Habib Bank Zurich plc

Annual Report 2023


Canada
United Kingdom
Switzerland
UAE
Kenya
South Africa

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Corporate Information

Board of Directors	Mr Muhammad H. Habib (Chairman)	Non-Executive Director
	Mr Carey Leonard	Independent Non-Executive Director
	Mr Stephen Bryans	Independent Non-Executive Director
	Ms Sheryl Lawrence (appointed 1st Feb 2023)	Independent Non-Executive Director
	Mr Anjum Iqbal	Non-Executive Director
	Mr Rajat Garg	Non-Executive Director
	Mr Satyajeet Roy (CEO)	Executive Director
	Mr Kamran Qazi	CFO / Executive Director

Board Committees	**Risk Committee**		**Audit & Compliance Committee**	
	Mr Carey Leonard	Chairman	Mr Stephen Bryans	Chairman
	Mr Stephen Bryans	Member	Mr Carey Leonard	Member
	Sheryl Lawrence	Member	Sheryl Lawrence	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 Committee (BC)

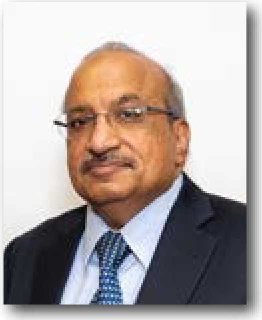
Company Secretary	Taylor Wessing
	5 New Street Square
	London EC4A 3TW

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, it gives me great pleasure to present to you the 2023 Annual Report and Financial Statements.

This year marks a significant milestone for us as we celebrate fifty years of serving our customers in the UK, a moment that fills me with immense pride. It's an opportunity to look back at the path our founders set upon half a century ago, with the goal of creating a financial institution anchored in trust, integrity, and respect. Over these five decades, the Bank has grown and adapted to the evolving demands of our customers and the ever-changing financial landscape. From our humble beginnings to becoming a sound financial institution serving the community, our history is a story of perseverance, steered by compassion and a vision for the long term.

By the grace of God, in another year marked by economic challenges and volatility, our bank has demonstrated resilience and achieved a strong financial performance. Our strategic foresight, rigorous risk management, and commitment to customer service have paved the way for another successful year. The growth of our balance sheet and annual profit is mainly due to the trust and loyalty of our clients, who have remained steadfast in their partnership with us. Our ability to adapt in such a demanding economic landscape reflects the strength of our business model and the dedication of our team.

The banking sector has been exposed to various risks, and our focus on risk management remains unwavering. We have maintained a healthy balance between risk and reward, safeguarding the interests of our stakeholders. Compliance with regulatory standards is a cornerstone of our operations. Our commitment to transparency and ethical business practices remains in focus, and we continue to strive for the highest standards of governance and risk management.

The achievements of this year were made possible through effective leadership of our senior management team and the hard work and dedication of our employees. Our directors, specially the independent non-executive directors, have played a crucial role in supervising, challenging, and ensuring strong governance over the course of the year. They bring invaluable experience and knowledge relating to most important aspects of strategy, risk and governance.

During the year, the Bank undertook significant work on Operational Resilience and Consumer Duty. The Bank will continue to develop its framework for financial risks arising from climate change in line with evolving requirements. The Bank also continued to drive its business agenda taking full account of diversity and inclusion, as an important part of its organisational culture. This focused effort is reflected in the improving diversity of its workforce and the Board. These areas will continue to remain in focus during 2024.

Looking ahead, the economic landscape will present both challenges and opportunities. However, with a resilient business model, a capable leadership team, ongoing oversight and guidance of the directors and the continued support of our stakeholders, I am confident that the Bank will navigate these challenges and avail the opportunities successfully.

In closing, I would like to extend my heartfelt gratitude to everyone who has been a part of our journey. I wish to compliment the management team under the able leadership of our CEO for delivering such strong results. I also extend my appreciation to our directors, who have been instrumental in providing oversight and ensuring good governance. I conclude by thanking our colleagues for their untiring effort and commitment to our success. Above all, I would like to thank our customers for their loyalty and patronage, and wish them well for 2024.

Muhammad H. Habib
Chairman

15th April 2024

CEO Statement

In wake of fragile economic environment and weak investor sentiments, our policy of diversifying revenue sources and business acquisition channels helped maintain the income stream in the year 2023. The sturdiness and rationality of the decision-making process can be evidenced by a double digit growth in balance sheet in the year. Given this growth in volumes and the increase in interest rates, profitability of the bank more than doubled. The vigour and devotion of our team members, and the trust of our clients made such phenomenal results possible in a highly challenging and unconducive year.

Food prices, continued to rise sharply, as global supply chain disruptions and the effects of Russia's full-scale invasion of Ukraine lifted the input costs of food producers. However, the worst of the UK's most sustained period of high inflation in decades appears to have come to an end in 2023.

At the start of 2023, market consensus was that GDP would fall by 1%. The GDP data shows that the UK economy has largely flatlined witnessing a mild recession in the year 2023 which is not going to be for long. Although, the drag on the growth due to the rate hikes has underpinned the softness in the market, we can take some comfort that the interest rates have now peaked and expected to go down. The headwinds to the UK economy are expected to ease out, and therefore the adjusted income is set to get a boost in 2024.

The Bank enhanced its focus on credit risk management, serviceability, effective early warning measurement and operational resilience during the year. In parallel, we remained proactively engaged with our customers to discuss their financial strength; allowing them to vary the terms of their loan, reviewing the serviceability burden and other measures. The soundness of these efforts gets qualified by the fact that despite an increase in loan portfolio in a highly sensitive and precarious conditions, the non-performing loans reduced by 13.5% during the year 2023.

We, as a team, stand committed to serve our clients in every possible way; thereby positioning ourselves as the preferred banking partner for our target market - especially in Real Estate investment. Since its launch a few years back, our Islamic financing business is also performing well; having a sizeable share in revenue stream and overall balance sheet. The Bank's success in competing with the large players in this financing market is evidenced by being recognised as the best Islamic Offering Bank for the 3rd consecutive year by the IRBA.

Our Trade Finance operations had reduced volumes given the economic, geopolitical and trade related factors that affected all markets – however, even at lower volumes, we witnessed improved revenue with reduced delays in payments. This goes to qualify the strong risk management processes we follow and our client selection criteria.

There are countless examples of our client centric ideology, be it ensuring we don't close the day until we have resolved the customer query, going to their residence or office to hand deliver a document such as a facility letter which they must have, working with disparate teams across geographies to ensure we have achieved a good outcome. Some of them are tiny things which just makes our customers feel happy, or thought acts that make them feel honoured.

Let me now take the opportunity to share some of the key highlights for the year:

- Balance sheet footing registered a growth of 13%
- Loans and advances increased by over 5%
- Customers deposits rose by 15%
- Net Operating income increased by 40% to £36.50 million
- Profit after tax recorded an increase of 130% to reach £12.55 million

The growth of deposit and lending portfolio in a backdrop of challenging business environment is the manifestation of strong relationship we have with our clients. With our 8 branches across England which helps us to cover almost 25% of our addressable wallet, we have ensured a good acquisition process through these centres. To help further enhance our market penetration we also have a strong connect via our Intermediaries' network, greatly assisting us expand our deal pipeline. We firmly believe that the Intermediary channel will emerge as a primary driver of new business in the forthcoming years.

In the evolving landscape of the banking industry, IT and AI will set the trend for customer service. Taking cognizance of this reality, we are investing in our technology-based product suite; for e.g. contactless cards, confirmation of payee services, enhancement of our mobile app features and 24/7 faster payment amongst many more. We anticipate maintaining a balanced approach that incorporates both technological solutions and personalized service to effectively cater to our diverse clientele. Our relationship based approach is possible due to our people – to ensure we are looking after them, there have been various Reward and Recognitions, but importantly a Voice of Employee survey that we completed. This was well received and we have had the privilege of a good feedback which we are in the process of curating for best outcomes for our staff.

Having done a major refurbishment at the Head Office last year, we invested in reshaping our new branch located in the prestigious London's West End at 55 Baker Street. Showcasing our Priority services at the subject branch, much of our clients find it convenient to visit Baker Street especially our Non-Resident base who enjoy the proximity to the famous Oxford Street and the catchment along with their banking.

We are mindful of our responsibilities towards climate preservation, operational continuity and consumer duty. The Management and UK Board mark these agendas as part of their oversight responsibility. The Bank has implemented measures to integrate climate change considerations into key decision-making processes and risk management practices. The Consumer duty and operational resilience being sensitive territory for the regulator; we have made substantial progress in both faculties ensuring our best intent, credibility and timeliness.

We attribute our success to our fundamental principles of good business practice; governance via the management team and challenge from the board, conservative risk taking, effective systems and controls processes. This is backed up by experienced, motivated staff. These fundamentals are reinforced by the Bank's core values of Trust, Integrity and Respect – integral to our growth.

We believe in sustainable growth, ambitiously expanding our market share while carefully consolidating our business. We remain committed to delivering best-in-class service and support to our clients. Our hybrid of 'branch and digital relationship model' enables us to provide an unparalleled service experience across multiple touchpoints, fostering trust, accessibility, and the provision of responsible banking products.

We expect year 2024 to bring modest growth in GDP, while diluting the uncertainty surrounding the UK and global economy at large. The Bank is committed to executing its' business plan, following a clear strategy and continuing to invest in people, technology, regulatory requirements and customer needs.

It will be another challenging year, but we are progressing well and I am confident to meet our goals and build on the momentum the team has created as we continue to keep our client at the centre of our business. I feel very proud of my management team and our colleagues who have maintained their commitment on making a difference every day to the clients we serve. I would like to thank my senior managers, HBZ staff, UK Board and Shareholders including the HBZ group members for their unparallel support throughout 2023.

Satyajeet Roy
Chief Executive Officer

15th April 2024

Strategic Report

The Board of Directors have the pleasure in presenting the Strategic Report for the year ended 31st December 2023 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 business performance, financial position and results for the year 2023. 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 the 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.

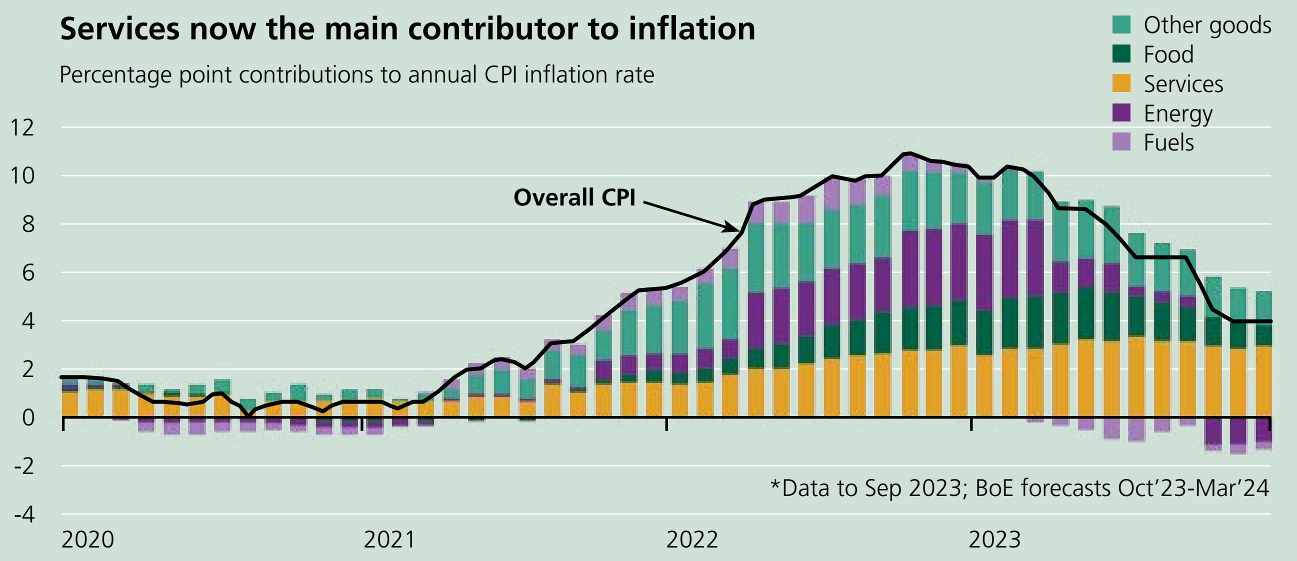
Our Strategic Report for the year 2022 made reference to the inflationary pressures, rising interest rates, fragile business environment, weak aggregate demand, global crisis and low economic growth. In numerous respects, 2023 unfolded as a continuity and a reflection of the preceding year events.

During the period from December 2021 to August 2023, the Bank of England (the "BoE") increased the interest rates on 14 separate occasion; lifting base rate from 0.01% to 5.25%, the highest for the last 16 years. The aforesaid tough monetary policies aimed at reigning in inflation. Between September 2022 and March 2023, the UK experienced seven months of double-digit inflation which peaked at 11.1% in October 2022.

Over the two years from December 2021 to December 2023, food prices rose by 26.2%. It previously took over 13 years, from July 2008 to December 2021, for average food prices to rise by the same amount. Alongside rising food prices, the housing and energy inflation stood at 12% by June 2023. In general, the last time overall inflation was rising at comparable levels was in early 1990's, when inflation peaked at 8.4%. Yet, in the period between 1993-2021, the UK's inflation rate remained below 5.4%, typically residing at much lower levels. The above truly reflects the severity of economic shocks the UK went through in short span of less than 2 years.

Another critical factor contributing to high inflation has been the surge in energy prices. Household energy tariffs and road fuel costs have risen in the aftermath of the conflict between Russia and Ukraine. Russia's invasion of Ukraine in February 2022 brought an end to the era of cheap gas flowing to European markets from Russia. The war also disrupted global food markets, with both Russia and Ukraine being major exporters of cereal crops. As a result of these factors, inflation remained high across Europe and the rest of the world for the most part of 2023. The complex interplay of these factors underscores the challenges faced by policymakers in formulating effective strategies to mitigate inflationary pressures. The monetary policy adopted by the BoE to curb the situation appears to have paid off, but to the detriment of economic growth and a continued squeeze on consumer spending remains present. Headline CPI inflation dropped to 4.0% in December 2023 on the back of lower energy prices, meaning the UK is no longer an outlier when compared to other major economies. However, domestic influences – including a tight labour market, strong services price inflation, and firms passing on higher costs to consumers – continue to keep core inflation elevated. Nevertheless, as economic conditions show signs of improvement, the BoE after the last MPC held in March has indicted reducing the base rate as the inflation rate is well on its way to fall to its targeted level of 2% by the end of 2024. The potential impediments posed by these geopolitical events suggests that the path to economic recovery for the UK and other developed economic may encounter challenges, thereby further justifying the BoE's cautious approach to rate adjustments.

Some of the global factors mentioned above were the original drivers of high inflation, however, price rises in many areas of the UK economy have also accelerated. This is partly due to strong pay growth, with labour costs making up a large share of costs for many firms, particularly in the services sectors.



Note: Food includes non-alcoholic drinks; Fuels includes lubricants
Source: Reproduced from Bank of England,W Monetary Policy Report – February 2024, Chart 2.18

Looking ahead for 2024, the UK inflation adjusted real disposable income is set to get a significant boost of around 2.5% in 2024 as headline inflation falls and wage growth remains elevated. The growth drag from the BoE's rate hikes is now peaking and poised to fade steadily through 2024. Weak activity and higher borrowing costs are expected to weigh heavily on employers' hiring intentions in 2024, with forecasters anticipating a rise in unemployment over the course of the year. With weaker hiring demand and cooling inflation, average annual pay growth is expected to fall to about 3.7% in 2024.

To conclude, despite all adversities, UK economic activity remained resilient and performed better than expected in 2023. At the start of 2023, market consensus was that GDP would fall by 1%. However, as per the current estimate it is expected to have shrunk only by 0.1% in 2023. A big question that could face businesses in 2024 will be whether to continue raising prices to repair margins or cut back on staff if demand is projected to remain weak in some sectors. Both of these scenarios materialising at the same time could result in a double blow to household real incomes.

Principal Activity

In conformity with the recent years, the Bank continued its operating model of generating business through financing real estate investments, trade related services and treasury activities. We continued to upgrade and enhance our capacity and faculty to cater our customers' need through conventional and Islamic retail and commercial banking products. Our Intermediary channel continues to grow with more relationships added during the course of 2023.

By leveraging our assigned branch relationship team, we always remain connected with the customers. We continue to upgrade our branch network. Inauguration of our Priority Branch at 55 Baker Street was a significant milestone in achieving high service for our affluent customer segment. We take pride in our unique selling point of being a relationship bank. Our customers can conveniently get access to the decision makers placed at the strategic management level of the Bank. The catalogue of our conventional retail and commercial products includes current / savings accounts and real estate finance, trade finance, cash management and treasury services across various currencies.

Our Islamic financing desk, with the brand name 'Sirat', has consistently been manifesting an exceptional role in the growth of the entity. The Islamic personal and business products currently forming part of our checklist include: Diminishing Musharika, Commodity Murabaha, Wakala based deposit accounts, current and savings accounts. Our sharia compliant products successfully satisfied the market appetite for Islamic financing; while adding diversity and value to the Bank's revenue stream and business operations.

Our ideology of supporting our customers and small businesses by delivering against commitments continued to be the cornerstone of our operating policy. We are focussed on building long-term value for our customers, employees, suppliers and the communities we serve.

Strategy and Objectives

The Bank keep pursuing its strategy of meeting customers and clients' end-to-end needs in an efficient and effective manner. The Bank's core value is grounded in 'Service with Security', placing customers at the heart of our decisions. We have successfully positioned our self as a community bank, delivering personalised services with security to a wide spectrum of business and personal customers from our niche markets. Our operating philosophy entails listening to our customers, understanding their priorities with changing business and technological requirements and adapting our products and services; ensuring our capacity to support their evolving needs. Keeping abreast to customers and clients' expectations is key to our long-term success.

The Bank operates in a fashion aiming family-owned and managed businesses from the South Asian Diaspora owned by SMEs' or high net worth individuals as its primary customer base and target market. These traditionally mercantile communities are known for their business acumen and entrepreneurial traits; carrying generational continuation and business interest expansion across generations as a dominant feature. Acknowledging the growth pattern demonstrated by the subject community in the recent years, the Bank has a fair chance to build a sustainable business model. The significant growth we have experienced over the last few years is attributable to the success of SME businesses.

During the financial year, we remained focus on fulfilling sustained growth in our real estate lending business, tracking our targets set for the Islamic lending products and promoting Trade Finance business through diversification in product and services we offer. We are searching out the possibility for developing our trade finance services to different geographies to reduce existing concentrations from South Asian markets. The policy has started to pay off as we are seeing more customers from different geographies resulting in diversification of business volume and revenue base.

Our diversification strategy continues to play an important role in expansion of our client base and business growth. The results of this diversification are reflected in the financial performance of the Bank seen in the last years. Despite low demand for new lending, given high borrowing costs and increased uncertainty, the Bank successfully managed to expand its lending book with a decent margin. The inflated lending portfolio and improved interest margins resulted in increased revenue streams from customer lending activities. The Bank's practiced policy of generating lending business through Intermediaries has helped entity finding greater and deeper penetration into the market. We expect to see this channel to offer better outcome and further growth in the days ahead and become a key channel for new bank customers' growth.

The Bank is fully committed to continuous improvement in governance, risk management and controls. As the economy has weakened, some households and businesses have become riskier to lend to. Alongside, higher borrowing costs has impacted existing borrowers, as the share of income being spent on mortgage servicing is due to climb visibly; posing increased risk of default. Although, the stronger-than-expected wage and income growth in the current year has reduced some of the strain on households. Nonetheless, high interest rates and weak economy increase the risks that banks may face losses on their lending.

In wake of inflated overall risk environment, reflecting subdued economic activity and increased geopolitical tensions; it becomes necessarily important to improve the existing risk management and governance framework. The Bank, carefully examining the changing economic environment and market conditions, has evaluated the possible impact of key macroeconomic indicators. Accordingly, Management has stress tested against severe macroeconomic scenarios that would put pressure on the ability of borrowers to service their debts. Despite the possibility of interest rate peaking and some indication of reduction in policy rate by the BoE in second half of 2024, the Bank has positioned itself in a manner that it is prepared to counter further stress on lending portfolio. This was achieved through further tightening of underwriting process and significant improvement to early identification of risk indicators at customer level through enhanced interaction and monitoring process. We are striving to enhance our operational resilience and financial stability, ensuring capital and liquidity levels sufficient to absorb the economic shocks and continuity of services to the customers. We also remained committed to higher standard of consumer protection in financial services by ensuring that we provide them the support they require in meeting their financial need.

Business Model

The Bank's operational model is firmly rooted in delivering high quality service and adopting a long-term approach to fostering customer relationships. Tailored to specific market segments, this model is designed to achieve strategic objectives. The Bank's core principle of 'Service with security' has cultivated lasting customer relationships that travels through generations and borders, affirming its reputation as a dependable business partner. With a deep historical connection to the Indian subcontinent and the intrinsic value of being a family-owned conservative financial institution, customers view the brand as congruent to reliability and confidence.

Currently, the Bank offers two primary services: real estate finance and commercial banking. Additionally, it offers comprehensive cash management, trade finance, and retail banking solutions customized to meet customer needs. The Bank remains committed to strategic areas such as customer service, financial planning, operational processes, personnel management, regulatory compliance, and treasury operations. Its product catalogue comprises buy-to-let finance, commercial loans, working capital finance, current accounts, savings accounts, notice accounts, fixed-term deposits, and treasury services. Clients also have direct access to fixed-term bonds through the web-based platform.

Branch banking plays a crucial role in the growth trajectory of the UK franchise. The Bank implemented several measures to stimulate growth, including a targeted effort to expand its Islamic banking business in Midlands's branches. Specialized business teams now cater to priority customers, including those with international connections within the group. A dedicated service team has been introduced to ensure consistent high service standards across all UK branches.

In competition with larger players in the market offering exclusively Islamic products, the Bank's Islamic banking services cater to customers seeking faith-based products and services. The financing options we carry in our portfolio are aligned with the preferences of customers interested in Sharia-compliant buy-to-let financing activities. The Bank tailored its policy towards trade finance business, giving regard to the recent political and financial instability in Pakistan. The prudent approach is having direct impact on the volume of subject business segment, adversely affecting our revenue stream from the region. We are, however, striving to balance out the situation through exploring new markets and upgrading product delivery. In view of the circumstances, we outsourced trade service and finance transactions processing to the Group Outsourcing centre in the UAE, bringing additional business volume and enhanced processing efficiency.

The intermediary channel has served as a robust source of enhanced network, specialized services, improved risk management and cost efficiency. The introduction of intermediaries has facilitated expansion into geographical areas such as Greater London and Midlands without the need for physical presence, enabling the Bank to offer its complete set of lending products.

Business Review

2023 was a challenging year for borrowers, facing affordability pressures from higher interest rates and the increased cost of living. Despite falling demand and more restrictive lending standards, the Bank closed 2023 with 'Loans and Advances' balance at £632 million, an increase of £32 million (5%) higher than the corresponding figure from the last year. The growth in lending business was primarily indebted to the exceptional performance of Islamic Financing division. The share of faith-based financing in overall lending growth during 2023 stands over 38%.

The affordability constraints significantly raised the bar for consumers to pass affordability tests for mortgages. In subject scenario, the Bank continued to remain focused on effective credit risk management process, evaluating the impact of higher cost-of-living and interest rate increase on the repayment capacity of borrowers. Moreover, the Bank felt constrained to revisit it's underwriting standards; thereby redefining the key metrics such as loan to value and debt service ratio to have them aligned with the changed circumstances. Despite fragile and precarious business environment, the Bank's prudent approach towards building lending portfolio resulted in a reduction of non-performing loans from 3.3% in 2022 to 2.72% in 2023.

Customer deposits, touching the mark of £886 million, registered a growth of £116 million (15%) in the year. This was accomplished by employing a deposit strategy that emphasizes cherishing new deposit relationships through conventional, Islamic, and Internet Deposit channels. Furthermore, the Bank disseminated the advantages of increasing interest rates to customers by offering them with significantly higher rates compared to the beginning of the year, resulting in an interest expense surge of over three times in 2023.

Financial Review

The Bank's total assets grew from £1.02 bn in 2022 to £1.14 bn in 2023. Besides lending activities, Treasury activities remained a focal point of attention. The Bank adeptly navigated its asset management strategy by strategically placing funds in short-term bank placements during the first half of the year, capitalizing on the upward trend in interest rates. Employing a meticulous run-down approach, the investment portfolio was carefully managed, ensuring that available funding was judiciously invested in high-yielding loan.

13%
Increase in Assets from 2022

Throughout the year, the Bank maintained its commitment to a conservative credit risk management process. This dedication was further fortified by reinforcing the Risk function and scrutinizing the Bank's enterprise risk management framework in response to escalating economic uncertainties. Substantial enhancements were implemented in the Bank's Expected Credit Loss (ECL) models and various risk metrics pertaining to credit, treasury, and other critical domains. Implementation of bespoke credit rating model for income generating lending portfolio was a key step in improving the quality of credit risk management process.

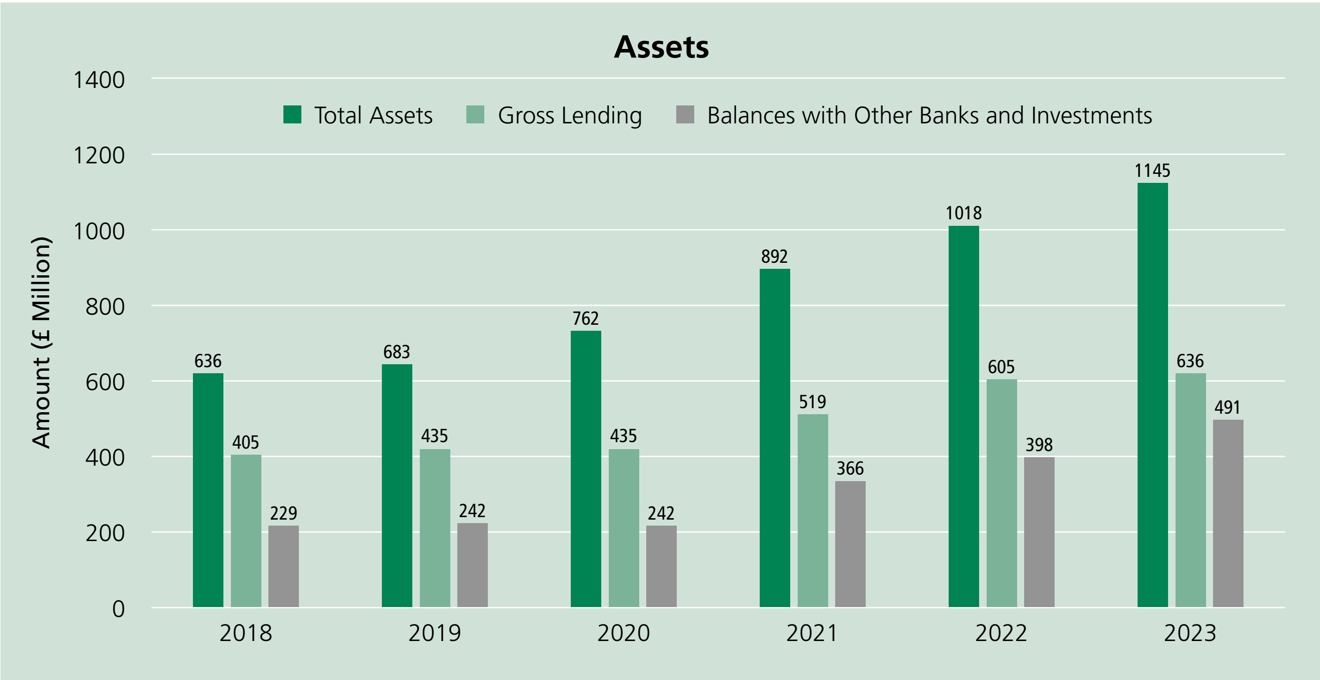
A primary objective for the Bank was the establishment of measurable triggers and thresholds based on key risk indicators. This proactive approach aimed to facilitate the timely measurement, management, and control of risks, aligning with the Bank's commitment to maintaining a vigilant stance in the dynamic and unpredictable financial landscape.

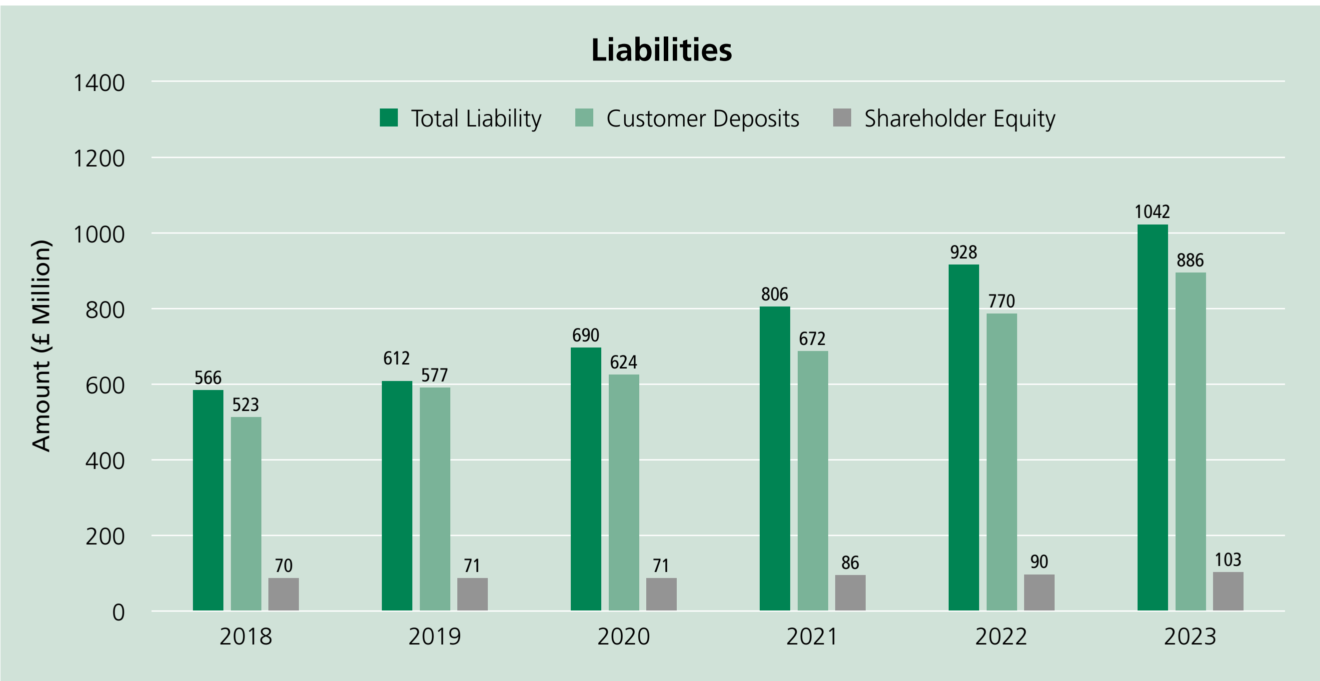
Balance Sheet Extract

	2023 (£ 000')	2022 (£ 000')
Assets		
Loans and advances to customers	632,149	600,038
Balances with banks	328,131	253,746
Financial investments	163,382	144,352
Other	21,365	19,878
Total Assets	**1,145,027**	**1,018,014**
Due to customers	885,890	769,556
Due to Banks	123,581	129,266
Subordinated liabilities	20,340	20,273
Tier 1 Capital / Equity	102,879	89,508
Other	12,337	9,411
Total Liabilities and Equity	**1,145,027**	**1,018,014**

Assets and Liabilities

The following charts provide the key financial highlights of the Bank from the year 2023.





Profit and Loss Analysis

2023 saw the Bank's net operating income increase from £26.14m to £35.85m. The profitability can be attributed to the growth in loans and advances owing to increased disbursement, increased revenues from Islamic Finance, and expanded interest margins. Additionally, we saw the loan book grow by £32m in 2023, however, non-performing loans as a percentage of total loans and advances in the current year is 2.7% as against 3.3% in 2022. The Net fee and Commission income was less than last year as the trade finance actives were slower due to increase in economic and political uncertainty in key South Asian markets which the Bank deals with.

37%
Increase in Net Operating

Operating expenditure, which is mainly represents staff and other operating expenses, comprised of £23.42m, with staff costing £13.3m and £10m for other operating expenses, registering an increase of 23%.

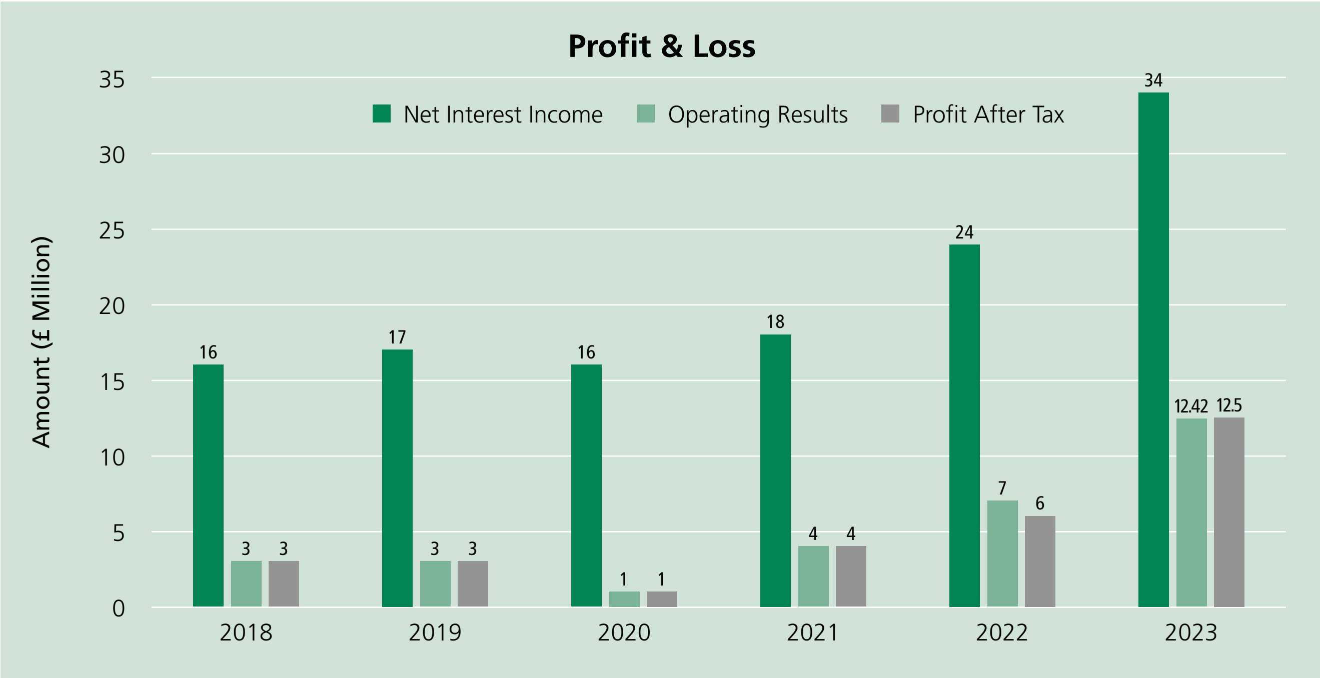
The Bank kept the monitoring of its credit portfolio an area of key attention. Continuous interaction with customers in particular those under enhanced risk due deterioration in debt service ratio provided the Bank more insight and ability to take timely actions.

The above resulted in highest ever Profit after tax of £12.5million ever earned by the Bank an increase of 120% over 2022.

The performance highlights for 2023 are provided below.

	2023 (£ 000')	2022 (£ 000')
Operating Profit		
Net interest income	34,164	23,911
Net fee and Commission income	1,483	1,763
Net other income	198	465
Net operating income	**35,845**	**26,139**
Total operating expenses	(23,424)	(19,076)
Operating profit before impairment losses on loans and advances and tax expenses	**12,421**	**7,063**
Credit impairment losses / reversals on financial assets	866	(684)
Profit before tax	**13,287**	**6,379**
Tax charge	(735)	(679)
Profit after Tax	**12,552**	**5,700**

The following charts provide the key financial highlights of the Bank from the year 2018.



Capital Structure

The Bank has ordinary share capital of £70 million (2022: £70m) and retained earnings of £33 million (2022: £21 million). In addition, the Bank also has a five-year subordinated loan of £20 million (2022: £20 million) to support long-term asset growth and cover risks inherent to the business. The Bank has seen capital accretion partly through retention of earnings since its subsidiarisation in 2016, reflecting the shareholders' long-term commitment to the UK franchise. The subordinated loan of £20m which is classified as Tier 2 Capital was renewed by the Parent bank for period of 5 years in March 2021.

The capital structure of the Bank is set by keeping in view the future growth of the bank over a five years period, also takes into consideration the desired return on equity to the shareholders.

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:

		£ in million
Description	2023	2022
Share capital – Tier 1	70	70
Retained earnings – Tier 1	33	21
Subordinated loan – Tier 2	20	20
Risk-weighted assets	587	575

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

	2023	£ in million 2022
Risk weighted assets	587	575
Total capital requirement – TCR	102	95
Capital		
Share capital – Tier 1	70	70
Retained earnings	33	21
Subordinated liabilities – Tier 2	20	20
Total capital	123	111
Excess capital over requirement (£ million)	**21**	**16**

The capital adequacy ratio as of 31st December 2023 was 18.39% (2022: 17.72%), which was in surplus of the regulatory requirements.

The Board in its meeting held on 15th January 2024 decided to increase the share capital by £10 million through fresh injection by the Habib Bank AG Zurich, the parent bank. The capital injection has also been approved by the Board of Habib Bank AG Zurich in meeting on 7th February 2024.

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 a very strong LCR of 286% as at 31st December 2023 (2022: 405%) as compared to a 100% regulatory threshold. The Bank keeps 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. During the year 2023 the Bank remained focus on keeping the liquidity at a higher level to ensure its ability to meet any unforeseen outflow in the rising interest rate environment. The Bank's leverage ratio, a measure of Bank's core capital relative to its total assets as of 31st December 2023 was 8.81% (2022: 7.85%) as against the regulatory threshold of 3%.

Customer related contingent liabilities of £40.6 million 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 allowed management to evaluate the Bank's actual and forecast performance. The Bank continue to monitors these KPI's to ensure that they remain relevant in the changing economic and business environment.

The Bank also consider a range of metrics across all stakeholder groups and continuously assess whether new measures should be added or removed from its KPI dashboards, in order to ensure these remains relevant and appropriate to our strategy. This allows the Bank to remain vigilant in identifying and monitoring emerging risks.

Some of the key KPIs monitored by the Bank includes:

KPI	2023	2022
Percentage increase in customer loans	5%	17%
Percentage increase in customers deposits	15%	15%
Non-performing loan as a % of loan book	2.7%	3.3%
Percentage of non-interest revenue to total revenue	3%	6%
Loan to deposit ratio	71%	78%
Return on Assets	1.1%	0.6%
Return on Equity	12%	6%
Capital adequacy ratio	18.39%	17.72%
Common equity tier 1 ratio	15.10%	14.74%
Liquidity Coverage Ratio (LCR)	285%	405%
Net Stable Funding Ratio (NSFR)	136%	127%

The Bank's overall financial performance continues to remain strong. 2023 financial performance was the strongest since the Bank became a subsidiary in 2016. The strong lending pipeline carried forward from 2022 allowed the Bank to increase gross lending to £636 million with net increase of £32 million. Customers' deposits also increased as current account balances improved from last year as customers' business volumes increased and more rental income grew. The Bank also generated deposits from Internet channel which is a key source of net to bank customers and a measure to manage concentration risk in customer deposits.

Non-Performing Loans as a percentage of total loan and dropped to 2.7% from 3.3% in 2022. The Bank is confident that current provisioning level is appropriate to manage any possible credit losses.

The Bank maintained a capital adequacy ratio above the required regulatory requirement. The available capital resources of £123 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 stable with a mix of relationship-based retail depositors and business owners. Fixed rate bonds act a source of well diversified liquidity. The Bank's liquidity risk is managed by the Treasury function with oversight from the ALCO and the Board Risk Committee

Approved by the Board and signed on its behalf by:

Kamran Qazi
Chief Financial Officer

15th April 2024

Risk Management Report

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. The Board performs this activity through a review and monitoring process undertaken by the Board Risk Committee and Board Audit and Compliance Committee.

Principal Risks and Uncertainty and Mitigation Plan

Risk management is an evolving process, which is subject to change as a result of internal and external factors impacting the Bank's business, people, products and systems and controls. An effective approach of managing risk on a proactive basis and a strong risk culture are critical elements of an organisation's ability to withstand financial and operational shocks.

The Bank considers a number of financial and non-financial risks arising both from external and internal factors. The risk drivers represent the categorisation of risk against which underlying risk appetite metrics are defined and the Bank's risk appetite is developed and maintained. The risk drivers associated risk measures and calibration are not static and are designed to evolve in response to the Bank's business model, operating environment, economic factors and regulatory landscape. These risks are addressed through a comprehensive risk management framework centred on 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 Banks strategy. The Bank's risk appetite is set by the Board of Directors and takes into account the Bank's Strategic Intent. The risk appetite is subject to an annual review by the Board Risk Committee (BRC) and the Board. As part of an ongoing focus, the risk appetite is subject to an annual review driven by changes in business strategy, the external environment, regulatory changes and any material events deemed to impact the risk profile of the Bank's business model. In addition to annual review, the Bank monitors its operating and economic environment to assess changes to risk profile driven by internal or external events. A material change will trigger a review of the Bank's risk appetite outside the annual cycle. 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 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 manage 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 BRC maintains oversight of the business performance against the risk appetite, whereas the Board Audit and Compliance Committee (BACC) has oversight of any financial or internal control failure risk. The material risks and uncertainties the Bank faces across its business and portfolios are key areas of management and Board 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, primary focus on secured lending, quality of underwriting standards, ongoing monitoring and pre-set thresholds for: • Large Exposures (Customer): Single borrower (secured/unsecured), Top 10 / 20 borrowers • Large Exposures (Money market placements) • Large Exposures (Investment, Trade/FI) • Portfolio limits (Customer lending, Investments/Bank Placements/Trade & FI) • Sub-portfolio limits: Real estate lending, Commercial real estate, Residential real estate/Commercial lending) • Exceptions • Expected Credit Loss The Bank has a well-defined and articulated credit risk management framework ("CRMF"), which comprises its credit risk appetite, credit policies, and terms of reference of management committees, target market, 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 credit portfolio is carried out by analytics team which provides early warning to 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 watch list process in place. One of the key focus areas of the Bank during period of uncertainties driven by external events and economic indicators 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 year 2023 more focus was given to customers' ability to repay through stress test at various interest rate levels.

Risk type	Tolerance and mitigation
Credit risk (cont)	The Bank also articulated an enhanced stress testing approach to assess impact of macroeconomic indicators on its loan book by applying stress on customer's repayment ability impacted by rise in interest rates and reduction in income. The impact is assessed against the Bank's absorption capacity. Business teams remained at the forefront of managing customers' expectation and providing them the required support in addressing concerns due to market uncertainties. This was clearly demonstrated through their various discussions with the customers to ensure impact on their repayment capacity as a result of increase in interest rate and ability to provide further cash flows or collateral to reduce the risk. As a responsible lender the Bank continues to support its customers to manage rising debt burden. The Bank also ensures that any changes in credit program or risk acceptance criteria are discussed, evaluated and approved at the appropriate committee level by taking into account impact on customers.
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, sectors, 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. The Bank also takes into consideration the relevant regulatory requirements in setting up the concentration risk policy.
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 under supervision and guidance from the Chief Risk Officer. 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. All key operational risks indicators and risk events are also reported to the BRC.
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.

Risk type	Tolerance and mitigation
Conduct risk (cont)	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.
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. Capital resources are analysed in detail regularly to ensure sufficient buffer is available to support growth over a five years period in business as usual and stressed market conditions. The process is mainly driven by annual exercise of the Internal Capital Adequacy Assessment Process (ICAAP) which serves as backbone of determining the desired level of capital requirement and capital adequacy of the Bank.
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 counterparty 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's lending book is on variable interest rate, which allows re-pricing of all lending products within 60 to 90 days. Customer deposits have a longer behavioural rollover history as compared to contractual maturities, which stems from the strength of relationship-based business model. The Bank Investments portfolio is well diversified with mix of HQLA and non HQLA bonds classified as held to collect and held to collect and sell. As at 31st December 2023 71% of the Bank portfolio was invested in fixed rate bonds with the remaining in floating rate note. As a result of significant increase in interest rates since the start of 2022 the Bank saw increase in mark to market loss on its overall investment portfolio, which at year end was 0.6% of the book value of Investments portfolio at the end of 2023. As the interest rate have peaked the unrealised mark of market losses have substantially reduced.

Risk type	Tolerance and mitigation
Interest rate risk (cont)	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 monitors impact on EVE and NII on a quarterly basis against the set threshold. In addition, Investments portfolio performance is monitored on a daily basis by Treasury and Risk functions with key emphasis on change in CDS, rating changes and risks related to specific industry sector.
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. Regular real time monitoring of all cyber alerts is monitored and analysed by Information Security function for corrective action and system updates.
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. Compliance and Risk functions have responsibility for monitoring and oversight of new regulations, which are implemented by relevant functions such as finance, operations and IT. Where required the Bank also seek support and guidance from market experts to ensure best practices are adopted by the Bank. The Bank also receives regular update from different market sources such as Association of Foreign Banks on new regulatory requirements.
Outsourcing and third-party risk management	The PRA has outlined in this supervisory statement the expected compliance standards for PRA regulated entities regarding outsourcing and third-party risk management. These standards cover a range of factors, including governance, pre-outsourcing processes such as risk assessment arrangements, due diligence on third-party entities, the establishment of comprehensive written agreements covering data security, access, audit, and information rights, as well as protocols for business continuity and exit strategies, all underpinned by rigorous record-keeping practices. The Bank manages and monitors all third-party arrangements through well-defined service level agreements. These agreements are reviewed by Bank's legal advisors to ensure that they meet the regulatory expectations set by the Prudential Regulation Authority (PRA) for outsourcing and third-party risk management.
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. Daily monitoring of FX risk is performed by Finance function with oversight from Risk.

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 > 90% 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 10% 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
Consumer Duty	Consumer Duty, a pivotal regulatory development in 2023 that became effective in July, elevates the standards of care expected from firms operating in retail financial markets. Underpinned by three fundamental rules—acting in good faith, avoiding foreseeable harm to retail customers, and enabling and supporting customers in pursuing their financial objectives—Consumer Duty aligns seamlessly with our core values of Trust, Integrity, Respect, Responsibility, Commitment & Teamwork. We consider it a privilege to offer personalized and tailored services to our customers, and we are unwavering in our commitment to placing their best interests at the forefront of all our actions. Ensuring good customer outcomes involves transparent communication and a thorough understanding of the products and services we provide. Guided by the principle of 'Service with Security,' we have nurtured enduring customer relationships, empowering them to be well-informed and make confident decisions. Our dedication to exceptional customer support is evident in our prompt, respectful, and genuinely caring responses. Whether through our Branch Banking, Sirat, or other dedicated business teams, we strive to maintain consistently high standards of service and support across all our branches and offices in the UK. By prioritizing Consumer Duty, we aim to not only reinforce our existing client relationships but also extend additional support where needed and attract new relationships. This commitment underscores our mission to uphold trust and deliver excellence in customer service.

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.

Internal Audit

Our commitment to transparency, accountability, and effective risk management is underscored by the pivotal role played by our Internal Audit function. Throughout the year, our internal auditors diligently assessed and reviewed the effectiveness of our internal control systems, risk management processes, and compliance with regulatory requirements. The Internal Audit Department operates independently to provide objective and unbiased evaluations of our operations, ensuring that our governance practices align with industry standards and best practices.

The internal audit team executed a comprehensive audit plan, covering various aspects of our organization, including financial controls, operational processes, and IT systems. Their efforts not only identified areas of improvement but also validated the robustness of our internal control environment. Their findings were communicated to the management and the Board Audit and Compliance Committee, facilitating prompt corrective actions and reinforcing our commitment to continuous improvement.

The Head of Internal Audit directly reports to the Chairman of the BACC with administrative reporting to the CEO.

UNCERTAINTY

Economic Outlook

The UK economy saw major shifts in the last 12 months. From a period of high economic uncertainty in midst of 2023 where most of the analyst were predicting UK economy to run into recession in 2024 to a recent growth projection of 0.7%. While the interest rate has been kept at the level of 5.25% for the 5th consecutive time by the BoE there is a little consensus on when the BoE will make the first move of reducing the rate.

Inflation has dropped to 4% from all time high of 11.1% seen in September 2022 the journey to the BoE target rate of 2% may not be a smooth one. Cost of living still remain a key concern for many Britons in 2024 despite the average wage growth exceeding the rate of inflation. A key factor leading to uncertainty would be repricing of mortgage rates. Around 1.5 million homeowners will come to the end of fixed-rate mortgage deals during 2024. The Bank of England has estimated around five million homeowners will see their monthly mortgage payments rise between now and 2026. Many of these mortgages were fixed at the time when the interest rates were very low which means the repricing is likely to put more pressure on already struggling borrowers.

The Bank has been prudent in its underwriting process where the lending criteria was made more stringent as the interest rate started moving up in 2022. The Bank also took measures as responsible lender by reducing the loan-to-value and aligned the debt-service-ratio to ensure that the customers are able to meet their obligations in increasing interest rate scenario. Although, the Bank was able to manage the credit default risk in 2023 the overall market is seeing volatility in property values in particular commercial real estate. A prolonged dip in property prices as an outcome of slower than expected drop-in interest rates may result in lower appetite for investors to take up new exposures in UK property market. The Bank has seen a good start to 2024 however the jury is still out on long term prospects of UK property prices.

OTHER FOCUS AREAS IN 2023

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 parts of operational resilience. Consultation papers also refer 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.

By March 2025, the Bank should be able to demonstrate that they can remain within impact tolerances for all their important business services (IBS). To get ready for this, the Bank should have a clear plan to identify and remediate any vulnerabilities which could impact their ability to deliver their IBS. This includes identifying which resources are needed to support the delivery of each IBS, running tests using scenarios which are severe but plausible and learning lessons from any operational disruptions. The regulators expect these scenarios to also include cyber-related disruptions, which will help firms to identify what is needed to both withstand a cyber-related incident and to recover from one. Boards and senior management need to actively oversee the delivery of their firms' operational resilience programme.

Over the years, the Bank has enhanced its resilience capability with the following measures:

- Operational efficiency
- Digitisation
- Technology infrastructure enhancement
- Improvement in information/Cyber security
- Remote access arrangement

The Bank's new Operational Resilience Framework is based on our existing capabilities, including learnings from past experience, and follows an approach in line with the FCA's and PRA's objective. Key steps for achieving the desired objectives are summarised below:

- 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 Important Business Services (IBS) covering people, processes, technology, internal and external dependency, 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 design to increase effectiveness and robustness while maintaining secure and efficient service delivery to customers through minimising adverse impact due to operational disruption.

The Bank has considered four main areas in its business services to identify Important Business Services (IBS):

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 and (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.

As a part of Phase I approach, the Bank has successfully completed the 1st transition period on 31 March 2022 and 2023, as required, a Self-Assessment document summarizing the work carried out was approved by the Board.

Since the completion of previous years Self-Assessments, the bank has reviewed existing important business services, which resulted in addition of Debit Card as an additional IBS in 2024. Impact tolerance for each IBS was also reviewed, which identified no major change. The Bank also completed Initial IBS mapping exercise, as well as subsequent mapping refreshes. It will continue with the mapping process over the transition period to identify vulnerabilities.

The Bank is currently working on other areas including scenario testing and communication:

- Communication plan compiled
- Scenarios tested (ongoing)
- Incidents analysed (Directly impacting the IBS - ongoing)
- Lessons learned from the above activities are put into remediation plan to improve HBZ operational resilience and help stay within Impact Tolerances in case on severe but plausible disruptions

The Management and the Board are playing an active role in building up an effective operational resilience framework, through clear communication of its objectives to comply with operational resilience policy. This is mainly achieved through:

- appropriate management information available to inform decisions which have consequences for Operational Resilience: and
- Articulate and maintain a culture of risk awareness and ethical behaviour for the Bank, which influences the Bank's operational resilience.
- have adequate knowledge, skills and experience in order to provide constructive challenge to senior management and meet their oversight responsibilities in relation to operational resilience

The Board is continuously provided with progress reports, issues highlighted, areas of improvement, areas of investment and on overall implementation of Operational Resilience framework.

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.

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.

Annual performance includes 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. The Compliance function also provides input on individual's performance in relation to non-financial performance measures.

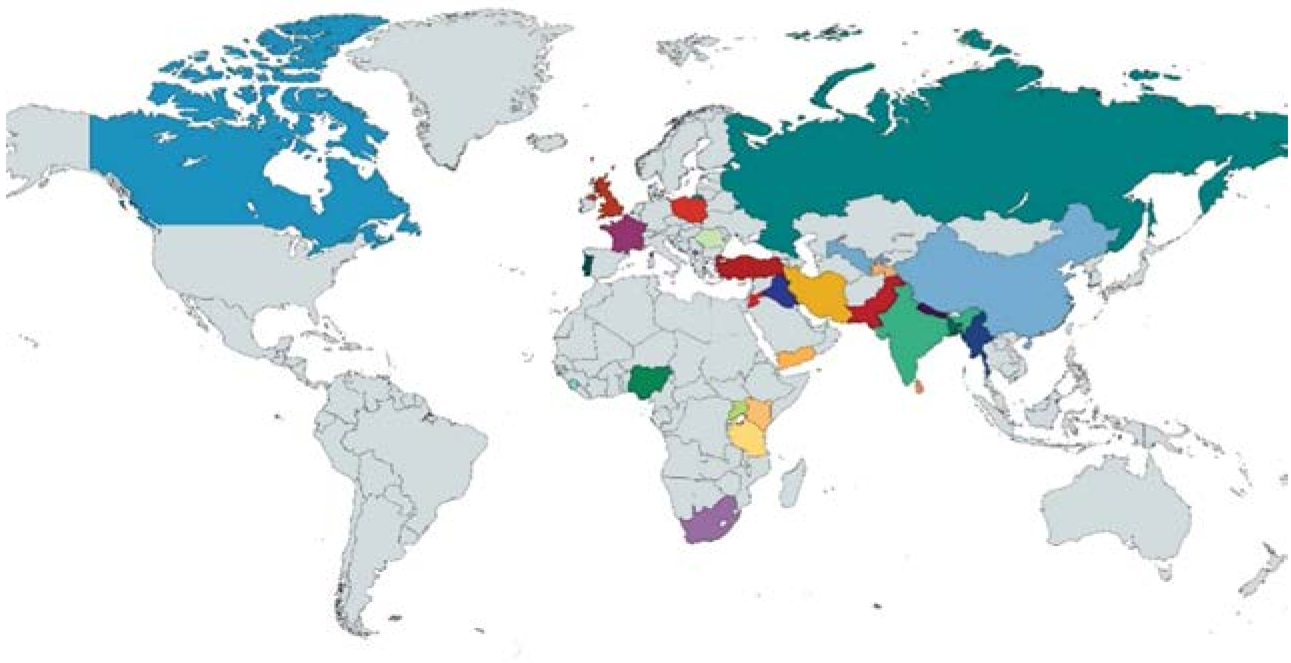
Diversity and Inclusion

At HBZ, diversity and inclusion are not just ideals; they are fundamental values that we actively champion and celebrate. Our workforce is wonderfully diverse, and we make a conscious effort to recognize and embrace the various ethnic celebrations that are important to our employees.

Throughout the year, the Bank organized events to foster diversity and inclusion (D&I). For instance, during National Inclusion Week, we host a National Cuisine Day, where individuals from diverse backgrounds proudly share their culinary heritage, bringing us together through the universal language of food.

Moreover, we enthusiastically commemorate Diwali, the festival of lights, with meaningful activities that honour this significant cultural observance. With a team representing a multitude of cultural and national identities, we understand the importance of embracing diversity. Our goal is to ensure that every member feels valued, included, and empowered to contribute their unique perspectives to our shared success. This commitment underscores our belief in the strength that diversity brings to our workplace and the positive impact it has on our collective achievements.

Below is a map illustrating the international workforce at HBZ:



Key

Bangladesh – 1	Hong Kong – 5	Mauritius – 1	Romania – 2	Tajikistan – 1
UK – 1	India – 38	Nepal – 1	Russia – 2	Tanzania – 2
Burma – 1	Iran – 1	Nigeria – 3	South Africa – 1	Turkey – 1
Canada – 1	Jordan – 2	Pakistan – 57	Sierra Leone – 1	Uganda – 1
China – 1	Kenya – 2	Poland – 1	Sri Lanka – 1	Uzbekistan – 1
France – 1	Kosovo – 1	Portugal – 1	Syria – 1	Yemen – 1

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 that they have acted prudently to promote 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 takes into 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;
- Maintains 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 deliver 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 gives due regards to the existence of an effective governance and risk management framework and clear separation of responsibilities between the Board and management in discharging responsibilities under S172, details of which are included in the Corporate Governance Report on page 35.

Environmental Metrics

In continuation with the bank's climate awareness, HBZ has taken it upon itself to track our energy consumption and carbon emissions. By doing so the bank aims to track their impact on the environment and incrementally lower their carbon footprint.

The Bank's comprehensive disclosures of emissions sources, provided below, adheres to the GHG Protocol Corporate Accounting and Reporting Standard couples with data retrieved from energy supplier invoices. Greenhouse gas emissions are consolidated into a single total, expressed in carbon dioxide equivalents, cost and total consumption.

Scope 1 and 2 emissions correspond to those stemming from the operational activities of the Bank's branches and headquarters. Scope 3 however, recognised the emissions encompassing business travel through various modes of transportation such as car usage, air travel, and public transportation, relying on data from expense claims.

		Item	CO2 (method)	Total Emission (Kg CO2)	Total Cost (£)	Total Consumption	
Scope 1	Burn	Oil consumed for heating or any other purpose. Gas consumed for heating or any other purpose.	Written on invoice or use external tool. Written on invoice or use external tool.	1,375.63	416.90	25,813.28	Megajoules
Scope 2	Buy	Electricity consumed in premises. Purchased heating/cooling.		166,484.28	217,516.99	1,577,219.49	Megajoules
Total Scope 1 & 2				**167,859.91**	**217,933.89**	**1,603,032.77**	
Scope 3	Business Travel	Business travel (air)		9,665.70	20,829.68	91,013.00	Km
	Water	Water consumed in premises	N/A		3,906	826	m3

Future Outlook

The Bank experienced one of the best years in terms of financial performance supported by growth in all areas of business. The strategy of business diversification and customer acquisition channels such Sirat, Intermediary, Internet Deposits and Trade Finance was key to 2023 and will continue to make positive impact in 2024 and beyond. The Bank will continue to keep focus on lending book growth and utilisation of remaining funding in prudent treasury investments to improve yields. Another key area of focus will be prudent management of cost of funds by maintaining a balanced approach of giving due share of high interest rates to depositors but at the same time managing the cost as interest rate starts to come down through timely adjustments to the cost of funds.

As the interest rates dips in mid to later part of 2024 the revenue models will be tested and profitability will be impacted however overall, the financial performance will remain in a good shape. While net interest income (NII) may decline in 2024, the Bank is likely to generate a strong return on equity.

It is important that the Bank continues to offer bespoke and personalised solutions that meet individual/SMEs' needs and priorities. While digital initiatives and data analytics will be the enablers for growth personalised solutions will allow banks to provide solutions that shape more sustainable financial performance.

Approved by the Board and signed on its behalf by:

Kamran Qazi
Chief Financial Officer

15th April 2024

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 2023. 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 for the Year

In 2023, the Bank posted a profit after taxation of £12.5 million (2022 £5.7 million), the strongest result since its UK operation commenced in 1974. The Board is pleased with the strong operating performance displayed by the Bank despite many challenges such as high economic uncertainty due to Russia-Ukraine conflict interest rate uncertainty and high inflation.

The balance sheet achieved a landmark by crossing total assets base of more than £1 billion. This was mainly due to by growth in loans and advances which posted growth of 5% to reach £632 million. There was a balanced contribution of branch banking and Islamic Banking under the brand name "Sirat" mainly coming from new to bank customers. Customer's deposits grown by15% in 2023 as balances reached £886 million, which allowed the Bank to increase its Treasury related activities. The Bank carefully managed its investment and money market portfolio taking in to benefit of increase in interest rates, which resulted in increase in Treasury income from £4.92 million in 2022 to £15.7 million in 2023. The Bank continues to monitor changes in the interest rate outlook through its governance including ALCO and oversight from the BRC.

Share Capital and Dividend

The Directors recommend a final dividend of £0.0592 (2022: Nil) per ordinary share to be paid in respect of the year.

The share capital of the Bank remained unchanged at £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:

DIRECTOR	POSITION
Mr Muhammad H. Habib	Non-Executive Director (NED) Chairman
Mr Carey Leonard	Independent NED
Mr Stephen Bryans	Independent NED
Ms Sheryl Lawrence*	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

* Notified INED appointed on 1st February 2023

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 significant developments or other matters.

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/she ought to have taken as a director in order to make himself/ herself 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 2023 financial statements.

The auditors, Mazars LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed was proposed and approved at the Annual General Meeting held on 15th April 2024, in accordance with section 487 of the Companies Act 2006.

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 operates with a straightforward model, providing essential lending and deposit services to its customers, who demonstrate strong loyalty to the franchise. This forms the cornerstone of the Bank's and HBZ Group's value proposition. Service delivery is facilitated through dedicated branch and relationship managers, ensuring customers benefit from consistent support and swift response to their needs, including access to key decision-makers. The Bank's proficiency in understanding and serving SME customers and business owners has established a robust position among its peer banks, fostering enduring customer relationships spanning multiple generations.

These financial statements are prepared with the understanding that the Bank operates autonomously with minimal reliance on Habib Bank AG Zurich (Parent bank). The Bank anticipates growth in its lending portfolio aligned with its strategy and aims to enhance credit quality, ensuring a steady stream of interest income from customer and treasury activities. Apart from net interest income, the Bank generates revenue from fees and commissions.

A robust governance structure is in place, encompassing the Board of Directors, various Committees, and Management Committees focusing on critical risk areas such as credit, liquidity, Anti Money Laundering, compliance, and operational risks. The Bank maintains a solid capital base, exceeding regulatory requirements, and boasts a strong liquidity position with ample liquid assets to cover a 90-day stress period.

During the year, the Bank achieved a profit after tax of £12.5 Million (compared to £5.7 Million in 2022), with expectations for gradual profitability growth in the coming years. The Bank has formulated five-year financial projections based on conservative assumptions to support this trajectory.

Directors have meticulously evaluated the Bank's capital and liquidity plans, incorporating stress tests and growth projections outlined in the long-term strategic plan. Based on this assessment, they are confident in the Bank's ability to meet its capital and liquidity requirements for at least the next 12 months from the date of this report. Consequently, the Directors continue to endorse the going concern basis in preparing the annual report and financial statements.

Post-balance Sheet Events

The Board of Directors decided to increase the share capital of the Bank by £10 million through issuance of 10 million ordinary share of £1 each to Habib Bank AG Zurich (the "Parent Bank") in its meeting held on 15th January 2024. The Board of Directors of the Parent Bank approved the share capital increase in their meeting held on 7th February 2024. The Bank has notified the PRA of the proposed share capital increase.

The Directors recommend a final dividend of £0.0592 (2022: Nil) per ordinary share to be paid in respect of the year in their meeting held on 15th April 2024.

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 2023.

Approved by the Board and signed on its behalf by

Satyajeet Roy
Chief Executive Officer

15th April 2024

Buttermere Lake, Lake District

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

15th April 2024

Corporate Governance

THE BOARD OF DIRECTORS

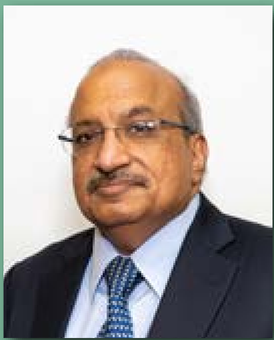
The Board of Directors (“the Board”) is committed to follow best practice in Corporate Governance.

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 2018’) 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.

On 22 January 2024, the Financial Reporting Council published an updated version of the Code which will apply to financial years beginning on or after 1 January 2025. The Company will report against that updated version in due course.

Board Profile

Board of Directors
From left to right: Stephen Bryans, Anjum Iqbal, Kamran Qazi, Muhammad H. Habib, Rajat Garg, Sheryl Lawrence, Satyajeet Roy & Carey Leonard.



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 · Vice Chairman, Gefan Finanz AG Zug, Switzerland · Member Board of Trustees, Habib University Foundation, Pakistan · Member Board of Trustees, Habib Public School, Karachi (Pakistan) · Member Global Advisory Board, Babson College, USA

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 · Justice of the Peace Worcestershire Bench
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. He 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)

Sheryl Lawrence

Independent
Non-Executive Director

Roles & Committees
- Member of the Board Risk Committee
- Member of the Board Audit and Compliance Committee

Skills and Experience
Sheryl Lawrence is a qualified accountant and has extensive experience within Audit and Risk spread across audit practice and banking. Her executive experience includes senior roles in Compliance and Risk within banks and building societies of various size and complexity.

Principal External Appointments
- Senior Independent Non-executive Director, DF Capital Bank PLC
- Independent Non-executive Director/ Trustee at St Andrew's Healthcare
- Independent Non-executive Director, RCI Bank UK
- Independent Non-executive Director, Vocalink Limited

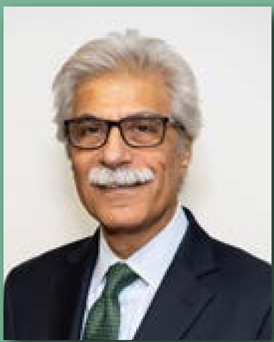
Former Appointments
Earl Shilton Building Society
- Independent Non-executive Director

Provident Financial plc
- Chief Risk Officer

Nationwide Building Society
- Head of Group Compliance Advice

Coventry Building Society
- Head of Risk

Lloyds TSB plc
- Head of Risk & Compliance, Group Operations



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 parts of the world in corporate and commercial banking. He has worked in several regions including Latin America, Europe, the Middle East, Africa and South Asia.
Principal External Appointments	· Member of General Management and Regional CEO (Developing markets), Habib Bank AG Zurich (Switzerland) · Non-Executive Director and member of Board Audit Committee, Board Risk Committee, HBZ Bank Ltd (South Africa) · Chair of Risk and Compliance Committee, 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 30 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

Executive Committee

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

Executive Committee
From left to right: Walid Malik, Waqar Haider, Faraz ul Hassan, Nadia Saleem, Satyajeet Roy, Kausar Kazmi, Kamran Qazi, 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 other stakeholders.

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

1. Consider changes to the structure, size and composition of the Board and its committees and approve terms of reference.
2. Define, oversee and be accountable for the implementation of governance arrangements that en-sure effective and prudent management of the Bank, including the segregation of duties in the organisation and the prevention of conflicts of interest.
3. Set the Bank's strategic objectives and goals and reviewing the performance of the executive team.
4. Review and approve the risk appetite statements of the Bank.
5. Establish and maintain a framework for the overall sound and proper internal control and risk management processes.
6. 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.
7. 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.
8. 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 ("TOR"), 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.

Division of Responsibilities

The responsibilities of the Board members are set out in the Board TOR, 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. Along with other Board members, the Chairman is also responsible for leading the development of the Bank's culture.

The 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 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 eight directors – the Chairman, three 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, Stephen Bryans and Sheryl Lawrence 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 also receive 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 INEDs. 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
	Sheryl Lawrence	Member
	Anjum Iqbal	Member
	Rajat Garg	Member

Board Audit and Compliance Committee

Membership	Stephen Bryans	Chairman
	Carey Leonard	Member
	Sheryl Lawrence	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, including the Bank's compliance function 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.
- Receive regular report from the bank's compliance function and 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, including consumer duty requirements.
- 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

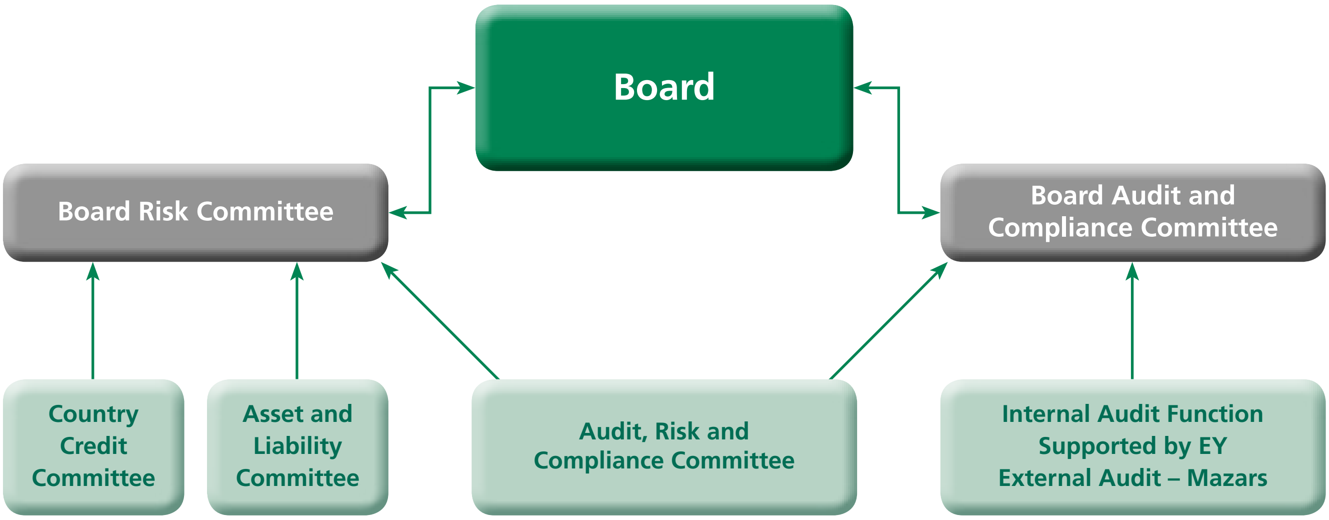
The Board meets regularly at least four times a year at quarterly intervals and holds additional meetings as and when the Board thinks appropriate. Six Board meetings were held during 2023. The agenda, together with Board papers, are sent in full to the directors not less than three business days before the intended date of the Board meeting. The Board Secretary prepare minutes of Board meetings, with details of decisions reached.

At each regular Board meeting, the executive management of the Bank makes presentations to the Board on various aspects, including business performance, financial performance, corporate governance and outlook. Throughout 2023, 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 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 the 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 reports by management presented in Board or 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. The Board performs this activity through a review and monitoring process undertaken by the Board Risk Committee and Board Audit and Compliance Committee.

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 has a remuneration policy which is aligned with its long-term objectives and which 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. 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-office 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 regulation 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 2023 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 material accounting policy information.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank’s affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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) Ethical Standard as applied to 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.
- Obtaining the Directors’ going concern assessment, including the cash flow forecast for the going concern period covering 12 months from the date of signing this audit opinion.
- Making enquiries of the directors 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, business operations, liquidity and regulatory positions.
- Evaluating management’s going concern assessment of the Bank and challenging the appropriateness of the key assumptions used in management’s forecasts.
- Assessing the historical accuracy and the arithmetical accuracy of the forecast prepared by the directors.
- Assessing the sufficiency of the Bank’s capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), and evaluating the results of management stress testing and reverse stress testing, including consideration of principal and emerging risks on liquidity and regulatory capital.

- Reading regulatory correspondence, minutes of meetings of the Audit Committee and the Board of Directors and considering post balance sheet events to identify events or 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 adequacy and appropriateness of the disclosures in the financial statements in relation to the description of the directors' assessment of 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 at least twelve months from when the financial statements are authorized 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, 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 matter in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

This 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 at amortised cost Expected Credit Loss ('ECL') provision amounts to £4.1 million (2022 – £5.11 million), refer to note 16 and the related credit impairment (charge)/ reversal on loans and advances to customers amounting to £0.9 million (2022 – £0.68 million). *Refer to Note 5.3.1 – Use of estimates and judgements on pages 64-65, Note 5.3.2 Assumptions and estimation uncertainties on page 65, Note 5.5.3 – Impairment of financial assets' significant accounting policy on pages 66-72, Notes 16 and 16.1 Loans and advances to customers at amortised cost on page 83 and Note 11 credit impairment (charges)/reversal of the financial statements on IFRS 9 ECL on page 80.* 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 identify greater levels of management judgement are: • Key assumptions in the model including probability of default ("PD") and loss given default ("LGD"); • Use of macro-economic variables reflecting a range of future scenarios; and • Completeness and valuation of post-model adjustments on stage 3 loans. 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: • Obtaining an understanding of the ECL process and assessed the design and implementation, and tested the operating effectiveness of key controls related to this process; • 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 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 macro-economic 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 management overlays were indicative of management bias; • Reperforming calculations and agreeing data inputs to supporting documentation where applicable, including collateral valuation reports and PDs; • Independent credit 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 assess the appropriateness of the staging and associated ECL estimate; • Performing a stand back assessment of the resulting allowance for credit losses to assess its appropriateness and reasonableness. In performing this procedure, we considered the credit quality of the loan portfolio and performed benchmarking across similar banks considering both staging percentages and provision coverage ratios; 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** Based on the audit procedures performed, we concluded that the allowance for credit losses recognised as at 31 December 2023 was reasonable and the approach taken in respect of ECL was in compliance with the requirements of IFRS 9.

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	£600,000 (2022: £447,000)
How we determined it	5% of profit before tax (2022: 0.5% of net assets)
Rationale for benchmark applied	We set materiality using a benchmark of profit before tax (PBT). PBT is a primary measure used by the shareholder in assessing the performance of the Bank and is a generally accepted benchmark for determining audit materiality. It is the metric in the primary statements which best reflects the focus of the users of the financial statements. This benchmark is standard for financial institutions and consistent with the wider industry. Bank is a wholly owned subsidiary of Habib Bank Zurich (Swiss Entity). Parent entity is interested in profit. The PBT for the year ended 31 December 2023 was £13.29 million. Although the final PBT was higher than the interim PBT of £12million used in planning materiality, for convenience, we kept materiality at the original absolute value, i.e. £600,000.
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. We set performance materiality at £420,000 (2022: £313,000), which represents 70% (2022: 70%) of overall materiality. In determining the performance materiality, we considered a number of factors, including the expected level and nature of uncorrected and corrected misstatements in the current year and the robustness of the control environment, and concluded that an amount towards the middle of our normal range was appropriate.
Reporting threshold	We agreed with the Audit committee that we would report to them misstatements identified during our audit above £18,000 (2022: £13,000) 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, their 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 and Financial Statements 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 of the Bank and their 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 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 34, 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 their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and of the Financial Conduct Authority (FCA) and financial crime regulations.

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 they operate, and the structure of the Bank, 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 and holding discussions with the PRA;
- Reviewing minutes 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 tax legislation and the 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 allowance for credit losses, and revenue recognition.

Our 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;
- Inspecting the Bank's regulatory and legal correspondence and reviewing minutes of the Board of Directors meetings in the year
- 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 sample basis.
- Being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates, in particular in relation to allowance for credit losses, and performing the procedures described in the "Key audit matters" section of our report.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. 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 is available 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 29 January 2021 to audit the financial statements for the year ended 31 December 2020 and the subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 December 2020 to 31 December 2023.

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

Our audit opinion is consistent with our 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.

Poppy Proborespati (Senior Statutory Auditor) for and on behalf of Mazars LLP **15th April 2024**
Chartered Accountants and Statutory Auditor, 30 Old Bailey, London, EC4M 7AU

Income Statement

For the Year Ended 31 December 2023

	Notes	2023 (£ 000’)	2022 (£ 000’)
Interest income	6	61,056	32,352
Interest expense	6	(26,892)	(8,441)
Net interest income		**34,164**	**23,911**
Fee and commission income	7	1,888	2,296
Fee and commission expense	7	(405)	(533)
Net fee and commission income		**1,483**	**1,763**
Net foreign exchange income		311	597
Fair value loss on derivative financial instruments		(101)	(38)
Loss on sale of financial investments		-	(92)
Other costs	8	(12)	(2)
Net other income		**198**	**465**
Staff costs	9	(13,348)	(11,214)
Depreciation		(1,510)	(1,119)
Administrative and general expenses	10	(8,566)	(6,743)
Operating expenses		**(23,424)**	**(19,076)**
Operating profit before credit impairment losses		**12,421**	**7,063**
Credit impairment reversals / (charges)	11	866	(684)
Profit before tax		**13,287**	**6,379**
Tax charge	12	(735)	(679)
Profit after tax		**12,552**	**5,700**

Profit for the year arises from continuing operations.

The accompanying notes on pages 61 to 123 form an integral part of the financial statements

These financial statements were approved by the Board of Directors and authorised for issue on 15 April 2024.

Statement of Other Comprehensive Income

For the Year Ended 31 December 2023

	Notes	2023 (£ 000')	2022 (£ 000')
Profit after tax		**12,552**	**5,700**
Items that may be reclassified subsequently to the income statement:			
Fair value through other comprehensive income reserve			
– Net gains / (losses) from changes in fair value	27	997	(1,210)
– Reversal due to sale of investment		-	92
– Deferred tax	27	(178)	212
		819	(906)
Net (reversals) / losses transferred to income statement due to impairment		-	(13)
Other comprehensive income for the year net of tax		**819**	**(919)**
Total comprehensive income for the year		**13,371**	**4,781**
Total comprehensive income for the year attributable to equity holders		**13,371**	**4,781**

Profit for the year arises from continuing operations.

The accompanying notes on pages 61 to 123 form an integral part of the financial statements


Lake Windermere, Lake District

Statement of Financial Position

For the Year Ended 31 December 2023

	Notes	2023 (£ 000')	2022 (£ 000')
Assets			
Cash in hand and with central bank	14	215,342	111,312
Due from banks	15	112,789	142,434
Loans and advances to customers at amortised cost	16	632,149	600,038
Financial investments – Amortised cost	17	130,678	97,817
Financial investments – FVOCI	17	32,704	46,535
Derivative assets held for risk management	18	101	192
Property and equipment	19	12,545	11,814
Right of use lease assets	19.1	2,751	3,555
Other assets	20	1,283	1,496
Advanced tax		931	422
Deferred tax assets	13	3,754	2,399
Total assets		**1,145,027**	**1,018,014**
Liabilities and Equity			
Liabilities			
Due to banks at amortised cost	21	123,581	129,266
Due to customers at amortised cost	22	885,890	769,556
Derivative liabilities held for risk management	18	42	229
Accruals, deferred income and other liabilities	23	7,075	5,134
Lease liability	23	2,920	3,702
Current tax liabilities	24	2,300	346
Subordinated liabilities	25	20,340	20,273
Total liabilities		**1,042,148**	**928,506**
Equity			
Called up share capital	26	70,000	70,000
Retained earnings		33,077	20,525
Fair value through other comprehensive income reserve	27	(198)	(1,017)
Total equity		**102,879**	**89,508**
Total liabilities and equity		**1,145,027**	**1,018,014**

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 61 to 123 form an integral part of the financial statements.
These financial statements were approved by the Board of Directors and authorised for issue on 15 April 2024.

Statement of Changes in Equity

For the Year Ended 31 December 2023

	Called up share share capital (£ 000')	Fair value reserve (£ 000')	Retained earnings (£ 000')	Total (£ 000')
Balance as at 1 January 2023	**70,000**	**(1,017)**	**20,525**	**89,508**
Profit after tax	-	-	12,552	12,552
Fair value through other comprehensive income				
(net gains during the year)		997		997
Deferred tax	-	(178)	-	(178)
	-	**819**	-	**819**
Balance as at 31 December 2023	**70,000**	**(198)**	**33,077**	**102,879**

	Called up share share capital (£ 000')	Fair value reserve (£ 000')	Retained earnings (£ 000')	Total (£ 000')
Balance as at 1 January 2022	**70,000**	**(98)**	**16,301**	**86,203**
Transactions with owners in their capacity as owners				
Dividend paid during the year	-	-	(1,476)	(1,476)
Profit after tax			5,700	5,700
Fair value through other comprehensive income				
(net losses during the year)		(1,210)		(1,026)
FV reversal due to sale of investment		92		(92)
Deferred tax		212		212
		(906)		(906)
Net reversals transferred due to impairment		(13)		(13)
Balance as at 31 December 2022	**70,000**	**(1,017)**	**20,525**	**89,508**

The accompanying notes on pages 61 to 123 form an integral part of the financial statements.

Cash Flow Statement

For the Year Ended 31 December 2023

	Notes	2023 (£ 000')	2022 (£ 000')
Cash flows from operating activities			
Profit before tax		13,287	6,379
Adjusted for:			
(Reversals) / impairment losses on loans and advances at amortised cost	11	(866)	684
Loss on sale of financial assets at fair value through other comprehensive income		-	92
Depreciation	19	1,510	1,119
		13,931	**8,274**
Net (increase) / decrease in operating assets			
Loans and advances to banks at amortised cost*		29,645	(55,923)
Loans and advances to customers at amortised cost		(30,221)	(86,661)
Derivative financial instruments for risk management		91	112
Other assets		(1,651)	1,128
		(2,136)	**(141,344)**
Net changes in operating liabilities			
Due to banks at amortised cost		(4,420)	36,925
Due to customers at amortised cost		116,334	97,548
Derivative financial instruments for risk management		(187)	(285)
Accruals, deferred income and other liabilities		2,710	3,429
Tax paid		(931)	(824)
		113,506	**136,793**
Net cash flow from operating activities		**125,301**	**3,723**
Cash flows from investing activities			
Purchase of property and equipment		(1,437)	(8,990)
Purchase of financial investments		(91,617)	(19,234)
Proceeds on sale of financial investments		73,406	49,525
Net cash (outflow) / inflow from investing activities		**(19,648)**	**21,301**
Cash flows from financing activities			
Dividend Paid		-	(1,476)
Leases paid		(424)	(434)
Interest changes in subordinated liabilities		(1,199)	(491)
Net cash outflow from financing activities		**(1,623)**	**(2,401)**
Net increase in cash and cash equivalents		**104,030**	**22,623**
Cash and cash equivalents at the beginning of the year		111,312	88,689
Cash and cash equivalents at the end of the year		**215,342**	**111,312**

* Placements maturing within 90 days have been reclassified from Money market Placement to Cash in hand and with Central bank both in the current period and prior year

The accompanying notes on pages 61 to 123 form an integral part of the financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2023

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

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards (IAS) which is applicable to companies reporting under International Financial Reporting Standards (IFRS) and the Companies Act 2006 as set out in the relevant notes, based on historical cost convention modified to include the fair valuation of financial instruments to the extent required or permitted.

In previous accounting periods the company presented loan fees charged to customer as deferred income within the other liabilities. As required by IFRS 9, such transactions costs should be factored into the initial measurement of the loan receivable recognised. Therefore, the balance sheet comparatives for 2022 have been restated accordingly resulting in a reduction in loans and advances to customers and other liabilities of £1.024m. There was no impact arising from the restatement to the result for the period or net assets.

Similarly the placements maturing within 90 days from its original maturity has been shown in Due from banks. In the current year, this has been presented within Cash in hand and with the Central bank and as a result, an adjustment has been made to the 2022 comparatives. The impact of this adjustment to 2022 is a decrease in the Due from banks and increase in Cash in hand and with the Central bank of £14.8m. There was no impact arising from the restatement to the result for the period or net assets.

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	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 being a minimum period of 12 months 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 severe but plausible downside scenarios used in the assessment of the ICAAP and ILAAP reviewed and approved by the Board of Directors. The Board has also taken into consideration the adequacy of capital requirement to support the business growth in make such assessment. The Board concluded that both capital and liquidity remained within present regulatory requirements over the going concern period.

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. The assessment includes impact of increase in interest rates on the performance of Bank's credit portfolio and adequacy of credit impairment provision held by the Bank.

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 being a minimum period of 12 months from the date these financial statements have been approved by the Board.

5. Accounting Policies

5.1 Compliance with International Accounting Standards

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards (IAS) which is applicable to companies reporting under International Financial Reporting Standards (IFRS) and the Companies Act 2006.

5.2 New and Amended Standards and Interpretations

The accounting policies adopted have been consistently applied, with the exception of the following:

International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)

On 23 May 2023, the IASB issued amendments to IAS 12 to provide a mandatory temporary exemption to the requirements to account for deferred taxes assets and liabilities related to Pillar Two income taxes, as published by the Organisation for Economic Co-operation and Development (OECD).

The amendments are effective for accounting periods beginning on or after 1 January 2023 and the mandatory temporary exemption is applied retrospectively to prior periods.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The amendments require entities to disclose their material rather than their significant accounting policies. The Group adopted the amendments effective 1 January 2023. Whilst these amendments do not change the Group's accounting policies, the Group has reviewed the accounting policy information disclosed in these financial statements against the new requirements.

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. Definition of an Accounting Estimate (Amendments to IAS 8) 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 1 January 2023 and were adopted on this date.

Change in accounting estimates: The amortization period for amortizing loan commitment fees as per EIR has been changed from 3 years to 5 years. During the assessment of loan retention period, the new loan retention period has arrived at 4.2 years from 3.2 years in previous year. Following the assessment and having regards to the IFRS 9 requirement, the bank decided to use the actual maturity of loans which is 5 years.

IFRS 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 has replaced IFRS 4 Insurance Contracts that was issued in 2005. In June 2020, the IASB published amendments to IFRS 17, to include scope exclusion for certain credit card contracts and similar contracts that provide insurance coverage, the optional scope exclusion for loan contracts that transfer significant insurance risk, and the clarification that only financial guarantees issued are in scope of IFRS 9.

IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions apply.

IFRS 17 was effective for accounting periods beginning on or after 1 January 2023 but the impact to the Group is not material.

Future Accounting Developments

The following accounting standards have been issued by the IASB but are not yet effective:

Classification of Liabilities as Current or Non-current (Amendments to IAS 1) In January 2020 the IASB issued amendments to IAS 1 to clarify the presentation of liabilities in the balance sheet, with an effective date of 1 January 2024.

The amendments clarify that a liability should be classified as non-current only if the entity has the right to defer settlement of the liability for at least 12 months after the reporting period, and that (i) the right to defer settlement must exist at the end of the reporting period and (ii) management's intentions or expectations about whether it will exercise its right to defer settlement does not affect the classification. Further clarifications include how lending conditions affect classification and classification of liabilities the entity will or may settle by issuing its own equity instruments.

In October 2022, the IASB also issued further amendments to IAS 1 to improve the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants, and to respond to stakeholders' concerns about the classification of such a liability as current or non-current. These amendments are not expected to have a significant impact on the Group and have been endorsed for use in the UK.

5.3 Basis Preparation and Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards (IAS) which is applicable to companies reporting under International Financial Reporting Standards (IFRS) and the Companies Act 2006 as set out in the relevant notes, based on historical cost convention modified to include the fair valuation of financial instruments to the extent required or permitted.

There are no new major standards or amendments applicable for 31 December 2023 year ends.

5.3.1 Use of Estimates and Judgements

The preparation of financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Actual results may differ from these estimates.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods 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 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.

Impact on ECL	2023	2022
Improvement in Debt Service ratio and unemployment rate 10%	10% decrease	10% decrease
Improvement in Debt Service ratio and unemployment rate 15%	15% decrease	15% decrease
Improvement in Debt Service ratio and unemployment rate 25%	25% decrease	25% decrease
Deterioration in Debt Service ratio and unemployment rate 10%	10% increase	10% increase
Deterioration in Debt Service ratio and unemployment rate 15%	15% increase	15% increase
Deterioration in Debt Service ratio and unemployment rate 25%	25% increase	25% increase

A third macro-economic variable Debt to GDP ratio is applicable to financial institutions (FI&I) and investments, however, its financial impact has been assessed to be insignificant.

- 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.

5.3.2 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 2023 is included in the following notes.

Impairment of financial instruments at Note 5.5.3 on page 66 explains determining inputs into the ECL measurement model, including incorporation of forward-looking information

These estimates and assumptions are explained in the note 5.5.3 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, which are reviewed annually.
- 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

Classification and Measurement of Financial Assets and Liabilities

There are three measurement classifications under IFRS 9: amortised cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). Financial assets are classified into these measurement classifications based on the business model within which they are held, and their contractual cash flow characteristics.

The business model reflects how groups of financial assets are managed to achieve a particular business objective. Financial assets can only be held at amortised cost if the instruments are held in order to collect the contractual cash flow ('hold to collect') and where those contractual cash flows are solely payments of principal and interest ('SPPI'). Financial asset debt instruments where the business model objectives are achieved by both collecting the contractual cash flows and selling the assets ('hold to collect and sell') are held at FVOCI, with unrealised gains and losses deferred within reserves until the asset is derecognised. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Financial Assets

Subsequent to initial recognition, all financial assets within the Bank are measured at

- Amortised cost
- Fair value through other comprehensive income (FVOCI), or
- Fair value through profit and loss (FVTPL)

The Bank has assessed the business models that it operates and loans to banks and customers are held within a 'hold to collect' business model. Investment debt securities are held within a 'hold to collect' portfolio. The majority of the remaining investment debt securities are held within a 'held to collect and sell' business model or trading portfolio. Where the objective of a business is to hold the assets to collect the contractual cash flows or where the objective is to hold the assets to collect contractual cash flows and sell, a further assessment has been undertaken to determine whether the cash flows of the assets are deemed to meet the SPPI criteria. Where these instruments have cash flows that meet the SPPI criteria, the instruments are measured at amortised cost (for hold to collect business models) or FVOCI (for hold to collect and sell business models). Instruments that do not meet the SPPI criteria are measured at FVTPL regardless of the business model in which they are held.

Amortised Cost

The Bank's financial assets including debt instruments are subsequently measured at amortised cost by the Bank if they meet both of the following criteria and are not designated as at FVTPL:

- 'Held to collect' business model test – The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- 'SPPI' contractual cash flow characteristics test – The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding on a specified date. Interest in this context is consideration of the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Fair Value Through Other Comprehensive Income

This category of financial assets represents non-derivative financial assets classified on initial recognition because they are being held to collect contractual cash flows and for sale. FVOCI assets are measured at fair value and any changes are recognised in other comprehensive income. Interest, impairments, and foreign exchange differences on assets classified at FVOCI are recognised in the Income statement. The cumulative gain or loss that was recognised in other comprehensive income is recognised in profit or loss when an asset designated at FVOCI is derecognised.

All other financial assets (equity investments) are measured at fair value

Fair Value Through Profit and Loss

Financial assets are classified and measured at FVTPL by the Bank if the financial asset is:

- Debt instrument that does not qualify to be measured at amortised cost or FVOCI;
- An equity investment which the Bank has not irrevocably elected to classify as at FVOCI and present subsequent changes in fair value in OCI;
- A financial asset where the Bank has elected to measure the asset at FVTPL under the fair value option

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 enters 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 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 is 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 is reduced. Rental income is recognised at a constant periodic rate of return on the Bank's net investment.

Islamic Investment securities (Sukuk) 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.

De-recognition of Financial Assets and Liabilities

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.

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:

1. change in currency of the loans
2. introduction of equity feature
3. change in counterparty
4. 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

Financial liabilities are either classified by the Bank as:

- Financial liabilities at amortised cost, or
- Financial liabilities at FVTPL.

Financial liabilities are measured at amortised cost by the Bank unless either:

- The financial liability is held for trading and is therefore required to be measured at FVTPL, or
- The Bank elects to measure the financial liability at FVTPL (using the fair value option).

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 take 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 ECL for loans and advances, 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 requires 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.

A critical element to the implementation of IFRS 9 Impairment is determining whether there has been an 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 various factors in changing the status of a loan such as a day pass due, rating downgrade, restructure tag, or cross product defaults as strong indicators of increase in credit risk of an account. In addition, a loan that is overdue 90 days or more is considered credit impaired. 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., it 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	20 Years (2021: 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	7 years
Computer hardware	4 years
Buildings	40 years

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

During 2023 the Bank has opened the new branch and carried out major renovation at building situated at 55, Baker Street Branch. The renovation works mainly covered improvement in the form of replacement of entire mechanical and electrical equipment, air conditioning plant and related ancillary items including ducting and pipe works. The useful life of the leasehold improvements has been estimated as 15 years based on the lease agreement. Accordingly, the Bank has recognised ROU Assets and Lease liability as per IFRS 16.

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, and 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 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.

Coniston Water, Lake District

6. Net Interest Income

	2023 (£ 000')	2022 (£ 000')
Interest income		
Funds held with central bank	5,433	1,216
Due from banks	5,545	2,024
Loans and advances to customers	45,400	27,419
Negative interest rate from customer deposits	-	11
Financial investments – FVOCI	1,255	770
Financial investments – Amortised cost	3,423	912
	4,678	1,682
Total interest Income	**61,056**	**32,352**
Interest expense		
Due to banks	(4,433)	(1,687)
Due to customers	(4,433)	(6,048)
Subordinated liabilities	(1,266)	(672)
Finance cost on lease liability	(33)	(34)
Total interest Expense	**(26,892)**	**(8,441)**
Net Interest Income	**34,164**	**23,911**

- Due to change in the amortisation period from3 to 5 years, the EIR fees income has reduced by £26k in the year 2023.
- Interest income against loans and advances to customers included total of £514k (2022: £600k) relating to impaired financial assets and has been considered as part of the cash flows when assessing for individual impairment provisions.

7. Net Fee and Commission Income

	2023 (£ 000')	2022 (£ 000')
Fee and commission income		
Loan termination fee	134	176
Customer transaction fees	212	219
Trade Finance	912	1,296
Other fees and commission on banking and credit products	630	605
Total fee and commission income	**1,888**	**2,296**
Fee and commission expense		
Bank charges	(332)	(475)
Commission on internet deposits	(22)	(7)
Other fees and commission	(51)	(51)
Total fee and commission expense	**(405)**	**(533)**
Net fee and commission income	**1,483**	**1,763**

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 higher contract liabilities- deferred income balance during the year is mainly due to booking of higher guarantees and trade finance confirmation transactions which have not matured as at the year end.

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

	2023 (£ 000')	2022 (£ 000')
Contract Assets – Accrued income	12	96
Contract Liabilities – Deferred income	948	913

8. Other Income / (Expenses) – Net

	Notes	2023 (£ 000')	2022 (£ 000')
Other		(12)	(2)
Total other income		**(12)**	**(2)**

9. Staff Costs, Including Directors' Emoluments

	2023 (£ 000')	2022 (£ 000')
Salaries and allowances	(10,443)	(9,006)
Social security costs	(2,077)	(1,594)
Pension costs – defined contribution plan	(828)	(614)
Total staff costs	**(13,348)**	**(11,214)**
Average number of employees (Nos)	149	131
Actual number of employees (Nos)	158	130
Directors' emoluments		
– Total emoluments of Directors – £ 000	984	935
– Total number of directors to whom retirement benefits are accruing – Nos	2	2
– Salary and benefits paid to the highest paid Director – £ 000	595	583

The emoluments of Directors disclosed above include salary and social security cost. Pension contribution (Defined Contribution Plan) included in Directors' emoluments is £57k (2022: £45k).

The Parent bank paid emoluments of other non-Executive directors' and has not recharged the Bank specifically for their services.

10. Other Operating Expenses

	2023 (£ 000')	2022 (£ 000')
Premises running costs	(2,422)	(1,967)
Legal and Professional charges	(908)	(869)
Auditor's remuneration	(355)	(270)
IT and communication costs	(544)	(458)
Branches operation charges	(581)	(513)
Group direct expenses	(3,377)	(2,434)
Travelling and conveyance	(129)	(84)
Marketing and advertisement	(118)	(6)
Miscellaneous	(132)	(142)
Total other operating expenses	**(8,566)**	**(6,743)**

10.1 Auditor's Remuneration

	2023 (£ 000')	2022 (£ 000')
Statutory audit fee	(325)	(250)
Client money and custody assets review	(30)	(20)
Total Auditor's remuneration	**(355)**	**(270)**

11. Credit Impairment (Charges) / Reversals

	2023 (£ 000')	2022 (£ 000')
Loans and advances to customers		
Charged during the year	(642)	(1,186)
Reversal during the year	1,552	504
Net charge / (losses)	**910**	**(682)**
Financial investments		
Net charge	(16)	(11)
Due from banks		
Net reversals	(28)	9
Impairment gains / (losses) on financial assets	**866**	**(684)**

12. Taxation

	Notes	2023 (£ 000')	2022 (£ 000')
Corporate tax:			
Current year		(2,302)	(347)
Prior year		34	(13)
		(2,268)	(360)
Deferred tax:			
Current year	13	1,533	(319)
		(735)	**(679)**

12.1 Tax Reconciliation

	%	2023 (£ 000')	%	2022 (£ 000')
Profit before tax		13,287		6,379
Expected tax charge	(23.5%)	(3,122)	(19%)	1,212
Permanent disallowable expenses		(12)		26
Brought forward losses not previously recognised		1,809		(687)
Effect of Tax rate change		-		191
Prior year adjustment – plus buffer		34		43
Carried forward losses recognised		767		(106)
Allowance not previously recognised		(211)		-
Total tax charge	**(6%)**	**(735)**	**11%**	**(679)**

The corporation tax rate from 01 January 2023 to 31 March 2023 is set at 19% and from 1St April 2023 to 31st December 2023 is 25%. Average rate for the 31st December 2023 is 23.5%

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 and capital allowance. The amount of carry forward losses available as at 31 December 2023 was £20.9 million (2022: £24.2 million) on which estimated amount of deferred tax not recognised amounted to £394k (2022: £ 3.2 million). The Bank only account for deferred tax on the basis of future profits for a foreseeable period not exceeding four years. The Bank is of the view that assumptions used for preparing cash flow projections beyond such period are subject to significant change.

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

2023 £ 000'	Tax losses carried forward	Temporary Difference on Depreciation	Temporary Difference on Unpaid benefits	IFRS 9 Adoption	IFRS 16 Adoption	FVOCI	Total
Opening balance as at 01 January 2023	**3,036**	**(1,040)**	**25**	**118**	**22**	**238**	**2,399**
Credited to income statement	1,809	(263)	(9)	1	(5)		1,533
Credited to OCI						(178)	(178)
Balance as at 31 December 2023	**4,845**	**(1,303)**	**16**	**119**	**17**	**60**	**3,754**

14. Cash in Hand and With Central Bank

	2023 (£ 000')	2022 (£ 000')
Balance with bank including central bank*	214,427	110,624
Cash in hand	915	688
Total cash in hand and with central bank	**215,342**	**111,312**

This includes an amount of £39.5m (2022: £74.9m) money market placements with other banks and which are maturing within 90 days of its original maturity. Also, this includes Islamic placements of £13m (2022 £23m)

* Placements maturing within 90 days have been reclassified from Money market Placement to Cash in hand and with Central bank both in the current period and prior year

15. Due From Banks

Placements maturing within 90 days have been reclassified from Money market Placement to Cash in hand and with Central bank both in the current period and prior year.

	Notes	2023 (£ 000')	2022 (£ 000')
Money market placements*	15	96,743	127,942
Bankers' acceptances		16,073	14,122
Cash in margin accounts	15.1	-	380
		112,816	**142,444**
Estimated credit loss (ECL – Stage 1)		(27)	(10)
Total due from banks		112,789	142,434

15.1 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	2023 (£ 000')	2022 (£ 000')
Commercial loans		594,671	563,508
Overdraft		34,233	29,076
Discounted bills & trade finance loans		7,247	12,379
Other loans including staff loans		163	182
Gross loans and advances to customers		**636,314**	**605,145**
Less: Provision for impairment	16.1	(4,165)	(5,107)
Net loans and advances to customers		**632,149**	**600,038**

16.1 Provision For Impairment

	2023 (£ 000')	2022 (£ 000')
Balance at the beginning of the year	**5,107**	**4,453**
Impairment charged to profit and loss	642	1,186
Reversals during the period	(1,552)	(504)
Net impairment charged to P&L	(910)	682
Write off / Other	(32)	(28)
Total provision for impairment	**4,165**	**5,107**

17. Financial Investments

	Notes	2023 (£ 000')	2022 (£ 000')
Debt Securities			
Investment securities measured at amortised cost	17.1	130,678	97,817
Investment securities measured at FVOCI	17.2	32,704	46,535
Total financial investments		**163,382**	**144,352**
Investment securities measured at amortised cost			
General government		39,673	12,473
Multilateral development banks		48,351	21,746
Financial institutions		24,871	52,414
Corporates		17,783	11,184
		130,678	**97,817**
Investment securities measured at FVOCI			
General government		5,110	3,715
Multilateral development banks		19,933	17,738
Financial institutions		-	20,242
Corporates		7,661	4,840
		32,704	**46,535**
Total financial investments		**163,382**	**144,352**

17.1 As at 31 December 2023 financial investments of £79 million (2022: £73 million) was encumbered against borrowing of £75 million from the Bank of England under TFSME scheme, which included repo financing of £5 million

17.2 This includes investments in Sukuk of £10.9 million (2022: £6.7 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:

	2023 (£ 000')	2022 (£ 000')
Notional amount	21,391	19,510
Fair value asset	101	192
Fair value liability	42	229

19. Property and Equipment

2023 £ 000'	Land	Freehold and leasehold improvements	Computer and other equipment	Furniture fixture and fittings	Motor vehicles	Total
Cost						
As at 1 January 2023	1,050	15,992	2,693	2,361	34	22,130
Additions	-	1,252	320	195	-	1,767
As at 31 December 2023	**1,050**	**17,244**	**3,013**	**2,556**	**34**	**23,897**
Accumulated Depreciation						
As at 1 January 2023	-	6,364	2,080	1,838	34	10,316
Depreciation		631	294	111	-	1,036
As at 31 December 2022	**-**	**6,995**	**2,374**	**1,949**	**-**	**11,352**
Net book value as at 31 December 2023	**1,050**	**10,249**	**639**	**607**	**-**	**12,545**
Net book value as at 31 December 2022	**1,050**	**9,628**	**613**	**523**	**-**	**11,814**

2022 £ 000'	Land	Freehold and leasehold improvements	Computer and other equipment	Furniture fixture and fittings	Motor vehicles	Total
Cost						
As at 1 January 2022	1,050	11,055	2,315	1,973	71	16,464
Additions	-	6,796	378	480	-	7,654
Disposals	-	(1,859)	-	(92)	(37)	(1,988)
As at 31 December 2022	**1,050**	**15,992**	**2,693**	**2,361**	**34**	**22,130**
Accumulated Depreciation						
As at 1 January 2022	-	7,773	1,883	1,861	71	11,588
Depreciation		450	197	69	-	716
Disposals	-	(1,859)	-	(92)	(37)	(1,988)
As at 31 December 2022	**-**	**6,364**	**2,080**	**1,838**	**34**	**10,306**
Net book value as at 31 December 2021	**1,050**	**3,282**	**432**	**112**	**-**	**4,876**

19.1 Right of Use Lease Assets

	2023 (£ 000')	2022 (£ 000')
Balance at 1 January 2023	3,555	2,621
Addition	80	1,337
Depreciation charge for the year	(474)	(403)
Disposal of assets	(410)	-
Balance at 31 December 2023	**2,751**	**3,555**
Right-of-use assets		
Interest on lease liabilities	33	33
	33	**33**
Amount recognised in statement of cash flows		
Total cash flows for leases	425	434
	425	**434**

20. Other Assets

	2023 (£ 000')	2022 (£ 000')
Prepayments	334	140
Receivable from Parent bank	429	362
Value added tax refundable	53	650
Accrued Income	12	96
Other	1,386	248
Total other assets	**2,214**	**1,496**

21. Due to Banks at Amortised Cost

	Notes	2023 (£ 000')	2022 (£ 000')
Due to Parent bank (Habib Bank AG Zurich, Switzerland)	21.1	32,697	50,385
Due to associates (fellow subsidiaries)		9,672	6,248
Due to central bank (TFSME)	21.2	76,005	70,485
Other deposits		5,167	2,000
Margin held		40	-
Other deposits		-	148
Total due to banks		**123,581**	**129,266**

21.1 This includes fiduciary deposits £33m (2022: £49m) accepted by the Bank from Habib Bank AG Zurich (parent) and having maturities ranging from 3 months to 18 months.

21.2 The Bank become the 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 5.25% per annum at the end of 2023.

22. Due to Customers at Amortised Cost

	Notes	2023 (£ 000')	2022 (£ 000')
Time deposits	22.1	537,963	459,290
Current and demand accounts		281,732	309,495
Call deposits		66,195	771
Total due to customers		**885,890**	**769,556**

22.1 Time Deposits

	2023 (£ 000')	2022 (£ 000')
Term deposits – conventional	280,293	228,472
Term deposits – Islamic (Wakala)	90,878	50,686
Term deposits – Total	**371,171**	**279,158**
Internet deposits – conventional	136,623	104,520
Internet deposits – Islamic	30,169	9,586
Term deposits – Total	**166,792**	**114,106**
Notice accounts	66,195	66,026
Total due to customers	**604,158**	**459,290**

23. Accrual, Deferred Income and Other Liabilities

	Notes	2023 (£ 000')	2022 (£ 000')
Bills payable		984	1,085
Lease Liability	23.1	2,920	3,702
Staff costs payable		1,355	1,266
Accrued expenses		2,399	1,543
Other liability		2,337	1,240
Total accrual, deferred income and other liabilities		**9,995**	**8,836**

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. 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 in 19.1

24. Current Tax Liabilities

	2023 (£ 000')	2022 (£ 000')
Provision for corporation tax	2,300	346
Total current tax liabilities	**2,300**	**346**

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.

Subordinated Liabilities	2023 (£ 000')	2022 (£ 000')
Opening balance	20,273	20,092
Interest accrued	1,266	672
Interest paid	(1,199)	(491)
Closing Balance	**20,340**	**20,273**

26. Share Capital

	2023 (£ 000')	2022 (£ 000')
Called up and fully paid		
70 million authorised and fully paid ordinary shares of £1 each (2021: 70 million ordinary shares of £1 each)	70,000	70,000

27. Fair Value Loss on Financial Assets at Fair Value Through Other Comprehensive Income

	2023 (£ 000')	2022 (£ 000')
Fair value movement		
FV (loss) / gain at the beginning of the year	(1,255)	(137)
FV reversal on sale of investments (P&L)	-	92
FV movement during the year	997	(1,210)
FV loss at the end of the year	(258)	(1,255)
Deferred tax movement		
Deferred tax asset at the beginning of the year	238	26
Net movement during the year	(178)	212
	60	238
	(198)	(1,017)
Net losses of FVOCI transferred due to impairment		
– Transferred on initial application of IFRS 9	-	13
– FV loss during the year	-	(13)
	(198)	**(1,017)**

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.

	2023 (£ 000')	2022 (£ 000')
Direct credit substitutes		
– Guarantees	6,520	9,591
Trade related contingent liabilities		
– Letters of credit	141	56
– Acceptances	46	452
– Confirmation on export letters of credit	6,779	8,536
Unused credit facilities	27,149	16,181

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

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:

	2023 (£ 000')	2022 (£ 000')
Salaries and other short-term benefits	1,887	1,792
Post-employment benefits	26	18
Total	**1,913**	**1,810**
Loans outstanding – £ 000	124	130
No of persons	1	2

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.

	2023 (£ 000')	2022 (£ 000')
Deposits placed – £ 000	120	255
No of persons – Nos	6	10

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

	2023 (£ 000')	2022 (£ 000')
Banking transactions:		
– Interest earned from Parent bank	550	100
– Interest and expenses paid to Parent bank*	2,028	3,062
– Transactions with parent bank and fellow subsidiaries**	3,377	1,075
Outstanding balance:		
– Due to Parent bank including subordinated loan**	53,037	70,658
– Due to fellow subsidiaries	9,672	6,248
– Due from related parties	24,037	24,040

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

*Interest and expenses represent interest of £662k (2022: £526k) charged on borrowings / fiduciary deposits and allocation of group expenses of £3.4m (2022: £1.8m).

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

** This includes fiduciary deposits £32.7 million (2022: £48.6 million) accepted by the Bank from Habib Bank AG Zurich (parent) and having maturities ranging from 3 months to 18 months.

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 Assets

The following table sets out the Assets held at amortised cost and at fair value.

2023	Level 1 (£ 000')	Level 2 (£ 000')	Level 3 (£ 000')	Total fair value (£ 000')	Total carrying amount (£ 000')
Financial Assets					
Cash in hand and with central bank	215,342	-	-	215,342	215,342
Due from banks	-	-	112,789	112,789	112,789
Loans and advances to customers	-	-	574,158	574,158	632,149
Financial investments	130,678	-	-	130,678	130,678
Assets held at amortised cost	**346,020**	**-**	**686,947**	**1,032,967**	**1,090,958**
Financial investments at FVOCI	32,704	-	-	32,704	32,704
Derivative assets held for risk management	-	101	-	101	101
Assets held at Fair value	**32,704**	**101**	**-**	**32,805**	**32,805**
Total Assets	**378,724**	**101**	**686,947**	**1,065,772**	**1,123,763**

2023	Level 1 (£ 000')	Level 2 (£ 000')	Level 3 (£ 000')	Total fair value (£ 000')	Total carrying amount (£ 000')
Financial Liabilities					
Due to banks	-	-	123,581	123,581	123,581
Due to customers	-	-	776,428	776,428	885,890
Liabilities held at amortised cost	**-**	**-**	**900,009**	**900,009**	**1,009,471**
Derivative liabilities held for risk management	-	42	-	42	42
Subordinated liabilities	-	-	20,340	20,340	20,340
Liabilities held at fair value	**-**	**42**	**20,340**	**20,382**	**20,382**
Total Liabilities	**-**	**42**	**920,349**	**920,391**	**1,029,853**

2022	Level 1 (£ 000’)	Level 2 (£ 000’)	Level 3 (£ 000’)	Total fair value (£ 000’)	Total carrying amount (£ 000’)
Financial Assets					
Cash in hand and with central bank	111,312	-	-	111,312	111,312
Due from banks	-	-	142,434	142,434	142,434
Loans and advances to customers	-	-	600,038	528,439	600,038
Financial investments	97,817	-	-	94,684	97,817
Assets held at amortised cost	**209,129**	**-**	**742,472**	**876,869**	**951,601**
Financial investments at FVOCI	46,535	-	-	46,535	46,535
Derivative assets held for risk management	-	192	-	192	192
Assets held at Fair value	**46,535**	**192**	**-**	**46,727**	**46,727**
Total Assets	**322,966**	**192**	**742,472**	**923,596**	**998,328**

2022	Level 1 (£ 000’)	Level 2 (£ 000’)	Level 3 (£ 000’)	Total fair value (£ 000’)	Total carrying amount (£ 000’)
Financial Liabilities					
Due to banks	-	-	129,266	129,266	129,266
Due to customers	-	-	763,224	763,224	769,556
Liabilities held at amortised cost	**-**	**-**	**892,822**	**892,822**	**898,822**
Derivative liabilities held for risk management	-	229	-	229	229
Subordinated liabilities	-	-	20,273	20,273	20,273
Liabilities held at fair value	**-**	**229**	**20,273**	**20,502**	**20,502**
Total Liabilities	**-**	**229**	**913,095**	**919,324**	**919,324**

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.

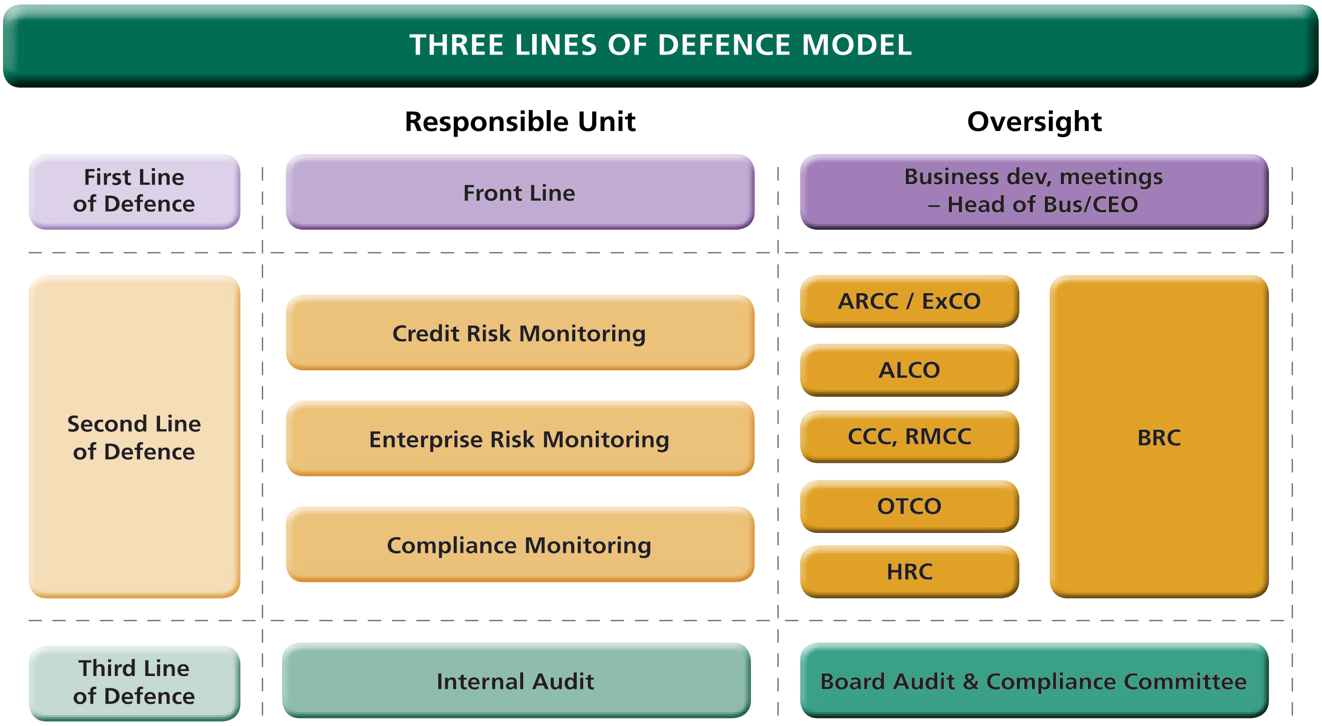
The Bank maintains an internal controls system, with clear responsibilities for risk management, applying governance model, which enables oversight and management of risks. These specific responsibilities include:

- 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. The BRC provides oversight to the overall effectiveness of enterprise risk management framework.

Crummock Water, Lake District

Three Lines of Defence Oversight Process:



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 Internal Audit function reports into BACC and conduct reviews of all key risk areas including the risk management framework. Audit Reports are presented to the BACC.

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.

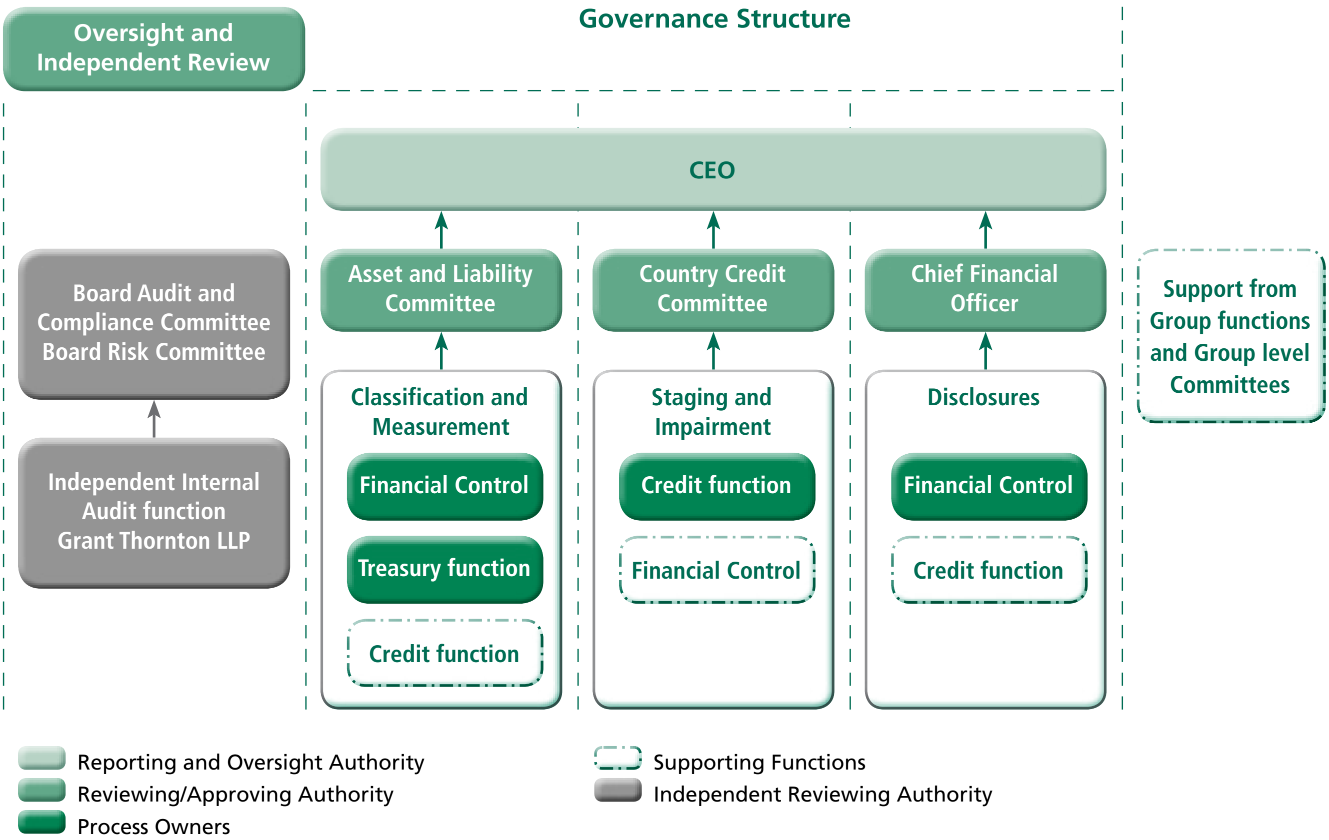
31.4 IFRS 9 and Gen 2 Model

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 Note 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 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 and monitoring in consultation with the Bank's Country Credit Committee and ALCO with final approval from the BRC.

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, Chief Risk 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 put in place controls to manage credit risk model governance. These controls are designed to oversee the development, validation/review, deployment, and maintenance of credit risk-related models. The primary objective is to establish clear governance frameworks that ensure accountability and oversight throughout the lifecycle of these models.

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.

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 2022 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 are 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 30 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 were 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 September 2023.

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 are 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 £Nil (2022: £Nil) were considered as forborne of which £Nil (2022: Nil) were classified as impaired. A provision of £Nil (2022: £Nil) 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	2023 Stage 1	2023 Stage 2	2023 Stage 3	2023 Total	2022 Total
Balances at the beginning of the year	10	-	-	10	19
New provisions	3	-	-	3	2
Increased provisions	15	-	-	15	-
Recovered / settled / reduced	(2)	-	-	(2)	(11)
Net measurement of loss allowance	16	-	-	16	(9)
Balances at the closing of the year	**26**	**-**	**-**	**26**	**10**

					Amount in £ 000'
Loans and advances to customers at amortised cost	2023 Stage 1	2023 Stage 2	2023 Stage 3	2023 Total	2022 Total
Balances at the beginning of the year	**125**	**326**	**4,656**	**5,107**	**4,453**
New provisions	107	-	-	107	27
Increased provisions	282	33	122	437	1,159
Recovered / settled / reduced	(11)	(124)	(1,319)	(1,454)	(504)
Net measurement of loss allowance	378	(91)	(1,197)	(910)	682
Transferred to 12 month's ECL Stage 1	-	-	-	-	-
Transferred to lifetime ECL stage 2 Credit not impaired	(1)	10	(9)	-	-
Transferred to lifetime ECL stage 3 Credit impaired	(1)	-	1	-	-
Uncollectable written off / other	-	-	(32)	(32)	(28)
Balances at the closing of the year	**501**	**245**	**3,419**	**4,165**	**5,107**

Financial investments	2023 Stage 1	2023 Stage 2	2023 Stage 3	Amount in £ 000' 2023 Total	2022 Total
Balances at the beginning of the year	10	-	-	**10**	**12**
New provisions	20	-	-	20	-
Increased provisions	10	-	-	10	-
Recovered / settled / reduced	(2)	-	-	(2)	-
Net measurement of loss allowance	**28**	-	-	**28**	**12**
Other movement	-	-	-	-	11
Impairment of FVOCI investment shown under OCI	-	-	-	-	(13)
Balances at the closing of the year	**38**	**-**	**-**	**38**	**10**

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.

	Due from banks at amortised cost	Loans and advances to customers at amortised cost	Financial investments	Amount in £ 000' Total
New provisions	3	107	20	130
Increased provisions	15	437	10	462
Recovered / settled / reduced	(2)	(1,454)	(2)	(1,458)
Total – 2023	**16**	**(910)**	**28**	**(866)**
Total – 2022	**(9)**	**682**	**11**	**684**

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 amount.

	2023 Stage 1	2023 Stage 2	2023 Stage 3	2023 Total	2022 Total
					Amount in £ 000'
Cash in hand and with central bank	215,342	-	-	215,342	111,312
Due from banks	112,816	-	-	112,816	142,444
Loans and advances to customers	593,300	25,704	17,310	636,314	605,145
Financial investments – amortised cost	130,715	-	-	130,715	97,827
Financial investments – FVOCI debt instruments	32,704	-	-	32,704	46,535
Total	**1,084,877**	**25,704**	**17,310**	**1,127,891**	**1,003,263**
Loss allowance	(565)	(245)	(3,419)	(4,229)	(5,127)
	1,084,312	**25,459**	**13,891**	**1,123,662**	**998,136**

Contingent liabilities as at reporting date is £6.5m classified as stage 1 and the total ECL amounted to £3k.

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'

2023	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	215,342	112,816	593,300	163,419	101	1,084,978
Past due 1 to 3 months	-	-	25,704	-	-	25,704
Past due over 3 months	-	-	17,310	-	-	17,310
Gross exposure	**215,342**	**112,816**	**636,314**	**163,419**	**101**	**1,127,992**
Less: impairment	-	(27)	(4,165)	(37)	-	(4,229)
Net exposure	**215,342**	**112,789**	**632,149**	**163,382**	**101**	**1,123,763**

Amount in £ 000'

2022	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	111,312	142,444	603,983	144,362	192	1,002,293
Past due 1 to 3 months	-	-	13	-	-	13
Past due over 3 months	-	-	1,149	-	-	1,149
Gross exposure	**111,312**	**142,444**	**605,145**	**144,362**	**192**	**1,003,455**
Less: impairment	-	(10)	(5,107)	(10)	-	(5,127)
Net exposure	**111,312**	**142,434**	**600,038**	**144,352**	**192**	**998,328**

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	2023 Stage 1	2023 Stage 2	2023 Stage 3	2023 Total	2022 Total
< 30 days*	58,988	11,507	1,263	71,758	36,973
> 30 days to 60 days	-	2,345	72	2,417	823
> 60 days to 90 days	-	-	11	11	684
> 90 days to 180 days	-	-	126	126	7,294
> 180 days	-	-	10,528	10,528	3,769
Total overdue	**58,988**	**13,852**	**12,000**	**84,840**	**49,543**
Not overdue	535,312	11,852	5,310	552,474	556,626
Gross loans and advances to customers	594,300	25,704	17,310	637,314	606,169
Less: Impairment allowance	(501)	(245)	(3,419)	(4,165)	(5,107)
Net loans and advances to customers	**593,799**	**25,459**	**13,891**	**633,149**	**601,062**

* <30 DPD exposure in stage 2 and stage 3 due to SICR or curing period where customer overdue balance is less than 30 days DPD.

*The numbers are reported based on individual loan contract DPD.

Management has made an overlay provision on the Stage 3 exposures and the amount as at 31 December 2023 is £2.95m. These are made based on the individual credit risk assessment of the borrowers. Management has created a policy based on which the overlay provisions are computed. The overlay provision policy and the amount as at 31 December 2023 have been reviewed and approved by the appropriate governance committees.

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'

2023	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-	166,334	-	-	55,805	-	-	222,139
A+ to A-	13,076	63,415	-	39,928	51	-	116,470
BBB+ to B-	7,535	29,190	-	24,207	-	-	60,932
Unrated	28,397	20,184	632,149	43,442	50	40,634	764,856
Total	**215,342**	**112,789**	**632,149**	**163,382**	**101**	**40,634**	**1,164,397**

Amount in £ 000'

2022	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-	103,763	-	-	61,852	16	-	165,631
A+ to A-	-	70,897	-	46,488	15	-	117,400
BBB+ to B-	-	43,858	-	35,992	-	-	79,850
Unrated	7,549	27,679	600,038	20	162	34,820	670,268
Total	**111,312**	**142,434**	**600,038**	**144,352**	**193**	**34,820**	**1,033,149**

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.

Amount in £ 000'	Total Notional amount	Total Fair value
2023		
Derivative assets	24,836	101
Derivative liabilities	22,063	(42)
2022		
Derivative assets	19,721	192
Derivative liabilities	19,754	(229)

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'

2023	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernationals	166,334	-	-	113,067	-	-	279,401
Financial Institutions	48,093	112,789	-	24,871	51		185,804
Industrial & commercial	-	-	549,657	25,444	50	40,634	615,785
Individual	-	-	82,324	-	-		82,324
Other	915	-	168	-	-	-	1,083
Total	215,342	112,789	632,149	163,382	101	40,634	1,164,397

Amount in £ 000'

2022	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernationals	95,818	-	-	55,672	-	-	151,490
Financial Institutions	14,806	142,434	-	72,656	31	8,557	238,484
Industrial & commercial	-	-	515,867	16,024	162	16,673	548,726
Individual	-	-	79,820	-	-	9,590	89,410
Other	688	-	4,351	-	-	-	5,039
Total	111,312	142,434	600,038	144,352	193	34,820	1,033,149

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'

2023	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
UK	192,598	59,110	544,216	41,110	59	29,848	866,941
Europe excl UK	18,326	4,471	41,468	101,217	42	1,203	166,727
Asia	528	30,637	7,422	15,669	-	6,156	60,412
North America	18	3,969	37,424	1,888	-	-	43,299
Africa	983	14,602	1,619	-	-	3,427	20,631
USA	2,647	-	-	-	-	-	2,647
Australia	242	-	-	3,498	-	-	3,740
	215,342	112,789	632,149	163,382	101	40,634	1,164,397

Amount in £ 000'

2022	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
UK	111,312	73,701	518,702	41,460	178	20,217	765,570
Europe excl UK		27,337	36,986	80,094	15	1,820	146,252
Asia		22,859	28,301	11,895		5,658	68,713
North America		20	11,875	2,350			14,245
Africa		17,130	4,174	1,809		7,125	30,238
USA		1,264		6,744			8,008
Australia		123					123
	111,312	142,434	600,038	144,352	193	34,820	1,033,149

The Bank held cash and cash equivalents of £215 million as at 31 December 2023 (2022: £111 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. As per policy, 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 three to 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	**1.** Generally acceptable collateral - Cash, Residential & Commercial Property, Bank Guarantees, Shares & Bonds & life insurance with surrender value. **2.** Lien is marked against cash taken as collateral **3.** Charge is recorded in Bank's name in land registry relating to residential and commercial properties taken as collateral. **4.** Other collateral like Bank Debenture, Stocks, Receivables, Personal Guarantees also available but discounted for lending and provision decisions. **5.** Well defined haircuts for all collateral with Property haircuts arrived at on the basis of type of property, location and market conditions **6.** Property Stress tests conducted every six months.
Risk arising from inadequate perfection of Security for Customer Borrowing	**7.** Standardisation of documents and processes for Risk mitigation **8.** 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	2023 Collateral Value	2023 Advances	2022 Collateral Value	2022 Advances
Commercial real estate	935,413	444,899	908,901	440,097
Residential real estate	284,010	145,128	270,225	139,330
Cash collateral	62,589	30,278	37,224	21,175
Unsecured	-	15,538	-	-
Total	**1,282,012**	**635,843**	**1,216,350**	**600,602**

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	2023 Stage 1	2023 Stage 2	2023 Stage 3	2023 Total	2022 Stage 1	2022 Stage 2	2022 Stage 3	2022 Total
Less than 50%	180,256	2,204	1,989	184,449	179,630	6,808	1,895	188,333
51-70%	390,956	19,054	12,740	422,750	374,043	16,543	10,593	401,179
71-90%	3,767	-	278	4,045	370	261	445	1,076
91-100%	2,326	-	-	2,326	49	-	3,345	3,394
More than 100%	-	4,446	2,289	6,735	618	2,273	3,729	6,620
Grand Total	**577,305**	**25,704**	**17,296**	**620,305**	**554,710**	**25,885**	**20,007**	**600,602**
Collateral	**1,209,843**	**44,401**	**27,768**	**1,282,012**	**1,139,928**	**45,111**	**31,311**	**1,216,350**

31.18 Market Risk

Market risk refers to the potential for financial loss arising from adverse movements in market prices or factors such as interest rates, foreign exchange rates, equity prices, commodity prices, and market volatility. It encompasses the risk of losses resulting from fluctuations in these market variables, which can adversely affect the value of financial instruments, investments, portfolios, and overall financial performance. Bank is managing market risk by identifying, measuring, and mitigating exposure to such fluctuations through various risk management techniques and strategies to safeguard against potential adverse impacts on profitability, capital adequacy, and financial stability.

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 Buachaille', Highlands, Scotland.

The Bank uses its own base rate for pricing of products, which can be changed with 60 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 (<2year) and priced in accordance with market conditions and the Bank's cost of funds. Hence the interest rate risk on the same is limited.

Interest Risk Management **Amount in £ 000'**

2023	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	214,427	-	-	-	-	-	-	915	215,342
Due from banks	72,353	31,942	7,691	803	-	-	-	-	112,789
Loans & advances to customers	169,985	462,164							632,149
Financial investments									
– fair value through other comprehensive income	9,206	1,593	2,030	12,200	3,524	4,151	-	-	32,704
– Amortised cost	18,279	4,237	33,896	61,425	12,821	-	20	-	130,678
Derivative financial instruments	101								101
Total assets	**484,351**	**499,936**	**43,617**	**74,428**	**16,345**	**4,151**	**20**	**915**	**1,123,763**
Liabilities									
Due to banks	48,076	3,496	5,303	66,660	-	-	-	-	123,535
Due to customers	549,558	89,890	199,465	15,376	-	-	31,650	-	885,939
Derivative financial instruments	39	-	3	-	-	-	-	-	42
Subordinated liabilities	-	-	-	20,340	-	-	-	-	20,340
Total Liabilities	**597,673**	**93,386**	**204,771**	**102,376**	**-**	**-**	**31,650**	**-**	**1,029,856**
Net Gap (Assets – Liabilities)	**(113,322)**	**406,550**	**(161,154)**	**(27,948)**	**16,345**	**4,151**	**(31,630)**	**915**	**93,907**

Interest Risk Management

Amount in £ 000'

2022	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	110,624	-	-	-	-	-	-	688	111,312
Due from banks	105,881	27,392	9,161	-	-	-	-	-	142,434
Loans & advances to customers	136,632	45,638	42,887	51,322	65,818	119,330	138,411	-	600,038
Financial investments									-
– fair value through other comprehensive income	21,945	1,974	9,058	11,121	1,783	-	-	-	45,881
– Amortised cost	10,984	1,974	34,566	27,374	23,573	-	-	-	98,471
Derivative financial instruments	130	37	25	0	0	-	-	-	192
Total assets	**386,196**	**77,015**	**95,697**	**89,817**	**91,174**	**119,330**	**138,411**	**688**	**998,328**
Liabilities									
Due to banks	40,679	16,000	1,661	5,000	65,000	-	-	926	129,266
Due to customers	147,241	172,810	138,105	2,172	100	-	-	309,128	769,556
Derivative financial instruments	105	31	93	-	-	-			229
Subordinated liabilities	-	20,273	-	-	-	-			20,273
Total Liabilities	**188,025**	**209,114**	**139,859**	**7,172**	**65,100**	**-**	**-**	**310,054**	**919,324**
Net Gap (Assets – Liabilities)	**198,171**	**(132,099)**	**(44,162)**	**82,645**	**26,074**	**119,330**	**138,411**	**(309,366)**	**79,004**

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.

	2023 Impact on P&L (£ 000')	2022 Impact on P&L (£ 000')
25bps increase in interest rate	218	(241)
25bps decrease in interest rate	(221)	(95)
50bps increase in interest rate	432	(121)
50bps decrease in interest rate	(446)	125

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 2023 was £0.09m (2022: £0.07m).

Currency	2023 (£ 000')	2022 (£ 000')
USD	35	24
EUR	(14)	(33)
ZAR	6	(11)
CAD	(12)	-
INR	-	6.1
Others	21	6.2

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 holds liquidity reserves to mitigate short- and medium-term liquidity risks across various timeframes, encompassing both standard business operations (BAU) and scenarios of heightened stress. The Bank keeps a liquid asset buffer of High-Quality Liquid Assets as required by UK CRR. The Bank also maintains liquidity in the Bank of England Reserve account and in short term money market placements 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.

Amount in £ 000'

2023	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	215,342	167,249	-	167,249	-	-	-
Due from banks	112,789	160,882	74,258	46,188	39,633	803	-
Loans & advances to customers	632,149	636,314	5,921	164,063	42,420	422,044	1,866
Financial investments							
– fair value through other comprehensive income	32,704	32,704	4,117	5,280	3,531	19,776	-
– Amortised cost	130,678	130,678	6,850	11,429	38,133	74,246	20
	1,123,662	**1,127,827**	**91,146**	**394,209**	**123,717**	**516,869**	**1,886**
Derivative assets							
Risk management	-	-	64	36	-	-	-
Outflow	-	-	-	-	-	-	-
Inflow	101	-	64	36	-	-	-
	101	**-**	**64**	**36**	**-**	**-**	**-**
Financial liability by type							
Non-derivative liabilities							
Due to banks	123,581	(130,122)	(33,448)	(14,783)	(9,085)	(72,806)	-
Due to customers	885,890	(1,024,645)	(431,434)	(119,051)	(315,202)	(101)	(158,857)
Subordinated liabilities	20,340	(21,807)	-	-	-	(21,807)	-
Lease liability	2,920.00	(2,920)	-	-	-	(2,920)	-
	1,032,731	**(1,179,494)**	**(464,882)**	**(133,834)**	**(324,287)**	**(97,634)**	**(158,857)**
Derivative liabilities							
Risk management	42						
Outflow		(42)	(10)	(29)	(3)	-	-
Inflow	42						
	42	**(42)**	**(10)**	**(29)**	**(3)**	**-**	**-**

Amount in £ 000'

2022	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	111,312	111,312	96,506	14,806	-	-	-
Due from banks	142,434	143,476	73,538	32,247	37,691	-	-
Loans & advances to customers	600,038	685,013	6,233	131,014	94,705	453,061	-
Financial investments							
– fair value through other comprehensive income	46,535	49,512	-	-	13,566	35,946	-
– Amortised cost	97,817	101,153	1,006	10,656	41,684	47,787	20
	998,136	**1,091,490**	**177,283**	**188,723**	**187,646**	**536,794**	**20**
Derivative assets							
Risk management	192						
Outflow						-	-
Inflow	-	192	54	76	62	-	-
	192	**192**	**54**	**76**	**62**	**-**	**-**
Financial liability by type							
Non-derivative liabilities							
Due to banks	129,266	(129,687)	(80,766)	(31,134)	(17,787)	0	0
Due to customers	672,008	(676,815)	(328,932)	(98,840)	(246,839)	(2,204)	0
Subordinated liabilities	20,273	(20,304)	-	-	(20,304)		0
Lease liability	2,373	(2,373)	0	0	0	(2,373)	0
	823,920	**(829,179)**	**(409,698)**	**(129,974)**	**(284,930)**	**(4,577)**	**0**
Derivative liabilities							
Risk management	229	-	-	-	-	-	-
Outflow		(229)	(47)	(59)	(123)	-	-
Inflow							
	-	**(229)**	**(47)**	**(59)**	**(123)**	**-**	**-**

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:

	2023 (Unaudited) Liquidity coverage %	2023 (Unaudited) HQLA to deposits %	2022 (Unaudited) Liquidity coverage %	2022 (Unaudited) HQLA to deposits %
As at 31 December	286%	25%	405%	14%
Average for the period	196%	20%	205%	12%
Maximum for the period	286%	27%	432%	16%
Minimum for the period	127%	17%	107%	8%

Liquidity Reserves	2023 Carrying amount	2023 HQLA	2022 Carrying amount	2022 HQLA
Balance with central bank	166,334	166,334	92,809	92,809
Cash in hand	915	915	688	688
Unencumbered debt securities issued by sovereigns and supranational	7,584	7,584	9,351	9,135
Other assets	28,184	18,183	11,307	6,123
	203,017	**193,016**	**114,155**	**108,755**

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.

Amount in £ 000'

31 December 2023	Mandatorily at FVPTL	FVOCI – debt instruments	Amortised cost	Estimated credit loss	Total carrying amount
Cash in hand and with central bank	-	-	215,342	-	215,342
Due from banks	-	-	112,826	(37)	112,789
Loans and advances to customers	-	-	636,314	(4,165)	632,149
Financial investments	-	32,704	130,705	(27)	163,382
Derivative assets held for risk management	101	-	-	-	101
Total financial assets	**101**	**32,704**	**1,096,187**	**(4,229)**	**1,123,763**
Due to banks	-	-	123,581	-	123,581
Due to customers	-	-	885,890	-	885,890
Derivative liabilities held for risk management	42	-	-	-	42
Subordinated liabilities	-	-	20,340	-	20,340
Total financial liabilities	**42**	**-**	**1,029,811**	**-**	**1,029,853**

Amount in £ 000'

31 December 2022	Mandatorily at FVPTL	FVOCI – debt instruments	Amortised cost	Estimated credit loss	Total carrying amount
Cash in hand and with central bank	-	-	111,312	-	111,312
Due from banks	-	-	142,434	(10)	142,434
Loans and advances to customers	-	-	605,145	(5,107)	600,038
Financial investments	-	46,535	97,827	(10)	144,352
Derivative assets held for risk management	192	-	-	-	192
Total financial assets	**192**	**46,535**	**956,718**	**(5,127)**	**998,328**
Due to banks	-	-	129,266	-	129,266
Due to customers	-	-	769,556	-	769,556
Derivative liabilities held for risk management	229	-	-	-	229
Subordinated liabilities	-	-	20,273	-	20,273
Total financial liabilities	**229**	**-**	**919,095**	**-**	**919,324**

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 nil as on 31 December 2023 (2022: 0.38 m) as mentioned at note 15.2.

As at 31 December 2023 financial investments of £79 million (2022: £73m) were encumbered against borrowing of £75 million from the Bank of England against TFSME and ILTR scheme and £nil (2022: 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.

	2023 (£ 000')	2022 (£ 000')
Share capital	70,000	70,000
Retained earnings	33,077	20,525
Tier 1 capital	**103,077**	**90,525**
Subordinated liability	20,340	20,273
IFRS 9 (ECL) impact of regulatory capital	-	579
	20,340	20,852
Own funds	**123,417**	**111,377**

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 of Directors decided to increase the share capital of the Bank by £10 million through issuance of 10 million ordinary share of £1 each to Habib Bank AG Zurich (the "Parent Bank") in its meeting held on 15th January 2024. The Board of Directors of the Parent Bank approved the share capital increase in their meeting held on 7th February 2024. The Bank has notified the PRA on the proposed share capital increase.

The Directors recommend a final dividend of £0.0592 (2022: Nil) per ordinary share to be paid in respect of the year in their meeting held on 15th April 2024.

Branch Network

Moorgate		Habib House
		42 Moorgate
		London EC2R 6JJ
	Telephone:	020 7452 0200
Baker Street		Unit 47, 55 Baker Street
		London W1U 8EW
	Telephone:	0207 452 0265
Harrow		377 Station Road
		Harrow on the Hill
		Middlesex HA1 2AW
	Telephone:	020 8515 1380
Southall		5-7 High Street
		Southall
		Middlesex UB1 3HA
	Telephone:	020 8893 5059
Tooting		264 Upper Tooting Road
		London SW17 0DP
	Telephone:	020 8767 5555
Manchester		Showroom 5, The Point
		173-175 Cheethamhill Road
		Manchester M8 8LG
	Telephone:	0161 832 2166
Leicester		160 Belgrave Road
		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	9 Branches
	3	Kenya	Habib Bank AG Zurich	4 Branches
Subsidiaries	4	Pakistan	Habib Metropolitan Bank Ltd	525 Branches
	5	United Kingdom	Habib Bank Zurich plc	8 Branches
	6	South Africa	HBZ Bank Ltd	8 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	