisors	Saleem Malik
	40 Eagle Lane
	Snaresbrook
	London E11 1PF

Chairman's Message

On behalf of the Board of Directors of Habib Bank Zurich plc, I am pleased to share with you the 2021 Annual Report and Financial Statements.

In the last two years the COVID-19 pandemic, its impact and the ensuing uncertainties have been at the forefront of the global economy, people and business community. This has been a difficult time for many, and our thoughts are with all those that have suffered. By the grace of God, as a business, we managed to navigate through these difficulties. I take pride in the way our colleagues adapted to the challenge with resilience, compassion; and prioritised health and safety and support for our customers consistent with our corporate ethos. In 2022, we look forward to continuing a more balanced return to business and building on a good performance in 2021.

Our performance in 2021 reflects the strength of our customer base and business model. Despite the lingering effects of the pandemic and economic uncertainty, we finished the year with robust growth and profitability. We grew the balance sheet by 17% and increased the performing loan portfolio and customer deposits by 13 % and 8% respectively. Our new initiatives continued to demonstrate good growth with Trade/FI business volume growing by 96% and Islamic Banking (Sirat) balance sheet increasing by 69%. The increase in core business, coupled with the success of new initiatives, drove the revenue growth and with robust cost control we achieved a profit after tax of £4.5m. Our growth and profitability were not the only measures of performance. I was pleased to note a further reduction in Non-Performing Loans to Total Advances ratio which is a reflection of our underwriting standards and credit management. Our performance was also managed through maintaining a good capital and liquidity profile. I find the 2021 results satisfactory and a confirmation of our belief that UK is a key franchise for the Group. This is further reflected in a capital increase of £10m during the year to provide capacity for future growth in a sustainable manner.

This performance is a credit to the CEO, the executive team and our employees. In no small way, it also reflects the oversight and steer provided by the directors. Overall, it is a demonstration that good governance, strong business model, effective risk management and control framework come together to deliver good performance.

During the year, Gerald Gregory left the Board. His contribution was integral to further enhancing the Board governance and oversight over the last three years. In his place, we welcomed Stephan Bryans to the Board who also took over as Chair of the Board Audit and Compliance Committee. We will benefit from his experience and further strengthen the Board oversight which is a cornerstone of good governance. I am also pleased that we were able to fill three senior management functions internally which is an outcome of employee development and career progression.

Looking ahead, 2022 is likely to be a challenging year but for different reasons. The recent geopolitical situation and fast evolving economic uncertainty is predicted to have a global impact. We are already witnessing a significant increase in energy prices which is adding to the existing inflationary pressures. Major Central banks are left with no option but to increase the interest rate, which we already witnessed as Bank of England increased the base rate to 0.75% in March 2022. We hope for a quick resolution to the ongoing crisis for all those affected. This will also bring some normality in supply chain, which may release some pressure from rising inflation.

One of the key learnings from the recent past is the importance of being resilient. Whilst we were able to meet the challenges with minimal disruption to our customers, we continue to enhance our operational resilience capabilities. Additionally, we have also enhanced our digital offering and continue to further improve them in order to better serve our customers.

From a societal impact perspective, we have kept focus on climate change and diversity. On climate change, whilst our business model is not exposed to elevated risk segments, we firmly support government and regulatory initiatives on reducing the effects of climate change and are playing our part in embedding the consideration of this risk in our strategy and decision-making process across the organisation with Board oversight. On diversity, our strength lies in the varying backgrounds and experiences of our people. We continue to work towards inclusivity and maintaining a welcoming work environment which celebrates diversity.

I would like to end by congratulating our colleagues for their commitment and the senior leadership for their stewardship. I also extend my appreciation to the directors, specifically the independent directors, for their contributions and guidance this last year. Above all, I would like to thank our customers for their loyalty and patronage as we look forward and wish them well for 2022.

Muhammad H. Habib
Chairman
31st March 2022

CEO Statement

Balance Sheet growth by 17%, NII increase of 10%. Good progress on all initiatives. Profit after tax for the year £4.5 million as compared to £0.6 million last year.

It is very heartening for me to see the excellent business and financial performance achieved by the Bank during 2021. The defining highlight of the year was the resolve and courage of all the employees, the support we received from the board and shareholders and the strong relationship we have with our client base. Also formidable were the steps taken by the Government for reopening of the economy through the mass vaccination and booster jab program, which helped in diluting the impact of COVID-19 Omicron variant. I feel that businesses have adopted to live with COVID, which demonstrates the resilience created through hybrid working, a major technology driven change.

After seeing a relatively slow start to the year 2021, the business activities gained momentum in the second half, which led to a strong uptick leading to a robust financial performance posted by the Bank. My colleagues continued to work hard in the challenging environment providing quality services to the customers. We kept the ethos of our relationship-based business close to our heart in these difficult times, by frequently interacting with the customers and providing them the support needed when they required it the most.

The transitional efforts that were put in since we became a subsidiary in 2016 up till now, across product initiatives, regulatory requirements, people development, systems & technology and processes came to fruition in 2021. Whilst resiliency improved, we gathered speed to shore up the business volumes – thereby clocking the largest lending growth in the history of the bank since our start in the UK in 1974. Our deposit book improved which indicates the strong relationship we have with our Retail and Commercial clients. Our Trade Finance business made rapid progress which led to not only a sizeable contribution to interest revenue it helped the fee income to improve by 28% over last year. The Islamic business under the brand 'Sirat' launched in early 2019 accelerated well throughout the year as the team of proficient managers picked up deals and improved its' market share. The network of Intermediaries helped us expand the deal pipeline and we think this (Intermediary channel) will become a front runner in generating new to bank business in the coming years.

With our well engrained 8 branches we catered to a substantial target market in England. Having presence in London with 5 branches and 1 each in Leicester, Birmingham and Manchester we have a dedicated relationship management team of business development bankers who are duly supported by the trained service staff. Our middle and back office is centralised to ensure seamless service delivery, strong risk framework and efficiency.

The landscape of the banking industry is however changing as technology takes over the human touch of most day-to-day activities. Over the last 12 months we have upped the tempo and added more services to our technology-based product suites, which includes contactless debit cards, introduction of mobile app and 24/7 faster payment services. We aspire to maintain the well-balanced approach, while technology will remain as an essential mode to meeting our customers day-to-day banking activities, key services such as lending and deposits will continue to be relationship based, a choice which many SMEs still prefer. It is our Bank's strategy that we adjust and adapt our footprint without neglecting the needs of our clients. We are very conscious of the critical part we play in providing banking services, maintaining a 'high touch' client relationship-based model.

The renovation of Habib House – our head office at 42, Moorgate in the City of London, is progressing at full speed with expected completion in July 2022. Once renovated we feel that the building will be an environmentally friendly place well equipped to meet customers and employees' expectations.

A large part of our success is due to some fundamentals of honest principles of business, good governance, proactive risk management, effective systems and controls processes, leadership and an experienced and motivated team. These fundamentals are strengthened by the Bank's core values of Trust, Integrity and Respect – integral to our vision.

As the economy started opening up in 2021, the World was faced with new challenges. Post pandemic supply chain process tested the inventiveness, resilience and flexibility of major suppliers as companies worked tirelessly to meet growing demand. The pace of the economic recovery was to an extent a surprise to some of the organisations as clearly the supply side was not back on the scale seen at pre pandemic resulting in demand push inflation. The rate of inflation went up rapidly in 2021 from less than 1% at the start of the year to 5.4% in December. The recent Russia-Ukraine conflict has led to further deepening the issue of price increases in particular energy and food.

There is a growing expectation that the financial services firms will play their part in addressing climate change risk. We have also made risk assessment proportionate to our business model with oversight by the board and senior management. The Bank has also taken steps to embed consideration of climate change in key decision making and risk management.

Operational resilience is a key priority for regulators. The main objective is to put in place a stronger regulatory framework to promote operational resilience of firms and financial market infrastructures. In line with our business model, we have identified processes which are of critical importance in the context of potential disruption impact on customers and safety and soundness of the Bank.

Just coming out of the Covid shock, there are headwinds due to the geo-political issues, leading to higher inflation from pent up demand, supply chain problems, rapid increase in interest rates and shortages in human capital; however I remain cautiously optimistic and committed to developing our bank as a best-in-class customer experience firm by further investing in technology based solutions, leveraging our domain expertise in buy to let mortgage and trade business, harnessing the people talent and remaining focussed to meet regulatory requirements.

I would like to thank my leadership team and all HBZ staff, UK Board and Shareholders and the HBZ group who provided unparalleled support throughout 2021.

Satyajeet Roy
Chief Executive Officer
31st March 2022

Strategic Report

The Board of Directors have the pleasure in presenting the Strategic Report for the year ended 31st December 2021 for Habib Bank Zurich plc (the "Bank"). The Strategic Report forms part of the Bank's Annual Report and Financial Statements. Habib Bank Zurich plc is the wholly owned UK incorporated subsidiary of Habib Bank AG Zurich, Switzerland.

Overview

This report provides a holistic picture of the Bank's business model, strategic objectives, governance and significant developments which is useful to the stakeholders in assessing its performance and future prospects. The report enables readers to evaluate the Bank's financial position and results for the year 2021. The strategic report also includes a description of the emerging external risks and uncertainties the UK financial sector is currently facing with an assessment of likely impact on the Bank's business and financial performance. The report provides details of the key performance indicators, which the Bank utilises to assess its overall operating performance.

The UK economy kept struggling with the adversities of pandemic at the start of the year 2021, the challenge was, however, much less severe than during the first lockdown, as consumers and businesses adapted to live with the pandemic. The business activity started picking up in the second quarter of 2021, reflecting the positive impact of the opening up of the economy with the help of a mass vaccination program introduced by the government towards end of 2020. A sudden surge in the Covid cases owing to outbreak of the Omicron Variant in the last quarter of 2021 turned out to be a temporary bump in the path of the economic recovery around the close of the year as the impact of the variant on the fully vaccinated population was less intrusive.

Having said the above, the uncertainty over COVID-19, that caused unprecedented damage to economies around the world in the years 2020-21, seems no longer to be the foremost economic concern to the global economies. It is anticipated that the virus's effect on public health will be reined in over the coming months. In changed global economic scenarios, inflation, labour shortage and supply chain disruptions out ranked pandemic and are perceived as the top threats to the global economies.

The current conflict situation in Eastern Europe has already started creating serious consequences for the global economy. The conflict and associated economic sanctions are triggering "price shocks" with a worldwide impact. Countries with close economic ties to Ukraine and Russia are at particular risk of shortages and further supply disruption. Price shocks will have an impact worldwide, especially on poor households for whom food and fuel are a higher proportion of expenses. Should the conflict escalate, the economic damage would be all the more devastating. Though the Bank has insignificant exposure directly related to Russia or Ukraine mainly in the form of customers' deposits, management continues to assess the development in particular due to the growing threat of cyber-attack on the UK financial sector, creating mass disruption.

The Bank continued to divert its resources and efforts towards the well-being and safety of its staff and customers. It kept testing the operational resilience and financial stability to ensure that the strength of capital and liquidity levels are sufficient to absorb the economic shocks and keep it serving the customers during this time of need.

The Bank has emerged as a robust unit showing its strength and strong bonding with customers. Despite strong headwinds, the Bank's business and financial performance remained resilient exhibiting growth in both customer lending and deposits.

Principal activity

The Bank's operating model kept focused on generating business through financing real estate investments, trading activities, services and small-scale manufacturing. We have the capacity and willingness to cater to our customers' need through conventional and Islamic retail and commercial banking products.

Customers mainly engage with the branch relationship team and take 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 conventional retail and commercial products being offered by the Bank include current / savings accounts and real estate finance, trade finance, cash management and treasury services across various currencies. The Islamic personal and business products, which includes Diminishing Musharika, Commodity Murabaha, Wakala based deposit accounts, current and savings accounts under the brand name "Sirat", continued to gain momentum in 2021. The introduction of aforesaid sharia compliant products in our portfolio added diversity as well as value to the bank's revenue stream and business operations.

As a cornerstone of our operating policy, we continued to support our customers and small businesses by delivering against commitments associated with our long-term strategy. The services are provided through a network of eight branches across the UK. We are focussed on building long-term value for our customers, employees, suppliers, communities we serve and our shareholders.

Strategy and objectives

The Bank's strategy has been developed with the main objective of meeting customers and clients' end-to-end needs. The Banks core value is grounded in 'Service with Security' by placing customers at the heart of our decisions. Our approach as a community Bank is to focus on delivering personalised services with security to a wide spectrum of business and personal customers from our niche markets. This means listening to our customers, understanding their priorities and adapting our products and services to ensure we have the capabilities to support their evolving needs.

The Bank's primary customer base and target market are often family-owned and managed businesses from the South Asian Diaspora owned by SMEs' or high net worth individuals. 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. This is a substantial and growing segment, which provides an opportunity for the Bank to build a sustainable business model.

The Bank's strategy of diversifying business channels adopted in 2019 started stimulating and uplifting the revenue growth. As business activities reduced in 2020, the Bank used this as an opportunity to focus on the areas of trade finance, Islamic banking and technology improvements. The results started reflecting in financial performance of the year ended 2020, showing a visible increase in the revenue streams from trade finance and Islamic banking in the year 2021. Revenue from trade finance was up by 27% to £1.9m from the last year whereas Islamic lending activities more than doubled to £52m in 2021.

The Bank also increased focus on lending business through Intermediaries by expanding the panel particularly in the Midlands. With a more refined and focused approach lending through Intermediaries also increased in 2021. The Bank sees this channel as a key area for future growth.

Our technology team continued to offer undaunted support to all stakeholders in 2021 as well. Their skill set ensured uninterrupted secured remote working solutions and operational continuity for internal and external stakeholders during the lockdown period. During 2021 the Bank enhanced its digital offering to the customers by implementing products such contactless Visa debit card and 24/7 faster payment services. A key strategic drive for the Bank is to further enhance its digital offering to customers in a cutting-edge and secured technology environment.

We continued to grow our real estate lending business, pursue our targets set for the launched Islamic lending products and promote Trade Finance business. Continuous improvement in governance, risk management and controls over processing was considered as part of business as usual.

In conformity with our policy last year, we kept evaluating the moratorium and tailored support needs and liquidity requirements of our customers, while offering all possible support they needed to keep their businesses afloat. We, with all humility, claim that we successfully managed most of our Covid impacted customers safely through the adversities of unprecedented financial crisis.

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 focusing on selected segments to deliver on strategic objectives. The Bank's core value of 'Service with security' has led to a natural longevity in customer relationships, which are cross-generational and cross-border, strengthening the Bank's reputation as a business bank. Owing to its history from the Indian subcontinent and based on the intrinsic value of the Bank as a family-owned conservative financial institution, customers identify the brand with security and trust.

The Bank's service catalogue is currently carrying two main products; 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. It remained focused on the strategic areas that include customer, financial planning, processes, people, regulatory and treasury. 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. It also offers fixed term bonds accessible directly through the web-based channel.

The role of branch banking is pivotal to the boosted growth of the UK franchise. To upscale the growth momentum in 2021 many steps were taken by the Bank. These steps include a more focused strategy to grow business in the Midlands with the introduction of a regional head to further strengthen and energise branch banking activities. Dedicated business teams have been given the task to service the needs of priority customers including those with presence in other countries within the group. A service team has also been introduced to provide services to customers across all UK branches, which ensures all customers receives same high level of service standards.

We kept following our policy of seeking diversification in our services and revenue stream by striving for a vibrant and dynamic Islamic Financing and Trade Finance setup. Our efforts started paying off as trade finance and Islamic Financing revenue recorded an increase of 34% and 108% respectively as against corresponding figures from last year.

Islamic banking under the brand name "Sirat" is competing with other larger players in the market who only offers Islamic products. The Bank has a natural appetite to attract customers who believe in faith-based products and services. The financing products offered meet the demand of customers who are interested in sharia-based income generating buy-to-let financing activities.

The Bank's significant growth in trade finance activities within businesses owned by South Asian diaspora in the UK is a natural fit keeping in view the demography of the Group's network, which is mainly within Asia and Africa. We continue to capture complete value chain of export business, which spreads from advising to discounting. We anticipate that trade finance business will grow into larger value and a higher volume of transactions in the years to come as we are winning business from large corporates in the UK with a client-centric proposition with efficient product delivery.

The outsourced trade service and finance transactions processing activity to Group Outsourcing centre based in the UAE helped us in not only in increasing our business volumes but also enhancing efficiency of processing activities. The intermediary channel remains a strong source of lending customer referrals and also provided the much-aspired diversification in our business acquisition channels. We foresee a deeper role of Intermediaries in expansion of lending business base through introduction of new to business customers. The Bank customer onboarding from intermediaries is similar to introductions made through relationship managers, which includes full control of client relationships from on-boarding to credit under-writing and service delivery.

The introduction of intermediaries also allowed us to expand our lending base to geographical areas in Greater London and Midlands without the need to have any physical presence. We continue to offer our complete set of lending products through intermediaries comprising of commercial lending, residential and commercial buy-to-let and mixed use buy-to-let mortgages. These product offerings are flexible and collaborative so that the Bank can adopt the most appropriate strategy for intermediaries and their clients.

Business Review

The UK economy recovered well from the shocks of the COVID-19 pandemic. After seeing a fall of 9.8% in 2020 the GDP returned to growth in 2021 gaining most of the losses, resulting in annualised growth of 7.5%. Our high touch business model, which allowed us to keep in constant contact with customers during the long pandemic period paid off well. This was evident by the strong business pipeline which started to gain momentum in first half of 2021 as investors returned to the property market. We witnessed lending growth across all channels including branch banking, Sirat and deals from Intermediaries.

We succeeded to close the year 2021 with 'Loans and Advances' balance at £514 million, an increase of £58 million (13%) higher than the corresponding figure from the last year. The aforementioned growth in the lending business was on account of growing demand across various channels including branch banking, Islamic Financing, and a surge in Trade Finance business. The Bank continued to remain focused on effective credit risk management process providing particular attention to customers in sectors such as hospitality which were more affected by COVID-19. To this effect the Bank provided moratorium and tailored support to customers where required to help them meet their repayment obligations. Non-performing loans also reduced from 3% in 2020 to 2.5% in 2021, which was another testament of the Bank's effective credit risk management process.

In parallel with our loans and advances book, the customer deposits registered a growth of £48 million to close the year at £672 million. The main focus during the first half of the year was on cost of funds management to improve net interest margin. The Bank was successful in meeting this objective by increasing the current account balances and managing its deposits interest rates through an effective use of Internet deposit channel. In wake of increase in the Bank of England (BoE) base rate in December 2021 with the expectations of further increase in 2022, the Bank started taking steps to align its interest rates to the market to meet customers' expectations.

During the year, the Parent bank injected £10 million additional equity, thereby raising the level of Paid-up Capital to the mark of £70 million. This action of increasing the funding by the Parent bank during an uncertain period confirms the financial capacity as well as the willingness of the Parent bank to maintain a growing and financially sound franchise in the UK.

The renovation work on the Bank's landmark building, Habib House, situated at Moorgate which is at heart of the City of London is progressing well. The project involves complete change of the mechanical and electrical plant with a contemporary looking branch, which will reflect our culture and core values. The renovation project is expected to complete by Quarter three this year.

Financial Review

The Bank's total assets depicted a growth of 17% from last year, representing the resilient and resolute nature of our business model and operating strategy. The growth was contributed by 66% (or £72million) increase in investments and 13% or (£58 million) increase in loans and advances from the last year. We managed the enviable growth target in face of unprecedented economic and financial uncertainty which is an attestation of the quality of governance and risk management processes and the hard work demonstrated by the staff with continued support and guidance from the Board and its committees.

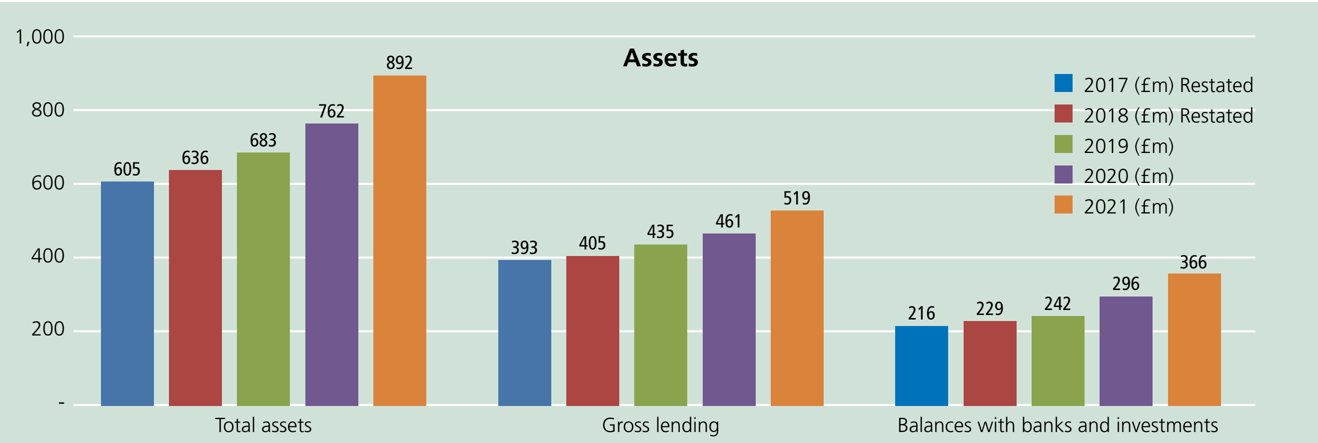
The Bank completed the updating process its ECL models as part of group wide exercise with the help of external advisers. Significant improvements were made in the process which included use of a larger data volume to provide more depth in terms of analysis at model development stage. Improvements were also made in sourcing of macroeconomics variables, where the Bank used reliable external sources meeting market standards. The Bank applied the new models with some overlays applied to loss given default percentage driven from the updated model. The overlays were applied as the Board took in to consideration the fragile nature of economy recovery, which is vulnerable and may be impacted by the fast-developing geo-political situation as a result of the Ukraine Russia conflict.

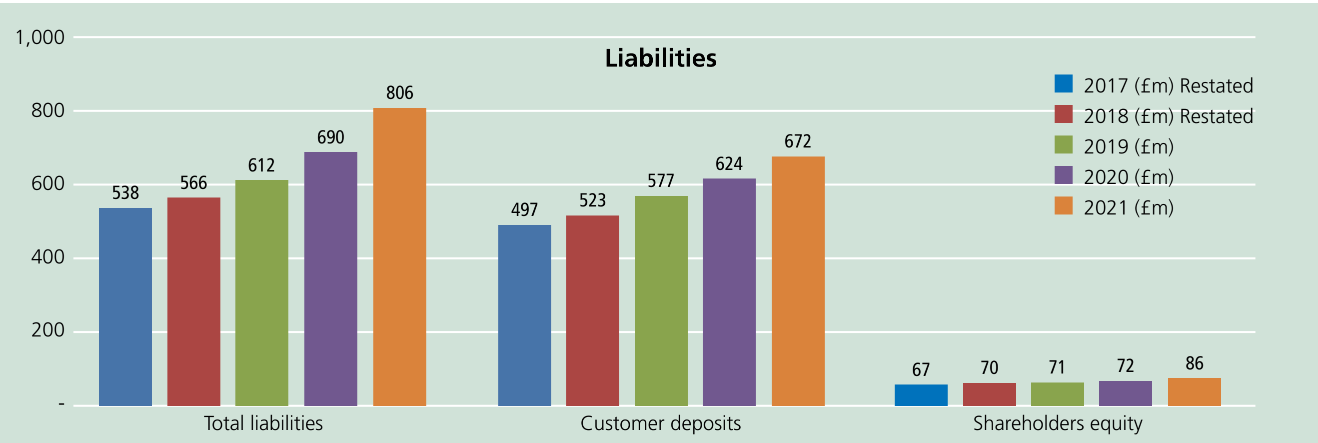
Balance sheet analysis

	2021 (£ 000')	2020 (£ 000')
Assets		
Loans and advances to customers	514,061	455,954
Balances with banks	190,006	191,267
Financial investments	175,654	104,357
Other	12,356	10,555
Total Assets	**892,077**	**762,133**
Due to customers	672,008	623,644
Due to Banks	107,147	40,091
Subordinated liabilities	20,092	20,063
Tier 1 Capital / Equity	86,203	72,182
Other	6,627	6,153
Total Liabilities and Equity	**892,077**	**762,133**

The following charts provide the key financial highlights of the Bank from the year 2017.

Assets and Liabilities





Profit and Loss Analysis

The Bank closed the year 2021 with an after-tax profit of 4.48 million (2020: £0.6 million) as businesses opened and business activities picked up significant pace. The net operating income of the Bank increased by 12% in 2021 to £20.04 million as compared to £17.97 million in 2020, which represented the overall strong performance posted by the bank. The profitability in current year was primarily attributed to growth in Loans and Advances owing to increased disbursements, reduction in customers cost of deposits and increased business and revenue seen from Trade Finance during the year.

Revisions made in IFRS 9 based ECL model for Financial Institutions and Investments during the year resulted in release provisions for Stage 1 expected credit losses. Credit losses remained low on account of stringent monitoring and regular dialogue with customers as Non-Perfuming Loans (NPL) reduced to 2.5% as of 2021 (2020: 3.0%). The Bank further strengthened its position on non-performing loans exposure by taking additional provisions where some customers were further impacted by business closures due to pandemic and ongoing supply chain issues.

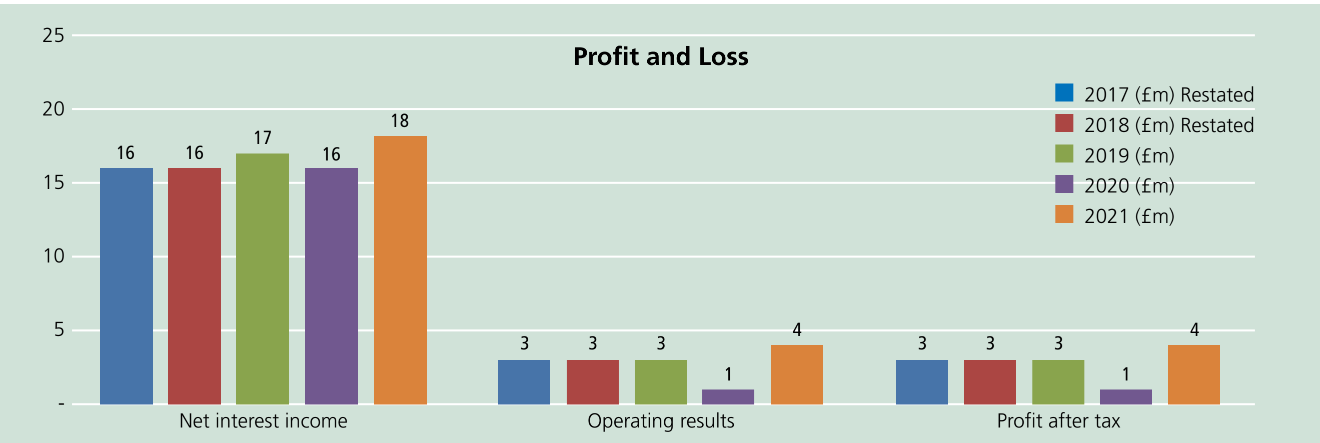
As a result of increase in corporate tax rates announced by the UK government which was enacted during the year, the Bank booked an additional deferred tax asset of £1.2m on account of carried forward losses. Further, details are included in Note 13.

Operating expenditure mainly represents staff and other operating expenses incurred during the year for the Bank's operations. Total Operating expenses of £16.26m include total staff costs of £10.15m and other operating costs £5.18m. Group direct costs paid by the Bank during 2021 are also included in operating expenses.

The financial highlights for 2021 are provided below.

	2021 (£ 000')	2020 (£ 000')
Operating Profit		
Net interest income	17,755	15,989
Net fee and Commission income	1,891	1,490
Net other income	398	486
Net operating income	**20,044**	**17,965**
Total operating expenses	(16,263)	(16,688)
Operating profit before impairment losses on loans and advances and tax expenses	**3,781**	**1,277**
Credit impairment losses / reversals on financial assets	68	(588)
Profit before tax	**3,849**	**689**
Taxation	626	(89)
Profit after Tax	**4,475**	**600**

The following charts provide the key financial highlights of the Bank from the year 2017.



* 2017 results exclude receipt of insurance claim

Capital structure

The Bank received a share capital injection of £10 million from the parent bank as a result of which share capital of the Bank increased to £70 million (2020: £60 million). The shareholders' equity increased to £86 million (2020: £72 million) and a five-year subordinated loan of £20 million (2020: £20 million) to support long-term asset growth and cover risks inherent to the business. Such strength in capital allows the Bank to deploy funds in areas that provide sustainable returns in line with the set objectives. The subordinated loan of £20m was renewed by the Parent bank for another period of 5 years in March 2021 meeting the regulatory requirement to be classified as Tier 2 capital.

The regulatory capital base differs slightly from the amount reported above due to the different treatment of certain reserves. The Bank's regulatory capital and risk-weighted assets are summarised below:

Description	2021	£ in million 2020
Share capital – Tier 1	70.00	60.00
Retained earnings – Tier 1	16.30	11.83
Subordinated loan – Tier 2	20.39	20.54
Risk-weighted assets	547.94	513.95

The Bank's total capital requirement (TCR) is calculated as follows:

	2021	£ in million 2020
Risk weighted assets (£ million)	547.94	513.95
Total capital requirement – TCR (£ million)	66.79	71.03
Capital		
Share capital – Tier 1 (£ million)	70.00	60.00
Retained earnings	16.30	11.83
Subordinated liabilities – Tier 2 (£ million)	20.39	20.54
	106.69	92.37
Excess capital over requirement (£ million)	**39.90**	**21.34**

The capital adequacy ratio as of 31 December 2021 was 18.65% (2020: 17.85%), which was in surplus of the regulatory requirements. The Bank has already performed various stress tests in its Individual Capital Adequacy Assessment Process (ICAAP) and find the capital quite adequate to meet unforeseen shocks.

Other Key regulatory ratios

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 the Prudential Regulation Authority ("PRA"). The Bank maintained LCR of 152% as at 31 December 2021 (2020: 227%) as compared to a 100% regulatory threshold. The Bank kept the LCR well above the regulatory requirement at all time to ensure that any unforeseen stress on its liquidity does not impact the Bank's ability to meet the regulatory requirement of 100% at all times.

The Bank's leverage ratio as of 31 December 2021 was 8.6% (2020: 8.9%) as against the regulatory threshold of 3%.

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

Key performance Indicators (“KPIs”)

The Bank uses a broad range of financial and non-financial measures to evaluate the performance and trends against the strategic objectives. These quantifiable measures remained helpful not only to evaluate the Bank’s performance but also keep the management well aware of any anticipated issues specifically during the time of pandemic.

To assess Bank’s performance, the management uses a number of sources including regular management information reporting of key metrics; as well as balanced scorecard to look at the business from customer, commercial, colleague and control aspects for continuous improvement. The process allows the branch managers to self-evaluate their performance against given targets and the management to keep an oversight on business performance against targets.

We consider a range of metrics across all stakeholder groups and continuously assess whether new measures should be added or removed from our dashboards, in order to ensure these remains relevant and appropriate to our strategy.

Keeping in view the Bank’s business activities performance of customers loan and deposits, profitability, capital adequacy, liquidity monitoring and operations and technology risks have been considered more important by the Directors than to other risks and considered by the management as part of its KPI. Some of these metrics are reviewed at the Board level while others at management committee level.

Some of the key KPIs monitored by the Bank includes:

KPI	2021	2020
Percentage increase in customer loans	13%	6%
Percentage increase in customers deposits	8%	8%
Non-performing loan as a % of loan book	2.5%	3%
Percentage of non-interest revenue to total revenue	11%	11%
Loan to deposit ratio	76%	73%
Return on Assets	0.5%	0.1%
Return on Equity	6%	0.8%
Capital adequacy ratio	18.65%	17.85%
Common equity tier 1 ratio	14.93%	13.86%

The Bank’s overall financial performance continues to remain structurally strong. Strong recovery demonstrated in 2021 depicts the strengths and resilience of the Bank to manage headwinds and return to business as usual in a short period of time. The pent-up demand allowed the Bank to increase the gross lending to almost double from 2020 with a net increase of £58 million. Customers deposits also increased as current account balances improved from last year as customers business volumes increased and more rental income started flowing.

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 capital adequacy ratio above the required regulatory requirement. The available capital resources of £106.29 million are considered sufficient with a view to support the business over a five-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 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 ongoing basis.

The Bank maintains a liquid balance sheet in the form of HQLA and non HQLA 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. Fixed rate bonds act as sources of a well-diversified deposit base, which continues when priced in line with market offering. The Bank's liquidity risk is managed by the Treasury function with oversight from the ALCO and the Board Risk Committee.

Operation and technology risks have emerged as a major risk for the banking sector in the past few years on the risk matrix. This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To mitigate the risk, the Bank has put in place a robust risk event reporting process alongside self-assessment of an internal control system ("ICS") and risk control self-assessment ("RCSA") process. The Operations and Technology Committee ("OTCO") is responsible for monitoring of the risk with oversight from BRC. All operational risk events are analysed in detail in OTCO with appropriate controls measures put in place through root cause analysis. The operational risk profile of the Bank remains stable.

The Bank also provides the needed attention to ongoing changes in the business environment to assess enhancement in risk. Such areas include but are not limited to online banking, contactless debit cards, 24/7 FPS. A formal change risk assessment is completed by risk management team before any such services are offered to ensure that adequate processes and controls are in place to protect the customers and the Bank.

Principal risks and uncertainty and mitigation plan

Risk management is an evolving process, which changes as a result of internal and external factors impacting the Bank's business, people, products and systems and controls. In these ever challenging and highly uncertain times, an effective risk approach of being proactive rather than reactive is more important than ever. In these times we cannot rely on impulsive strengths for predicting and controlling risks. A strong risk culture is a critical element to organisations' resilience to face of any plausible challenge.

Bank confronts a number of financial and non-financial risks arising both from external and internal factors. These risks are addressed through a comprehensive risk management framework centred around the embedding of a strong risk culture to avoid operational mistakes or reputational difficulties, and have more engaged and satisfied customers and employees.

The management of risk is critical to the execution of the Bank's strategy. The Bank's risk appetite is set by the Board of Directors and takes into account the Bank's Strategic Intent. A key contributor to the tolerance level set by the risk appetite is the speed of response to emerging or evolving risks. The Bank follows a proactive approach as all emerging risks are evaluated through a risk assessment process, which highlights impact on the business in key areas and mitigating factors available to the Bank to dilute the impact of such risks.

The executive management of the Bank is responsible for implementation of the risk appetite throughout the Bank's operations and business. The Board Risk Committee (BRC) maintains oversight of the business performance against the risk appetite. The material risks and uncertainties the Bank faces across its business and portfolios are key areas of management focus.

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's business strategy is built on:

- A clearly defined target market (selected customer and industry segments).
- Relationship-based banking service.
- Comprehensive governance and control framework.

The key elements of the Bank's risk management framework are as follows:

- Governance at the Board and Management level.
- Risk oversight.
- Risk management controls.
- The Bank's risk management strategy and risk appetite are aligned with its motto 'Service with security', core values and strategic intent of delivering sustainable growth.

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 processes 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 and 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, ongoing monitoring and pre-set thresholds for single party exposure, industry concentration and type of collateral. The Bank has a well-defined and articulated credit risk management framework ("CRMF"), which comprises its 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 ("BRC") has oversight responsibilities of the CRMF. The Country Credit Committee ("CCC") and Board Risk Committee review and approve credit exposures based on delegated authorities. The Bank has put in place detailed policies and guidance for the business and credit team to deal with impact of IFRS 9. Regular monitoring of our credit portfolio is carried out by the analytics team which provides early warning to the business team where customers start showing irregular repayments. Regular interaction between customers and relationship managers also helps in identifying any issues which might lead to significant increase in credit risk. Indicators, if any identified are closely monitored through a well-established watchlist process in place. One of the key focus areas of the Bank during period of uncertainties such as pandemic or external conflicts remains effective credit risk management. The credit team carried out frequent rapid reviews of the portfolio covering industries and sectors more severely affected by such uncertainties. During the COVID-19 period more focus was given to hospitality and travel. Frequency of CCC meetings also increased along with increase in the number of BRC meetings where the members meet on monthly basis during the period of uncertainty. Business remains at the forefront of managing customers.

Risk type	Tolerance and mitigation
Credit risk	expectation. This was clearly demonstrated during the Covid 19 period when customers requested for moratorium through the business team. Such requests were evaluated by the credit risk function prior to being discussed and approved in the CCC meetings with input from business. The Bank also ensures that any changes in credit program or risk acceptance criteria are discussed, evaluated and approved at the appropriate committee level.
Concentration risk	The Bank has clearly articulated its risk appetite with respect to concentration risk. This is determined by taking into consideration concentration risk arising from single name, industry, product, and geographical concentration. Concentration risk is discussed and managed at CCC, ALCO and BRC level. The Bank has put in place strong underwriting standards, portfolio monitoring process and early warning triggers to manage this risk.
Operational risk	The Bank manages operational risk through an articulated risk appetite and ongoing monitoring with oversight at management and board level committees. The Bank has a fully operational risk control function, which monitors various operational risks. The Bank sets various tolerance trigger points in accordance with regulation and guidance from the 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 reviews the breaches and considers 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. The Board Audit and Compliance Committee is primarily responsible for oversight of financial crime risk supported by the 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 a zero tolerance for financial crime and is vigilant to identify, report and take appropriate action to mitigate the inherent risk associated with financial crime. Risk identification and mitigation is undertaken through risk assessment, effective implementation of customers due diligence requirements and ongoing account and transaction monitoring process. The Bank has comprehensive AML policies and procedures in place, which are reviewed and updated 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 its objectives of understanding customer needs, ensuring fair treatment and pro-actively preventing poor outcomes for its customers. The Bank has an articulated conduct risk appetite, which is driven by best customer outcome. 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 a 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 implementing the requirements. Staff members meeting the certification requirements are identified through a robust process and undergo relevant training on an ongoing basis.

Risk type	Tolerance and mitigation
Capital risk	The Bank's capital structure has been built up to support the business over a long-term horizon and meet regulatory requirements. These include capital resources to cover Pillar 1, Pillar 2, Capital Requirement Directives ("CRD") Buffers and PRA Buffer. The Bank also maintains internal capital buffers over and above the minimum regulatory capital requirement. ALCO and Executive Committee monitor adequacy of capital with oversight from the Board Risk Committee.
Liquidity and 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 the 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 relationships. The Bank's depositor base mainly comprises relationship-based retail and SME deposits. The Bank also offers 6 and 12 months fixed-rate web-based deposits, which are mainly a rate-driven source of funding. To ensure the Bank has access to funding sources various measures were taken by the bank including access to BoE facilities under Sterling Monitory Framework, which includes Indexed Long Term Repo facility, Discount Window facility and Term funding for SMEs. In addition, the Bank has also entered into bilateral repo arrangements with other counter-parties to gain access to funding by utilising its stock of investments as collateral.
Interest rate risk	Interest rate risk at the Bank is well managed and contained under oversight from ALCO and BRC. The Bank has no significant or complex long-term interest rate positions. The Bank effectively monitors interest rate risk in the banking book ("IRRBB"), through range of stress scenarios on economic value of equity and net interest margin The Bank is also working actively to ensure its capability of implementing negative interest rate as communicated by the PRA.
Cyber risk	The Bank recognises risk associated with cyber threats and is constantly taking proactive measures to strengthen its operating environment to provide a 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.
Regulatory and legal	Regulations are constantly evolving and could adversely impact the Bank including capital, liquidity and funding requirements, enhanced data privacy requirements and the management of financial crime. The Bank implements new and updated regulatory requirements, where applicable, and incorporates the implications of related changes in its strategic and financial plans.
Foreign exchange risk	As the Bank does not maintain a trading book, it has minimal foreign exchange 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.

Emerging risks

Together with a strong governance process, the BRC receives regular information in respect of the risk profile of the Bank. Information received includes measures of risk profile against risk appetite as well as identification of new and emerging risks. We believe that our structure and governance support us in managing risk in the changing economic, political and market environments.

The Bank considers the following as emerging risks:

Risk type	Tolerance and mitigation
Climate change	Climate Change is a much-discussed topic in recent times at a global level. Risks highlighted by scientific research and changes in natural phenomenon have played a significant role is attracting focus at governmental level across the globe. Various initiatives have been introduced in the UK including legislation and regulatory requirements. The Bank has considered the effects of climate change on its business model and profile with oversight by the board and senior management. The Bank has also taken steps to embed consideration of climate change in the key decision making and risk management. As part of its approach to manage climate change risk, the Bank undertook a review of the following areas to consider relevant physical and transition risks to assess the materiality: • Business model • Customer base and target segments • Investment book and strategy • Bank's physical footprint and supply chain The Bank assessment included the primary target industry segments, customer profile and business activity, product offering, industry risk categorisation of segments combined with contractual terms of products and investments to arrive at the materiality view. Overall, the Bank's customer base and target segments primarily comprise of real estate, wholesale and retail segments. The lending exposures are focussed on real estate financing which is > 95% of the lending book. Consequently, the focus is on the property collateral. The Bank's focus is on residential, mixed use and commercial real estate with contractual loan terms not exceeding 5 years. The Bank does not offer finance for development and/or industrial units with high-risk characteristics. In the context of the UK property market, the two relevant risks are flooding (physical risk) and cost of compliance with new/forthcoming climate related legislation (transition risk). Both risks are covered by the Bank's collateral review through a valuation by panelled surveyors for all real estate transactions with a consideration by the management committee where any relevant risks are highlighted. The Bank's investment strategy includes a cap on max tenure of 5 years with an average maturity profile of 2.5 years. Whilst the existing holdings comprise less than 7% of exposure to segments considered as elevated risk, the Bank takes into account climate change risk in its decision-making process. At present, the Bank deems the materiality of climate change risk as low based on its assessment. The Board and the management are cognisant that climate change risk impact can have an effect on the Bank's financial position in terms of the collateral valuation leading to credit quality risk, valuation of assets, probability of default which can in turn impact the financial risk disclosures. In view of the above and given its evolving nature, climate change risk type is subject to periodic review to take into consideration any material changes to strategy and profile along with new legislative or regulatory expectations.

Risk type	Tolerance and mitigation
Outsourcing and third-party risk management	The PRA published Supervisory Statement (SS) 2/21 in March 2021 which sets out expectations of how PRA-regulated firms should comply with regulatory requirements and expectations relating to outsourcing and third-party risk management. The statements cover PRA expectations relating to governance, pre outsourcing process such as risk assessment arrangements, due diligence of third parties, written agreements covering data security, access, audit and information rights, business continuity and exit strategies and record keeping. Banks are required to ensure implementation of the SS by March 2022. The Bank had taken into account PRA's consultation paper which predated the supervisory statement whilst revising or establishing new outsourcing arrangements in 2019-2020. The supervisory statement will inform the Bank's control framework for third party risk management.

The notes to the financial statements and Pillar 3 Disclosures provide further information about most of these risks; the committees that 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.

UNCERTAINTY

Impact of Coronavirus (Covid-19)

The Bank has come out of the COVID-19 pandemic as a stronger and more resilient unit. Learnings made during the past 2 years have made the Bank well prepared to meet any such similar future challenges. Although the business has returned to near normal situation the COVID-19 virus is still affecting a large number of people every day. The mass vaccination program rolled out by the UK government has allowed people to live with the pandemic as the number of hospitalisations reduced significantly.

The Bank continued its focus on providing support to customers and colleagues which allowed them to return to normal state of operations.

Some of the key areas which remained in focus were:

- HR risk – ensuring appropriate safety measures remains in place to safeguard health and safety of employees and providing them with necessary support to manage their work with minimum disruption.
- Credit risk – we continued to work with customers who remained impacted by lockdown in the first half of 2021. Where required the Bank provided moratorium and tailored support to protect the customer from rising impact of economic downturn on industry segments and customers.
- Liquidity and funding risk - ensuring the Bank has access to sufficient liquidity to manage its liabilities under stress conditions.
- Operational risk – remained focused on information security, operational continuity and control enhancements for remote working arrangements.
- Governance arrangements - swift alignment of strategies, tactical decision making, related procedures and the management's ability to ensure prompt implementation.

The executive management team will continue to monitor the situation to assess potential risks to its customers, employees and suppliers to manage the impact in line with the Government guidance.

OTHER AREA OF KEY ATTENTION IN 2021

LIBOR change

The Bank participated in a group-wide Change Risk Assessment (CRA) in 2019 to assess the potential risks related to LIBOR replacement faced by the Bank. As an outcome of such assessment certain action items were identified, which included fact-finding exercises to determine the facts on the ground, e.g., which products are LIBOR based, what is the number / volume of products with maturities > 2021. As an outcome of the exercise, it was concluded that the Bank had no significant impact on its product profile due to LIBOR transition.

The Bank's main lending products use Bank's own reference rate – HBZ Base Rate – which is not linked to LIBOR. Similarly, customer deposits are fixed rate products. Trade finance products use 3,6 and 9-months US$ LIBOR, which will cease to operate from June 2023. The Bank with support from Group has put in place a mechanism for using alternate reference rates for pricing trade finance products, which is currently available.

The Bank transacts derivatives to hedge its own foreign exchange rate risk and that of its customers. As per the current practice being followed by the Bank, the LIBOR is not connected in FX swap and hedge transactions. The LIBOR / IBOR transformation risk is not considered material by the Bank.

Operational Resilience

A key priority for the Bank of England, Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) is to put in place a stronger regulatory framework to promote operational resilience of firms and financial market infrastructures (FMIs). To this end, they published a joint Discussion Paper on Operational Resilience 2018 to start a dialogue with the financial services industry. Based on responses received the supervisory authorities issued consultation papers related to important business services, outsourcing and third-party risk management which are considered as key part of operational resilience. Consultation papers also refers to operational capacity, technology infrastructure, data centres and cyber security as elements of overall operational resilience. The FCA and PRA policy statement was published in March 2021 with an effective date of March 2022.

The Bank has considered four main areas in its business services:

1. Deposits, Lending and Transaction Banking
2. Payments, Clearing and Settlement
3. Wholesale Funding
4. Investments & Money Markets

In line with its size and business model and share of the market, the Bank considers five elements of the business services - (1) Payments (2) Loan Disbursal (3) Balance Check (4) Cash Withdrawals (5) Cash and Liquidity Management - to be of critical importance in the context of potential disruption impact on its own customers and safety and soundness of the Bank.

The Bank's new Operational Resilience Framework will be based on our existing capabilities, including learnings from past experience, and following enhanced approach in line with the FCA's and PRA's objective.

- Leverages business impact assessments and recovery objectives covering the entire organisation.
- Prioritises important business services for end users specific to the Bank's business model and customer type.
- End to end process mapping largely complete for IBS covering people, processes, technology, internal and external dependency, and premises.

- Impact tolerances being established based on time metrics. Combination metrics being considered where secondary capability exists.
- Scenarios being established specific to the Bank leveraging risk event reporting process for past events and near misses.
- Submission of self-assessment document to the Board for approval summarising the activities that have been undertaken in year 1 to meet the March 2022 deadline.

The operational resilience framework in the Bank is subject to continuous improvements, process re-engineering and changes to business model & operational design to increase effectiveness and robustness while maintaining secure and efficient service delivery to customers through minimising adverse impact due to operational disruption. Therefore, the Bank will continue to work on the end to end mapping and comprehensive scenario testing at varying levels of sophistication over time to identify any vulnerabilities in sufficient time so that measures can be taken to remediate them. This is to ensure that the Bank tests their resilience to stay within the impact tolerance set against the important business services in case of disruption. The Bank will prioritise a plan which will set out how it will comply with the requirement to be able to remain within the impact tolerance within a reasonable time, and no later than 31 March 2025.

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 considered 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 customer focus in order to implement the Bank's business strategy.

Performance is reviewed annually against pre-defined measures and efforts are recognised 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 Senior Management Function ("SMF") roles.

Annual performance is a self-assessment process where employees assess their own performance against their job profile. It is an important time for an employee and their line manager to meet and share feedback, provide coaching, assess the goals, contributions and behaviours, and identify learning and development needs. It is also a time when future goals and clear expectations are set based on the SMART objectives. Compliance also provides its input on adherence to certification regime staff and their required competencies.

Section 172 Statement

This section of the Strategic Report describes how the Directors have performed their duty to promote the success of the Bank, including how they have considered and engaged with other stakeholders and, in particular, how they have taken account of the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

The Directors consider prudently that they have acted in the right way for the success of the Bank, both individually and collectively for the benefit of its shareholder and all its stakeholders. In discharging its duties under S172 the Board:

- annually reviews the strategic plan keeping in view the changes in the business and operating circumstances and approves the annual budget taking into account impact of such changes;

- recognizes that employees are central to the success of the Bank. The interests of the employees are considered in a proper way while keeping safety, and wellbeing as the key considerations for the way in which the Bank conducts its business;
- recognises the need to develop successful relationships with all stakeholders for the success and viability of the Bank. The Board taken into the account the interests of and impact on the stakeholders while taking business decisions;
- considers the impact of the Bank's business and operations on the community and the environment;
- ensures maintaining a reputation for high standards of business conduct; and
- ensures that the matters are referred to the parent in line with relevant statutory requirements.

The Directors recognise that effective stakeholder engagement is crucial in working towards shared goals which delivers long-term sustainable success. The Board reflects the priorities of the Bank's various stakeholders by considering the long-term implications of its decisions. The Board engages directly with stakeholders, and also indirectly through reporting from the Executive team.

The Board also give due regards to presence of an effective governance and risk management and clear distinction of responsibilities between the Board and management in discharging responsibilities under S172, details of which are included in the Corporate Governance Report on Page 30.

Future outlook

We saw a record economic recovery in second half of 2021 as businesses opened without any disruption for the first time in more than 18 months. The UK GDP reached the pre pandemic level with fastest growth among all G7 countries. The Bank recovered from low profitability by posting a profit after tax of £4.48 million as against £0.6 million in 2020.

The demand push inflation and shortage of energy to some extent changed the outlook for 2022 in the last quarter of 2021. The year 2022 will continue to see rising energy prices and supply disruptions causing more broad-based inflation. The pandemic is also not yet over with new variants leading to a rise in infection rates causing more disruptions. The BoE has already started tightening monetary policy by increasing the base rate to the pre-pandemic level of 0.75%. There are strong indications that base rate may go beyond 1% in 2022.

Keeping a balanced approach towards cost of fund management and lending interest rates will be one of our biggest challenges in 2022. We are already seeing increase in interest rates by lenders to manage the cost of funds. Cost of 12 months deposits on fixed rate bond market has by now seen a rise of 0.5% from start of the year. The property market has so far not seen much impact of the interest rate rise as prices are holding up. We will continue to monitor the situation as the majority of borrowers have not experienced a higher interest rate environment for decades.

We have a robust business pipeline to deliver steady growth in real estate lending and commercial banking activities. We are determined that the Bank will come out stronger in 2022 and will seek to ensure we serve our customers to the best of our abilities.

Approved by the Board and signed on its behalf by:

Kamran Qazi
Chief Financial Officer
31st March 2022


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 2021. 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

In 2021, the Bank posted a profit after taxation of £4.48 million (2020 £0.60 million). I am pleased with the strong operating performance displayed by the Bank despite a challenging 2021. A country wide lockdown in first quarter due to spread of Omicron variant and rising inflation were managed as the Bank posted significant balance sheet and profit growth. This cements the strength of our business model driven by the Bank's core business activities, real estate finance and commercial banking services, which has demonstrated its capacity to deliver high performance under pressure. Islamic banking under the brand name "Sirat" and Trade finance business volumes increased during the year as the Bank positioned more resources to grow these areas to expand its revenue base. The Bank remained alert and carefully managed its investment and money market portfolio taking in to consideration the expected increase in interest rate due to growing inflation.

Share capital and dividend

The Directors propose a dividend of 33% on ordinary shares to be paid in respect of the year. (2020: Nil).

The share capital of the Bank was increased by £10m during the year through fresh capital injection from Parent bank Habib Bank AG Zurich. The total share capital of the Bank increased to 70 million, which is divided into 70 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 Stephen Bryans	Independent NED
Mr Anjum Iqbal	Non-Executive Director
Mr Rajat Garg	Non-Executive Director
Mr Satyajeet Roy	CEO / Executive Director
Mr Kamran Qazi	CFO / Executive Director*

* Subject to regulatory approval

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 Auditor

Mazars has expressed an unqualified opinion on the 2021 financial statements.

Mazars LLP has expressed its willingness to continue in office as Auditors and a resolution to reappoint the firm was considered and approved at the annual general meeting.

Senior Management and Certification Regime

The Bank has established adequate documented processes over monitoring and governance of the Senior Management and Certification Regime ("SM&CR"), including the certified population. This includes adequate governance and oversight exercised by the Board, updating management responsibility and related business activities, and training staff in particular with Senior Management Function ("SMF") roles, as well as assessing the fitness and propriety of the staff within the SM&CR rules.

Going concern

The Bank's operating model is simple, offering core lending and deposit 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 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. 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 90 days survivability period.

The Bank made profit after tax of £4.48million (2020: £0.60 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.

The Directors have also considered the Bank's capital and liquidity plans, including stress tests in making such assessment based on growth projection as set out in long term strategic plan. Based on the assessment performed the Directors believes that the Bank has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and the Bank has sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the PRA.

The Directors have assessed the current financial strength of the Bank keeping in view the capital and liquidity position and are of view that there are sufficient financial resources available to manage the impact of coronavirus on the Bank's overall viability in foreseeable future.

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.

Board approval is sought to prepare the Bank Annual Report and Accounts on a going concern basis with the above disclosure in the Directors' Report.

Post-balance sheet events

The Board has assessed the impact of ongoing conflict between Russia and Ukraine as immaterial on its overall operations. There have been no other reportable events subsequent to the balance sheet.

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 Executive Committee and staff for their efforts, dedication, commitment and teamwork during 2021.

Approved by the Board and signed on its behalf by:

Satyajeet Roy
Chief Executive Officer
31st March 2022

Directors' Responsibilities Statement

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

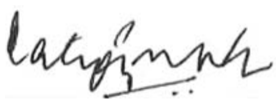
Company law requires the Directors to prepare the Bank's financial statements for each financial year. Under that law they have elected to prepare the Bank's financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and applicable 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006.
- 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
31st March 2022

Corporate Governance Report

THE BOARD OF DIRECTORS

The Board of Directors ("the Board") is committed to follow best practice in Corporate Governance.

The Board approved and adopted a substantially updated revision of the Corporate Governance Code incorporating the principle set out in the latest revision of the UK Corporate Governance Code (the 'UK Code'), modified as considered appropriate for an organisation of the Bank's size and type. Whilst 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: Stephen Bryans, Anjum Iqbal, Rajat Garg, Muhammad H. Habib, Satyajeet Roy, Carey Leonard & Kamran Qazi.

Muhammad H. Habib

Chairman

Roles & Committees	Chairman & Non-Executive Director
Skills & Experience	Muhammad H. Habib became a member of the General Management in 1992 (Habib Bank AG Zurich Group, Switzerland). He was appointed as the President & Chief Executive Officer of Habib Bank AG Zurich Group, in 2011. His banking journey, spanning over 40 years, started in 1981 from Dubai, UAE 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, UK, North America and Switzerland. Under his leadership, the Group 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 a member of the General Management and President of Habib Bank AG Zurich Group.
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 and Compliance Committee

Skills and experience
Carey Leonard has many 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 as well as proven leadership skills.

Principal external appointments
- Trustee and Treasurer to the Council, Malvern College
- Chairman, The Downs Malvern Preparatory School
- Chairman, Abberley Hall School
- Justice of the Peace Worcestershire branch

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

Stephen Bryans

Independent
Non-Executive Director

Roles & Committees
- Independent Non-Executive Director
- Chair of the Board Audit and Compliance Committee
- Member of the Board Risk Committee

Skills and experience
Stephen has over 30 years of audit and consulting experience with KPMG in the UK and Switzerland across banking, insurance and investment management sectors. His has strong expertise in audit, accounting, risk management, regulatory capital frameworks, internal control frameworks and compliance functions. He is highly adept at working with a variety of differing corporate cultures across many geographies.

Principal external appointments
none

Former appointments
KPMG
- Partner (UK)
- Partner (Switzerland)

Anjum Iqbal

Non-Executive Director

Roles & Committees	· Member of the Board Risk Committee · Member of the Board Audit and Compliance Committee
Skills and experience	Anjum Iqbal has extensive management experience in various part 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, Chair of Board IT Committee, member of Board Audit Committee and Board Credit Committee, Habib Metropolitan Bank (Pakistan)
Former appointments	Habib Bank AG Zurich Group · Chief Executive Officer, Habib Bank Zurich plc, UK · President and Chief Executive Officer, Habib Metropolitan Bank, Pakistan Citigroup · Managing Director Commercial Banking Group (EMEA) · Head of Corporate and Financial Institutions Group (CEEMEA) · CEO Africa Division · Regional CEO, Turkey and Central Asia

Rajat Garg

Non-Executive Director

Roles & Committees	· Member of the Board Risk Committee · Member of the Board Audit & Compliance Committee · Group Entity Senior Manager for Habib Bank Zurich plc
Skills and experience	Rajat Garg possesses over 31 years of experience in senior banking positions across Asia, Europe and Middle East. His professional background includes extensive experience in managing commercial 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, HBZ Bank (Hong Kong) Ltd · Non-Executive Director, Habib Canadian Bank
Former appointments	Citigroup · Head of Retail Banking and Wealth Management, EMEA · Country Business Manager, Turkey · Cards Business Manager, Saudi Arabia · Regional CFO – Asia Pacific Cards, Singapore · NRI Wealth Management Head, Singapore · Financial Controller and Business Planning Head, India

Satyajeet Roy

Chief Executive Officer

Roles & Committees	· Executive Director · Chief Executive Officer
Skills and experience	Satyajeet Roy is a seasoned executive with 26 years of international banking experience across the Middle East, UK, Europe and 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 for UAE & Bahrain (Dubai, UAE) · EMEA Head of Business Development, Business Banking (London UK) · EMEA Audit and Risk Review, Lead Auditor, UK

Kamran Qazi

Chief Financial Officer

Roles & Committees	· Executive Director* · Chief Financial Officer
Skills and experience	More than 25 years of experience in the field of finance and accounting in Europe and Asia. Specialises in financial and management reporting.
Principal external appointments	none
Former appointments	Chief Financial Officer Central Depository Company of Pakistan Limited Senior Manager Audit and Assurance KPMG Rating Analyst DCR VIS Credit Rating Agency

*Subject to regulatory approval

Executive Committee

Walid Malik	Head of Operations
Waqar Haider	Chief Risk Officer
Nadia Saleem	Head of Compliance and MLRO
Kamran Qazi	Chief Financial Officer
Kausar Kazmi	Head of Commercial Banking
Satyajeet Roy	CEO and Executive Director
Faraz ul Hassan	Head of Information Technology
Syed Saif-ur-Rehman Shah	Head of Islamic Banking & Intermediary Business
Monika Poznar	Head of Human Resources
Asim Imtiaz Basraa	Head of Credit

Executive Committee
From left to right: Walid Malik, Waqar Haider, Nadia Saleem, Kamran Qazi, Kausar Kazmi, Satyajeet Roy, Faraz ul Hassan, Syed Saif-ur-Rehman Shah, Monika Poznar and Asim Imtiaz Basraa.

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 its long-term strategic value. 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 its 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.
- 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.
- Consider and make recommendations to the Board regarding the remuneration including increment and bonus of employees with SMF responsibilities with the exception of Directors.

The responsibilities of the Board are clearly set out in its Terms of Reference ("TORs"), which is reviewed and approved periodically by the members of the Board. The schedule of Board meetings along with recurring items is approved in advance with the permission of the Chair and circulated to all members. 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. The 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 a 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 responsible for leading the development of the Bank's culture.

The two appointed independent non-executive directors ("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 ("NEDs") 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 Chief Executive Officer ("Executive Director") is responsible for managing 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 executing the business plan, delivering planned results, managing risk, systems and the control framework, and delivering 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 the 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 a pool of resource with relevant knowledge and experience to manage the strategic objective of the Bank.

The Board comprises seven directors – the Chairman, two INEDs, two NEDs and two Executive Directors. 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 Stephen Bryans 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 evaluating candidates by the Board members, selected on the skills and experience required for their particular appointment. The Bank usually uses an external executive search firm for shortlisting candidates.

Commitment

The Bank has a balanced combination of non-executive, independent non-executive and executive directors keeping in view the complexity and nature of the 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 on 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, information technology and cyber security. 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 cover areas such as AML, information security, fraud prevention, anti-bribery and corruption, whistleblowing, complaints handling, data protection etc. In addition, directors are also receiving periodic updates related to emerging risks to keep them abreast of new challenges within financial services.

Information and support

The Chair 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 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 NEDs. 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 a periodic evaluation process by completing a self-assessment questionnaire, which is discussed with the Chairman of the Board. The assessment aims to assess the performance evaluation of each member by recognising strengths and addressing 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
	Stephen Bryans	Member
	Anjum Iqbal	Member
	Rajat Garg	Member

Board Audit and Compliance Committee

Membership	Stephen Bryans	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 the 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 and make recommendations to the Board regarding the appointment, removal and resignation of employees with SMF responsibilities under the Senior Management Regime (SMR) 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' appointment, reappointment 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 ongoing 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 ongoing 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 UK 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 2021. 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. The Board Secretary prepared minutes of Board meetings, with details of decisions reached.

At each regular Board meeting, the executive management of the Bank made presentations to the Board on various aspects, including business performance, financial performance, corporate governance and outlook. Throughout 2021, 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.

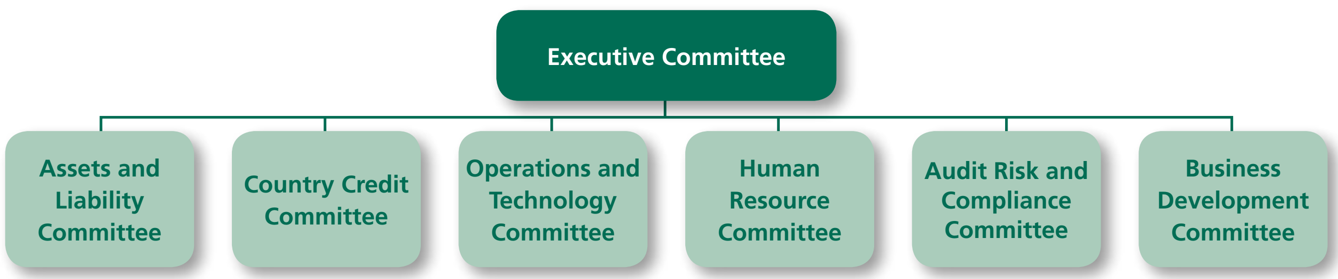
All Directors attended the Board and its committee meetings held during the year.

Interaction with management committees

There is a formal division of responsibilities matrix, which identifies the responsibilities of the Board and 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 EXCO represent the principal forum for conducting the day-to-day business of the Bank. The terms of reference of EXCO are approved by the Board. Executive Committee is represented at 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 and Liability Committee
- Audit Risk and Compliance Committee
- Country Credit Committee
- Operations and Technology Committee
- Human Resource Committee
- Business Development Committee



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

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 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 reviews 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 that 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, teamwork, respect, responsibility and commitment. Values are upheld continuously and embedded at all levels of the organisation.

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 predefined measures and efforts are recognised 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 remuneration 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 their 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 Chair discusses matters relating to governance and business strategy of the Bank with the other shareholders. The Chair ensures that views of 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 shareholder.

Independent auditor's report

to the members of Habib Bank Zurich plc

Opinion

We have audited the financial statements of Habib Bank Zurich plc (the 'Bank') for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable by law and UK-adopted international accounting standards ("IFRS")

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2021 and of the Bank's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards ("IFRS"); and
- 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 under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, as applied to public listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Our audit procedures to evaluate the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern;
- Making enquiries of the directors and senior management to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Bank's future financial performance;
- Evaluating management's going concern assessment of the Bank and challenging the appropriateness of the key assumptions used in management's forecasts, including assessing the historical accuracy of management's forecasting and budgeting;

- Assessing the sufficiency of the Bank's capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Assessment Process, and evaluating the results of management stress testing, including consideration of principal and emerging risks on liquidity and regulatory capital;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the impact of the COVID-19 pandemic;
- Reading regulatory correspondence, minutes of meetings of the Audit Committee and the Board of Directors, and considering post balance sheet events to identify events of conditions that may impact the Bank's ability to continue as a going concern;
- Considering the consistency of the management's forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of 12 months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
Impairment of loans and advances to customers Expected Credit Loss ('ECL') provision is £4.45 million (PY – 5.41 million) and charge/(reversal) in statement of comprehensive income £0.48 million (PY – 0.38 million). *Refer to significant accounting policy on pages 66-67 (Note 5.5.3 – Impairment of financial assets) and Note 16,16.2 and 31.4-31.17 of the financial statements in pages 79 and 93-106.* Credit risk is an inherently judgemental area due to the use of subjective assumptions and a high degree of estimation. IFRS 9 requires the Bank to recognise expected credit losses ("ECL") on financial instruments which involve significant judgement and estimates. The most significant areas where we identified greater levels of management judgement are: • Key assumptions in the model including probability of default ("PD") and loss given default ("LGD") including the present value of future cash flows from collateral; • Use of macro-economic variables reflecting a range of future scenarios; and • Completeness and valuation of post-model adjustments. The effect of these matters is that, as part of our risk assessment, we determined that the provision for impairment on loans and advances has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our audit procedures included, but were not limited to: • Assessing the design and implementation, and testing the operating effectiveness of key controls over the monitoring and reporting of credit exposures; • Challenging the appropriateness of the Bank's IFRS 9 impairment methodology, including testing and challenging the reasonableness of the assumptions, assessing the appropriateness of the model's design and independently recalculating the PD and LGD for a selection of loans. We have engaged our in-house credit risk specialist in this process; • Testing and challenging the appropriateness of the Bank's macroeconomic variables, economic scenarios used and the probability weightings applied. We involved our in-house economist in this process; • Assessing the appropriateness and reasonableness of the post model adjustments and whether the post model adjustments are indicative of management bias; • Independent credit file review testing and challenging management on the application of Significant increase in credit risk ('SICR') for a sample of counterparties to identify indicators of deterioration in credit quality and a SICR; • Testing key inputs (e.g. days past due) used in the ECL models on sample basis; and • We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the expected credit losses, including the disclosures in relation to sensitivity analysis, in accordance with IFRS 9. In addition, we assessed whether the disclosure of the key judgements and assumptions made is sufficiently clear. **Our observations** We found that the allowance for credit losses as of 31 December 2021 and the approach taken in respect of ECL are consistent with the requirements of IFRS 9 and that judgements made were reasonable.

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

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality

Overall materiality	£431,000 (2020 - £355,000)
How we determined it	0.5% of net assets (2020 – 0.5% of net assets)
Rationale for benchmark applied	We believe that the benchmark of net assets as a key focus of users of the financial statements, who, in the current environment, may be more focused on balance sheet strength as determined by regulatory capital in which net assets is a good proxy. We have therefore used equity given its importance to the Bank's solvency and regulatory capital resources.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balances or disclosures set to reduce to an appropriately low level of probability that the aggregate of uncorrected misstatements in that particular class of transactions, account balance or disclosure exceeds the materiality level for that particular class of transactions, account balance or disclosure. Performance materiality of £280,000 (2020 – £213,000) was applied in the audit, which represents 65% (2020 – 60%) of overall materiality. We considered several factors in determining performance materiality, including: • The level and nature of uncorrected and corrected misstatements in the prior year and • The robustness of the control environment and Business acquisitions in the current year.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £13,000 (2020 – £11,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Bank, its environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Bank and its industry, we identified that the principal risks of non-compliance with laws and regulations related to regulations and supervisory requirements of the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Bank, the industry in which it operates and considering the risk of acts by the Bank, which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with the PRA and FCA;
- Reviewing minutes of meetings of the Board of Directors and the Audit Committee held during the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as UK tax legislation and Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to impairment of loans and advances to customers (as described in the "Key audit matters" section of our report).

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing on a sample basis.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with both management and those charged with governance. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 13 January 2022 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2020 to 31 December 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

This report is made solely to the Bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body for our audit work, for this report, or for the opinions we have formed.

David Allen

David Allen (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House, St Katharine's Way, London E1W 1DD

Date: 31/03/2022

Income statement

For the year ended 31 December 2021

	Notes	2021 (£ 000')	2020 (£ 000')
Interest income		21,888	21,773
Interest expense		(4,133)	(5,784)
Net interest income	6	**17,755**	**15,989**
Fee and commission income		2,325	1,732
Fee and commission expense		(434)	(242)
Net fee and commission income	7	**1,891**	**1,490**
Net foreign exchange income		484	8
Fair value (Loss) / gain on derivative financial instruments		(210)	258
Gain on sale of financial investments		114	-
Other income	8	10	220
Net other income		**398**	**486**
Staff costs	9	(10,151)	(10,807)
Depreciation	19	(933)	(971)
Administrative and general expenses	10	(5,179)	(4,910)
Operating expenses		**(16,263)**	**(16,688)**
Operating profit before credit impairment losses		**3,781**	**1,277**
Credit impairment reversals / (charges)	11 & 31.15	68	(588)
Profit before tax		**3,849**	**689**
Tax credit / (charge)	12	626	(89)
Profit after tax		**4,475**	**600**

Profit for the year arises from continuing operations.

The accompanying notes on pages 56 to 119 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 31 March 2022.


Sail Bridge, Dorset

Statement of Other Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 (£ 000')	2020 (£ 000')
Profit after tax		**4,475**	**600**
Items that may be reclassified subsequently to the income statement:			
Fair value through other comprehensive income reserve			
- Net (losses) / gains from changes in fair value	27	(486)	117
- Reversal due to sale of investment		(20)	-
- Deferred tax	27	96	(22)
		(410)	95
Net (reversals) / losses transferred to income statement due to impairment		(44)	13
Other comprehensive income for the year net of tax		**(454)**	**108**
Total comprehensive income for the year		**4,021**	**708**
Total comprehensive income for the year attributable to equity holders		**4,021**	**708**

Profit for the year arises from continuing operations.

The accompanying notes on pages 56 to 119 form an integral part of the financial statements.

Statement of Financial Position

As at 31 December 2021

	Notes	2021 (£ 000')	2020 (£ 000')
Assets			
Cash in hand and with central bank	14	88,689	79,410
Due from banks	15	101,317	111,857
Loans and advances to customers at amortised cost	16	514,061	455,954
Financial investments	17	175,654	104,357
Derivative assets held for risk management	18	304	616
Property and equipment	19	7,498	7,779
Other assets	20	2,048	888
Deferred tax assets	13	2,506	1,272
Total assets		**892,077**	**762,133**
Liabilities and Equity			
Liabilities			
Due to banks at amortised cost	21	107,147	40,091
Due to customers at amortised cost	22	672,008	623,644
Derivative liabilities held for risk management	18	514	358
Accruals, deferred income and other liabilities	23	5,540	5,622
Current tax liabilities	24	573	103
Deferred tax liabilities	27	-	70
Subordinated liabilities	25	20,092	20,063
Total liabilities		**805,874**	**689,951**
Equity			
Called up share capital	26	70,000	60,000
Retained earnings		16,301	11,826
Fair value through other comprehensive income reserve	27	(98)	356
Total equity		**86,203**	**72,182**
Total liabilities and equity		**892,077**	**762,133**

Signed on behalf of the Board of Directors

Chairman: Muhammad H. Habib

Director: Satyajeet Roy

The company registration number is 08864609

The accompanying notes on pages 56 to 119 form an integral part of the financial statements.
These financial statements were approved by the Board of Directors and authorised for issue on 31st March 2022.

Statement of Changes in Equity

For the year ended 31 December 2021

	Called up Share Capital (£ 000')	Fair value through other comprehensive income reserve (£ 000')	Retained earnings (£ 000')	Total (£ 000')
Balance as at 1 January 2021	**60,000**	**356**	**11,826**	**72,182**
Capital issued during the year	10,000	-	-	10,000
Profit after tax			4,475	4,475
Fair value through other comprehensive income (net losses during the year)		(486)		(506)
FV reversal due to sale of investment		(20)		
Deferred tax		96		96
		(410)		(410)
Net reversals transferred due to impairment		(44)		(44)
Balance as at 31 December 2021	**70,000**	**(98)**	**16,301**	**86,203**

	Called up Share Capital (£ 000')	Fair value through other comprehensive income reserve (£ 000')	Retained earnings (£ 000')	Total (£ 000')
Balance as at 1 January 2020	**60,000**	**248**	**11,226**	**71,474**
Profit after tax	-	-	600	**600**
Fair value through other comprehensive income (net gains during the year)	-	117	-	**117**
Deferred tax	-	(22)	-	**(22)**
		95	-	**95**
Net losses transferred to OCI due to impairment		13	-	**13**
Balance as at 31 December 2020	**60,000**	**356**	**11,826**	**72,182**

The accompanying notes on pages 56 to 119 form an integral part of the financial statements.

Cash Flow Statement

For the year ended 31 December 2021

	Notes	2021 (£ 000')	2020 (£ 000')
Cash flows from operating activities			
Profit before tax		3,849	689
Adjusted for:			
- (Reversals) / impairment losses on loans and advances at amortised cost	11	(68)	588
- Gain sale of financial assets at fair value through other comprehensive income		(114)	-
- Depreciation	19	933	971
- Gain on sale of property and equipment		(1)	-
		4,599	**2,248**
Net (increase)/decrease in operating assets			
Loans and advances to banks at amortised cost		11,053	(13,756)
Loans and advances to customers at amortised cost		(58,584)	(26,097)
Derivative financial instruments for risk management		312	(259)
Other assets		(966)	286
Net increase/(decrease) in operating liabilities			
Due to banks at amortised cost		67,056	33,369
Due to customers at amortised cost		48,364	46,631
Derivative financial instruments for risk management		156	46
Accruals, deferred income and other liabilities		351	(991)
Tax paid		(306)	(647)
Net cash inflow/(outflow) from operating activities		**72,035**	**40,830**
Cash flows from investing activities			
Purchase of property and equipment		(652)	(267)
Proceed against sale of property and equipment		1	-
Purchase of financial investments		(114,123)	(39,436)
Maturity /sale of financial investments		42,421	19,780
Net cash (outflow) / inflow from investing activities		**(72,353)**	**(19,923)**
Cash flows from financing activities			
Capital issuance		10,000	-
Leases paid		(432)	(426)
Payment of interest on subordinated liabilities		29	(35)
Net cash outflow from financing activities		**9,597**	**(461)**
Net increase in cash and cash equivalents		**9,279**	**20,446**
Cash and cash equivalents at the beginning of the year		79,410	58,964
Cash and cash equivalents at the end of the year		**88,689**	**79,410**

The accompanying notes on pages 56 to 119 form an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2021

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, Weinbergstrasse 59, PO Box 225, 8042 Zurich, Switzerland ("The Group). The Group's financial statements are available at www.habibbank.com.

2. Basis of preparation

These financial statements have been prepared in accordance with UK adopted international standards in conformity with the requirements of the Companies Act 2006.

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

3. Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items:

Items	Measurement basis
Financial assets at FVOCI (applicable from 1 January 2019)	Fair value
Derivative financial instruments	Fair value

4. Going concern

As detailed in the Directors' Report, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis for the foreseeable future from the reporting date. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the Bank's financial position, future projections of profitability, cash flows and capital and liquidity resources and the longer-term strategy of the business.

The Bank's capital and liquidity plans have been stress tested against a severe but plausible downside scenario used in the assessment of the ICAAP and ILAAP reviewed and approved by the Board of Directors. The Board concluded that both capital and liquidity remained within present regulatory requirements over the going concern period. To support future growth the Parent bank invested £10 million as share capital in December 2021. The Directors also considered the subordinated debt of £20m (Tier 2 capital), which was rolled over for another 5 years as agreed with the Parent bank on the date of its maturity on 1 April 2021. The subordinated loan was renewed as being an integral part of the Bank's capital and funding source to meet projected growth.

The Directors' assessment to continue to adopt the going concern basis include risk assessments performed to identify factors impacting the business operations and financial resilience demonstrated by the Bank during the Covid 19 pandemic and ongoing conflict between Russia and Ukraine.

There are no material uncertainties identified that may pose any doubt on the Bank's ability to continue as a going concern for the foreseeable future.

5. Accounting Policies

5.1 Compliance with international Financial Standards

The financial statements of the Bank have been prepared in accordance with the Companies Act 2006 and UK adopted international standards.

5.2 New standards and amendments to existing standards

The summary is provided below of (a) new standards and amendments that are effective for the first time for periods commencing on or after 1 January 2021 (i.e., years ending 31 December 2021), and (b) forthcoming requirements, being standards and amendments that will become effective on or after 1 January 2022.

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2021:

- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 In February 2021 the IASB issued amendments to IAS 1 that require entities to disclose their material accounting policies rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on the concept of materiality and its application to accounting policy information. Under the amendments, accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023, and will be applied from that date.
- Definition of Accounting Estimate - Amendments to IAS 8 In February 2021, the IASB issued amendments to IAS 8 that replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are clarified as monetary amounts in financial statements that are subject to measurement uncertainty. Where an entity's accounting policy requires an item to be measured at monetary amounts that cannot be observed directly, it should develop an accounting estimate to achieve this objective. The amendments are effective for annual periods beginning on or after 1 January 2023, and will be applied from that date.
- Amendments to IFRS 3 – Definition of a business. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.
- Revised Conceptual Framework for Financial Reporting. The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:
  - increasing the prominence of stewardship in the objective of financial reporting;
  - reinstating prudence as a component of neutrality;
  - defining a reporting entity, which may be a legal entity, or a portion of an entity;
  - revising the definitions of an asset and a liability;
  - removing the probability threshold for recognition and adding guidance on derecognition;
  - adding guidance on different measurement basis; and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

The adoption of the standards above did not result in material changes to the financial statements.

The following standards and interpretations had been issued but were not mandatory for annual reporting periods ending on 31 December 2021.

- IFRS 17 - Insurance Contracts (1 January 2023). IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period.
- Amendments to IFRS 16 - Covid-19-related Rent Concessions (1 June 2020). As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments.
- Amendments to IAS 1- Classification of Liabilities as Current or Non-current (1 January 2022). The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g., the receipt of a waver or a breach of covenant).
- Amendments to IAS 16- Property, Plant and Equipment: Proceeds before intended use (1 January 2022). Prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.
- Amendments to IFRS 3 – Reference to conceptual framework (1 January 2022). Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.
- Amendments to IAS 37 - Onerous contracts (1 January 2022). The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts.
- Annual Improvements to IFRS Standards 2018–2020 (1 January 2022).
  - IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  - IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
  - IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent.
  - IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41.
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (not yet set). The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures.

The above standards and interpretations did not result in material changes to the financial statements.

5.3 Critical accounting estimates and judgements

The preparation of the Bank's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of the Bank's and the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Actual results may differ from estimates.

5.3.1 Judgement

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Note 5.5.3: classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.

5.3.2 Estimates

Estimates usually involve a subjective measurement and a range of reasonable outcomes. Estimates and assumptions predominantly relate to Estimated Credit Loss (ECL) modelling, impairment of loans and advances and the determination of useful lives and residual values for property and equipment.

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

- Note 31.8: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

The accuracy of the provision would therefore be affected by unexpected changes to these assumptions. The table below shows the estimated ECL impact on key principal portfolios for both a positive growth (Upward scenario) and a downturn (Downward scenario) of macroeconomic variables used by the Bank in estimating the Estimated Credit Loss (Loss).

The inputs have been modelled by replacing the Baseline macroeconomic variables with the Downside and Upside movement re-calibrating the PDs and LGDs.

Impact on ECL	2021	2020
Improvement in Debt Service ratio and unemployment rate 5%	7% decrease	5% decrease
Improvement in Debt Service ratio and unemployment rate 10%	13% decrease	10% decrease
Improvement in Debt Service ratio and unemployment rate 20%	26% decrease	21% decrease
Deterioration in Debt Service ratio and unemployment rate 5%	7% increase	5% increase
Deterioration in Debt Service ratio and unemployment rate 10%	14% increase	11% increase
Deterioration in Debt Service ratio and unemployment rate 20%	28% increase	21% increase

- *Effective interest rate:* Bank makes assumptions around the expected lives of mortgages and the collateral support to calculate the effective interest rate for specific customer. Management regularly reviews these assumptions and compares with actual results.

- *Tax position:* Recognition and measurement of deferred tax assets is based on business profit forecasts. Details on the recognition of deferred tax assets is provided in Note 13.

- *Fair value of derivatives and financial assets:* The Bank measures Fair Value through Other Comprehensive Income (FVOCI) at fair value using market prices and Derivative financial instruments based on observable market data. Note 30 provide the determination criteria of the fair value of financial instruments with significant unobservable inputs.

- Note 5.5.8 provides the recognition and measurement of provision and contingencies.

5.3.3 Assumptions and estimation uncertainties:

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes.

Impairment of financial instruments at Note 5.5.3 on Page 63 explains determining inputs into the ECL measurement model, including incorporation of forward-looking information.

These estimates and assumptions are explained in the notes below.

5.4 Changes in accounting policies

The Bank has consistently applied the accounting policies as set out on Note 5.5 to all periods presented in these financial statements.

5.5 Significant accounting policies

Revenue recognition

5.5.1 Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method, the 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset under stage 1 and stage 2; or
- The net amount (gross carrying amount less provisions held) under stage 3; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates the future cash flows considering all contractual terms of the financial instruments but does not consider the future credit losses.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss.

The 'gross carrying value of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

5.5.2 Fee and commission income

The Bank provided banking services to personal and business customers, including account management, foreign currency transactions and servicing fees.

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

- Revenue from account services and servicing fees is recognised over time as the services are provided.
- 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. The Bank receives 50% of the commitment fee upfront which is recognised as income in the year it is received on the basis of being non-refundable.
- Loan termination represents fee paid by customers on early repayment of loans is recognised at the time loan is settled by the customer.
- Fees for ongoing account management are charged to the customer's account as per schedule of fee and charges. The Bank sets the rates separately for personal and business banking customers in each jurisdiction on monthly basis.
- Revenue earned on the execution of a significant act is recognised in fee income when the act is completed including trade finance income.
- Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place.
- Bank provides locker services to the customers, the fee of which is charged upfront on annual basis and amortised monthly.
- Other fees charged to the customer's account when the transaction takes place.

5.5.3 Financial assets and liabilities

Recognition and initial measurement

The Bank initially recognises loan and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Classification

IFRS 9 contains three principle classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Under IFRS 9 the fair value changes in financial liabilities designated at fair value through profit or loss account are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

Business model assessment

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. The Bank maintains financial investments in i) held to collect and (ii) held to collect and sell. For financial investments held to collect, the objective is to collect the contractual cash flows while for the financial investments held to collect and sell, the objective is to collect the contractual cash flows and sell the assets.

The Bank makes an assessment of the objectives of a business model in which an asset is held at a portfolio level as it best reflects the way the business is managed, and information is provided to management.

Assessment whether contractual cash flows are solely payment of principal and interest (SPPI Test)

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration of the time value of money and for the credit risk associated with the principal amount during a particular period of time and for basic lending risk and costs, as well as profit margin.

The Bank has 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 and at amortised cost.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows that it would not meet its condition.

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 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.

Amortised Cost
A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as FVTPL:

- The asset is held with the business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified basis to cash flows that are SPPI.

Fair value through other comprehensive income (FVOCI)
A debt instrument is measured at FVOCI only if it meets both the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets give rise on specific dates to cash flows that are SPPI.

There is no equity instrument maintained by the Bank measured at FVOCI.

Fair value through profit and loss (FVTPL)
- All other financial assets are classified as measured at FVTPL.

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).

Islamic financing and Investments
The Bank Islamic financing and deposits products are offered to customers under the brand name 'Sirat'. The financing products offered to customers are namely Commodity Murabaha and Diminishing Musharika.

Murabaha is a contract for the sale of goods at cost plus an agreed profit mark-up. Under the arrangement entered into between the Bank and customer, the Bank purchases a commodity and then sells it to a customer on a deferred settlement basis with an agreed mark-up. The delivery of the goods is immediate but payment may be deferred. Commodity Murabaha is a specific example of such a contract where the item being sold is a metal commodity.

Musharika financing is made through a contract under which the Bank will enter into an agreement to jointly purchase a property with another party on ongoing basis or for a limited time. In these particular arrangements the Bank will sell its share in this partnership to the customer until they become the sole owner of the specific asset, therefore, making the product Diminishing Musharika financing. Rental income will be received relating to that proportion of the property owned by the Bank at any point in time. The transaction is recognised as a financial asset upon legal completion of the property purchase and the amount receivable is recognised at an amount equal to the net investment in the transaction.

Where initial direct costs are incurred by the Bank such as legal and valuation fees and commission that are incremental and directly attributable to negotiating and arranging the transaction, these costs are included in the initial measurement of the receivable and the amount of income over the term will be reduced. Rental income is recognised at a constant periodic rate of return on the Bank's net investment.

Investment securities are non-derivative financial assets which are purchased for profit and intended to be held for an indefinite period of time, but may be sold in response to liquidity requirements or changes in profit rates or exchange rates. They are classified as FVOCI and are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at FVOCI. The cash flows received by the Bank are solely payments of principal and profit on the outstanding balance or sale proceeds in the event of a sale.

Gains and losses arising from changes in the fair value of investment security assets, other than foreign exchange gains and losses from monetary items, are recognised directly within a separate component of equity, until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised within equity is transferred to the statement of comprehensive income.

Islamic deposits

Customer Wakala deposits consist of an Islamic financing transaction, which represents an agreement whereby the customer appoints the Bank as agent to invest a certain sum of money, per specific conditions in order to achieve an expected specified return. The Bank, as agent, is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. Balances are valued based on their amortised cost.

Revenue recognition

Profit on Commodity Murabaha and Diminishing Musharika is recognised as income on a time-apportionment basis over the period of the contract, based on applying the effective profit rates to the principal amounts outstanding.

The accounting policies for Islamic financial assets and liabilities are consistent with those applied for similar financial assets and liabilities.

Derecognition

Financial Assets

The Bank derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including new asset obtained less any liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Financial Liabilities

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

Modification of financial assets and financial liabilities

Financial Assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified assets were substantially different.

If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised, and a new financial asset was recognised at fair value plus any eligible transaction cost. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different term. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place.

The Bank derecognises a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- change in currency of the loans
- introduction of equity feature
- change in counterparty
- if the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Financial Liabilities

The Bank derecognises a financial liability when its terms were modified, and the cash flows of the modified liability were substantially different. The Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss.

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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Impairment of financial assets

ECL are probability-weighted estimates of credit losses.

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.

Estimated Credit Loss (ECL)

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.

Probability of default (PD)

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.

Loss given default (LGD)

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.

Exposure at default (EAD)

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.

Measurement of ECL

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 two macroeconomic variables, (i) debt service ratio 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.

Loss allowance for ECL is presented in the statement of financial position as follows:

Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

Loan commitments, off balance sheet items and financial guarantees: generally, as a provision;

Where a financial instrument includes both a drawn and an undrawn component/off balance sheet item, and the Bank cannot identify the ECL on the loan commitment component separately for those on the drawn components: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and recognised in the fair value reserves.

Significant increase in credit risk (SICR)

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:

Staging Criteria

Stage 1 – 12-month ECL

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.

Stage 2 – Lifetime ECL

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).

Stage 3 – Lifetime ECL

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.

Write off

Loan and debt securities are written off (either partially or in full) where there is no reasonable expectation of recovering a financial asset in entirely or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Recoveries of amount previously written off are included in 'impairment loss on financial instruments' in the statement of profit or loss or OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

5.5.4 Derivative financial instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

All derivative instruments are held at fair value through profit or loss. 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.

5.5.5 Employee benefits

Short-term employee benefits, 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.

5.5.6 Cash and cash equivalents

Cash and cash equivalents represent Cash in hand and readily available balances held with the central bank.

5.5.7 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. An impairment is recognised in profit or loss as the difference between carrying value and recoverable amount.

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
Leased assets (ROU)	Over the remaining period of the lease
Motor vehicles	5 years
Fixtures, fixture and fittings	3 - 5 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.

5.5.8 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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.

5.5.9 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, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

5.5.10 Foreign currency translation

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

5.5.11 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.

5.5.12 Accounting for leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The incremental borrowing rate is used that the Bank would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. The rates are determined for each economic environment in which Bank operates.

The incremental borrowing rate is the discount rate that Bank determines by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The Bank discounted lease payments using its incremental borrowing rate. The weighted average rate applied is 1.25%.

The lease liability is measured at amortised cost using the effective interest method.

Leases are recognised as a ROU asset and a corresponding liability at the date at which the leased asset is made available for use.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term and low value leases, including lease of a rental premises. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

6. Net interest income

	Notes	2021 (£ 000')	2020 (£ 000')
Interest income			
Funds held with central bank		70	146
Due from banks	6.1	606	982
Loans and advances to customers	6.2	19,917	19,453
Negative interest on due to customers	6.3	11	49
Financial investments – FVOCI	6.4	999	966
Financial investments – Amortised cost		285	177
		1,284	1,143
Total interest Income		**21,888**	**21,773**
Interest expense			
Due to banks	6.5	(397)	(360)
Due to customers	6.6	(3,348)	(5,021)
Subordinated liabilities		(343)	(368)
Finance cost on lease liability	6.7	(45)	(35)
Total interest Expense		**(4,133)**	**(5,784)**
Net Interest Income		**17,755**	**15,989**

Interest income against loans and advances to customers included total of £600k (2020: £480k) relating to impaired financial assets and has been considered as part of the cash flows when assessing for individual impairment provisions.

6.1 This includes profit of £176k (2020: £104k) on the Islamic money market placements.

6.2 This includes the profit of £1,368k (2020: £557k) customer Islamic lending products.

6.3 This includes the interest charged on deposits maintained in the currencies of Euro and Swiss Franc.

6.4 This includes income on Sukuk investments £135k (2020: £103k) earned by the Bank.

6.5 This includes the £352k (2020: £304k) being the interest charged by Habib Bank AG Zurich (parent) against the fiduciary deposits maintained by the bank.

6.6 This includes the profit of £21k (2020: £6k) paid by the Bank on Islamic deposit products.

6.7 This represents the interest expense charged during the year on lease liabilities following the adoption of IFRS 16.

Severn Bridge, Bristol

7. Net fee and commission income

	2021 (£ 000')	2020 (£ 000')
Fee and commission income		
Loan termination fee	61	40
Customer transaction fees	289	273
Trade Finance	1,370	813
Other fees and commission on banking and credit products	605	606
Total fee and commission income	**2,325**	**1,732**
Fee and commission expense		
Bank charges	(381)	(175)
Commission on internet deposits	(3)	(22)
Other fees and commission	(50)	(45)
Total fee and commission expense	**(434)**	**(242)**
Net fee and commission income	**1,891**	**1,490**

7.1 Disaggregation of fee and commission income

In the above table, fee and commission income with customers in the scope of IFRS 15 is disaggregated by major type of services.

The following table provides information about receivables and contract liabilities from contacts with customers:

	2021 (£ 000')	2020 (£ 000')
Receivables included in other assets	31	25
Deferred income included in other liabilities	88	121

The fee and commission income with customers is measured based on the consideration specified in a contract with a customer. The Bank recognised revenue when it transfers control over a service to a customer.

8. Other income – net

	Notes	2021 (£ 000')	2020 (£ 000')
Right to light	8.1	13	-
Other		(3)	220
Total other income		**10**	**220**

8.1 This represents the amount received by Bank being "right to light" compensation. A "right to light" is an easement that gives a landowner the right to receive light through defined apertures in buildings on his or her land. The Bank received the above compensation as a result of a third-party development near to its head office reducing light to the Bank's building.

9. Staff costs, including Directors' emoluments

	2021 (£ 000')	2020 (£ 000')
Salaries and allowances	(8,217)	(8,768)
Social security costs	(1,346)	(1,415)
Pension costs – defined contribution plan	(588)	(624)
Total staff costs	**(10,151)**	**(10,807)**
Average number of employees (Nos)	137	149
Actual number of employees (Nos)	135	138
Directors emoluments		
– Total emoluments of Directors – £ 000	822	907
– Total number of directors to whom retirement benefits are accruing – Nos	3	3
– Salary and benefits paid to the highest paid Director – £ 000	528	534

The emoluments of Directors disclosed above include salary and social security cost. Pension contribution (Defined Contribution Plan) included in Directors' emoluments is £36k (2020: £31k).

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:

	2021 (£ 000')	2020 (£ 000')
Salaries and other short-term benefits	1,374	1,410
Post-employment benefits	88	82
Total staff costs	**1,462**	**1,492**
Loans outstanding – £ 000	137	142
No of persons	2	1

The loans are on secured basis and expected to be settled in cash. The loans are charged at the interest rate of 3%.

No provisions have been recognised in respect of loans given to key management personnel.

	2021 (£ 000')	2020 (£ 000')
Deposits placed – £ 000	131	37
No of persons – Nos	7	3

10. Other operating expenses

	Notes	2021 (£ 000')	2020 (£ 000')
Premises running costs		(1,767)	(1,575)
Legal and Professional charges		(463)	(522)
Auditor's remuneration	10.1	(210)	(210)
IT and communication costs		(450)	(395)
Branches operation charges		(388)	(354)
Group direct expenses		(1,679)	(1,636)
Travelling and conveyance		(148)	(143)
Marketing and advertisement		(8)	(21)
Miscellaneous		(66)	(54)
Total other operating expenses		**(5,179)**	**(4,910)**

10.1 Auditors remuneration

Statutory audit fee	(200)	(200)
Client Asset and Money audit fee	(10)	(10)
Total Auditors remuneration	**(210)**	**(210)**

11. Credit impairment reversals / (charges)

	2021 (£ 000')	2020 (£ 000')
Loans and advances to customers		
– Charged during the year	(1,819)	(1,116)
– Reversal during the year	1,342	740
– Net charged	**(477)**	**(376)**
Financial investments		
– Net reversals / (losses)	32	(15)
Due from banks		
– Net reversals / (losses)	513	(197)
Impairment gains / (losses) on financial assets	**68**	**(588)**

12. Taxation

		2021 (£ 000')	2020 (£ 000')
Corporate tax:			
Current year		(573)	(103)
Prior year		(9)	27
		(582)	(76)
Deferred tax:			
Current year	12.1	1,208	(13)
		626	**(89)**

12.1 This includes £506k being the impact of change in tax rate from 19% to 25% with effect from April 2023.

	2021	(£ 000')	2020	(£ 000')
Tax reconciliation				
Profit before tax		**3,849**		689
Expected tax charge	(19)%	**(731)**	(19)%	**(131)**
Permanent disallowable expenses		**(129)**		(117)
Deferred tax not recognized		**108**		111
Deferred tax on losses not previously recognized		**881**		21
Deferred tax recognised on change in tax rate from 19% to 25%		**506**		-
Prior year adjustment		**(9)**		27
Total tax charge	**16%**	**626**	**(13)%**	**(89)**

The corporation tax rate from 01 April 2021 to 31 March 2022 is set at 19%. The corporation tax rate will increase to 25% for the financial year beginning 1 April 2023.

13. 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 2021 was £15.17 million (2020: £19.95 million) on which estimated amount of deferred tax not recognised amounted to £2.9 million (2020: £3.8 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:

2021 £ 000'	Tax losses carried forward	IFRS 9 adoption	IFRS 16 adoption	FV Loss on FVOCI investments	Total
Opening balance as at 01 January 2021	1,115	127	30	-	1,272
Credited to income statement	1,191	9	8	-	1,208
Credited to OCI	-	-	-	26	26
Balance as at 31 December 2021	**2,306**	**136**	**38**	**26**	**2,506**

13.1 This includes £506k being the impact of change in tax rate from 19% to 25% with effect from April 2023.

2020 £ 000'	Tax losses carried forward	IFRS 9 adoption	IFRS 16 adoption	Total
Opening balance as at 01 January 2020	1,122	130	33	1,285
Charged to statement of income	(7)	(3)	(3)	(13)
Balance as at 31 December 2020	**1,115**	**127**	**30**	**1,272**

14. Cash in hand and with central bank

	Notes	2021 (£ 000')	2020 (£ 000')
Balance with central bank	14.1	88,153	78,819
Cash in hand		536	591
Total cash in hand and with central bank		**88,689**	**79,410**

14.1 This includes an amount of £3m (2020: £3m) held as a settlement cap for Image Clearing System.

14.2 No ECL was calculated on above as there is immaterial credit risk involved.

15. Due from banks

	Notes	2021 (£ 000')	2020 (£ 000')
Money market placements	15.1	62,281	77,753
Cash in current accounts		18,055	20,866
Bankers' acceptances		20,440	13,510
Cash in margin accounts	15.2	560	260
		101,336	112,389
Estimated credit loss (ECL – Stage 1)		**(19)**	**(532)**
Total due from banks		**101,317**	**111,857**

15.1 This includes Islamic placements of £31.4 million (2020: 25.2 million).

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

16. Loans and advances to customers at amortised cost

	Notes	2021 (£ 000')	2020 (£ 000')
Commercial loans	16.1	480,906	422,293
Overdraft		22,898	23,943
Discounted bills & trade finance loans		14,506	14,871
Other loans including staff loans		204	262
Gross loans and advances to customers		**518,514**	**461,369**
Less: Provision for impairment		(4,453)	(5,415)
Net loans and advances to customers	16.2	**514,061**	**455,954**

16.1 This includes Islamic financing of £52.4 million (2020: £25.1m).

16.2 Provision for impairment

	2021 (£ 000')	2020 (£ 000')
Balance at the beginning of the year	5,415	5,038
Impairment charged to profit and loss	1,819	1,116
Reversals during the period	(1,342)	(740)
Net impairment charged to P&L	477	376
Write off / Other	(1,439)	1
Total provision for impairment	**4,453**	**5,415**

17. Financial investments

	Notes	2021 (£ 000')	2020 (£ 000')
Debt Securities			
Investment securities measured at amortised cost	17.1	89,919	16,799
Investment securities measured at FVOCI	17.2	85,735	87,558
Total financial investments		**175,654**	**104,357**
Investment securities measured at amortised cost			
General government		28,206	-
Multilateral development banks		30,379	16,799
Financial institutions		13,688	-
Corporates		17,646	-
		89,919	16,799
Investment securities measured at FVOCI			
General government		6,764	1,670
Multilateral development banks		25,845	19,539
Financial institutions		42,454	42,464
Corporates		10,672	23,885
		85,735	87,558
Total financial investments		**175,654**	**104,357**

17.1 As at 31 December 2021 financial investments of £82.5 million (2020: £6m) was encumbered against borrowing of £70 million from the Bank of England under TFSME scheme (2020: £5m) and £9 million (2020: £Nil) against Repurchase Agreement.

17.2 This includes investments in Sukuk of £7.0 million (2020: 3.3 million) held by the Bank.

18. Derivative financial instruments

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

The Bank uses derivatives for hedging purposes for an economic perspective 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:

	2021 (£ 000')	2020 (£ 000')
Notional amount	48,640	35,704
Fair value asset	304	616
Fair value liability	514	358

19. Property and equipment

2021 £ 000'	Land	Leasehold Premises (ROU)	Freehold and leasehold improvements	Property and other equipment	Furniture, fixture and fittings	Motor vehicles	Total
Cost							
As at 1 January 2021	1,050	4,806	11,036	2,014	1,952	106	20,964
Additions	-	577	-	73	1	-	651
Deletions	-	-	-	-	-	(35)	(35)
As at 31 December 2021	**1,050**	**5,383**	**11,055**	**2,315**	**1,973**	**71**	**21,847**
Accumulated Depreciation							
As at 1 January 2021	-	2,386	7,420	1,730	1,810	106	13,452
Depreciation		376	353	153	51	-	933
Deletions	-	-	-	-	-	(35)	(35)
As at 31 December 2021	**-**	**2,762**	**7,773**	**1,883**	**1,861**	**71**	**14,350**
Net book value as at 31 December 2021	**1,050**	**2,621**	**3,282**	**432**	**112**	**-**	**7,497**
Net book value as at 31 December 2020	**1,050**	**2,420**	**3,635**	**512**	**162**	**-**	**7,779**

2020 £ 000'	Land	Leasehold Premises (ROU)	Freehold and leasehold improvements	Property and other equipment	Furniture, fixture and fittings	Motor vehicles	Total
Cost							
As at 1 January 2020	1,050	4,806	11,036	2,014	1,952	106	20,964
Additions	-	-	19	228	20	-	267
As at 31 December 2020	**1,050**	**4,806**	**11,055**	**2,242**	**1,972**	**106**	**21,231**
Accumulated Depreciation							
As at 1 January 2020	-	2,010	7,018	1,593	1,754	106	12,481
Depreciation	-	376	402	137	56	-	971
As at 31 December 2020	**-**	**2,386**	**7,420**	**1,730**	**1,810**	**106**	**13,452**
Net book value as at 31 December 2020	**1,050**	**2,420**	**3,635**	**512**	**162**	**-**	**7,779**
Net book value as at 31 December 2019	**1,050**	**2,796**	**4,018**	**421**	**198**	**-**	**8,483**

20. Other assets

	2021 (£ 000')	2020 (£ 000')
Corporation tax	203	77
Prepayments	516	365
Receivable from Parent bank	379	6
Value added tax refundable	266	277
Customer transaction fee receivable	31	25
Other	653	138
Total other assets	**2,048**	**888**

21. Due to banks at amortised cost

	Notes	2021 (£ 000')	2020 (£ 000')
Due to Parent bank (Habib Bank AG Zurich, Switzerland)	21.1	23,941	32,473
Due to associates (fellow subsidiaries)		4,671	2,417
Due to central bank (TFSME)	21.2	70,015	5,001
Borrowing against repurchase agreements		8,292	-
Margin held		60	-
Other deposits		168	200
Total due to banks		**107,147**	**40,091**

21.1 This includes fiduciary deposits £21.4 million (2020: £26.4) accepted by the Bank from Habib Bank AG Zurich (parent) and having maturities ranging from 3 months to 18 months.

21.2 The Bank became a member of the Bank of England's Term Funding Scheme with additional incentives for SME (TFSME) in 2020. The funding under the scheme is made available for a period up to 4 years. Interest rate on TFSME is linked to BoE Base Rate, which was 0.25% per annum at the end of 2021.

22. Due to customers at amortised cost

	Notes	2021 (£ 000')	2020 (£ 000')
Time deposits	22.1	372,738	407,312
Current and demand accounts		298,678	215,729
Margin accounts		-	93
Call deposits		592	510
Total due to customers		**672,008**	**623,644**

22.1 Time Deposits

	2021 (£ 000')	2020 (£ 000')
Term deposits – conventional	207,721	229,474
Term deposits – Islamic (Wakala)	7,888	5,190
Term deposits – Total	**215,609**	**234,664**
Internet deposits – conventional	77,119	124,761
Internet deposits – Islamic	10,555	2,958
Term deposits – Total	**87,674**	**127,719**
Notice accounts	69,455	44,929
Total due to customers	**372,738**	**407,312**

23. Accrual, deferred income and other liabilities

	Notes	2021 (£ 000')	2020 (£ 000')
Bills payable		1,062	990
Lease Liability	23.1	2,774	2,582
Staff costs payable		506	709
Accrued expenses		518	575
Deferred income		88	121
Other		592	645
Total accrual, deferred income and other liabilities		**5,540**	**5,622**

23.1 The Bank leases a number of branch and office premises. The leases typically run for a period of 8 years approximately, with an option to renew the lease after that date. Following the adoption of IFRS 16, the Bank has presented lease liabilities with the other liabilities.

The Bank also has short term lease of premises with contract terms of 12 months. The Bank has elected not to recognise right-of-use assets and lease liabilities for that lease.

Information about leases for which the Bank is lessee is presented below:

Right-of-use assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment.

	2021 (£ 000')	2020 (£ 000')
Balance at 1 January	2,420	2,796
Addition	577	
Depreciation charge for the year	(376)	(376)
Balance at 31 December	**2,621**	**2,420**
Amount recognised in profit & loss		
Interest on lease liabilities	35	40
Expense related to short term lease	53	53
	88	**93**
Amount recognised in statement of cash flows		
Total cash flows for leases	432	426
	432	**426**

24. Current tax liabilities

	2021 (£ 000')	2020 (£ 000')
Provision for corporation tax	573	103
Total current tax liabilities	**573**	**103**

25. Subordinated liabilities

The Parent bank, Habib Bank AG Zurich, provided a subordinated loan of £20m in 2016, meeting the eligibility requirement of T-2 capital for the Bank.

The term of the loan was renewed for further five years with effect from 01 April 2021. The term of loan can be extended with the mutual consent of both lender and borrower after the expiry of the term. The loan carries interest at a rate of 6-month Sonia swap plus 150 bps per annum to be paid semi-annually.

Subordinated liabilities are measured at amortised cost using the effective interest method under IFRS 9.

26. Share capital

	2021 (£ 000')	2020 (£ 000')
Called up and fully paid		
60 million authorised and fully paid ordinary shares of £1 each (2019: 60 million ordinary shares of £1 each)	60,000	60,000
10 million authorised and fully paid ordinary shares of £1 each (2020: Nil)	10,000	-
	70,000	**60,000**

The parent bank injected additional share capital of £10 million in 2021.

27. Fair value loss on financial assets at fair value through other comprehensive income

	2021 (£ 000')	2020 (£ 000')
Fair value movement		
FV gain at the beginning of the year	369	252
FV reversal on sale of investments	(20)	-
FV movement during the year	(486)	117
FV (loss) / gain at the end of the year	(137)	369
Deferred tax movement		
Deferred tax liability at the beginning of the year	(70)	(48)
Net movement during the year	70	(22)
	-	(70)
Deferred tax asset at the beginning of the year	-	-
Net movement during the year	26	-
	26	-
	(111)	299
Net losses of FVOCI transferred due to impairment		
– Transferred on initial application of IFRS 9	57	44
– FV loss during the year	(44)	13
	13	57
	(98)	**356**

28. 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.

	2021 (£ 000')	2020 (£ 000')
Direct credit substitutes		
– Guarantees	9,559	10,032
Trade related contingent liabilities		
– Letters of credit	1,201	629
– Acceptances	65	21
– Confirmation on export letters of credit	26,097	24,688
Unused credit facilities	17,994	14,361

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.

29. Related party disclosure

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

	2021 (£ 000')	2020 (£ 000')
Banking transactions:		
– Interest earned from Parent bank	75	244
– Interest and expenses paid to Parent bank*	2,385	2,335
– Transactions with parent bank and fellow subsidiaries**	6,294	28,675
Outstanding balance:		
– Due to Parent bank including subordinated loan**	44,033	52,536
– Due to fellow subsidiaries	4,671	2,417
– Due from related parties	1,622	6,486

* Interest and expenses represent interest of £352k (2020: £699k) charged on borrowings / fiduciary deposits and allocation of group expenses of £1,679k (2020: £1,636k).

** This includes fiduciary deposits £21.4 million (2020: £26.4 million) accepted by the Bank from Habib Bank AG Zurich (parent) and having maturities ranging from 3 months to 18 months.

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

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 9.

30. Fair value of financial instruments

30.1 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.

30.2 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.

30.3 Financial instruments carried at fair value and basis of valuation

£ 000'	2021 Level 1	2021 Level 2	2021 Level 3	2021 Total
Financial investments				
– Fair value through other comprehensive income	**85,735**	**-**	**-**	**85,735**
Derivative financial instruments-assets	**-**	**304**	**-**	**304**
Total financial assets carried at fair value	**85,735**	**304**	**-**	**86,039**
Derivative financial instruments-liabilities	**-**	**514**	**-**	**514**
Total financial liabilities carried at fair value	**-**	**514**	**-**	**514**

£ 000'	2020 Level 1	2020 Level 2	2020 Level 3	2020 Total
Financial investments				
– Fair value through other comprehensive income	**87,558**	**-**	**-**	**87,558**
Derivative financial instruments-assets	**-**	**616**	**-**	**616**
Total financial assets carried at fair value	**87,558**	**616**	**-**	**88,174**
Derivative financial instruments-liabilities	**-**	**358**	**-**	**358**
Total financial liabilities carried at fair value	**-**	**358**	**-**	**358**

30.4 Financial instruments not measured at fair value

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.

£ 000'	Level 1 2021	Level 2 2021	Level 3 2021	Total fair value 2021	Total carrying amount 2021
Assets					
Cash in hand and with central bank	88,689	-	-	88,689	88,689
Due from banks	-	-	101,317	101,317	101,317
Loans and advances to customers	-	-	478,422	478,422	514,061
Financial investments	89,742	-	-	89,742	89,919
Liabilities					
Due to banks	-	-	107,147	107,147	107,147
Due to customers	-	-	670,941	670,941	672,008
Subordinated liabilities	-	-	-	18,356	20,092

£ 000'	Level 1 2020	Level 2 2020	Level 3 2020	Total fair value 2020	Total carrying amount 2020
Assets					
Cash in hand and with central bank	79,410	-	-	79,410	79,410
Due from banks	-	-	111,857	111,857	111,857
Loans and advances to customers	-	-	424,465	424,465	455,954
Financial investments	16,235	-	-	16,235	16,799
Liabilities					
Due to banks	-	-	40,091	40,091	40,091
Due to customers	-	-	622,129	622,129	623,644
Subordinated liabilities	-	-	19,958	19,958	20,063

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.

31. 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 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.

For smooth running and effective risk / threat identification and mitigation, the Bank operates on the 3 lines of Defence model.

THREE LEVELS OF RISK MANAGEMENT		
First Line of Defence	Second Line of Defence	Third Line of Defence
Business Operations	Risk Control and Functions	Internal Audit
Risk Ownership by Business Operations	Independent Risk Control, Monitoring and Compliance	Independent Audit Reviews
ROLE		
• Primary responsibility to follow risk based policies and procedures • Accountable and responsible for day to day activities • Every employee is responsible • Ensure all key risks within their activities are mitigated by effective implementation of controls	• Establish frameworks to identify and measure risks • Ongoing Monitoring • Oversight and assurance of effectiveness of controls • Monitoring performance against Risk Appetite	• Provide independent and objective assurance on overall effectiveness of risk governance framework • Internal Audit function is independent from the Bank's management • Provide assurance that risk identification and mitigation is appropriate and effective

The BRC provides oversight to the overall effectiveness of enterprise risk management framework.
Three Lines of Defence Oversight Process:

	Responsible Unit	Oversight Committee
First Line of Defence	Front Line Staff	
Second Line of Defence	Risk Assurance Enterprise Risk Monitoring Finance & Credit	Audit, Risk & Compliance Committee ALCO CCC OTCO
Third Line of Defence	Internal Audit	Board Risk Committee Board Audit & Compliance Committee

Lift Bridge, Salford Quays, Manchester

31.1 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.

31.2 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 the 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 BRC and Board for its consideration, review and approval.

31.3 Credit risk

Credit Risk is defined as 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 manages its credit risk through documented Credit Risk Management Framework ("CRMF"), which is part of the overall Risk management framework. CRMF serves as a collection of tools, processes and methodologies that support the Bank in identifying, assessing, monitoring and controlling the credit risk.

The CRMF also provides a sound basis for more informed risk-based decision-making across the business areas. The CRMF includes the credit risk appetite, which defines the Bank's target customer segment, industries and products and risk acceptance criteria. CRMF also reflects regulatory requirements and guidelines in the UK while also referencing the overall credit risk framework and guidelines of the Group.

Through CRMF the Board ensure that the Bank has a clear and measurable statement of its credit risk appetite against which the strategy to achieve the credit related aspects of its business plan can be actively assessed. In order to measure its achievements against this goal, the Board is provided with robust, well calibrated and sufficiently granular management information so that they can provide an effective challenge to management's actions.

31.4 IFRS 9 and Gen 2 Model

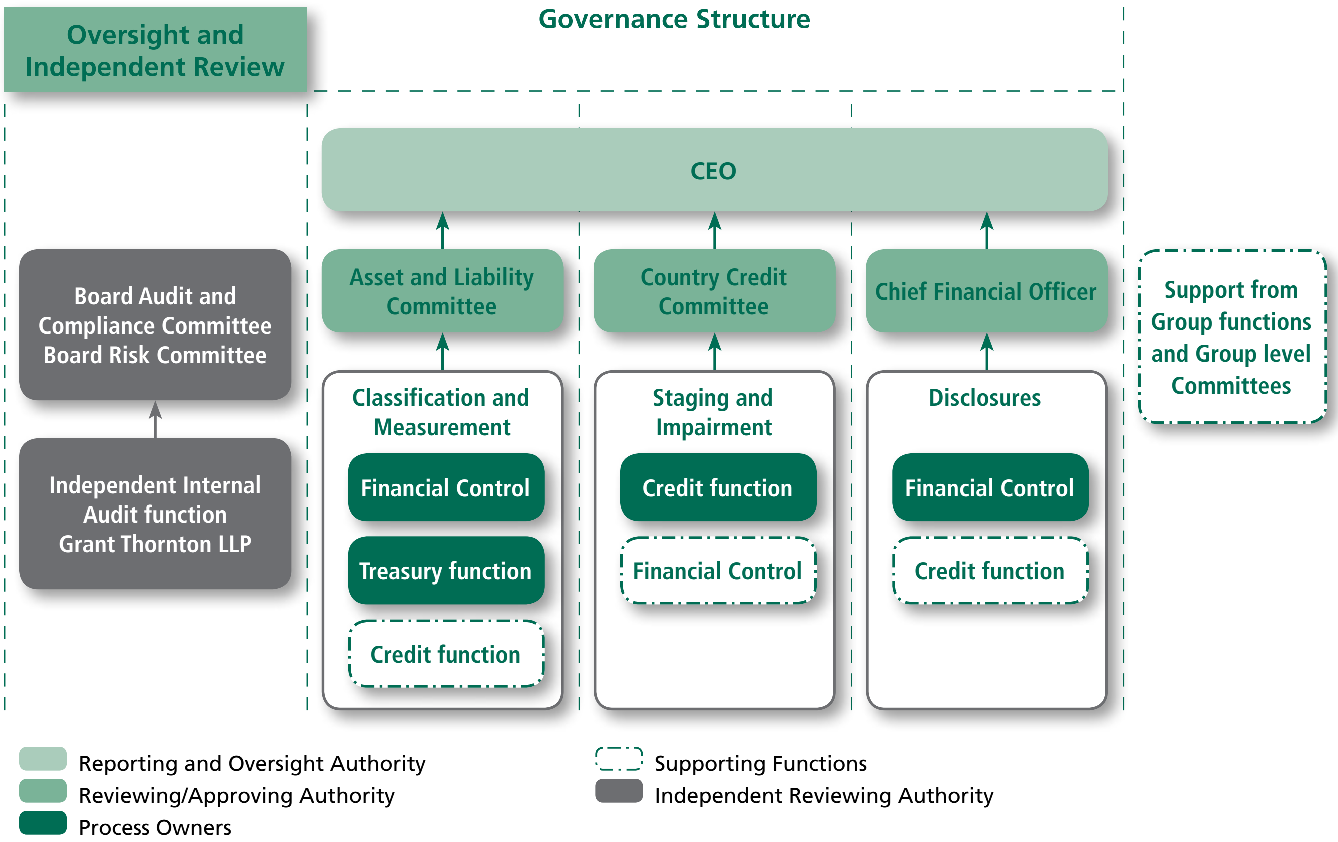
The Bank adopted IFRS 9 'Financial Instruments' by implementing suitably developed models with the assistance of external consultants. The Bank relevant credit processes and impairment requirements which relates to model and data governance, credit impairment and value adjustments were tailored to align with the requirements of IFRS9. Details are explained in Notes 5.5.3 above. In this section the Bank has provided details related to governance and risk management process related to credit risk management and ECL.

The Bank has followed the 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 since the change in its lending model from 2013, which is mainly geared towards, real estate lending secured by residential and commercial income generating properties.

The Bank established principles for ongoing IFRS 9 governances to ensure effective oversight of IFRS 9 processes. IFRS 9 governance structure incorporates Credit, Risk and Finance departments as central support functions for each component of IFRS 9, defines clear process owners and reviewing functions and utilises the three lines of defence to ensure an effective framework. The Group IFRS Central Team is responsible for maintaining and updating ECL models in consultation with the Bank's Country Credit Committee and ALCO with final approval from the BRC. The Central Team also produces a monthly Quality Report, which analyses reasons for variances from the previous month for the ECL.

Governance Structure outlined below are the three lines of defence for the four key IFRS 9 processes, classification and measurement, staging, impairment and disclosures:

- The process owners i.e., Credit, Financial Control and Treasury form the first line of defence.
- The reviewing/approving functions i.e., Chief Executive Officer, Chief Financial Officer, Head of Credit, Country Credit Committee and Country Asset and Liability Committee forms the second line of defence with support from Group Central IFRS 9 Team.
- The independent review functions i.e., Internal Audit the Board Risk Committee and the Board Audit and Compliance Committee forms the third line of defence.



The Bank has also put in place appropriate control to cover credit risk model governance risk. The objective was to set out the governance for the development, validation / review, deployment and maintenance of the credit risk related models. The implemented controls put in place framework for governance along the different stages of the model life cycle.

The purpose of these controls is to set out in particular the principles and requirements for effective governance of the Bank's Expected Credit Loss (ECL) models and methodologies used for estimating the respective risk components. The main statistical models in scope of these controls include the following:

- credit risk rating model for rating of obligors belonging to the Corporate / SME portfolios
- probability of default ("PD") models (and /or methodologies)
- loss given default ("LGD") models (and /or methodologies)
- exposure at default ("EAD") models (and /or methodologies)
- credit conversion factor ("CCF") models (and /or methodologies), and
- macroeconomic models

For the purpose calculating ECL the Bank has developed models for financial assets covering:

- Customer Lending
- Investments and Financial Institutions

31.5 Probability of Default – model methodology

The objective of the statistical model used in computing Probability of Default (PD) was to provide an unbiased forward-looking, monthly probability of default forecast based on the Bank's internal data for the purpose of ECL computation.

The model development process comprised of finalizing a default definition (including qualitative and quantitative triggers), selection of frequency of cohorts for default rate analysis, and computation of default rates for respective cohorts to obtain the Through the Cycle PD estimates, and assessing suitable Macroeconomic Variables (MEV), to obtain the forward-looking PiT PD estimates.

A brief description of the steps involved in development of the PD model along with the descriptions are detailed out as follow:

Data preparation: Historical data from 2014 to 2020 was used for the preparation of PD model. Data quality checks were performed on the available data and concluded on the mitigations.

Data consolidation: The accounts were segregated into two stages: Stage 1 and Stage 2. Accounts with days past due of less than 30 days were classified as Stage 1 and accounts which are overdue for more than 29 days and less than 90 days are classified under Stage 2.

Default rate analysis: All the performing accounts as of an observation date were considered for the default rate analysis and their performance for the next 12 months was tracked. At the end of the performance period the # of performing loans that move into default were used to compute the default rate.

Macroeconomic modes for PIT: For PiT model development, macro-economic factors were sourced from the Moody's subscription available with the Bank. Further transformations were attempted on the independent variables to extract crucial and meaningful relationships. Various combinations of the independent variables are examined, and their explanatory power was evaluated. Models passing all the checks, such as containing intuitive and significant variables, passing all regression assumptions' tests were finally selected. Using OLS regression, the default rates were converted into forward-looking estimates.

The monthly PDs for baseline, upturn, and downturn scenarios were adjusted by scenario weights to reach a single PD used in the calculation of ECL.

31.6 Loss Given Default – model methodology

LGD is defined as the amount of credit losses incurred by a financial institution in the event of default by an obligor. It determines the proportion of exposure that is likely to be lost post-default and is expressed as a percentage of EAD.

The Workout LGD approach has been used by the Bank to estimate the Loss given default. Under this approach, the loss associated with a defaulted facility is calculated by discounting the cash flows, including costs, resulting from the date of default to the end of the recovery process. The loss is then measured as a percentage of the exposure at default.

Data assessment: The dataset available for model development contains customer-level and contract-level information. The data used was from January 2014 to December 2020.

Workout LGD approach used by the Bank is outlined below:

Identification of Defaulted Customers: the default definition is consistent with the PD modelling approach and the same sample of defaulted customers used for PD modelling are used for estimating LGD of the commercial lending portfolio to ensure that the complete cycle of loss is captured, the recoveries from the first date of default was calculated.

Computation of Recoveries

- For secured customers, recoveries were either cash based, or non-cash based i.e., from sale of collaterals, whereas for the unsecured customers, recoveries are mostly cash based.
- For the process of estimating recoveries, the data was segregated between open and closed customers.
- After obtaining the outstanding monthly exposure of the defaulted customers, the recoveries were estimated as the decrease in the exposure amount between the respective months.
- An increase in the exposure amount implies that a new drawdown was made by the customer. Therefore, the recovery amount of each month is computed by subtracting the current month's principal amount from the previous month's amount. For cases in which the current month's exposure amount is higher, it is assumed that the Bank did not record any recovery in that month.

Components of Workout LGD: Four main components used for computing the workout loss included discount rate, cost of recovery, cured accounts and the recovery threshold/recovery period.

After computing the four main components of a workout loss, all the cashflows associated with the defaulted facility from the date of default to the end of the recovery process were computed. The LGD % was computed as follows:

$$LGD\% = \frac{\sum \text{Exposure At Default} - \sum \text{Present Value of Recovery}}{\text{Exposure At Default}}$$

$$\text{Cure Adjusted LGD\%} = \text{LGD\%} \times \left(1 - \frac{\text{Number of Cured Accounts}}{\text{Total Number of Accounts}}\right)$$

Exposure at Default

For amortizing facilities, cash flows are used to determine the principal outstanding as of a given reporting date, while for non-amortizing facilities, such as bonds where only coupon payments are made periodically (with the principal falling due on the bond’s maturity date), the principal outstanding will remain unchanged on each reporting date.

Since the Bank has a low amortising portfolio 100% EAD as on the reporting date is representative of the expected exposure at default.

31.7 Determining whether credit risk has increased significantly (significant increase in credit risk – SICR)

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between wholesale and retail. As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition when triggered on the Bank's quantitative modelling.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on an early warning indicator or watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit- impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

31.8 Curing policy

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument return to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

Under IFRS 9, exposures transferred into Stage 2 and Stage 3 are deemed to be significantly riskier than those falling within Stage 1. Hence the Bank seeks objective evidence of an improvement in customer credit worthiness prior to relegating a Stage 2 or Stage 3 account back to Stage 1.

The Bank follows a six-month time period for movements from Stage 3 to Stage 2 and six-month time period for movement from Stage 2 to Stage 1, implying that once the triggers for movement to Stage 2 or Stage 3 cease to exist, the exposure would still remain in Stage 2/Stage 3 for the duration of the cool-off period. Once the cool-off period is over, the exposure may be transferred out of Stage 2/Stage 3. The Bank may choose to adopt a stricter cool off period in line with updates to its credit policy.

Movement	Time Period
Stage 2 to Stage 1	6 months
Stage 3 to Stage 2	6 months

31.9 Definition of default

The classification is consistent with the 90 DPD definition of default adopted by the Bank for the portfolio and the 30 & 90 DPD rebuttable presumptions provided under IFRS 9 for classification of financial instruments into Stage 2 and Stage 3.

In order to maintain a default definition consistent with both regulatory guidelines and the Bank's business practices for management of credit risk, an exposure has been considered non-performing if:

- The account is 90 or more days overdue on contractual payments; or
- Based on observed payment delays or early warning indicators detected as a result of the Country Credit function's portfolio monitoring activities, the account has been tagged as Default. The management taken such decision when the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held). Further, it is becoming probable that the Bank will restructure the account as a result of bankruptcy due to borrower's inability to pay its credit obligations.

While developing the model, an 'ever default' definition has been employed by the Bank in order to capture all accounts obtaining default status over a twelve-month period, regardless of whether the account ceases to be in default at the end of the period.

31.10 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.

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.

31.11 Incorporation of forward-looking information

The estimation and application of forward-looking information requires significant judgement and are subject to appropriate internal governance and scrutiny. The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The macroeconomic model built for Lending products contains the following exogenous variables capable of explaining the Property Lending default rates:

- Unemployment Rate
- Debt Service ratio

In order to comply with the requirements of IFRS 9, the ECL estimates should be adjusted through updating selected macroeconomic variables to bring the Point in Time PD estimates for each segment to forward looking.

31.12 Modified financial assets and forbearance

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in de-recognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities) to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. 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 £2.68 million (2020: £2.99 million) were considered as forborne of which Nil (2020: £0.3 million) were classified as impaired. A provision of £5k (2020: £3k) was made against forborne loans.

31.13 Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instrument.

Amount in £ 000'

Due from banks at amortised cost	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total	2020 Total
Balances at the beginning of the year	532	-	-	**532**	**336**
New provisions	14	-	-	**14**	**257**
Increased provisions	-	-	-	**-**	**7**
Uncollectable recovered / settled	(527)	-	-	**(527)**	**(67)**
Net measurement of loss allowance	(513)	-	-	**(513)**	**197**
Other movement	-	-	-	**-**	**(1)**
Balances at the closing of the year	**19**	**-**	**-**	**19**	**532**

Amount in £ 000'

Loans and advances to customers at amortised cost	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total	2020 Total
Balances at the beginning of the year	**1,329**	**78**	**4,008**	**5,415**	5,038
New provisions	55	-	-	55	145
Increased provisions	-	409	1,355	1,764	971
Recovered / settled / reduced	(1,101)	(79)	(162)	(1,342)	(740)
Net measurement of loss allowance	(1,046)	330	1,193	477	376
Transferred to 12 month's ECL Stage 1	1	(1)	-	-	-
Transferred to lifetime ECL stage 2 Credit not impaired	(34)	34	-	-	-
Transferred to lifetime ECL stage 3 Credit impaired	-	4	(4)	-	-
Uncollectable written off / other	-	-	(1,439)	(1,439)	1
Balances at the closing of the year	**250**	**445**	**3,758**	**4,453**	**5,415**

The contractual amounts outstanding on financial assets that were written off during the year ended 31 December 2021 are subject to enforcement activity.

					Amount in £ 000'
Financial investments	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 TOTAL	2020 TOTAL
Balances at the beginning of the year	1	-	-	**1**	**1**
New provisions	6	-	-	6	**-**
Increased provisions	(38)	-	-	(38)	**15**
Net measurement of loss allowance	(32)	-	-	(32)	**15**
Other movement	(1)	-	-	(1)	**(2)**
Impairment of FVOCI investment shown under OCI	44	-	-	44	**(13)**
Balances at the closing of the year	**12**	**-**	**-**	**12**	**1**

The following table provides reconciliation between:

- Amounts shown in above tables reconciling of opening and closing balances of loss allowance per class of financial instrument; and
- The impairment losses on financial instruments' line item in the statement of profit and loss.

				Amount in £ 000'
	Due from banks at amortised cost	Loans and advances to customers at amortised cost	Financial investments	Total
New provisions	14	55	6	75
Increased provisions	-	1,764	-	1,764
Uncollectable recovered / settled	(527)	(1,342)	(38)	(1,907)
Total – 2021	**(513)**	**477**	**(32)**	**(68)**
Total – 2020	**197**	**376**	**15**	**588**

31.14 Credit quality analysis

The following table set out information about the credit quality of financial assets measured at amortised cost and FVOCI debt. Unless specifically identified, for financial assets, the amounts in the table represent the gross carrying amounts.

	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total	2020 Total
					Amount in £ 000'
Cash in hand and with central bank	88,689	-	-	88,689	79,410
Due from banks	101,336	-	-	101,336	112,389
Loans and advances to customers	493,355	12,310	12,849	518,514	461,369
Financial investments – amortised cost	89,931	-	-	89,931	16,800
Financial investments – FVOCI debt instruments	85,735	-	-	85,735	87,558
	175,666	-	-	175,666	104,358
	859,046	12,310	12,849	884,205	757,526
Loss allowance	(281)	(445)	(3,758)	(4,484)	(5,948)
	858,765	**11,865**	**9,091**	**879,721**	**751,578**

The following table provide information about the credit quality of financial assets outstanding as at the balance sheet date in terms of regular, past due and impaired.

Amount in £ 000'

2021	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Total
Current & past due up to 1 month	88,689	101,336	512,965	175,666	304	878,960
Past due 1 to 3 months	-	-	2,622	-	-	2,622
Past due over 3 months	-	-	2,927	-	-	2,927
Gross exposure	88,689	101,336	518,514	175,666	304	884,509
Less: impairment	-	(19)	(4,453)	(12)	-	(4,484)
Net exposure	**88,689**	**101,317**	**514,061**	**175,654**	**304**	**880,025**

Amount in £ 000

2020	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Total
Current & past due up to 1 month	79,410	112,389	450,769	104,358	616	747,542
Past due 1 to 3 months	-	-	1,570	-	-	1,570
Past due over 3 months	-	-	9,030	-	-	9,030
Gross exposure	79,410	112,389	461,369	104,358	616	758,142
Less: impairment	-	(532)	(5,415)	(1)	-	(5,948)
Net exposure	**79,410**	**111,857**	**455,954**	**104,357**	**616**	**752,194**

The table below sets out information about the overdue status of loans and advances to customers in Stage 1, 2 and 3:

Amount in £ 000'

Age bracket	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total	2020 Total
< 30 days	15,180	6,886	2,556	24,622	29,842
> 30 days to 60 days	-	-	2,622	2,622	351
> 60 days to 90 days	-	-	-	-	1,219
> 90 days to 180 days	-	177	51	228	2,198
> 180 days	-	-	2,699	2,699	6,832
Total overdue	15,180	7,063	7,928	30,171	40,442
Not overdue	478,175	5,247	4,921	488,343	420,927
Gross loans and advances to customers	493,355	12,310	12,849	518,514	461,369
Less: Impairment allowance	(250)	(445)	(3,758)	(4,453)	(5,415)
Net loans and advances to customers	**493,105**	**11,865**	**9,091**	**514,061**	**455,954**

31.15 Credit Risk Ratings

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

The Bank recognises loans and advances as past due when the customer does not 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.

The following table sets out the credit quality of non-trading financial assets split by external rating, where applicable:

Amount in £ 000'

2021	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-	88,166	6,044	-	90,587	-	-	184,797
A+ to A-	-	41,346	-	47,703	185	24,374	113,608
BBB+ to B-	-	15,804	-	37,347	112	24,249	77,512
Unrated	523	38,123	514,061	17	7	54,958	607,689
	88,689	**101,317**	**514,061**	**175,654**	**304**	**103,581**	**983,606**

Amount in £ 000'

2020	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-	78,863	21,589	-	53,165	-	-	153,617
A+ to A-	-	11,144	-	51,171	132	12,682	75,129
BBB+ to B-	-	61,306	-	-	98	17,295	78,699
Unrated	547	17,818	455,954	21	386	55,458	530,184
	79,410	**111,857**	**455,954**	**104,357**	**616**	**85,435**	**837,629**

The above numbers represent the carrying values of the financial assets and firm commitments.

The following table shows as analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Bank are fully collateralised by cash.

GBP 000'	Total Notional amount	Total Fair value	Over-the-counter Other bilateral collateralized Notional amount	Fair value
2021				
Derivative assets	**48,760**	**304**	**48,760**	**304**
Derivative liabilities	**48,666**	**(514)**	**48,666**	**(514)**
2020				
Derivative assets	**35,717**	**616**	**35,717**	**616**
Derivative liabilities	**35,076**	**(358)**	**35,076**	**(358)**

31.16 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.

Concentration of financial assets and credit related contingent liabilities:

Amount in £ 000'

2021	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernationals	88,166	-	-	90,964	-	-	179,130
Financial Institutions	-	101,317	-	54,595	297	72,720	228,928
Industrial & commercial	-	-	444,211	30,096	7	28,351	502,664
Individual	-	-	69,850	-	-	2,510	72,361
Other	523	-	-	-	-	-	523
	88,689	**101,317**	**514,061**	**175,654**	**304**	**103,581**	**983,606**

Amount in £ 000'

2020	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernationals	78,863	-	-	35,991	-	-	114,854
Financial Institutions	-	111,857	-	44,480	230	50,303	206,870
Industrial & commercial	-	-	394,940	23,886	386	32,156	451,368
Individual	-	-	61,014	-	-	2,976	63,990
Other	547	-	-	-	-	-	547
	79,410	**111,857**	**455,954**	**104,357**	**616**	**85,435**	**837,629**

Supernational 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 £ 000'

2021	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
UK	88,689	31,565	457,617	27,589	119	47,073	**652,652**
Europe excl UK	-	5,747	16,492	71,574	185	25,189	**119,187**
Asia	-	36,812	3,705	35,440	-	25,303	**101,260**
North America	-	12	22,296	12,104	-	2	**34,414**
Africa	-	16,946	13,951	-	-	6,014	**36,911**
USA	-	8,755	-	27,323	-	-	**36,078**
Australia	-	1,480	-	1,624	-	-	**3,104**
	88,689	**101,317**	**514,061**	**175,654**	**304**	**103,581**	**983,606**

Amount in £ 000'

2020	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
UK	79,410	57,093	400,887	28,017	387	36,133	**601,927**
Europe excl UK	-	1,221	17,344	36,440	229	17,722	**72,956**
Asia	-	34,661	4,442	17,064	-	24,014	**80,181**
North America	-	36	29,439	3,109	-	-	**32,584**
Africa	-	10,106	3,842	-	-	7,566	**21,514**
USA	-	6,881	-	14,468	-	-	**21,349**
Australia	-	1,859	-	5,259	-	-	**7,118**
	79,410	**111,857**	**455,954**	**104,357**	**616**	**85,435**	**837,629**

The Bank held cash and cash equivalents of £ 88.2 million as at 31 December 2021 (2020: £78.8 million) with central bank that is rated at least AA- to AA+ as per approved external credit rating agencies.

31.17 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 £ 000'

Collateral Type	2021 Collateral Value	2021 Advances	2020 Collateral Value	2020 Advances
Commercial real estate	798,044	382,240	703,311	338,898
Residential real estate	224,833	110,221	210,906	99,481
Cash collateral	36,574	18,119	34,718	18,545
Other collateral	-	-	-	-
Guarantees	-	-	-	-
Unsecured	-	7,934	-	4,445
Total	**1,059,451**	**518,514**	**948,935**	**461,369**

The Bank doesn’t hold collateral against any of the financial asset other than loans and advances to the customers.

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 £ 000'

LTV Bracket	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total	2020 Stage 1	2020 Stage 2	2020 Stage 3	2020 Total
Less than 50%	163,368	3,237	1,933	168,538	134,120	4,625	3,741	142,486
51-70%	317,832	6,911	5,903	330,646	295,139	0	5,834	300,973
71-90%	953	-	454	1,407	5,054	166	461	5,681
91-100%	90	-	-	90	2,129	0	0	2,129
More than 100%	11,111	2,042	4,680	17,833	5,416	0	4,684	10,100
Grand Total	**493,354**	**12,190**	**12,970**	**518,514**	**441,858**	**4,791**	**14,720**	**461,369**
Collateral	**1,013,989**	**23,490**	**21,972**	**1,059,451**	**919,376**	**7,700**	**21,859**	**948,935**

31.18 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.

31.19 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.

Humber Bridge, Yorkshire

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 £ 000'

2021	Within 3 mths	<3 to 6 mths	<6 mths to 1 year	<1 to 2 years	<2 to 3 years	< 3 to 4 years	< 4 to 5 years	No specific re-pricing	Total
Assets									
Cash in hand & with central bank	88,153	-	-	-	-	-	-	536	88,689
Due from banks	30,328	17,000	14,990	-	-	-	-	39,018	101,336
Loans & advances to customers	12,114	506,400	-	-	-	-	-	-	518,514
Financial investments									-
– fair value through other comprehensive income	42,531	6,284	12,219	12,268	13,105	-	-	-	86,407
- Amortised cost	4,023	-	28,159	27,670	19,463	9,943	-	-	89,258
Derivative financial instruments	100	-	204	-	-	-	-	-	304
Total assets	**177,249**	**529,684**	**55,572**	**39,938**	**32,568**	**9,943**	**-**	**39,554**	**884,508**
Liabilities									
Due to banks	2,000	9,246	17,471	-	-	5,020	-	73,410	107,147
Due to customers	159,481	110,118	102,989	645	100	-	-	298,675	672,008
Derivative financial instruments	300	-	214						514
Subordinated liabilities	-	-	-		-	-	20,092		20,092
Total Liabilities	**161,781**	**119,364**	**120,674**	**645**	**100**	**5,020**	**20,092**	**372,085**	**799,761**
Net Gap (Assets – Liabilities)	**15,468**	**410,320**	**(65,102)**	**39,293**	**32,468**	**4,923**	**(20,092)**	**(332,531)**	**84,747**

Amount in £ 000'

2020	Within 3 months	<3 to 6 months	<6 months to 1 year	<1 to 2 years	<2 to 3 years	< 3 to 4 years	No specific re-pricing	Total
Assets								
Cash in hand & with central bank	78,819	-	-	-	-	-	591	79,410
Due from banks	48,237	21,975	7,220	-	-	-	34,425	111,857
Loans & advances to customers	2,203	459,166	-	-	-	-	-	461,369
Financial investments								
– fair value through other comprehensive income	47,824	2,995	3,814	11,210	14,049	7,667	-	87,559
- Amortised cost	-	-	-	16,799	-	-	-	16,799
Derivative financial instruments	375	96	145	-	-	-	-	616
Total assets	**177,458**	**484,232**	**11,179**	**28,009**	**14,049**	**7,667**	**35,016**	**757,610**
Liabilities								
Due to banks	2,000	9,246	17,471	-	-	5,020	6,354	40,091
Due to customers	168,677	140,590	98,648	-	-	-	215,729	623,644
Derivative financial instruments	262	87	9	-	-	-	-	358
Subordinated liabilities	-	20,063	-		-	-	-	20,063
Total Liabilities	**170,939**	**169,986**	**116,128**	**-**	**-**	**5,020**	**222,083**	**684,156**
Net Gap (Assets – Liabilities)	**6,519**	**314,246**	**(104,949)**	**28,009**	**14,049**	**2,647**	**(187,067)**	**73,454**

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.

	2021 Impact on P&L (£ 000')	2020 Impact on P&L (£ 000')
25bps increase in interest rate	(120)	91
25bps decrease in interest rate	125	28
50bps increase in interest rate	(240)	182
50bps decrease in interest rate	(31)	52

31.20 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 2021 was £0.114m (2020: £0.06m)

Currency	2021 (£ 000')	2020 (£ 000')
USD	24	4
EUR	1	(2)
PKR	59	5
ZAR	-	24
CAD	(4)	(4)
INR	22	3
Others	12	31

31.21 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 UK CRR. The Bank also maintains substantial liquidity in the Bank of England Reserve account and in short term deposits to meets its liquidity requirements.

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

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

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

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

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

The Treasury Department is responsible for 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 £ 000'

2021	Carrying amount	Gross nominal inflow/ (outflow)	Within 1 month	1-3 months	3 months -1 year	1-5 years	>5 years
Financial asset by type							
Non-derivative assets							
Cash in hand & with central bank	88,689	88,693	88,693	-	-	-	-
Due from banks	101,317	101,533	52,869	16,468	32,196	-	-
Loans & advances to customers	514,061	576,569	119,414	20,156	104,724	332,233	42
Financial investments							
– fair value through other comprehensive income	85,735	86,898	7,246	4,612	14,441	56,386	4,214
– Amortised cost	89,920	91,517	-	-	12,428	79,089	-
	879,722	**945,210**	**268,222**	**41,236**	**163,789**	**467,708**	**4,256**
Derivative assets							
Risk management	304						
Outflow		17,837	7,408	429	10,000	-	-
Inflow	-	(17,535)	(7,317)	(420)	(9,798)	-	-
	304	**302**	**91**	**9**	**202**	**-**	**-**
Financial liability by type							
Non-derivative liabilities							
Due to banks	107,147	(107,473)	(7,424)	(8,299)	(21,469)	(70,280)	-
Due to customers	672,008	(673,192)	(351,586)	(106,189)	(214,664)	(754)	-
Subordinated liabilities	20,092	(20,288)	-	-	-	(20,288)	
Lease liability	2,774	(2,936)	-	(111)	(332)	(1,966)	(505)
	802,021	**(803,889)**	**(359,010)**	**(114,599)**	**(236,465)**	**(93,288)**	**(505)**
Derivative liabilities							
Risk management	514	-	-	-	-	-	-
Outflow	-	30,814	10,998	10,815	9,000	-	-
Inflow	-	(31,226)	(10,909)	(11,101)	(9,215)	-	-
	514	**(412)**	**89**	**(286)**	**(215)**	**-**	**-**

Amount in £ 000'

2020	Carrying amount	Gross nominal inflow/ (outflow)	Within 1 month	1-3 months	3 months -1 year	1-5 years	>5 years
Financial asset by type							
Non-derivative assets							
Cash in hand & with central bank	79,410	79,417	79,417	-	-	-	-
Due from banks	111,857	112,188	53,304	29,614	29,270	-	-
Loans & advances to customers	455,954	499,703	90,526	23,439	59,196	325,902	640
Financial investments							
– fair value through other comprehensive income	87,558	88,562	-	3,732	19,211	65,619	-
– Amortised cost	16,799	17,100	-	-	-	17,100	-
	751,578	**796,970**	**223,247**	**56,785**	**107,677**	**408,621**	**640**
Derivative assets							
Risk management	616						
Outflow		25,751	2,592	8,957	14,202	-	-
Inflow	-	(25,156)	(2,478)	(8,699)	(13,979)	-	-
	616	**595**	**114**	**258**	**223**	**-**	**-**
Financial liability by type							
Non-derivative liabilities							
Due to banks	40,091	(40,405)	(8,668)	-	(26,717)	(5,020)	-
Due to customers	623,644	(625,314)	(279,874)	(103,811)	(241,629)	-	-
Subordinated liabilities	20,063	(20,196)	-	-	-	(20,196)	
Lease liability	2,582	(2,560)	(77)	(278)	(1,458)	(747)	
	686,380	**(688,475)**	**(288,619)**	**(104,089)**	**(269,804)**	**(25,963)**	**-**
Derivative liabilities							
Risk management	358	-	-	-	-	-	-
Outflow	-	9,613	2,173	3,345	4,095	-	-
Inflow	-	(9,920)	(2,234)	(3,497)	(4,189)	-	-
	358	**(307)**	**(61)**	**(152)**	**(94)**	**-**	**-**

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.

The Bank liquidity risk management measures includes access to Bank of England facilities under the Sterling Money Framework which are Reserve Account, Indexed Long Term Repo facility and Discount Window Facility. Such arrangement can be utilised by providing eligible securities to the Bank of England as collateral.

Exposure to Liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of high-quality liquid assets (HQLA) to deposits from customers and short-term funding. For this purpose, HQLA divided by deposits from customers and banks. Bank also considers the liquidity coverage ratio (LCR) being another strong tool for liquidity Risk.

Details of the reported ratios at the reporting date and during the reporting period were as follows:

	2021 (Unaudited) Liquidity coverage %	2021 (Unaudited) HQLA to deposits %	2020 (Unaudited) Liquidity coverage %	2020 (Unaudited) HQLA to deposits %
As at 31 December	152%	16%	227%	19%
Average for the period	159%	16%	219%	17%
Maximum for the period	227%	20%	332%	22%
Minimum for the period	134%	11%	158%	13%

Liquidity Reserves	2021 Carrying amount	2021 HQLA	2020 Carrying amount	2020 HQLA
Balance with central bank	88,145	85,145	78,819	75,815
Cash in hand	536	536	591	591
Unencumbered debt securities issued by sovereigns and supranational	11,002	10,699	33,426	33,011
Other assets	18,414	11,535	15,502	8,074
	118,097	**107,915**	**128,338**	**117,491**

31.22 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position of categories of financial instruments.

31 December 2021 Amount in £ 000'	Mandatorily at FVPTL	FVOCI – debt instruments	Amortised cost	Estimated credit loss	Total carrying amount
Cash in hand and with central bank	-	-	88,689	-	88,689
Due from banks	-	-	101,336	(19)	101,317
Loans and advances to customers	-	-	518,514	(4,453)	514,061
Financial investments	-	85,735	89,931	(12)	175,654
Derivative assets held for risk management	304	-	-	-	304
Total financial assets	**304**	**85,735**	**798,470**	**(4,484)**	**880,025**
Due to banks	-	-	107,147	-	107,147
Due to customers	-	-	672,008	-	672,008
Derivative assets held for risk management	514	-	-	-	514
Subordinated liabilities	-	-	20,092	-	20,092
Total financial liabilities	**514**	**-**	**799,247**	**-**	**799,247**

31 December 2020 Amount in £ 000'	Mandatorily at FVPTL	FVOCI – debt instruments	Amortised cost	Estimated credit loss	Total carrying amount
Cash in hand and with central bank	**-**	**-**	**79,410**	**-**	**79,410**
Due from banks	**-**	**-**	**112,389**	**(532)**	**111,857**
Loans and advances to customers	**-**	**-**	**461,369**	**(5,415)**	**455,954**
Financial investments	**-**	**87,558**	**16,800**	**(1)**	**104,357**
Derivative assets held for risk management	**616**	**-**	**-**	**-**	**616**
Total financial assets	**616**	**87,558**	**669,968**	**(5,948)**	**752,194**
Due to banks	**-**	**-**	**40,091**	**-**	**40,091**
Due to customers	**-**	**-**	**623,644**	**-**	**623,644**
Derivative assets held for risk management	**358**	**-**	**-**	**-**	**358**
Subordinated liabilities	**-**	**-**	**20,063**	**-**	**20,063**
Total financial liabilities	**358**	**-**	**683,798**	**-**	**683,798**

31.23 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 £0.56m as on 31 December 2021 (2020: £ 0.26m) as mentioned at note 15.2.

As at 31 December 2021 financial investments of £82.5 million (2020: £6m) were encumbered against borrowing of £70 million from the Bank of England against TFSME scheme (2020: £5m) and £9 million (2020: £Nil) against Repurchase Agreement as mentioned at note 17.1.

31.24 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.

31.25 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 Total Capital Requirement (Pillar 1 and 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.

The Bank's regulatory capital consists of the sum of the following elements:

- Common equity Tier 1 (CET 1) capital, which includes ordinary share capital and retained earnings, and Tier 2 capital which includes qualifying subordinated liabilities.

	2021 (£ 000')	2020 (£ 000')
Share capital	70,000	60,000
Retained earnings	16,301	11,826
Tier 1 capital	**86,301**	**71,826**
Subordinated liability	20,000	20,000
IFRS 9 (ECL) impact of regulatory capital	386	540
	20,386	20,540
Own funds	**106,687**	**92,366**

32. Ultimate Parent Company

The Bank is a wholly owned subsidiary undertaking of Habib Bank AG Zurich, which is the immediate and 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 being the ultimate controlling parent.

33. Significant Events after the Balance Sheet Date

The Board have assessed the impact of ongoing conflict between Russia and Ukraine as immaterial on the Bank's overall operations.

The Directors confirms that a part from the above there were no significant events since the reporting date that require to be disclosed.

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		Southall
		Middlesex UB1 3HA
	Telephone:	020 8893 5059
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		London SW17 0DP
	Telephone:	020 8767 5555
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	Telephone:	0161 832 2166
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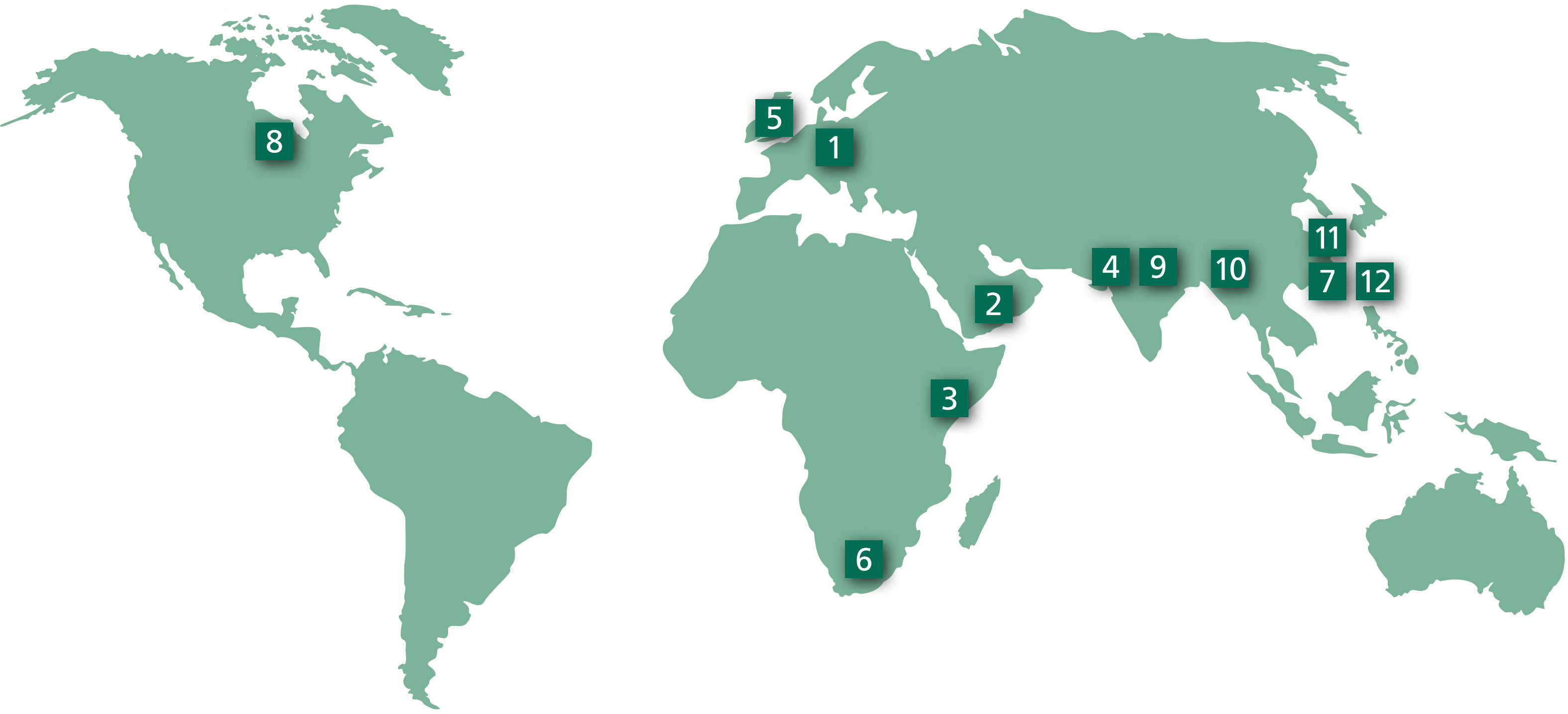
		Leicester LE4 5AU
	Telephone:	0116 261 3300
Birmingham		Ground Floor Pinnacle House,
		8 Harborne Road
		Edgbaston
		Birmingham B15 3AA
	Telephone:	0121 455 6213

International Network



Head Office	1	Switzerland	Habib Bank AG Zurich	
Branches	1	Switzerland	Habib Bank AG Zurich	1 Branch
	2	UAE	Habib Bank AG Zurich	8 Branches
	3	Kenya	Habib Bank AG Zurich	4 Branches
Subsidiaries	4	Pakistan	Habib Metropolitan Bank Ltd	406 Branches
	5	United Kingdom	Habib Bank Zurich plc	8 Branches
	6	South Africa	HBZ Bank Ltd	9 Branches
	7	Hong Kong	Habib Bank Zurich (Hong Kong) Ltd	2 Branches
	8	Canada	Habib Canadian Bank	3 Branches
Representative offices	9	Pakistan	Habib Bank AG Zurich	
	10	Bangladesh	Habib Bank AG Zurich	
	11	China	Habib Bank AG Zurich	
	12	Hong Kong	Habib Bank AG Zurich	