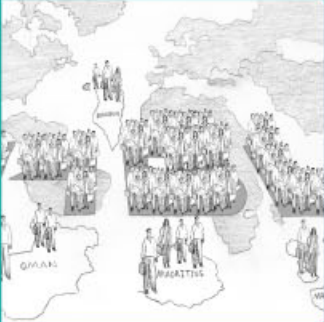
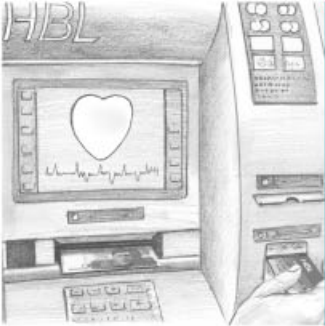
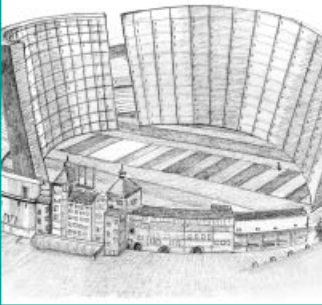


# HBL



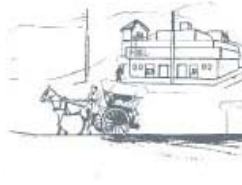
**ANNUAL  
REPORT  
2010**





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# CHAIRMAN'S REVIEW

I am delighted to present the results of Habib Bank UK for the year 2010 during which the Bank achieved a post-tax profit of GBP3.2 million. This has contributed in raising the shareholder funds to GBP49.23 million which is a Compound Annual Growth Rate of 8% over the full 9 year period of the Bank's incorporation.

The period to 31 December 2010 saw us squarely facing the challenges of the global downturn, and we are thankful that despite this, the Bank maintained the profitable standard it has kept since inception. The Bank prioritised providing high quality service to customers, refining the product base and further tightened the adherence to regulation. These combined with sound management of capital to comply with Basel II and prudent risk management have resulted in our profitable position.

## The Industry

The financial services industry continues to address many varied challenges as governments, regulators and world economies deal with the aftermath of the financial crisis. The emerging banking model will undoubtedly be significantly different to what we were previously accustomed to. We already see some radical but necessary changes affecting banks which includes; higher levels of liquidity, lower returns on capital, and a change of focus on business segments.

The downturn in global trade volumes has not yet been reversed and with the syndicated loans market still facing uncertainties, there is a shortage of quality assets. The return of growth and stability has not yet occurred and we continue to see hesitancy in lending by the financial institutions and no upward pressure on interest rates.

In the UK economy, the outcome of 2010 for several financial institutions were mixed as the worst of the global credit crunch had passed and performance was determined by how management could handle the after-effects of the crisis. Banks that received government bail-outs underwent drastic changes in structure and operations, resulting in declining risk appetites and increased regulatory scrutiny. This tightening had a positive effect as financial institutions in the City of London have begun to post profit results and confidence is gradually returning to the market.

Despite the shrinkage of the UK economy in early 2010, by the end of the year, equities rose by 23% and house prices remained more or less flat. Quantitative Easing, which was introduced by the Bank of England in March 2009 to provide the much needed liquidity in the system, has contributed in restoring market confidence. However, credit availability is being constrained by higher provisioning, the need to recapitalize and the inevitable tightening of credit criteria in the industry.

In the US, worries about the effect of regulatory reforms have led to depreciation in stock values. Overall, there is uncertainty about the trajectory of the global economy, reflected in highly volatile exchange rates, and indications by central banks to keep interest rates low for an extended period. The European Central Bank kept its main refinancing rate at a historic low of 1% for the past 21 months. The Bank of England also left interest rates at a record low of 0.5% and announced no change in its GBP200 billion monetary stimulus program as it looks for clearer signs on the health of the economy.

## Regulatory Framework

The Financial Services Authority (FSA) is continuing to drive forward numerous major changes in regulation across the industry and this in itself presents challenges for banks. The changes directly affect our strategic approach to the future, with more immediate effect on reporting, systems and the skills of our staff, all of which incur greater cost and demands on resources. As usual we will vigorously address the changes, ensuring equally that the FSA is kept closely informed of our future direction and strategy and that we continue to apply good market practice, particularly in respect of the financial soundness of the bank, its operations, good governance and the fair treatment of our customers.



# CHAIRMAN'S REVIEW

## Operating Environment

The Bank continues to be conservative in its approach to risk but at the same time take advantage of market opportunities. Having already fully embraced the principle of 'Treating Customers Fairly', the Bank strives to offer a superior level of customer service.

The core business however remains that of Trade Finance and our highly experienced team has a well deserved excellent reputation in the market. Quality of service and timely delivery are the bedrock which continues to attract high quality new business.

## Financial Results

The Bank showed tenacity in keeping its market position as one of the premier banks for the South Asian Diaspora for their trade-related and personal banking needs. Major events of the past year in our home market as well as the global economy have had adverse impacts on the business growth which is reflected in the lower funded as well as unfunded revenues for the year.

I am pleased to report that our continued careful management of liquidity has kept us in good stead and reinforced our stance to rely primarily on retail funding for assets. The staff continued to develop business in this challenging market which translated into a moderate business performance.

With the emphasis on consolidation of credit lines, the Bank undertook facility restructurings where felt necessary and maintained healthy liquidity during the year. Customer deposits remained more or less flat owing primarily to very low interest rates.

Net Interest Income fell by 15% compared to last year as a consequence of booking relatively fewer new advances and compounded by maintaining liquid assets in low yielding securities. The slight decline in interest margins was attributable to providing support to long standing customers going through a recovery phase in their businesses.

Commission and fee income decreased as a result of declining trade activity, especially from the West Africa region. A greater focus will be given to grow the non-funded business for 2011. FX revenue, however, grew significantly by 16% to GBP0.97 million.

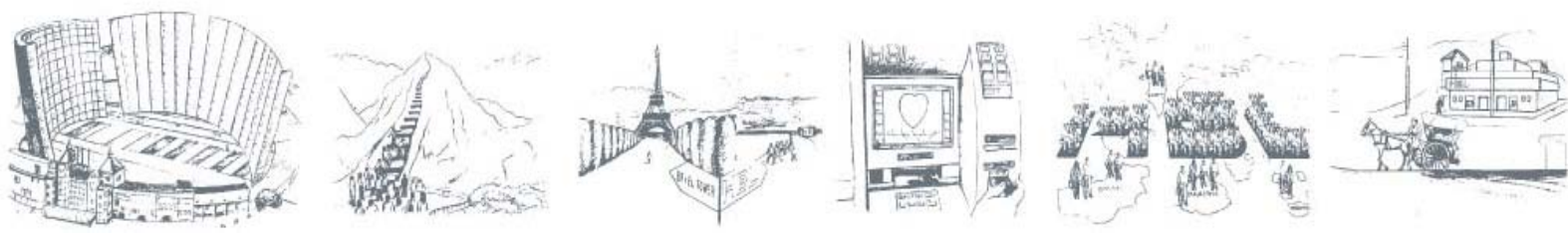
Commendably, the Bank maintained a flat Operating Expense at GBP7.35 million as a result of prudent cost control by management.

## Outlook

The UK operating environment is marked by increased regulations and tighter credit and risk management measures aimed at promoting more responsible lending. Regulatory pressures on all banks will continue to increase the cost of doing business and require higher margins and more capital. The GDP is expected to grow from 1.7% in 2010 to 2.8% in 2011. Inflation has increased to 3.7% which may prompt the BOE to raise interest rates during the course of the year.

The Bank is looking forward to 2011 from a confident position as exciting developments in operations are implemented. The Bank is expanding its product offerings to include additional depository products for savers, expanding the electronic home remittances to locations other than Pakistan and a more active trade distribution unit for its trade finance business.

These developments continue to ensure that we remain at the top of the scale of London-based South Asian linked banks, especially given the challenging nature of the current climate. The determination and commitment of the management and staff is to be thanked for these progressive initiatives. Our



# CHAIRMAN'S REVIEW

commitment to investing in innovative products and services, our people and exploring new markets across our target segments will see us strengthening our market position.

## Appreciation

On behalf of the Board, I wish to extend sincere gratitude to our loyal customers for their patronage and continued support. I am grateful for the continuing support of the Parent Bank and the way in which they have helped us with our initiatives.

I must also thank the Board of Directors for their decisive leadership, the strong management team and all the staff of the Bank for their unrelenting commitment and unwavering focus on the vision. On behalf of the Board, I wish to extend our gratitude to the departing director, Aftab Manzoor for his valuable contributions and welcome the new director Khalid Sherwani.

I am confident that with the hands of the capable Board and Management on deck, we will continue with the outstanding standards set and steer the Bank more profitably over the course of 2011 and beyond.



R Zakir Mahmood  
Chairman



# DIRECTORS' REPORT

The Directors are pleased to present their Annual Report and Audited Financial Statements together with the Auditors' Report thereon for the year ended 31 December 2010.

## Principal Activity

The Bank is an authorised institution under the Financial Services and Markets Act 2000 and regulated by the Financial Services Authority (FSA). It provides a range of commercial banking services including all aspects of trade finance, short term finance, funds transfers including electronic remittances, Foreign Exchange & Money Market dealings and depository products within the scope of the authorisation granted to the Bank by the FSA.

## Business Development

This year the Bank completed its ninth full year of operations and has made satisfactory progress. This is reflected in a steady and sustainable growth in business volumes and operating income in what has been a challenging year with the economy coming to terms with the ramifications of the global financial crises. The Bank adopted a prudent approach in lending with a greater focus on funded and non-funded trade finance related business.

The Directors consider that the key management issues essential to the successful development of the Bank's business are the maintenance of adequate regulatory capital and liquidity to support the volume of business undertaken, together with constant efforts to improve average margins and closer monitoring of borrowing relationships. The Bank has maintained a strategy of profit retention since its inception. As a consequence the shareholders funds have grown from GBP25 million since inception to over GBP49 million as on 31 December 2010.

The Bank has increased its Foreign Exchange revenue significantly through margins earned on execution of customer orders with adequate controls built to absorb any adverse market movements. Funded and non-funded revenue, however, were much lower than the previous year owing primarily to a conscious reduction of exposures to West Africa where the margins had been healthy. New facilities had to pass a more stringent set of credit requirements which were enforced to safeguard against the continued market uncertainties. Greater focus was given to short term trade business from Financial Institutions. The distribution channel for downselling these transactions was further enhanced successfully.

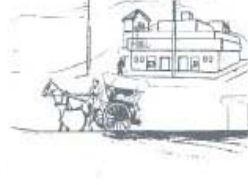
The Bank remained a net lender to the market and took exceptional steps to ensure that placement of the surplus liquidity was either in readily marketable Government instruments or placed with selected few banks which were regarded as having low risk.

The Bank offers personalised services to its customers with a commitment to quality and value to its clients. The Bank's organisational structure is designed to support this objective whilst also ensuring that effective controls and oversight is maintained across the business. The Bank has developed a cordial and professional relationship with all the stakeholders which is essential for the future progress of the Bank.

The Directors are confident that the Bank has the capacity, management skills and a great opportunity to continue to deliver steady growth for future years.

## Principal Risks and Risk Management

**Principal risks:** Banks are, by their very nature, in the risk business and taking risk is an integral part of banking. The Bank is primarily exposed to credit risk, market risk (including interest, FX and liquidity risks), operational risk (including risk of non-compliance with regulatory requirements) and reputational risk. All these risks are managed through the strict adherence to documented policies and procedures together with a high level managerial oversight of the Bank's operations.



# DIRECTORS' REPORT

Given the conditions in the financial markets in the past financial year, the Bank has consciously adopted a strategy to maintain adequate liquidity at all times, both in terms of amount and quality, to ensure that the Bank continues to meet its obligations as they fall due. The Bank regularly reviews its asset / liability maturity mismatches and maintains liquidity gaps within prescribed limits.

**Risk Management:** The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management and continues to maintain a "Risk Averse" policy to risk. Those risks identified in the Bank's risk register are at an acceptable level for the current business operations and the proposed Business Plan. With regard to credit risk, given the unprecedented conditions in the market and economy, the controls in this area have been strengthened with additional oversight to ensure regular stress testing of the portfolio and a focussed strategy is adopted for nursing the stressed borrowers.

With a view to maximise shareholder value, the risk management systems ensures that the Bank's risk profiles are aligned to available financial and non-financial resources. To ensure this, the Board of Directors has established:

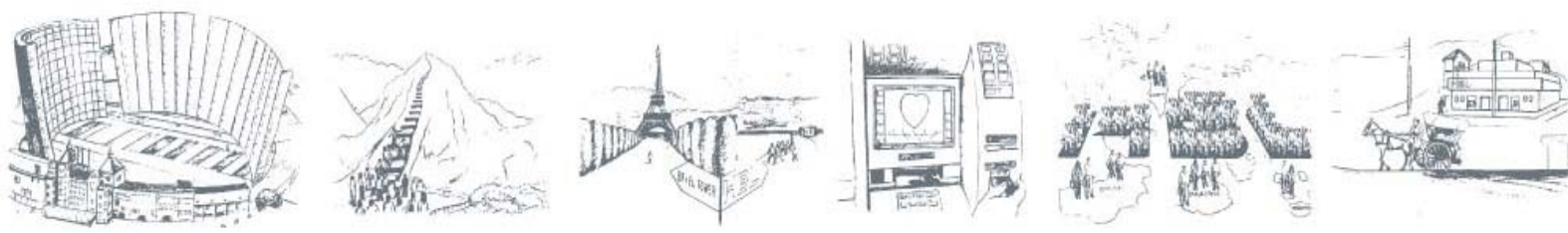
- Well defined, clear and coherent Risk Management Policies and Procedures on various types of risks to the Bank;
- Suitable forums for discussing, monitoring and managing these risks. All key decisions are subject to the "four eyes" principle;
- Suitable internal processes, procedures and controls to mitigate the identified risks;
- A Risk Management Framework which sets out the constitution, roles and responsibilities of the Board of Directors, Non Executive Directors, all the Committees, Chief Executive Officer, and Management.

To enable a better and more focused attention to the affairs of the Bank, the Board has established the following Committees, each with defined terms of reference, scope of the work, role and responsibilities to prepare the ground work for decision making and to assist the Board in monitoring the effective implementation of the policies, processes and procedures. All significant matters discussed and decided at each meeting of the Board Committees are reported to the Board by the Chairman of the respective Committees:

- Audit and Compliance Committee
- Credit Policy Committee
- Human Resources Committee

Going forward, the existing Credit Policy Committee, which focused on credit and counterparty risks, would be substituted by the establishment of a Risk Management Committee (RMC). The terms of reference of the RMC would include not just the credit and counterparty risks but also include market, operational and reputational risks.

**Basel II Capital Resource Requirement:** The Bank has completed the work required for the implementation of Basel II Capital Resource Requirement and submitted its Internal Capital Adequacy Assessment Process (ICAAP) which defines all material risks in terms of categories of risks faced by the Bank to FSA in April 2010 for review, feedback and carrying out Supervisory Review and Evaluation Process (SREP). FSA has completed its review of the Bank's ICAAP and SREP conveying Individual Capital Guidance (ICG) to the Bank. The Bank maintained a high capital adequacy ratio during the financial year under report and the ICG is at a level that will help attain the projected growth satisfactorily. To comply with the regulatory requirements, the updated Pillar III is available to the Banks clients and the disclosure placed on the Bank's website.



# DIRECTORS' REPORT

**Money Laundering and Terrorist Financing:** The Bank has adopted a risk based approach to prevent financial crime. Documented policies and procedures are in place to combat money laundering and terrorist financing which are independently monitored by Compliance Department. All new and regular employees of the Bank receive training on an annual basis, to ensure their awareness of the risk of money laundering and terrorist financing remain up-to-date and at the forefront of their minds while conducting business activities.

To identify any potential suspicious transactions that fall outside of a customer's 'Know Your Customer' profile, the Bank has an automated transaction monitoring system that monitors customer transactions against defined parameters. The Compliance Department reviews the alerts generated and where necessary, undertakes investigations to satisfy itself of the genuineness and authenticity of the transaction or raises a suspicious activity report.

To check and alert any funds transfers to or from a person/entity on any of the various sanctions list, the Bank monitors and filters, through a robust application, all transactions on a real-time basis.

**Treating Customers Fairly:** The Bank is committed to treating customers fairly and has policies in place to guide the employees in understanding how they can help the Bank deliver on the commitment. The Bank has a robust complaint handling procedure and encourages customers to report instances where the Bank's service falls short of the expected high standards. This commitment remains a priority for the Bank.

**Internal Controls:** The system of internal control is based on an ongoing process designed to identify the principal risks which are inherent in the Bank's business, to evaluate the nature and extent of those risks and to manage them efficiently and effectively.

The Bank's system of internal control includes appropriate levels of authorisation, segregation of duties and limits for each aspect of business. There are established procedures and MIS for regular reporting of financial information. Financial reports are presented to the Board in each of its meetings detailing the results and other performance data.

Management assumes the responsibility of establishing and maintaining adequate internal controls and procedures while the Board of Directors is ultimately responsible for the internal control systems. For this purpose the Bank has developed a host of Procedure Manuals that are adopted for conducting the various banking transactions. These Procedure Manuals are revised and updated as and when required.

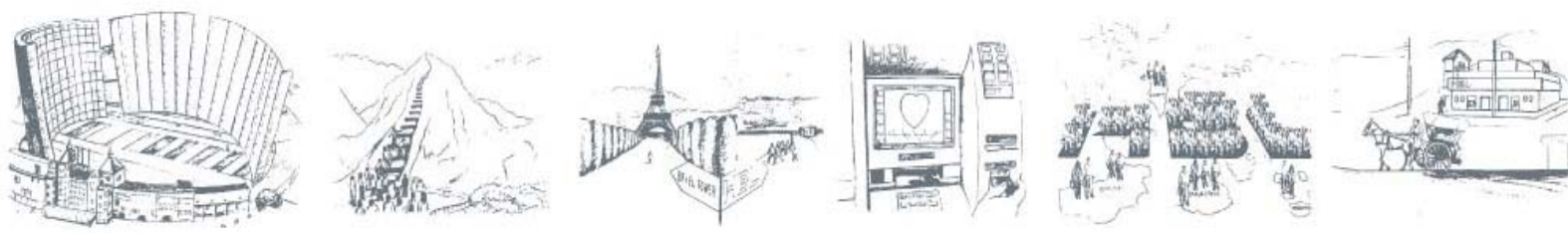
The Internal Audit of the Bank reviews the adequacy and implementation of internal controls on a regular basis and deficiencies, if any, are followed up until they are rectified. Status of the unresolved significant issues is reviewed by the Audit and Compliance Committee in each of its meetings. An audit programme is agreed annually with the audit and compliance committee and the Head of Audit presents a summary of audit reports completed during the period and provides any explanation required by the Committee.

## Financial Performance – Results

The financial statements for the year ended 31 December 2010 are set out in detail on pages 14 to 35. The profit on ordinary activities before tax for the financial year amounted to GBP 5,133,000 (2009: GBP 5,189,000).

The Directors do not propose the payment of a dividend for the year (2009: Nil).

The Bank's financial statements have been prepared on the going concern basis which the directors believe to be appropriate as there are no material uncertainties that may cast significant doubt about the bank's ability to continue as a going concern. This conclusion is based on the following:



# DIRECTORS' REPORT

- Review of the financial performance and outlook as discussed in the Chairman's review
- Principal risks and risk management as discussed in the Director's report
- Risk management disclosures as required under Pillar III; available on the Bank's website
- Detailed assessments carried out by the management in respect to the key areas of the Bank such as the liquidity, capital management, profit projections and litigation covering a period of twelve months from the date of signing the balance sheet.

## Share Capital

Fully paid-up capital of the Bank remained unchanged at GBP25,000,000 divided into 25,000,000 ordinary shares, with the following shareholding:

Habib Bank Limited	90.50%
Allied Bank Limited	9.50%

## Directors

During the year under report, the Board of Directors held three meetings. The Directors who held the office at the date of this report are:

R Zakir Mahmood	Chairman – Non Executive
Ayaz Ahmed	Non Executive
David J Blatchford	Independent Non Executive
Khalid A Sherwani	Non Executive (appointed 8 November 2010)
Nauman K Dar	Chief Executive Officer
Anwar M Zaidi	Deputy Chief Executive Officer

M Aftab Manzoor also served on the Board during the year and retired with effect from 21 June 2010.

The Board records its appreciation for the valuable services rendered by the outgoing director M Aftab Manzoor and welcomes the appointment of Khalid Sherwani as the new Non-Executive Director.

## Director's Interests

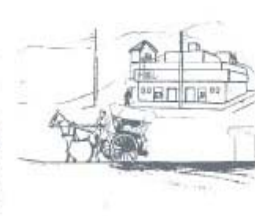
None of the Directors who held office either during the year or at the end of the financial year under review had any disclosable interest in the shares of the Bank. No contract of significance in relation to the Bank's business in which a director of the Bank has a material interest other than a service contract with the Bank, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Policy and Practice on Payment to its Suppliers

The Bank has a regular cycle of obtaining services and releasing payments to the creditors and suppliers. Bank conforms to terms of settlement agreed with its suppliers as long as it is satisfied that goods or services have been supplied as agreed. It is not the Bank's policy to follow the terms of a standard code of payment practice. At the year end, the average days outstanding for trade creditors amounted to 26 days (2009: 18 days).

## Political and Charitable Contributions

During the year, the Bank made no political or charitable contributions.



# DIRECTORS' REPORT

## Corporate Governance

The Board has ultimate responsibility for the proper stewardship of the Bank. It meets regularly to discharge its responsibilities for all important aspects of the Bank's affairs, including monitoring performance, considering major strategic issues, approving budgets and business plans.

The Board is firmly committed to the highest standards of corporate governance. The Bank's corporate governance is directed not only towards regulatory and legal requirements but also towards adherence to sound business practices, transparency and disclosures to shareholders. The Bank within its relationship with its borrowers, depositors, shareholders and other stakeholders has always maintained its fundamental principles of corporate governance – that of integrity, transparency and fairness, seeking to provide an enabling environment to harmonise the goals of maximising shareholder value and maintaining a customer centric focus.

The corporate governance framework of the Bank is based on an effective and independent Board which is not involved in day-to-day management. The position of the Chairman of the Board and CEO are held by separate individuals. The Board of Directors is entrusted with the formulation of policy guidelines, objective setting, strategic planning, organisational structure, supervising business activities, reviewing performance of management, ensuring regulatory compliance and safeguarding interests of the shareholders. The Management seeks to realise the Bank's strategic goals which are to maximise long term shareholder value and to maintain the required standards of integrity and transparency.

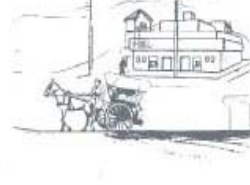
Board meetings are held at least three times a year. If required, additional meetings can be held to discuss any specific item of critical importance. The Company Secretary in consultation with the CEO and Chairman prepares a detailed agenda for the meetings. Agenda papers and other explanatory notes are circulated to the directors in advance. The directors have complete access to all information of the Bank, and are free to recommend inclusion of any matter in the agenda for discussion. Senior management is also invited to attend the Board meetings as and when required, so as to provide additional input to the items or issues being reviewed or discussed by the Board.

For smooth operation, risk management and monitoring purposes, the Board has formed various committees. These Board Committees conduct detailed analyses and reviews of various policies and critical issues and ensure that the activities of the Bank are always conducted in accordance with appropriate ethical standards. All the significant matters discussed and decided at each meeting are reported to the Board by the Chairmen of the respective Committees.

The Bank has an independent Audit and Compliance function with the Head of Audit and Compliance reporting directly to the Chairman of the Audit and Compliance Committee who is an Independent Non Executive Director. The Committee reviews Bank's internal controls, Risk Management Systems, statutory and regulatory compliance. After detailed discussions on the findings of the Internal Audit as well as statutory auditor's reports, the Committee initiates necessary corrective actions. The Committee apprises the Board of Directors of any significant issues and the corrective measures initiated. The Committee also follows up implementation of its various suggestions/decisions on a regular basis.

The Bank has developed an experienced compliance team with the aim of ensuring adherence to regulatory requirements throughout the Bank, as well as providing timely guidance to business areas. Compliance work is designed to ensure that the Bank's activities are undertaken in line with professional ethics and in accordance with relevant laws and regulations.

The Chief Executive Officer, who reports to the Chairman and the Board, is empowered by the Board of Directors for all operational issues and day-to-day management of the Bank in carrying out his duties he is assisted by senior management and the following committees:



# DIRECTORS' REPORT

- Asset and Liability Committee
- Business Review Committee
- Operations Review Committee
- Portfolio Review Committee
- IT Steering Committee

## Code of Ethics

Every employee of the Bank has a significant role to play in preserving and nurturing the Bank's reputation for honesty, integrity, and fair play in dealing with fellow employees, customers, regulators, suppliers and the general public. The Bank expects all employees to conduct themselves in accordance with the appropriate standards of personal and professional integrity and to comply with all laws, regulations, corporate policies and procedures.

The standards of ethical conduct which the Bank expects from its employees are laid down in the Bank's Code of Ethics and Business Conduct introduced in 2006 and updated if felt necessary. These are a set of principles that reinforce the rules and regulations reflected in the Bank's Policies and Procedures and cover important topics including prevention of money laundering and terrorist financing, fraud – theft or illegal activities, office decorum, confidentiality, conflicts of interest, insider trading, gifts and inducements. Code of Ethics and Business Conduct for employees ensures that the employees conduct themselves with dignity and integrity and build customer confidence.

## Acknowledgement

The Board of Directors takes the opportunity to express its thanks and gratitude to all the stakeholders including its customers for their continued support and cooperation without which the business growth of the Bank would not have been possible.

The Board of Directors also records its appreciation to the Management and Staff for their dedication, commitment and team work, without which this year's results would not have been possible.

## Directors' Representation

The directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware; and each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

The directors are unaware of any material events that have occurred since the end of the financial year to the date of signing this report that could impact the financial health of the Bank.

## Auditors

KPMG Audit Plc, the present auditors of the Bank, have expressed its willingness to continue in office. In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.



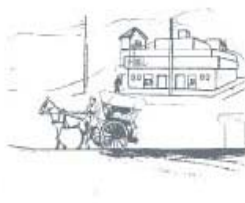
# DIRECTORS' REPORT

By order of the Board of Directors



Nauman K Dar  
Chief Executive Officer  
Habib Allied International Bank Plc  
63 Mark Lane  
London EC3R 7NQ

Dated 17 February 2011



# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## Statement of Directors' Responsibilities In Respect of the Directors' Report and the Financial Statements

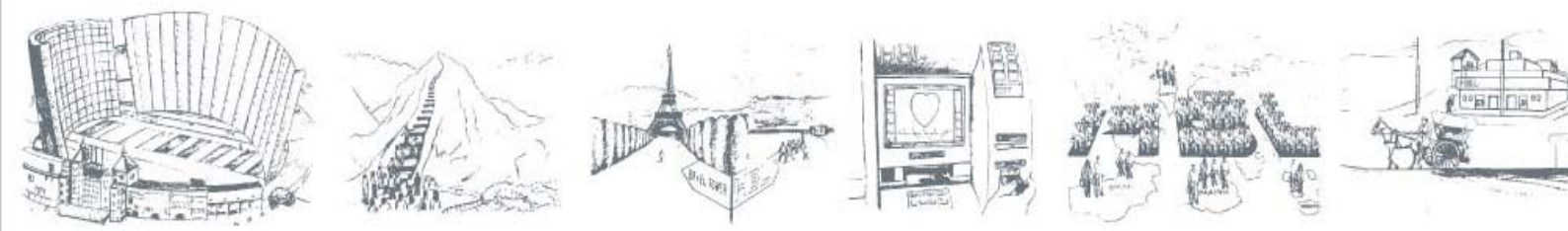
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



# INDEPENDENT AUDITOR'S REPORT

## Independent Auditor's Report to the Members of Habib Allied International Bank Plc

We have audited the financial statements of Habib Allied International Bank Plc for the year ended 31 December 2010 set out on pages 14 to 35. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

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

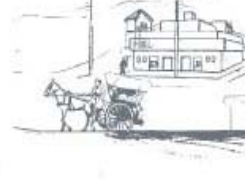
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Paul Furneaux (Senior Statutory Auditor)**  
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants  
15 Canada Square London EC14 5GL

17 February 2011



# PROFIT AND LOSS ACCOUNT

For the Year Ended December 31, 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Interest receivable			
Interest receivable and similar income arising from debt securities		1,178	1,988
Other interest receivable and similar income		5,696	6,580
		<hr/>	<hr/>
		6,874	8,568
Interest payable		(1,838)	(2,668)
<b>Net interest income</b>		<hr/>	<hr/>
		5,036	5,900
Fees and commissions receivable		3,800	5,424
Less: Fees and commissions payable		-	-
		<hr/>	<hr/>
		3,800	5,424
Foreign exchange dealing profits		973	842
Other operating income	6 ( b )	1,058	2,903
<b>Total operating income</b>		<hr/>	<hr/>
		10,867	15,069
Administrative expenses	2	(7,007)	(6,929)
Depreciation and amortisation	7	(344)	(494)
<b>Total operating expenditure</b>		<hr/>	<hr/>
		(7,351)	(7,423)
		<hr/>	<hr/>
		3,516	7,646
Provision for loan losses	11	(189)	(3,957)
Impairment and reversals on debt securities		1,806	1,500
<b>Profit on ordinary activities before tax</b>		<hr/>	<hr/>
		5,133	5,189
Tax on profit on ordinary activities	4	(1,863)	(1,624)
<b>Profit on ordinary activities after tax</b>	14	<hr/> <hr/>	<hr/> <hr/>
		3,270	3,565

There are no recognised gains and losses other than the profit for the year as reported above.  
The result for the year is derived entirely from continuing activities.  
The notes on pages 16 to 35 form part of these financial statements.



# BALANCE SHEET

As At December 31, 2010

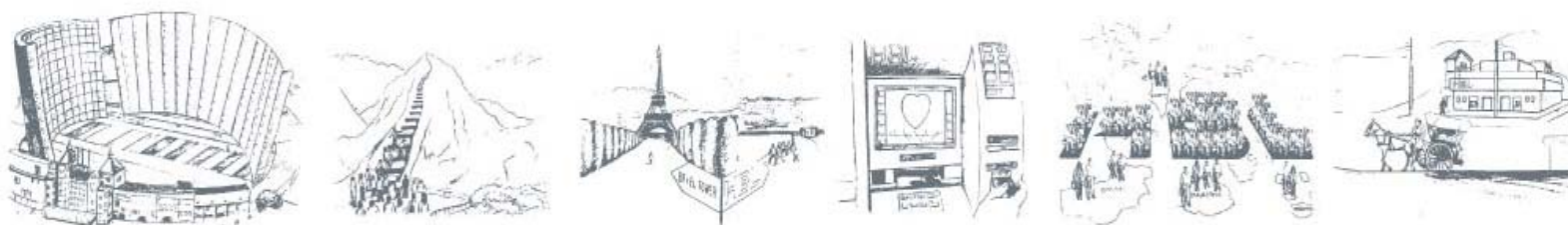
	Note	2010 £'000	2009 £'000
<b>Assets</b>			
Cash and balances at central banks		392	330
Loans and advances to banks		165,390	194,768
Loans and advances to customers		121,964	125,104
Debt securities	6	91,980	45,677
Other assets	9	756	578
Prepayments and accrued income		1,099	874
Tangible fixed assets	7	2,314	1,524
Deferred taxation	8	4,279	5,810
<b>Total assets</b>		<b>388,174</b>	<b>374,665</b>
<b>Liabilities</b>			
Deposits by banks		122,166	130,831
Customer accounts		193,960	197,021
Other liabilities	10	1,204	1,539
Accruals and deferred income		433	361
Subordinated liabilities	13	21,178	-
<b>Total liabilities</b>		<b>338,941</b>	<b>329,752</b>
<b>Shareholders' funds</b>			
Called up share capital	12	25,000	25,000
Profit and loss account	14	23,183	19,913
Other reserves	14	1,050	-
		49,233	44,913
<b>Total liabilities &amp; Equity</b>		<b>388,174</b>	<b>374,665</b>
<b>Memorandum Items</b>			
<b>Contingencies:</b>			
Acceptances and endorsements	15 ( b )	16,973	40,242
Guarantees	15 ( b )	2,129	2,107

The notes on pages 16 to 35 form part of these financial statements.

These financial statements were approved by the board of directors on 17 February 2011 and signed on its behalf by:



Nauman K. Dar  
Director



# NOTES TO THE ACCOUNTS

*These notes form part of the financial statements*

## 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Bank's financial statements.

### (a) Basis of preparation

The financial statements cover the year from 1 January 2010 to 31 December 2010 and have been prepared under the historical cost convention and in accordance with the special provisions of Statutory Instrument 2008/410, Schedule 2 of the Companies Act 2006 relating to banking companies, applicable UK mandatory accounting standards and the British Banker's Association Statements of Recommended Accounting Practice.

The preparation of these financial statements requires management to make estimates and judgements. This is particularly so in the assessment of provisions for bad and doubtful debts and in assessing impairment of debt securities. Making reliable estimates of the ability of customers and other counterparties to repay is often difficult even in periods of economic stability and becomes more difficult in periods of economic volatility. Therefore, while management believes it has utilised all available information to estimate adequate allowances for all identifiable risks in the current portfolios, there can be no assurance that the provisions for bad and doubtful debts or other impairment provisions will prove adequate for all losses ultimately realised.

The Bank's financial statements have been prepared on the going concern basis which the directors believe to be appropriate as there are no material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern. This conclusion is based on the following:

- (i) Review of the financial performance and outlook as discussed in the Chairman's review
- (ii) Principal risks and risk management as discussed in the Director's report
- (iii) Risk management disclosures as required under Pillar III; available on the Bank's website
- (iv) Detailed assessments carried out by the management in respect to the key areas of the Bank such as the liquidity, capital management, profit projections and litigation covering a period of twelve months from the date of signing the balance sheet.

### (b) Cash flow statement

Under FRS 1 (revised) "Cash flow statements", the Bank is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Bank in its own published consolidated financial statements.

### (c) Loans and advances

Advances cover loans, overdrafts and other methods of extending credit to borrowers.

Advances, net of amounts written off, are recorded in the balance sheet on the basis of the cost of the amount of the advance outstanding, less suspended interest debited to the customers' account, specific and general provisions.



# NOTES TO THE ACCOUNTS

Specific provisions are made for advances which are recognised to be impaired. A loan is impaired when, based on current information and events, the Bank considers that the creditworthiness of the borrower has undergone deterioration such that it no longer expects to recover the advance in full. Provisions made during the year are charged to revenue, net of recoveries. When there is no further likelihood of recovery, the remaining balance is written off. General provisions are also maintained at 1% of the customers' exposure consisting of performing loans and advances, and acceptances outstanding under letters of credit.

## (d) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Surpluses and deficits arising on translation are accounted for in the profit and loss account for the year.

## (e) Debt securities

Investments held to maturity are shown in the balance sheet at cost plus any discounts earned up to the balance sheet date or minus any premiums charged against profit as at the balance sheet date, less any provision for permanent impairment.

Where debt securities are purchased at a premium or discount, those premiums and discounts are amortised through the profit and loss account over the remaining maturity, using the straight line method.

## (f) Depreciation

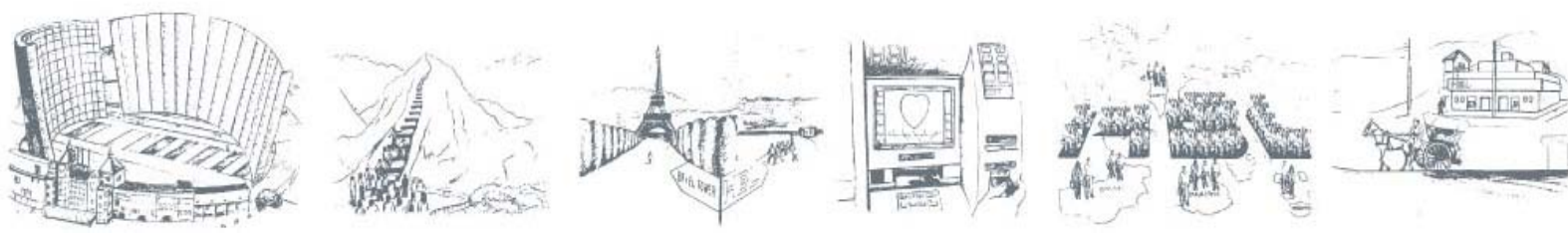
Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method. Rates applicable are as follows:

Nature of assets	Rate of depreciation
Buildings: Freehold properties	5%
Leasehold improvements	over lease period
Furniture, fixtures and office equipment	20%
Computer software and hardware	20 - 33%

Depreciation is charged on fixed assets from the month these are brought into use, whereas no depreciation is charged on assets during the month of disposal.

Fixed assets that are unserviceable are written off and their book value charged to the profit and loss account in the year in which the write off takes place.

Gains or losses on the disposal of fixed assets are taken to the profit and loss account.



# NOTES TO THE ACCOUNTS

## (g) **Deferred taxation**

Deferred taxation is recognised in accordance with FRS 19 "Deferred Tax" and in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are regarded as recoverable and recognised in the financial statements to the extent that, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing difference can be deducted.

## (h) **Pension obligations**

The Bank does not operate a defined benefits pension scheme. Pension costs under defined contribution arrangements are charged as incurred.

## (i) **Revenue recognition**

Interest income is recognised in the profit and loss account as it accrues other than interest of doubtful collectability which is credited to a suspense account and excluded from interest income. The balance on the suspense account is netted in the balance sheet against the amount debited to the borrower. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

Fees receivable which represent a return for services provided or risk borne or which are in the nature of interest are credited to income when the related service is performed or over the period of the transaction, depending on the nature of the income.

Dealing profits represent profits or losses on foreign exchange transactions.

## (j) **Segmental reporting**

The Bank has one class of business and all other services provided are ancillary to this. All business is conducted from the United Kingdom.

## (k) **Leases**

The Bank enters into operating leases as referred to in note 3. Rentals under operating leases are charged on a straight line basis over the lease term. The Bank has not entered into any finance leases during the year.

## (l) **Offsetting financial assets and financial liabilities**

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when the Bank has a legal right to set off the recognised amounts and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains or losses arising from a group of similar transactions.



# NOTES TO THE ACCOUNTS

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>2 Administrative expenses</b>		
Staff costs:		
Wages, salaries and allowances	3,659	3,742
Social security costs	373	353
Other pension costs	164	147
Other administrative expenses	2,811	2,687
	7,007	6,929

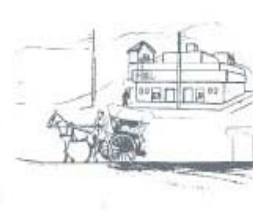
The average number of persons (including part-time employees) employed by the Bank during the period was 82 (2009: 81). The total number of persons employed at 31 December 2010 was 84 (2009: 83).

## 3 Profit on ordinary activities before tax

### (a) Is stated after

#### Charging:

Fees payable to the Banks' auditors for the audit of the Banks' financial statements	67	67
Fees payable to the Banks' auditors for other services:		
Services relating to taxation	30	30
All other services	35	31
Operating lease rentals		
Land and buildings	353	335
Motor vehicles	14	12



# NOTES TO THE ACCOUNTS

Year ended  
31 December  
2010  
£'000

Year ended  
31 December  
2009  
£'000

## 4 Taxation

### (a) Analysis of charge for the year

#### Current tax:

UK corporation tax for the year (note 4 (b))	357	304
(Overprovision)/Under provision in respect of prior years	(25)	17
Total current tax	<u>332</u>	<u>321</u>

#### Deferred tax:

Charge in respect of losses carried forward	1,063	1,274
Charge in respect of timing differences	7	29
Prior year adjustment in respect of timing differences	67	-
Impact of change in tax rate (note (d))	167	-
Other adjustments	227	-
Total deferred tax	<u>1,531</u>	<u>1,303</u>

#### Tax charge

	<u>1,863</u>	<u>1,624</u>
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### (b) Factors affecting tax charge for the year

Profit on ordinary activities before tax	<u>5,133</u>	<u>5,189</u>
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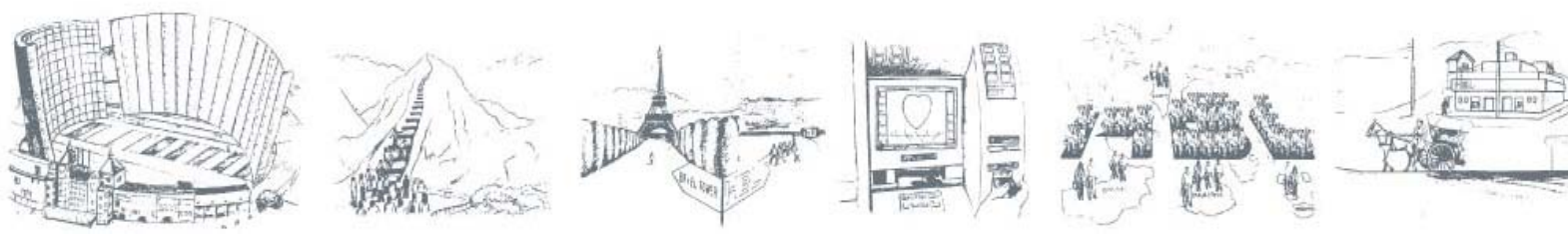
Profit multiplied by standard tax rate of 28% (2009: 28%)	1,437	1,453
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#### Effects of:

Expenses not deductible for tax purposes	4	(3)
Depreciation for the period in excess of capital allowances	54	70
Utilisation of losses brought forward	(1,196)	(1,216)
Other adjustments	58	-

#### Current tax charge for the year

	<u>357</u>	<u>304</u>
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# NOTES TO THE ACCOUNTS

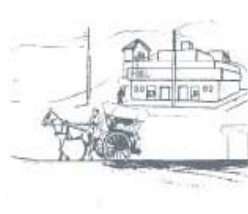
## (c) Factors that may affect the future tax charge

Since the Bank is a 90.5% owned subsidiary of Habib Bank Limited, and has been granted the status of an authorised institution under the UK Financial Services and Markets Act 2000 by the Financial Services Authority, the assessed trading losses brought forward by Habib Bank Limited are available to offset against the future profits arising on the former activities of Habib Bank Limited. Corporation Tax returns have been agreed up to the year ended 31 December 2007 with HM Revenue and Customs. Tax losses amounting to £24,636,000 were unutilised as at that date (2008: £27,835,000 unutilised as at 31 December 2006). It is estimated that tax losses of £14,817,000 are unutilised as at 31 December 2010 (2009: £19,930,000).

As at 31 December 2009, based on the previous profitability of the Bank and on the business plan for the five years to December 2014 (which forecasts that this profitability would continue), the directors decided that they should recognise a deferred tax asset of £5,810,000. As at 31 December 2010, based on this continued profitability, and on the business plan for the five years to 31 December 2015 which demonstrates that the Bank will continue to be profitable over that period, the directors have decided that they should recognise a total deferred tax asset of £4,279,000.

During the year an amount of £1,531,000 in respect of losses carried forward and timing differences has been recognised as a deferred tax charge against current year profit.

- (d) The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011, and the Bank has therefore recognised deferred tax at 27%. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the Bank's future current tax charge and reduce the Bank's deferred tax assets accordingly.



# NOTES TO THE ACCOUNTS

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
<b>5 Emoluments of directors</b>		
Directors' fees and emoluments	619	572
Pension contributions	28	25
	<u>647</u>	<u>597</u>
 The total remuneration and benefits of the highest paid director were	 <u>375</u>	 <u>351</u>

Benefits under defined contribution pension arrangements accrued during the year to 2 Directors (2009: 2 Directors).

## 6 Debt securities - Held to maturity

### *Investment securities*

#### *Listed*

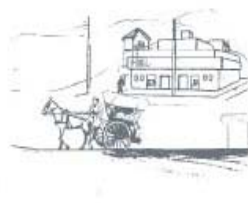
Government securities	26,151	9,695
Others	65,829	38,982
	<u>91,980</u>	<u>48,677</u>
 Impairment on Debt Securities	 -	 (3,000)
	<u>91,980</u>	<u>45,677</u>

### (a) Market Value

Market value of investments excluding impaired investments as at 31 December 2010 is £92,103,000 (2009: £44,207,000).

### (b) Other income

This includes an amount of £ Nil realised as a capital gain on the sale of debt securities (2009: £1,831,000).



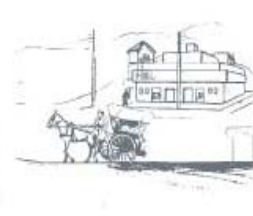
# NOTES TO THE ACCOUNTS

## (c) Debt securities movement

	(Discount)/ Premium £'000	Carrying value £'000
At 31 December 2009	62	45,677
New investments	154	64,087
Exchange adjustments	(13)	(40)
Matured / disposed off during the year	(21)	(19,219)
Reversal of impairment provision	-	3,000
Dividends received during the year	-	(1,381)
Written off during the year	-	(144)
<b>At 31 December 2010</b>	<u>182</u>	<u>91,980</u>

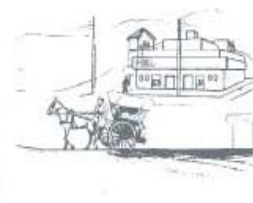
## 7 Tangible fixed assets

	Freehold property £'000	Leasehold improvements £'000	Computers, furniture, fixtures & equipment £'000	Total £'000
<i>Cost or valuation</i>				
At 31 December 2009	1,140	1,259	831	3,230
Additions	638	366	130	1,134
At 31 December 2010	<u>1,778</u>	<u>1,625</u>	<u>961</u>	<u>4,364</u>
<i>Accumulated depreciation and amortisation</i>				
At 31 December 2009	287	922	497	1,706
Charge for the year	79	92	173	344
At 31 December 2010	<u>366</u>	<u>1,014</u>	<u>670</u>	<u>2,050</u>
<b>Net book value</b>				
<b>At 31 December 2010</b>	<u>1,412</u>	<u>611</u>	<u>291</u>	<u>2,314</u>
At 31 December 2009	<u>853</u>	<u>337</u>	<u>334</u>	<u>1,524</u>



# NOTES TO THE ACCOUNTS

	2010 £'000	2009 £'000
<b>8 Deferred tax asset</b>		
Deferred tax asset	<u>4,279</u>	<u>5,810</u>
The movement in the year was as follows:		
Beginning of the year	5,810	7,113
Deferred tax (charge) recognised during the period (note 4)	(1,531)	(1,303)
End of the year	<u>4,279</u>	<u>5,810</u>
<b>9 Other assets</b>		
Corporation tax	219	-
Other assets	537	578
	<u>756</u>	<u>578</u>
<b>10 Other liabilities</b>		
Corporation tax	-	50
Other liabilities	1,204	1,489
	<u>1,204</u>	<u>1,539</u>



# NOTES TO THE ACCOUNTS

## 11 Provision for loan losses

<i>Provisions</i>	<b>Loans &amp; Advances</b>		<b>2010</b>	<b>2009</b>
	<b>Specific £ '000</b>	<b>General £ '000</b>	<b>Total £ '000</b>	<b>Total £ '000</b>
At 31 December 2009	4,626	1,058	5,684	1,727
Provisions for the year	214	(25)	189	3,957
<b>At 31 December 2010</b>	<b>4,840</b>	<b>1,033</b>	<b>5,873</b>	<b>5,684</b>

## 12 Share capital

### *Authorised*

Ordinary shares of £1 each	50,000	50,000
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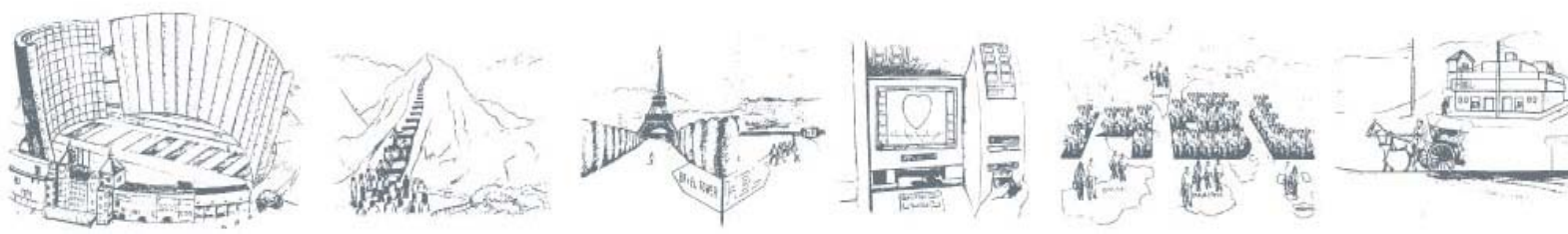
### *Allotted, called up and fully paid*

Ordinary shares of £1 each	25,000	25,000
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## 13 Subordinated liabilities

Subordinated liabilities - Loans Note 13(a)	21,178	-
	<u>21,178</u>	<u>-</u>

- (a) During the year the Bank has issued subordinated debt of \$33,000,000 (equivalent to £21,178,000) to the parent Habib Bank Limited. These notes are perpetual and are repayable either at the option of the Bank or five years after receipt of repayment notice from the note holder. The Financial Services Authority (FSA) approval is required prior to repayment. Interest is payable on a six monthly basis at the rate of 5.5% above six month LIBOR.



# NOTES TO THE ACCOUNTS

## 14 Movement in Shareholders' funds

	Share capital	Profit and loss	Other Reserves	Total
	£'000	£'000	£'000	£'000
	<b>2010</b>			
<b>At 1 January 2010</b>	25,000	19,913	-	44,913
Retained profit for the year	-	3,270	-	3,270
Capital contribution (Note 20)	-	-	1,050	1,050
	<u>25,000</u>	<u>23,183</u>	<u>1,050</u>	<u>49,233</u>
	<b>2009</b>			
<b>At 1 January 2009</b>	25,000	16,348	-	41,348
Retained profit for the year	-	3,565	-	3,565
	<u>25,000</u>	<u>19,913</u>	<u>-</u>	<u>44,913</u>

**Year ended  
31 December  
2010  
£'000**

**Year ended  
31 December  
2009  
£'000**

## 15 Contingencies and commitments

### (a) Commitments

- (i) Annual commitments under non-cancellable operating leases on land and buildings and motor vehicles are as follows:

Operating leases which expire:

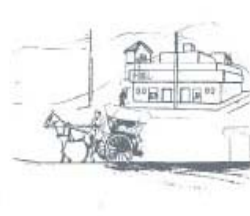
Within one year	7	30
In the second to fifth years	73	12
Over five years	280	268

- (ii) In respect of forward foreign exchange contracts:

Purchase	55,139	70,344
Sale	59,174	70,750

- (iii) In respect of undrawn credit facilities 3,178 3,937

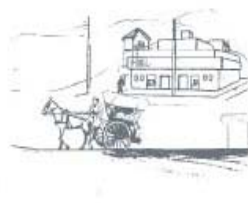
- (b) Contingent liabilities as disclosed on the face of the Balance Sheet and commitments to extend credit are mainly credit exposures which represent the amounts at risk should contracts be fully drawn upon and clients default. Since a significant portion of contingent exposures and commitments are expected to expire without being drawn fully upon or be covered by cash lien, the total of the contractual amounts is not representative of future liquidity requirements.



# NOTES TO THE ACCOUNTS

## 16 Assets and liabilities denominated by currency

	Assets	Liabilities	Forward foreign exchange contracts	Shareholders funds & Reserves	Net Exposure
	£'000	£'000	£'000	£'000	£'000
<b>2010</b>					
GBP	176,729	131,413	4,035	49,233	118
USD	144,683	152,619	7,721	-	(215)
EURO	60,449	51,338	(9,112)	-	(1)
Other currencies	6,313	3,571	(2,644)	-	98
	<u>388,174</u>	<u>338,941</u>	<u>-</u>	<u>49,233</u>	<u>-</u>
<b>2009</b>					
GBP	188,635	144,120	406	44,913	8
USD	148,642	149,867	1,199	-	(26)
EURO	33,592	31,764	(1,829)	-	(1)
Other currencies	3,796	4,001	224	-	19
	<u>374,665</u>	<u>329,752</u>	<u>-</u>	<u>44,913</u>	<u>-</u>



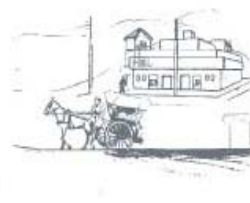
# NOTES TO THE ACCOUNTS

## 17 Concentration of credit risk

	Loans to customers £'000	Loans to banks £'000	Debt securities £'000	Contingencies £'000	Total £'000
<b>2010</b>					
Sectoral concentration:					
Chemicals and Pharmaceuticals	182	-	-	-	182
Textile	9,972	-	-	-	9,972
Automobile and transportation equipment	7,851	-	-	-	7,851
Financial	-	165,390	59,621	8,711	233,722
Government	-	-	26,151	-	26,151
Property investments	31,799	-	-	-	31,799
Foods, tobacco and beverages	23,220	-	-	-	23,220
General traders	6,125	-	-	4,761	10,886
Individuals	16,230	-	-	-	16,230
Others	26,585	-	6,208	5,630	38,423
	<u>121,964</u>	<u>165,390</u>	<u>91,980</u>	<u>19,102</u>	

### Geographical concentration:

Europe	111,473	96,183	76,060	6,468	290,184
North America	363	8,343	13,995	818	23,519
Asia Pacific (including South Asia)	8,747	52,578	-	7,690	69,015
Africa and Middle East	1,381	8,286	1,925	4,126	15,718
	<u>121,964</u>	<u>165,390</u>	<u>91,980</u>	<u>19,102</u>	

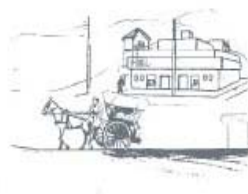


# NOTES TO THE ACCOUNTS

	Loans to customers £'000	Loans to banks £'000	Debt securities £'000	Contingencies £'000	Total £'000
<b>2009</b>					
Sectoral concentration:					
Chemicals and Pharmaceuticals	158	-	-	-	158
Textile	11,070	-	-	-	11,070
Automobile and transportation equipment	7,546	-	-	-	7,546
Financial	-	194,768	24,688	37,543	256,999
Government	-	-	9,695	-	9,695
Property investments	35,297	-	-	-	35,297
Foods, tobacco and beverages	23,133	-	-	-	23,133
General traders	6,754	-	-	1,548	8,302
Individuals	15,752	-	-	-	15,752
Others	25,394	-	11,294	3,258	39,946
	<u>125,104</u>	<u>194,768</u>	<u>45,677</u>	<u>42,349</u>	

## Geographical concentration:

Europe	111,525	130,631	36,020	2,951	281,127
North America	4,183	30,601	3,080	2,631	40,495
Asia Pacific (including South Asia)	7,905	27,351	6,577	20,788	62,621
Africa and Middle East	1,491	6,185	-	15,979	23,655
	<u>125,104</u>	<u>194,768</u>	<u>45,677</u>	<u>42,349</u>	

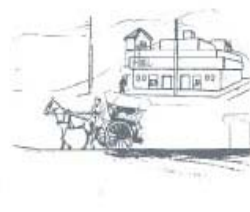
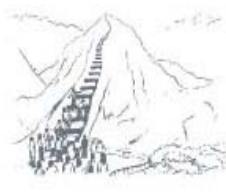
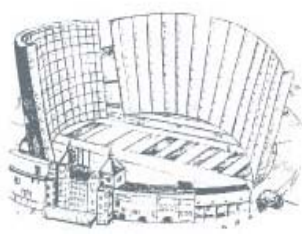


# NOTES TO THE ACCOUNTS

## 18 Maturity of Loans, Debt securities and Deposits

Maturity of loans, debt securities and deposits at the end of the year were:

	On Demand £'000	3 months or less but not on demand £'000	Over 3 months but less than 1 year £'000	Over 1 year but less than 5 years £'000	Greater than 5 years £'000	Total £'000
<b>2010</b>						
Loans and advances to:						
banks;						
- Parent	1,597	6,222	-	-	-	7,819
- Others	10,964	115,332	31,267	-	8	157,571
customers	6,170	31,262	9,835	43,489	31,208	121,964
Debt securities	-	24,099	18,018	47,286	2,577	91,980
	<u>18,731</u>	<u>176,915</u>	<u>59,120</u>	<u>90,775</u>	<u>33,793</u>	<u>379,334</u>
Deposits by:						
banks;						
- Parent	4,751	86,577	711	1,600	-	93,639
- Others	7,654	16,731	4,142	-	-	28,527
customers	72,657	102,908	18,260	135	-	193,960
subordinated liabilities	-	-	-	-	21,178	21,178
	<u>85,062</u>	<u>206,216</u>	<u>23,113</u>	<u>1,735</u>	<u>21,178</u>	<u>337,304</u>

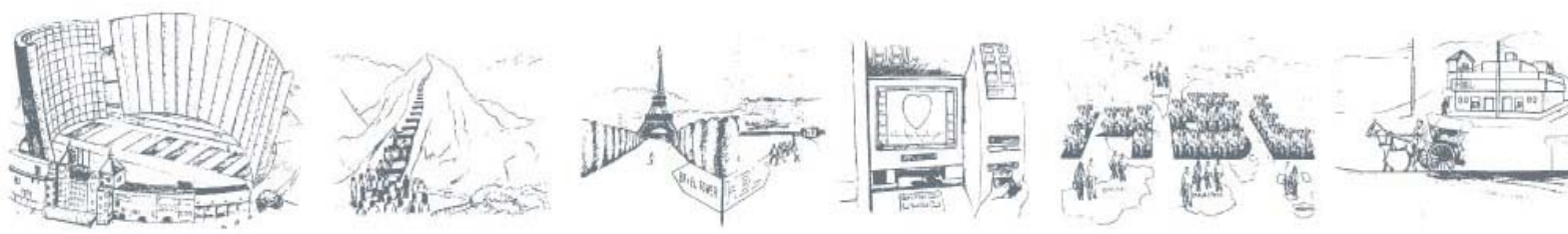


# NOTES TO THE ACCOUNTS

	On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Greater than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>2009</b>						
Loans and advances to:						
banks;						
- Parent	271	-	9,028	-	-	9,299
- Others	6,443	160,620	18,398	-	8	185,469
customers	5,274	28,199	17,785	46,676	27,170	125,104
Debt securities	-	8,409	8,142	22,205	6,921	45,677
	<u>11,988</u>	<u>197,228</u>	<u>53,353</u>	<u>68,881</u>	<u>34,099</u>	<u>365,549</u>
Deposits by:						
banks;						
- Parent	9,270	75,381	2,785	-	-	87,436
- Others	21,185	22,170	40	-	-	43,395
customers	65,312	119,766	11,613	330	-	197,021
subordinated liabilities	-	-	-	-	-	-
	<u>95,767</u>	<u>217,317</u>	<u>14,438</u>	<u>330</u>	<u>-</u>	<u>327,852</u>

The maturity of loans, debt securities and deposits have been shown according to their contractual maturities except for deposits held under lien which have been classified as per the maturities of the underlying exposure and impaired assets which have been classified in greater than 5 years net of their provision and interest in suspense.

Expected maturity dates do not differ significantly from the contract dates except for the maturity of £128,163,000 (2009: £126,704,000) of deposits representing retail deposit accounts considered by the Bank as a stable source of funding of its operations.

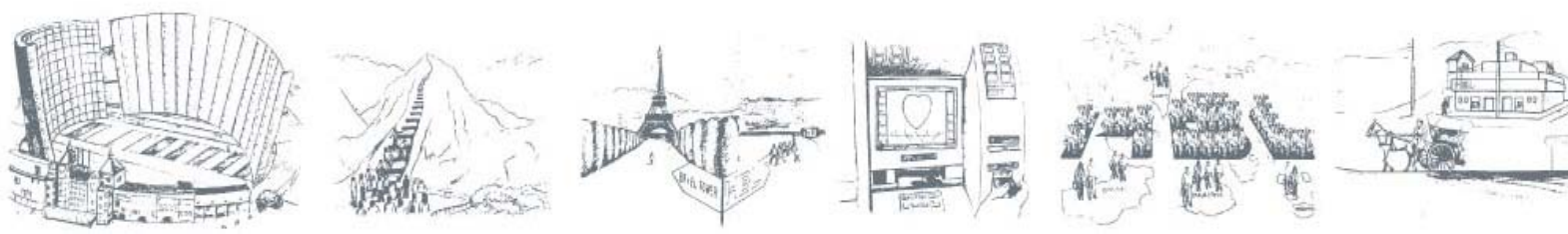


# NOTES TO THE ACCOUNTS

## 19 Interest rate sensitivity gaps

Interest rate risk primarily arises on the mis-matching of the Bank's assets with its funding. Interest rate sensitivity gaps in the Bank at the end of the year were:

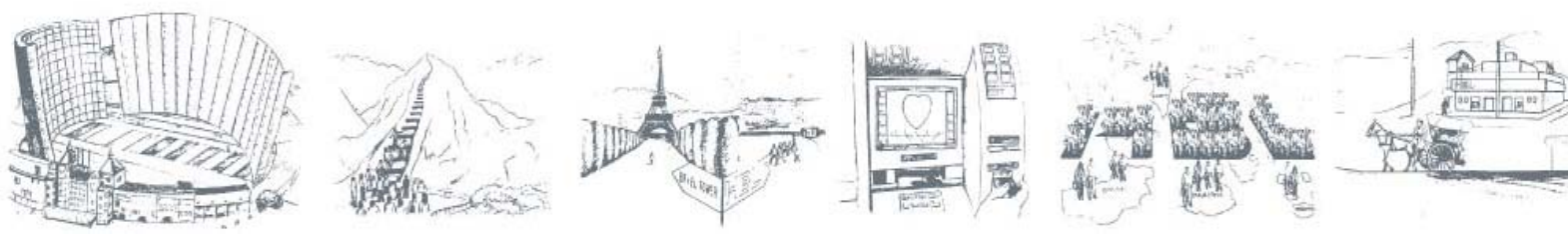
	Not more than three months	More than three months but not more than 6 months	More than six months but not more than 1 year	More than 1 year but not more than 5 years	Greater than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2010</b>							
Loans and advances to:							
banks	133,996	22,950	7,961	-	-	483	165,390
customers	102,126	-	-	-	-	19,838	121,964
Debt securities	67,924	-	11,418	10,061	2,577	-	91,980
Other assets	-	-	-	-	-	8,840	8,840
	<u>304,046</u>	<u>22,950</u>	<u>19,379</u>	<u>10,061</u>	<u>2,577</u>	<u>29,161</u>	<u>388,174</u>
Deposits by:							
banks	117,313	4,853	-	-	-	-	122,166
customers	176,046	8,092	9,822	-	-	-	193,960
Subordinated liabilities	-	21,178	-	-	-	-	21,178
Other liabilities and Shareholders' funds	-	-	-	-	-	50,870	50,870
	<u>293,359</u>	<u>34,123</u>	<u>9,822</u>	<u>-</u>	<u>-</u>	<u>50,870</u>	<u>388,174</u>
Overall gap	<u>10,687</u>	<u>(11,173)</u>	<u>9,557</u>	<u>10,061</u>	<u>2,577</u>	<u>(21,709)</u>	<u>-</u>
Cumulative gap	<u>10,687</u>	<u>(486)</u>	<u>9,071</u>	<u>19,132</u>	<u>21,709</u>	<u>-</u>	<u>-</u>



# NOTES TO THE ACCOUNTS

	Not more than three months	More than three months but not more than 6 months	More than six months but not more than 1 year	More than 1 year but not more than 5 years	Greater than 5 years	Non interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2009</b>							
Loans and advances to:							
banks	167,246	27,514	-	-	-	8	194,768
customers	99,344	-	5,411	-	-	20,349	125,104
Debt securities	27,259	5,742	62	11,354	-	1,260	45,677
Other assets	-	-	-	-	-	9,116	9,116
	<u>293,849</u>	<u>33,256</u>	<u>5,473</u>	<u>11,354</u>	<u>-</u>	<u>30,733</u>	<u>374,665</u>
Deposits by:							
banks	130,179	36	616	-	-	-	130,831
customers	151,954	7,497	2,017	-	-	35,553	197,021
Subordinated liabilities	-	-	-	-	-	-	-
Other liabilities and Shareholders' funds	-	-	-	-	-	46,813	46,813
	<u>282,133</u>	<u>7,533</u>	<u>2,633</u>	<u>-</u>	<u>-</u>	<u>82,366</u>	<u>374,665</u>
Overall gap	<u>11,716</u>	<u>25,723</u>	<u>2,840</u>	<u>11,354</u>	<u>-</u>	<u>(51,633)</u>	<u>-</u>
Cumulative gap	<u>11,716</u>	<u>37,439</u>	<u>40,279</u>	<u>51,633</u>	<u>51,633</u>	<u>-</u>	<u>-</u>

Non interest bearing items comprise shareholders funds, provisions, fixed assets, impaired assets and other assets and liabilities not subject to interest.



# NOTES TO THE ACCOUNTS

## 20 Related party transactions

The Bank is a subsidiary of and is controlled by Habib Bank Limited (HBL), its immediate parent, which is in turn a subsidiary of The Aga Khan Fund for Economic Development (AKFED) SA, the ultimate controlling party and ultimate parent undertaking of the Bank. The Bank has related party relationships with its immediate parent, subsidiaries and associates of the immediate parent, and key management personnel of the Bank and its immediate parent.

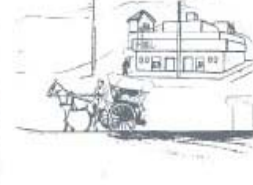
The banking transactions with the related parties are executed on the same terms, including interest rates (deposits/advances) and collateral, as those prevailing at the time for comparable transactions with unrelated parties other than those under the terms of employment and loans provided to employees under the staff loan scheme. Pension contributions are made in accordance with the terms of the pension contribution plan.

Connected counterparties include entities where HBL or AKFED singly or jointly holds 20% or more of the controlling interest.

The details of balances with the related parties are as follows:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Borrowing/deposits from:		
Immediate parent and connected counterparties	114,957	87,577
Associate of the immediate parent	2,662	11,294
Key management personnel	121	181
Receivable from:		
Immediate parent and connected counterparties	7,958	9,439
Associate of the immediate parent	47	157
Key management personnel	86	93
Entities controlled by the key management personnel	978	1,002
Acceptances and endorsements related to:		
Immediate parent and connected counterparties	1,815	1,300
Associate of the immediate parent	963	13,750
Net forward (purchase)/sale foreign exchange contracts outstanding with:		
Immediate parent and connected counterparties	25	-
Associate of the immediate parent	13	(92)

In 2010, the Bank sold a debt security to its immediate parent for £2,736,000 giving rise to a capital contribution of £1,050,000 which has been included in Other Reserves.



# NOTES TO THE ACCOUNTS

## 21 Fair value of financial instruments

The fair value of traded investments are based on quoted market prices. Fair value of these investments has been disclosed in note 6.

Fair value of loans, deposits, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active markets for such assets and liabilities and reliable data regarding market rates for similar instruments.

## 22 Management of delinquent debts on behalf of HBL & ABL

The Bank is managing delinquent debts on behalf of Habib Bank Limited ("HBL") and Allied Bank Limited ("ABL") that arose prior to the transfer of business to HAIB in 2001. The loan balances for HBL amounted to £24,381,000 (2009: £23,408,000) and for ABL amounted to £15,000 (2009: £15,000) which were fully provisioned. Movement in the HBL account during the year includes exchange movements of £973,000 (2009: £2,445,000) on USD loans included in the balance. Any expenses / recoveries on these accounts are attributable to HBL and ABL.

## 23 Derivative contracts

Derivative contracts are financial instruments which derive their value from an underlying rate or price. The Bank is not involved in derivative contracts.

## 24 Claims and litigation

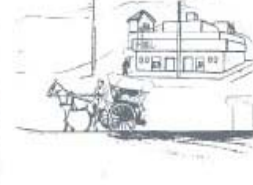
Provision has been made, to the extent considered necessary by the directors, for legal proceedings instituted or threatened against the Bank.

## 25 Ultimate parent undertaking and parent undertaking of larger group of which the Bank is a member

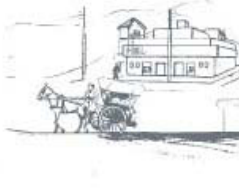
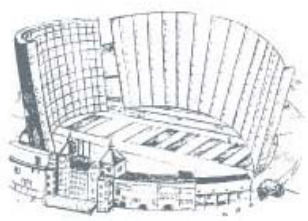
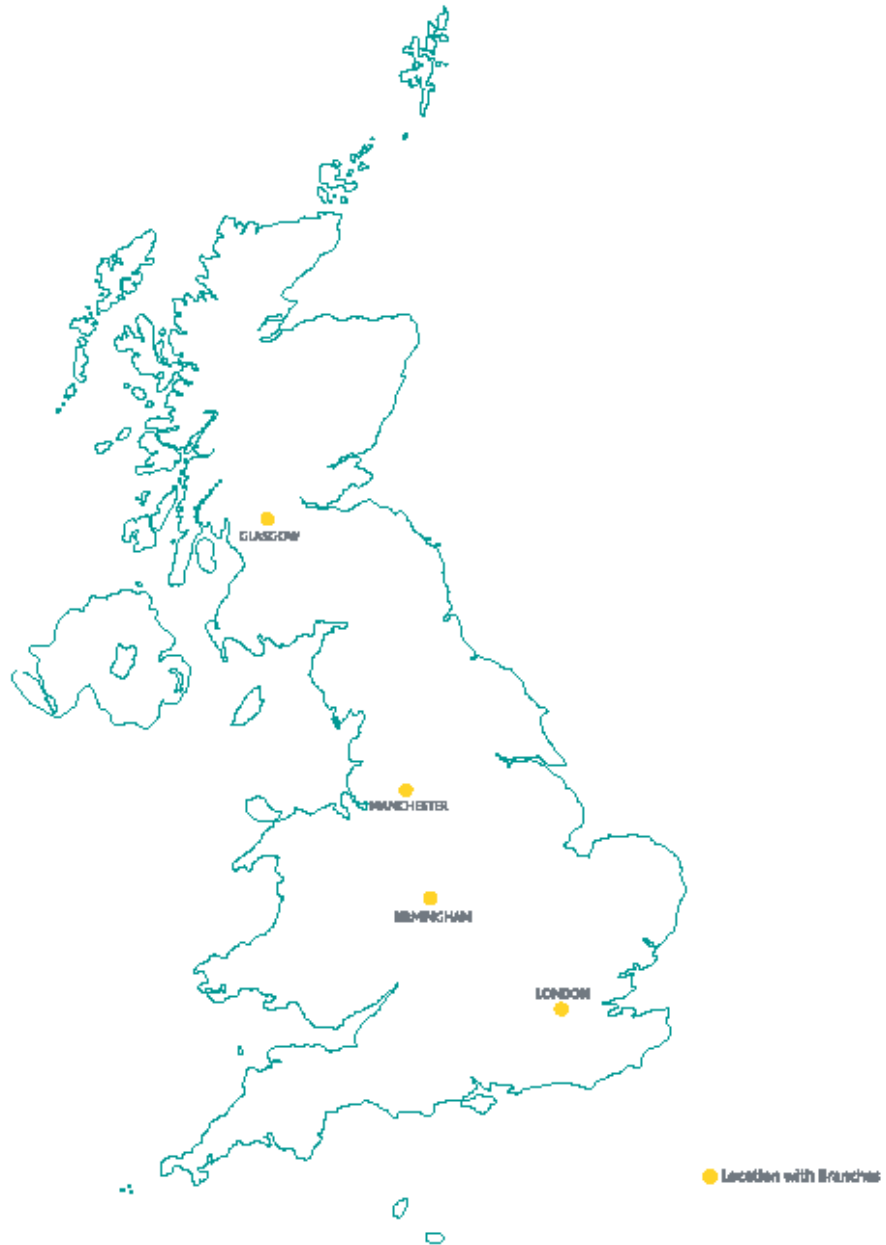
The Bank is a subsidiary of Habib Bank Limited, registered in Pakistan, which is in turn a subsidiary of The Aga Khan Fund for Economic Development SA, registered in Switzerland, the ultimate parent undertaking. The smallest and largest group in which the results of the Bank are consolidated is that headed by Habib Bank Limited. Copies of the group accounts for Habib Bank Limited can be obtained from Habib Bank Limited, I.I. Chundrigar Road, Karachi, Pakistan. No other group financial statements include the results of the Bank.

## 26 Comparative figures

Certain prior year numbers have been reclassified to be consistent with the current year presentation.



# LOCATION WITH BRANCHES



# BRANCHES DETAILS

## London – Commercial Road

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T: +44 (0) 20 8472 7351  
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Authorised and Regulated by the Financial Services Authority