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Habibsons Bank Limited

Annual Report and Financial Statements

31 December 2010

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Habibsons Bank Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS 2010

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Branches and Affiliate Banks

Registered Number 1719649 England

Regulated by the FSA

Habibsons Bank Limited

DIRECTORS

Habib Mohamed D Habib*
(Chairman)

Asghar D Habib
(Vice Chairman)

Bande Hasan*
(Chief Executive)

Ahmed H Habib*
(Chief Executive)

Mushm R Habib*

Zain Habib*

Patrick J Quinn

Michael D Bendon

***Denotes Executive Director**

SECRETARY

Michael J O Pritchard

REGISTERED OFFICE

**9 Portman Street
London W1H 6DZ**

SOLICITORS

**S N R Denton
1 Fleet Place
London EC4M 7WS**

**Hugh, Cartwright and Amin
12 John Street
London WC1N 2EB**

AUDITORS

**Deloitte LLP
Chartered Accountants & Statutory Auditors
Hill House
1 Little New Street
London EC4A 3TR**

Habibsons Bank Limited

Chairman's Statement

The UK economy has returned to growth after experiencing its largest contraction in GDP since the Second World War. The economy shrank by slightly more than 6% of GDP in 2008/9 but less than half of that fall has now been recovered.

The other impacts of the recent turbulence in the financial markets are the need for enhanced liquidity and higher capital ratios. These are having a disproportionate impact on smaller banks such as ours. During the year, we have invested both financially and in manpower to adopt the new enhanced liquidity requirements for banks. Whilst this can be considered to be a good move by the regulators generally, the impact on us has been considerable.

I am very pleased, therefore, to be able to say that Habibsons Bank Ltd has only been relatively mildly affected by recent events. We have remained very liquid at all times at some cost to our return on capital employed in the business but, we have always provided core traditional banking services to our customers. Our business model by which we identify and know our customers' needs allows us to develop products and services to meet them. In carrying out our business, we ensure that we lend, on a well secured basis, we do not sell products, but provide services which satisfy our customers' individual needs. We continue to adopt a conservative approach to our banking business and this is reflected in the core products offered. We offer products for which we have the expertise and resources to provide. We avoid products and risks that we do not understand, or have insufficient skills to handle, or products considered high risk.

Taking into account the severity of the recession and the slow recovery, I am pleased to report that, by the Grace of God, our bank's conservative approach remains as important as ever. Our operating profit has been affected by the historically very low interest rates prevailing in the markets and an exceptional increase in our provision for bad and doubtful debts and as a result has reduced from £912,776 last year to £453,151 this year. Our strategy of focussing more on fee based business is proving fruitful as our income from fees and commissions has increased from £2,487,945 last year to £2,816,421 this year.

I am pleased to say that, in spite of the difficult economic conditions, our customer deposits have registered a modest increase to £212,047,986 from £203,529,809 over the previous year. However, our loans and advances to customers decreased from £86,175,988 last year to £78,917,290 this year, reflecting our cautious approach to risk.

The directors are seeking to ensure that we have a stronger capital base in anticipation of the revised capital requirements and are therefore not proposing any dividend for the year.

For the future, the ongoing economic, and political uncertainty remains a cause for concern, particularly in the ME and Africa, although the impact to the UK economy is not to be overlooked. The continued political instability in some countries in North Africa, which may spread by contagion to the Middle East, is being monitored carefully. Also, we have undertaken rigorous assessments of our liquidity to ensure that we are able to withstand any financial storms that could blow our way.

The reforms of the UK's financial services regulatory system should eventually bring greater stability but I am concerned that the additional burdens being placed on banks could be considerable. There is little doubt in my mind that the Basel III higher capital requirements for example will make it harder for banks such as us to make an adequate return on capital for the risks we undertake. The other concern is that the continuing above target inflation could adversely impact on our operating costs so we must maintain our tight control over these.

I am confident that our conservative approach to the management of risk and our customer focussed approach to our business should stand us in good stead to take advantage of new opportunities as they arise in our chosen sectors.

Last year was marked by the death of Mr Naseer Islam who sadly, passed away on 3rd October 2010. The Board and I recognise that we have lost a loyal and diligent officer and he will be very much missed by all those who knew him.

We have been through a period of considerable upheaval, both externally and internally, which has resulted in the need for us to respond by changing some of our management processes. This has placed an additional burden on Board Members, the Management and staff of the bank, in addition to the day to day management of our business and delivery of services to our customers, and who have achieved much in these difficult circumstances.

Habibsons Bank Limited

Chairman's Statement

In all of these achievements, the management team has played a major leadership role, and in all of them the hard work and commitment of the staff whom they lead has been essential

On behalf of the Board and personally, I would like to thank the management and all of the staff for their contribution over the last year



Habib Mohamed D Habib
Chairman

15 March 2011

Habibsons Bank Limited

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2010

PRINCIPAL ACTIVITIES

The bank holds and issues financial instruments for three main purposes

- to earn an interest margin or a fee,
- to finance its operations, and
- to manage the interest rate and currency risks arising from its operations and from its sources of finance

Other fee earning activities are

- documentary Credits and documentary collections for trade related activities,
- managing customers' investment portfolios according to their instructions, and
- global money transfer

The bank does not have a trading book

In addition, various financial instruments, for example, debtors, accrued interest and creditors may arise directly from the bank's operations

The bank finances its operations by a mixture of retained reserves, customer deposits, inter-bank deposits and subordinated loans. The deposits raised may be in a range of currencies at floating or fixed rates of interest. The bank's lending is usually in sterling or dollars and may be either floating or fixed rate. The bank uses forward foreign exchange contracts to hedge foreign exchange exposures resulting from customer facilitation. All forward foreign exchange contracts for customers are matched with corresponding contracts with banks.

GOING CONCERN

The bank's business activities, together with the factors likely to affect its future development performance and position are set out in the Business Review on pages 4 to 5. In addition the Business Review includes the company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The bank has an acceptable capital buffer and an increasing funding base of customer deposits. As such it is not exposed to stresses in the wholesale funding market. As a consequence, the Directors believe the Bank is well placed to manage its business risk successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and its associates have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

BUSINESS REVIEW

The profit for the year before taxation amounted to £453,151 (2009 £912,776)

The retained profit for the year was £263,615 (2009 £733,960), which has been taken to the reserves. Net interest income decreased from £4,144,098 in 2009 to £3,704,843 in the current year whilst total operating income was £7,948,632 (2009 £8,261,723)

The bank currently offers the following products and services to its clients

Commercial Banking
Trade-Finance
Private and Investment Banking
Financial Institutions
Guarantees
ATMs

Habibsons Bank Limited

Directors' Report (continued)

Our expertise is based on years of experience of working with businesses and investors of various sizes, enabling us to offer a comprehensive range of services that are tailored to help achieve the financial goals of our clients

Our traditional business of deposit taking, commercial lending and trade finance continues to be our core business. We have been adding products to generate more fee based income. In the last few years we have added Private and Investment Banking and Asset Management activity to our products and expanded the branch network

The directors are optimistic that the business of the bank will continue to grow organically in both its traditional and new areas,

The focus of the bank is continual expansion of the client base within the target market. We do this by providing a highly personalised service. As a result, our customers tend to be loyal and we retain their custom over long periods. They also become a source of fresh introductions. We operate through our own branches in the UK and Switzerland, representative office in Pakistan and associate banks in Tanzania and South Africa. The bank uses these and other personal connections and knowledge base for business growth

We produce detailed annual budgets for various lines of the bank's business. In addition we have strategic plan which take the form of broad 5 year projections. The directors have concluded that in order to meet our projections, we need to capture additional business from existing clients and attract new ones

By the Grace of God, our projections were accurate enough to enable us to produce results across all our business segments in line with our initial expectations. Our recent programme of opening branches continues to show results and we expect to see further results as these new branches mature and deepen their penetration in their local market areas

At the beginning of the year, it seemed that doom and gloom had descended on the UK economy. It's recovery rate was much slower than other economies and it raised concerns that the recent recession had exposed underlying structural weakness. In one sense this is correct as hopes for a strong recovery in the UK economy rest on the hope that the depreciation in sterling will give the exporting sector a boost to offset the weakness in the domestic economy. Essentially the lack of a boost seems to be based on the fall coming from an over-valued starting point so it has merely stopped the trade position from deteriorating further

Added to this, the fiscal contraction is now well underway but there are doubts whether the economy will be able to withstand such a sharp contraction and there is concern that there are very few conditions that have helped other economies maintain higher growth rates throughout their own squeezes. However, the squeeze should still put the UK economy onto a firmer footing in time by reducing the drag coming from the relatively inefficient public sector

Against this background, monetary conditions should remain loose although there are now signs that markets are discounting a rise of around one half of one percent later in this year. This will enable us to improve our return on our capital funds and improve our margins which have been badly squeezed in the recent past

We continue to believe that our conservative approach to lending with greater emphasis on collateralised credit transactions with adequate margins to cover the greater volatility on asset valuations should protect our bank from the economic stresses being experienced by many of our customers

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the bank's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The management reviews and agrees policies for managing each of these risks and they are summarised below

Interest rate risk

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as retained reserves and customer current accounts, but also from the gaps that arise from the normal course of business

The policy of the bank is to match short-term customer deposits with money market placements or have our money market placements of a shorter period than the customer deposits. This enables us to eliminate interest rate risk. Customer deposits over medium-term are generally utilised for investment in the secondary markets. The bank places some of its funds in fixed rate investments but has policies in place to limit such exposures

Habibsons Bank Limited

Directors' Report (continued)

The table shown in note 30 summarises the re-pricing mismatches on the bank's assets and liabilities as at 31 December 2010. Items are allocated to time bands by reference to the earlier of the next contracted interest rate re-pricing date and the maturity date.

Liquidity risk

The bank is regulated in the United Kingdom by the Financial Services Authority (FSA) who, from time to time, set required liquidity mismatch parameters. The bank manages the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced to ensure that all funding obligations are met when due and the required mismatch parameters are not exceeded. The policy of the bank is to match to maturity as far as is practicable and the Treasury Department will not take on large exposures or placements that cannot easily be matched in the market as to currency or maturity. The Bank is fully cognisant of the current regulatory challenges particularly the recent FSA initiative for strengthening liquidity standards which came into effect during 2010.

Foreign currency risk

It is the policy of the bank that it will, at all times, adhere to the limits laid down by the FSA in respect of the "overall net open position". It is not the bank's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The bank uses forward foreign exchange contracts to hedge foreign exchange exposures resulting from customer facilitation. All forward foreign exchange contracts for customers are matched with corresponding contracts with banks.

Foreign exchange exposures arise from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. The table shown in note 31 gives details of the company's assets and liabilities as at 31 December 2010, in sterling, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the bank are matched.

Credit risk

Credit risk is the risk that a customer or counterparty of the bank will be unable or unwilling to meet a commitment that it has entered into. It arises from the lending, trade finance, treasury and other activities of the Bank.

Credit Policies follow the basic guidelines for prudent lending and to ensure strong credit process through the Credit Committee.

- All new credit proposals are subject to the approval of the Credit Committee/Board
- Credit exposures are reviewed at least once every twelve months and more often if circumstances warrant
- Lending is normally collateralised by marketable and tangible security maintaining adequate loan to value ratios
- All credit risk is graded
- Monthly review of all credit exposures by the Senior Management of the Bank

Credit Risk is also managed through establishing exposure limits for single borrowers, group of borrowers, market segments, as well as by complying with the limits set by the Financial Services Authority. A broad sector spread of exposures are assessed individually and the quality of the overall portfolio monitored by using a credit grading system calibrated to the probability of incurring losses. The Bank mitigates its credit risk by conducting thorough reviews of the borrowers and through obtaining collateral. The credit risk is also reduced by setting up appropriate allowances for loan impairment and loan losses.

Special attention is paid to the management of problem loans. Where necessary a specific provision is made to bring the assets to their recoverable amount.

Habibsons Bank Limited

Directors' Report (continued)

DIVIDENDS

The directors have decided not to recommend the payment of a final dividend (2009 nil), no interim dividend has been paid (2009 nil) The company has not paid dividend during the year

The only shareholding in the company by directors is one subscriber share that was held throughout the year by Mr Habib Mohamed D Habib, Chairman

Mr Habib Mohamed D Habib also has interests in the group companies Habib Overseas Bank, South Africa and Habib African Bank, Tanzania

The present members of the board are set out on page I These have remained unchanged throughout the year

DONATIONS

During the year the company made donations of £3,000 (2009 nil) No donations were made for political purposes

AUDITOR

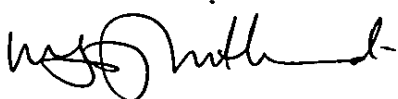
Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors and signed on behalf of the Board



M J O PRITCHARD
Company Secretary

15 March 2011

Habibsons Bank Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of

Habibsons Bank Limited

We have audited the financial statements of Habibsons Bank Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on matters prescribed by the Companies Act 2006

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

Independent Auditors' Report to the Members of Habibsons Bank Limited (continued)

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



Caroline Britton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
15 March 2011

Habibsons Bank Limited

Profit and loss account Year ended 31 December 2010

	Notes	2010 £	2009 £
Interest receivable			
- Interest receivable from fixed income securities		321,231	490,119
- Other interest receivable and similar income	2	3,954,997	5,137,108
- Interest payable		(571,385)	(1,483,129)
NET INTEREST INCOME		3,704,843	4,144,098
Fees and commissions receivable		2,816,421	2,487,942
Dealing profits		543,167	716,715
Profit/(loss) on sale of investments		26,783	(32,058)
Other operating income	3	857,418	945,026
TOTAL OPERATING INCOME		7,948,632	8,261,723
Administrative expenses	4	6,944,979	7,036,256
Depreciation	16	249,094	262,691
Provision for bad and doubtful debts	14	301,408	50,000
TOTAL OPERATING EXPENSES		7,495,481	7,348,947
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	453,151	912,776
Taxation	8	(189,536)	(178,816)
PROFIT FOR THE FINANCIAL YEAR	23	263,615	733,960

The profit for the current and preceding year is derived from continuing operations

The notes on pages 14 to 36 form an integral part of the accounts

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2010 £	2009 £
Profit for the financial year		263,615	733,960
Gains on revaluation of Available for Sale Investments		176,935	205,648
Tax charge on revaluation gain on Available for Sale Investments	8	(49,542)	(58,610)
TOTAL RECOGNISED GAINS FOR THE YEAR		391,008	880,998

Habibsons Bank Limited

Balance Sheet As at 31 December 2010

		As at 31 December 2010 £	As at 31 December 2009 £
	Notes		
ASSETS			
Cash and balances at central banks		829,977	843,110
Treasury bills and other eligible bills	10	6,838,091	9,480,752
Loans and advances to banks	11	162,272,587	156,172,091
Loans and advances to customers	12	78,917,290	86,175,988
Tangible fixed assets	16	1,057,160	1,232,557
Other assets	17	514,023	714,009
Prepayments and accrued income		582,457	573,451
TOTAL ASSETS		251,011,585	255,191,958
LIABILITIES			
Deposits by banks	18	13,135,867	26,022,783
Customer accounts	19	212,047,986	203,529,809
Other liabilities	20	1,078,457	1,173,269
Accruals and deferred income		687,873	712,936
Subordinated liabilities – loans	21	3,859,017	4,000,000
		230,809,200	235,438,797
Called up share capital	22	14,000,000	14,000,000
Revaluation reserve	23	46,463	(80,930)
Profit and loss account	23	6,155,922	5,834,091
Equity shareholders' funds		20,202,385	19,753,161
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		251,011,585	255,191,958
Memorandum items			
Contingent liabilities			
- acceptances and endorsements		1,072,429	4,291,781
- guarantees and assets pledged as collateral security		12,981,588	11,505,821
- letters of credit		16,151,382	27,974,374
		30,205,399	43,771,976
Commitments:			
- other commitments	24	6,811,000	7,555,000

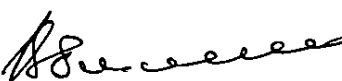
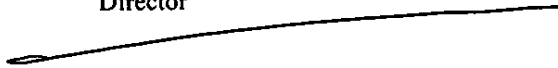
These financial statements were approved by the Board of Directors and authorised for issue on 15 March 2011

Signed on behalf of the Board of Directors

A Habib
Director



Bande Hasan
Director

Habibsons Bank Limited

Cash flow statement

Reconciliation of Operating Profit to Net Operating cash flows Year ended 31 December 2010

	2010 £	2009 £
Operating profit on ordinary activities before tax	453,151	912,776
Decrease/(increase) in accrued income and prepayments	(9,006)	156,754
Increase/(decrease) in accruals and deferred income	(25,063)	(207,782)
Provisions for bad and doubtful debts	301,408	(50,000)
Exchange difference	(343,534)	271,977
Profit/(loss) on sale of investments	26,783	(32,058)
Depreciation	249,094	262,691
Interest on subordinated loan added back	114,695	216,838
Loss on revaluation of investments	176,935	205,648
Net cash inflow from trading activities	944,463	1,736,844
Net increase in loans and advances to banks and customers	(5,250,314)	29,998,109
Net increase/(decrease) in deposits by banks and customer accounts	(4,368,739)	(24,699,724)
Net decrease/(increase) in other assets	199,986	(203,756)
Net (decrease)/increase in other liabilities	(94,812)	(481,826)
Net cash inflow from operating activities	<u>(8,569,416)</u>	<u>6,349,647</u>
Cash flow statement		
Net cash inflow from operating activities	(8,569,416)	6,349,647
Returns of investment and servicing of finance	27(i) (114,695)	(216,838)
Taxation (paid)/received	(42,190)	(475,847)
Capital expenditure and financial investment	27(i) 2,750,862	(3,523,906)
Increase/(decrease) in Subordinated loan capital	(140,983)	(1,000,000)
Increase in share capital	-	4,000,000
	<u>(6,116,422)</u>	<u>5,133,056</u>
Equity dividends paid	-	(200,000)
Increase/(decrease) in cash	27(ii) <u>(6,116,422)</u>	<u>4,933,056</u>

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

1. Accounting policies

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, in accordance with the Companies Act 2006 relating to banking companies, and applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below.

The financial statements are presented in Pounds (£), which is the functional currency of the Bank. The financial statements have been prepared under a going concern basis as set out in the Directors' report.

Interest

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of loans and deposits to their net carrying amount.

Dealing profits

Dealing profits comprise foreign exchange gains or losses on the Company's open foreign exchange positions. The Company does not enter into speculative contracts.

Other operating income

Other operating income is accounted for on an accruals basis.

Fees and commissions

Fees and commissions received are accounted for on an accruals basis.

Treasury bills and other eligible bills

Treasury bills and other eligible bills are intended for use on a continuing basis and are classified as Available For Sale (AFS) financial assets, and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the revaluation reserve is included in profit or loss for the period.

For investments classified as AFS, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged at the forward contract rate. Monetary assets and liabilities denominated in a currency other than sterling are translated at exchange rates prevailing at the year end and exchange gains and losses are included in the profit and loss account.

Financial assets

Loans and advances to banks, loans and advances to customers and cash and balances at central banks are classified as loans and receivables, and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

1. Accounting policies (continued)

Impairment of financial assets

For Loans and Receivables, objective evidence of impairment could include

- significant financial difficulty of the issuer or counterparty, or
- default or delinquency in interest or principal payments, or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

The carrying amount of loans and receivables and available for sale financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available for sale investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale investments, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Pensions

The company operates a defined contribution scheme. The assets of the scheme are held separate from those of the company in independently administered funds. Amounts charged to the profit and loss account represent the contributions payable to the schemes in respect of the accounting period. Differences between contributions payable in the year and contributions actually paid are shown as either prepayments or accruals in the balance sheet.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and impairment in value. Depreciation is provided by the company to write-off equipment by equal instalments over its estimated useful economic life as follows:

Equipment 5 to 10 years

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

1. Accounting policies (continued)

Financial liabilities and interest payable

Deposits by banks, customer accounts and subordinated liabilities are classified as financial liabilities. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial instruments

Derivative instruments used by the bank are forward exchange contracts. The bank does not enter into speculative derivative contracts. All such instruments are used for hedging purposes in line with the bank's risk management policies.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2. Other interest receivable and similar income

	2010 £	2009 £
Interest receivable from banks	761,870	1,330,482
Interest receivable from customers	3,193,127	3,806,626
	<u>3,954,997</u>	<u>5,137,108</u>

3. Other operating income

Private banking	412,287	811,006
Other	445,131	134,020
	<u>857,418</u>	<u>945,026</u>

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

4. Administrative expenses including staff costs

	2010 No.	2009 No.
Average number of employees	92	102
UK branches and head office	76	83
Zurich – branch	7	8
Pakistan – representative office	9	11
	£	£
Wages and salaries	3,390,461	3,536,278
Social security costs	369,501	365,925
Other pension costs	177,453	172,647
Total staff costs	3,937,415	4,074,850
Other administrative expenses	3,007,564	2,961,406
	6,944,979	7,036,256

5. Operating profit on ordinary activities before tax

Operating profit is stated after charging

	2010 £	2009 £
Fees payable to the company's auditor for the audit of the company's annual account	93,569	82,898
Total audit fees	93,569	82,898
Other services	26,828	11,826
Total non-audit fees	26,828	11,826

6. Directors' emoluments

	2010 £	2009 £
Directors' fees	40,000	40,000
Other emoluments	413,632	438,621
	453,632	478,621

The highest paid director received emoluments excluding pension contributions, totalling £85,662 (2009 £85,357) and the amount of pension contributions paid was £4,000 (2009 £4,000)

Habibsons Bank Limited

Notes to the Accounts

Year ended 31 December 2010

7. Pension costs

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in independently administered funds. Contributions payable by the company during the year, and charges to the profit and loss account, amounted to £177,453 (2009 £172,647) which includes contributions for directors £7,750 (2009 £7,750). Two of the directors at 31 December 2010 were members of the defined contribution scheme.

8. Taxation

a) Analysis of tax charge on ordinary activities

	2010 £	2009 £
Corporation tax		
Corporation tax at 28% (2009 28%)	142,647	267,580
Less relief for foreign tax suffered	(41,068)	(39,863)
Total current tax charge	101,579	227,717
Effects of Double Tax Relief		
Foreign tax for current year	41,068	39,863
Adjustment in respect of prior periods	43,434	(74,085)
Total current tax charge	186,081	193,495
Deferred tax		
Timing differences, origination and reversal		
- current year	(9,831)	(3,803)
- previous year	13,286	(10,876)
Tax on profit on ordinary activities	189,536	178,816

b) Reconciliation of current tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (28%). The differences are explained below:

	£	£
Profit on ordinary activities before tax	453,151	912,776
Tax charge on profit at standard rate of 28% (2009 28%)	126,882	255,577
Factors affecting charge		
Expenses not deductible for tax purposes	8,904	8,713
Capital allowances in excess of depreciation	7,376	3,290
Movement in short term timing differences	(515)	-
Adjustment to tax charge in respect of previous years	43,434	(74,085)
Total current tax charge	186,081	193,495

A tax debit for £49,542 (2009 £58,610) has been recognised in the statement of recognised gains and losses with regards to the current year gains on Available for Sale of financial instruments.

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

9. Dividends

	2010 £	2009 £
Final (paid) – £nil per share (2009 10p per share)	-	200,000

10. Treasury bills and other eligible bills

	2010 £	2009 £
Balances as at 1 January	9,480,752	6,062,734
Acquisitions	5,096,813	7,936,367
Disposals/matured during the year	(8,534,212)	(3,803,044)
Exchange difference	748,275	(634,375)
Carrying value as at 31 December	6,791,628	9,561,682
Fair value as at 31 December	6,838,091	9,480,752
Revaluation	46,463	(80,930)
The table below indicates the rating of entities		
AAA to AA-	5,035,000	2,325,229
A+ to A-	1,694,624	1,224,067
BBB+ to B-	-	5,416,622
Unrated	108,467	514,834
	6,838,091	9,480,752

11. Loans and advances to banks

	2010 £	2009 £
Repayable on demand	9,791,089	15,894,378
Other loans and advances	-	-
Five years or less but over 1 year	42,715	1,742,822
One year or less but over 3 months	152,438,783	138,534,891
Three months or less	162,272,587	156,172,091

The above amount includes £659,544 (2009 £1,509,894) (maturing in 3 months or less) pledged to secure a credit line. The table below indicates the rating of entities

	2010 £	2009 £
AAA to AA-	29,938,662	22,748,503
A+ to A-	110,296,194	106,029,466
BBB+ to B-	19,269,670	21,107,079
Unrated	2,768,061	6,287,043
	162,272,587	156,172,091

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

12. Loans and advances to customers

	2010 £	2009 £
Remaining maturity		
- over 5 years	1,113,852	3,200,769
- five years or less but over 1 year	13,807,332	8,924,897
- one year or less but over 3 months	5,012,288	11,257,851
- three months or less	60,358,188	63,520,510
Provision for bad and doubtful debts (note 14)	(700,612)	(404,588)
Interest held in suspense (note 15)	(673,758)	(323,451)
	<u>78,917,290</u>	<u>86,175,988</u>
Of which repayable on demand	<u>57,849,727</u>	<u>61,743,674</u>

None of these loans and advances are subordinated

The table below analyses the loans and advances to customers using the bank's internal credit rating system

	2010 £	2009 £
Grade 1	75,521,724	85,067,120
Grade 2	303,057	6,048
Grade 3	3,092,507	1,102,818
Grade 4	-	-
Grade 5	2	2
	<u>78,917,290</u>	<u>86,175,988</u>

13. Credit risk information

A table showing balances with central banks, loans and advances to customers, treasury and other bills which are past due or impaired are as follows

	Treasury and other bills £	Balance with central banks and loans and advances to banks £	Loans and advances to customers £	Total £
As at 31 December 2010				
Neither past due or impaired	6,791,628	162,272,587	75,837,428	244,901,643
Past due and impaired	-	-	4,454,232	4,454,232
Gross	<u>6,791,628</u>	<u>162,272,587</u>	<u>80,291,660</u>	<u>249,355,875</u>
Less allowance for impairment/interest suspended and revaluation	46,463	-	(1,374,370)	(1,327,907)
Net	<u>6,838,091</u>	<u>162,272,587</u>	<u>78,917,290</u>	<u>248,027,968</u>

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

13. Credit risk information (continued)

	Treasury and other bills £	Balance with central banks and loans and advances to banks £	Loans and advance to customers £	Total £
As at 31 December 2009				
Neither past due or impaired	9,561,682	156,172,091	85,759,215	251,492,988
Past due and impaired	-	-	1,144,812	1,144,812
Gross	9,561,682	156,172,091	86,904,027	252,637,800
Less allowance for impairment/interest suspended and revaluation	(80,930)	-	(728,039)	(808,969)
Net	9,480,752	156,172,091	86,175,988	251,828,831

Among the assets that are past due, the fair value of collateral held as security is £3,337,274 (2009 £623,822)
The geographical sector analysis of balances with central banks, loans and advances to customers, treasury and other bills is as follows

	Treasury and other bills £	Balance with central banks and loans and advances to banks £	Loans and advance to customers £	Total £
As at 31 December 2010				
UK	5,035,000	84,236,587	38,471,688	127,743,275
Europe	-	45,175,096	1,036,616	46,211,712
Middle East	1,694,624	285,608	1,337,833	3,318,065
Asia	-	18,319,677	19,395,474	37,715,151
Other	108,467	14,255,619	18,675,679	33,039,765
	6,838,091	162,272,587	78,917,290	248,027,968

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

13. Credit risk information (continued)

	Treasury and other bills £	Balance with central banks and loans and advances to banks £	Loans and advance to customers £	Total £
As at 31 December 2009				
UK	-	52,737,891	47,862,817	100,600,708
Europe	-	83,906,352	3,740,068	87,646,420
Middle East	6,311,419	2,494,680	981,121	9,787,220
Asia	1,824,566	3,100,356	13,356,743	18,281,665
Other	1,344,767	13,932,812	20,235,239	35,512,818
	<u>9,480,752</u>	<u>156,172,091</u>	<u>86,175,988</u>	<u>251,828,831</u>

Credit risk

Credit risk is due to uncertainty in counter party/obligor's ability to meet their obligations. Credit risk is one of the principal risks the Bank takes. As loans and investments constitute a significant portion of its assets, credit risks management is therefore a priority.

The identification and adequate measurement of credit risk is one of the key factors contributing to increase efficiency.

The policy regarding lending to bank and non bank counter parties, countries and industries is clearly defined in the Bank's Credit Policy, subject to annual review by the Board.

14. Provisions for bad and doubtful debts

	Specific 2010 £	General 2010 £	Total 2010 £	Specific 2009 £	General 2009 £	Total 2009 £
At 1 January	404,588	-	404,588	575,432	-	575,432
Exchange adjustments	-	-	-	(24,572)	-	(24,572)
Charge against profits, net of recoveries	301,408	-	301,408	50,000	-	50,000
Amounts written off	(5,384)	-	(5,384)	(196,272)	-	(196,272)
At 31 December	<u>700,612</u>	<u>-</u>	<u>700,612</u>	<u>404,588</u>	<u>-</u>	<u>404,588</u>

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

15. Interest and other charges in suspense

	2010 £	2009 £
Balance at 1 January	323,451	249,897
Interest and other charges suspended during the year	350,307	194,543
Interest and other charges written off	-	(108,963)
Exchange and other adjustments	-	(12,026)
Balance as at 31 December	<u>673,758</u>	<u>323,451</u>

The principal outstanding against loans and advances where interest is being suspended at the year end

Before provisions	4,459,576	650,926
After provisions	<u>3,785,954</u>	<u>246,338</u>

16. Tangible fixed assets

	Equipment £	Total £
Cost		
At 1 January 2010	3,931,656	3,931,656
Additions	61,738	61,738
Disposals	-	-
Elimination of fully depreciated items	-	-
Exchange difference	102,700	102,700
At 31 December 2010	<u>4,096,094</u>	<u>4,096,094</u>
Depreciation		
At 1 January 2010	2,699,099	2,699,099
Charge for the year	249,094	249,094
Disposals	-	-
Elimination of fully depreciated items	-	-
Exchange difference	90,741	90,741
At 31 December 2010	<u>3,038,934</u>	<u>3,038,934</u>
Net book value		
At 31 December 2010	<u>1,057,160</u>	<u>1,057,160</u>
At 31 December 2009	<u>1,232,557</u>	<u>1,232,557</u>

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Notes to the Accounts Year ended 31 December 2010

17. Other assets

	2010 £	2009 £
Software upgrade	13,750	-
VAT recoverable	31,852	34,544
Advance – Karachi rep office	14,743	18,447
Forward FX instruments	119,077	25,676
Taxation	62,986	109,122
Other	271,615	526,220
At 31 December	<u>514,023</u>	<u>714,009</u>

18. Deposits by banks

Repayable on demand	4,997,918	10,087,156
With agreed maturity dates or periods of notice, by remaining Maturity		
- 1 year or less but over 3 months	-	-
- 3 months or less	8,137,949	15,935,627
	<u>13,135,867</u>	<u>26,022,783</u>

19. Customer accounts

Repayable on demand	61,618,554	59,518,889
With agreed maturity dates or periods of notice, by remaining maturity		
- 5 years or less but over 1 year	-	-
- 1 year or less but over 3 months	8,563,000	2,568,909
- 3 months or less	141,866,432	141,442,011
	<u>212,047,986</u>	<u>203,529,809</u>

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Notes to the Accounts Year ended 31 December 2010

20. Other liabilities

	2010 £	2009 £
National Insurance and social security	80,763	88,176
Bills payable	94,624	73,073
Commission	94,270	190,142
Facility fees	58,118	134,599
Deferred tax liability	52,863	49,408
Other	697,819	637,871
	<u>1,078,457</u>	<u>1,173,269</u>

21. Subordinated loans

Repayable in the year 2020 and carries interest at 2.00% over USD 3 months LIBOR	3,859,017	-
Repayable in the year 2018 and carries interest at 1.00% over LIBOR	-	1,500,000
Repayable in the year 2019 and carries interest at 5.00%	-	2,500,000
	<u>3,859,017</u>	<u>4,000,000</u>

The loans are subordinated to the claims of depositors and other creditors

During the year, the bank repaid a GBP subordinated loan of 4m and this was replaced by a new USD subordinated loan of 6m

22. Called up share capital

Authorised		
5,000,000 ordinary shares of £5 each	<u>25,000,000</u>	<u>25,000,000</u>
Issued, allotted and fully paid		
2,800,000 ordinary shares of £5 each (2009 2,800,000)	<u>14,000,000</u>	<u>14,000,000</u>

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

23. Reconciliation of shareholders' funds and movement on reserves

	Called up share capital £	Profit and loss account £	Revaluation reserve £	Total £
At 1 January 2009	10,000,000	5,300,131	(227,968)	15,072,163
Profit for the year	-	733,960	-	733,960
Dividends	-	(200,000)	-	(200,000)
Fair value adjustment	-	-	205,648	205,648
Share issue	4,000,000	-	-	4,000,000
Tax credit on fair value adjustment	-	-	(58,610)	(58,610)
At 1 January 2010	14,000,000	5,834,091	(80,930)	19,753,161
Profit for the year	-	263,615	-	263,615
True-up of Zurich branch profits	-	58,216	-	58,216
Dividends	-	-	-	-
Fair value adjustment	-	-	176,935	176,935
Tax credit on fair value adjustment	-	-	(49,542)	(49,542)
Share issue	-	-	-	-
At 31 December 2010	14,000,000	6,155,922	46,463	20,202,385

24. Financial commitments

	Company 2010 £	2009 £
Contracted for but not provided for		
- finance leases entered into	-	-
- other (credit lines and commitment to lend less than 1 year)	6,811,000	7,555,000
	<u>6,811,000</u>	<u>7,555,000</u>
Company (under lease of premises)	2010 £	2009 £
Expiry date		
- within one year	55,000	-
- between two and five years	54,600	109,600
- after five years	546,000	546,000
	<u>546,000</u>	<u>546,000</u>

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

25. Geographical segments

	UK £	Switzerland £	2010 Total £	UK £	Switzerland £	2009 Total £
Gross income						
Interest receivable	4,055,719	220,509	4,276,228	5,360,868	266,359	5,627,227
Fees and commissions received	1,880,695	935,726	2,816,421	1,720,643	767,299	2,487,942
Dealing profits	460,526	82,641	543,167	616,004	100,711	716,715
Other operating income	872,578	11,623	884,201	937,563	7,463	945,026
Total gross income	7,269,518	1,250,499	8,520,017	8,635,078	1,141,832	9,776,910
Profit before taxation						
Profit before tax	266,990	186,161	453,151	732,120	180,656	912,776
Assets						
Segmental total assets	233,806,317	17,205,268	251,011,585	235,441,032	19,750,926	255,191,958
Net assets	20,057,292	134,490	20,202,385	19,612,368	140,793	19,753,161

The geographical distribution shown above is based primarily upon the location of the office recording the transaction. The company's only business activity is banking.

26. Directors' and officers' loans

The aggregate amounts outstanding in interest bearing loans at 31 December 2010 from persons who were director or officers of the company during the year and the number of persons concerned were

	Aggregate amount outstanding £	No of persons
Directors	31,433	2
Officers	21,817	1

27. Cash flow statement

(i) Gross cash flows

	2010 £	2009 £
Returns of investment and servicing of finance interest paid on loan capital	(114,695)	(216,838)
	<u>(114,695)</u>	<u>(216,838)</u>
Capital expenditure and financial investment		
Purchase of investment securities	(5,096,813)	(6,869,871)
Sale and maturity of investment securities	8,534,212	3,803,044
Purchase/sale of tangible fixed assets	61,738	(105,888)
Exchange differences	(748,275)	(351,191)
	<u>2,750,862</u>	<u>(3,523,906)</u>

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Notes to the Accounts Year ended 31 December 2010

27. Cash flow statement (continued)

(ii) Analysis of balances of cash ads shown in the balance sheet

	At 1 January 2010 £	Movement £	At 31 December 2010 £
Cash and balances at central banks	843,110	(13,133)	829,977
Loans and advances to other banks repayable on demand	15,894,378	(6,103,289)	(9,791,089)
	<u>16,737,488</u>	<u>(6,116,422)</u>	<u>(10,621,066)</u>

28. Parent undertaking

The immediate parent undertaking, and also ultimate holding company and controlling party is Valona Finance SA SPF, a company incorporated in Luxembourg

29. Related party transactions

Certain directors of the company maintained current accounts with the bank during the course of the year on normal commercial terms. During the year, certain fellow companies undertook commercial arm's length transactions with the bank. The balances outstanding as at 31 December 2010 were as follows:

	2010 DR £	2010 CR £	2009 DR £	2009 CR £
Habib Banking Corporation (HBC)	-	30	-	3,234,728
Habib Overseas Bank Limited (HOB)	1,361,933	134,792	2,525,778	360,859
Habib African Bank Limited (HAB)	246,814	1,413,609	279,185	989,560

	2010			2009		
	HAB £	HOB £	HBC £	HAB £	HOB £	HBC £
Interest income	118	33,727	24	153	29,197	9,867
Interest Expense	2,343	-	1,626	7,100	553	190,548
Other income	<u>60,200</u>	<u>167,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

30. Interest rate GAP sensitivity analysis

The following assets and liabilities are held as at 31 December 2010 They are analysed in time bands according to the earlier of the period to the next interest rate pricing date or the maturity date

As at 31 December 2010

Assets	Not more than 3 months £'000	More than 3 months but not more than 6 months £'000	More than 6 months but not more than one year £'000	More than one year but not more than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Cash and balances at central banks	-	-	-	-	-	830	830
Treasury and other eligible bills	6,838	-	-	-	-	-	6,838
Loans and advances to banks	162,273	-	-	-	-	-	162,273
Loans and advances to customers	78,917	-	-	-	-	-	78,917
Tangible fixed assets	-	-	-	-	-	1,057	1,057
Other assets	-	-	-	-	-	514	514
Prepayments and accrued income	-	-	-	-	-	582	582
Total assets	248,028	-	-	-	-	2,983	251,011
Liabilities							
Deposits by banks	13,136	-	-	-	-	-	13,136
Customer accounts	203,485	8,563	-	-	-	-	212,048
Other liabilities	-	-	-	-	-	1,078	1,078
Accruals and deferred income	-	-	-	-	-	688	688
Subordinated loans	3,859	-	-	-	-	-	3,859
Shareholders' funds	-	-	-	-	-	20,202	20,202
Total liabilities	220,480	8,563	-	-	-	21,968	251,011
Interest rate sensitivity gap	27,548	(8,563)	-	-	-	(18,985)	-
Interest rate sensitivity gap at 31 December 2009	24,344	(6,069)	-	-	-	(18,275)	-

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

30. Interest rate GAP sensitivity analysis (continued)

As at 31 December 2009	Not more than 3 months £'000	More than 3 months but not more than 6 months £'000	More than 6 months but not more than one year £'000	More than one year but not more than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	-	-	-	-	-	843	843
Treasury and other eligible bills	9,481	-	-	-	-	-	9,481
Loans and advances to banks	156,172	-	-	-	-	-	156,172
Loans and advances to customers	86,175	-	-	-	-	-	86,175
Tangible fixed assets	-	-	-	-	-	1,233	1,233
Other assets	-	-	-	-	-	714	714
Prepayments and accrued income	-	-	-	-	-	573	573
Total assets	251,828	-	-	-	-	3,363	255,191
Liabilities							
Deposits by banks	26,023	-	-	-	-	-	26,023
Customer accounts	201,461	2,069	-	-	-	-	203,530
Other liabilities	-	-	-	-	-	1,173	1,173
Accruals and deferred income	-	-	-	-	-	712	712
Subordinated loans	-	4,000	-	-	-	-	4,000
Shareholders' funds	-	-	-	-	-	19,753	19,753
Total liabilities	227,484	6,069	-	-	-	21,638	255,191
Interest rate sensitivity gap	24,344	(6,069)	-	-	-	(18,275)	-
Interest rate sensitivity gap at 31 December 2008	22,207	(8,063)	-	-	-	(14,144)	-

Habibsons Bank Limited

Notes to the Accounts Year ended 31 December 2010

31. Net currency position analysis

The following analysis gives details of the company's assets and liabilities as at 31 December 2010 in sterling based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the company are matched

As at 31 December 2010	Sterling £'000	US dollar £'000	EEC denomin- ated currencies £'000	Other currencies £'000	Total £'000
Assets					
Cash and balances at central banks	606	53	68	103	830
Treasury and other eligible bills	5,035	108	1,695	-	6,838
Loans and advances to banks	56,685	96,636	5,024	3,928	162,273
Loans and advances to customers	37,033	30,210	11,529	145	78,917
Tangible fixed assets	1,001	-	-	56	1,057
Other assets	319	17	3	175	514
Prepayments and accrued income	387	41	7	147	582
Total assets	101,066	127,065	18,326	4,554	251,011
Liabilities					
Deposits by banks	3,184	8,940	995	17	13,136
Customer accounts	76,985	114,851	16,236	3,976	212,048
Other liabilities	768	145	2	163	1,078
Accruals and deferred income	275	27	3	383	688
Subordinated loans	-	3,859	-	-	3,859
Shareholders' funds	20,057	-	-	145	20,202
Total liabilities	101,269	127,822	17,236	4,684	251,011
Net assets at 31 December 2010	(203)	(757)	1,090	(130)	-
Net assets at 31 December 2009	(293)	2,044	(4,149)	2,398	-

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31. Net currency position analysis (continued)

As at 31 December 2009	Sterling £'000	US dollar £'000	EEC denomin- ated currencies £'000	Other currencies £'000	Total £'000
Assets					
Cash and balances at central banks	528	96	124	95	843
Treasury and other eligible bills	-	7,891	1,590	-	9,481
Loans and advances to banks	64,732	69,928	16,206	5,306	156,172
Loans and advances to customers	42,365	36,692	4,526	2,592	86,175
Tangible fixed assets	1,154	-	-	79	1,233
Other assets	556	17	7	134	714
Prepayments and accrued income	295	182	4	92	573
Total assets	109,630	114,806	22,457	8,298	255,191
Liabilities					
Deposits by banks	4,828	12,053	8,931	211	26,023
Customer accounts	80,331	100,524	17,670	5,005	203,530
Other liabilities	809	177	3	184	1,173
Accruals and deferred income	342	8	2	360	712
Subordinated loans	4,000	-	-	-	4,000
Shareholders' funds	19,613	-	-	140	19,753
Total liabilities	109,923	112,762	26,606	5,900	255,191
Net assets at 31 December 2009	(293)	2,044	(4,149)	2,398	-
Net assets at 31 December 2008	(69)	(684)	(255)	1,008	-

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32. Fair values of financial instruments

Set out below is a year-end comparison of current and book values of all the company's financial instruments ("instruments") by category. Where available, market values have been used to determine fair values. Where market values are not available, fair values of instruments have been calculated by establishing the replacement cost of the instruments, and extrapolating any premium/discounted income between the two valuations, over the term to maturity of the existing instruments.

At the year end the fair value of derivative forward contracts included with other assets was £25,676 and in other liabilities was £nil.

	Carrying value 2010 £'000	Fair value 2010 £'000	Carrying value 2009 £'000	Fair value 2009 £'000
Assets				
Treasury and other eligible bills	6,792	6,838	9,562	9,481
Loans and advances to banks	162,268	162,268	156,172	156,172
Forward FX instruments	119,077	119,077	26	26
	<u>288,137</u>	<u>288,183</u>	<u>165,760</u>	<u>165,679</u>
Liabilities				
Deposits by banks	13,136	13,136	26,023	26,023
Forward FX instruments	-	-	-	-
	<u>13,136</u>	<u>13,136</u>	<u>26,023</u>	<u>26,023</u>

33. Risk sensitivity

The bank does not have a material exposure to changes in other foreign currency rates and interest rates and as such sensitivity analysis has not been disclosed for financial reporting purposes.

Interest rate risk sensitivity

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as retained reserves and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the bank is to match short-term customer deposits with money market placements or have our Money Market placements of a shorter period than the customer deposits. This enables us to eliminate interest rate risk. Customer deposits over medium-term are generally utilised for investment in the secondary forfeiting markets. The bank places some of its funds in fixed rate investments but has policies in place to limit such exposures.

The table shown in note 30 summarises the re-pricing mismatches on the bank's assets and liabilities as at 31 December 2010. Items are allocated to time bands by reference to the earlier of the next contracted interest rate re-pricing date and the maturity date.

Foreign currency risk sensitivity

It is the policy of the bank that it will, at all times, adhere to the limits laid down by the FSA in respect of the overall net position. It is not the bank's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

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33. Risk sensitivity (continued)

The bank uses forward exchange contracts to hedge foreign exchange exposures resulting from customer facilitation. All forward foreign exchange contracts for customers are matched with corresponding contracts with banks.

Foreign exchange exposures arise from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. The table shown in note 31 gives details of the company's assets and liabilities as at 31 December 2010, in sterling, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the bank are matched.

The impact of changes in foreign exchange rates on the bank's foreign currency assets and liabilities at the reporting date and throughout the year was not considered material as shown in note 31.

Liquidity risk

The bank is regulated in the United Kingdom by the Financial Services Authority (FSA) who, from time to time, set required liquidity mismatch parameters. The bank manages the liquidity structure of its assets, liabilities and commitments so that cash flows are appropriately balanced to ensure that all funding obligations are met when due and the required mismatch parameters are not exceeded. The policy of the bank is to match to maturity as far as is practicable and the Treasury Department will not take on large exposures or placements that cannot easily be matched in the market as to currency or maturity. Please see note 34 for an analysis of financial liabilities maturities.

Equity price sensitivity

The bank does not have material exposure to equity price risk.

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34. Liquidity risk – financial liabilities

The following table details the bank's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the bank is entitled and intends to repay the liability before its maturity

	Repayable on demand	Within 3 months	3 month to 6 months	6 months to 12 months	1 to 3 years	Gross contractual after 3 years	Cash flows non- contractual maturity	Total
2010								
Deposits by banks	4,997,918	8,137,949	-	-	-	-	-	13,135,867
Customer accounts	61,618,554	141,866,432	8,563,000	-	-	-	-	212,047,986
Subordinated liabilities	-	-	-	-	-	3,859,017	-	3,859,017
Total non derivative financial liabilities	66,616,472	150,004,381	8,563,000	-	-	3,859,017	-	229,042,570
2009								
Deposits by banks	10,087,156	15,935,627	-	-	-	-	-	26,022,783
Customer accounts	59,518,889	144,010,920	-	-	-	-	-	203,529,809
Subordinated liabilities	-	-	-	-	-	4,000,000	-	4,000,000
Total non derivative financial liabilities	69,606,045	159,946,547	-	-	-	4,000,000	-	233,552,592

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35. Capital management and risk

The bank has a capital base of £20,202,385 (2009 £19,753,161) comprising shareholders' equity. The risk weighted assets are compared to the Capital Base to ensure FSA Regulatory Requirements are met.