HBL BANK UK

Pillar III
Disclosures

31st December 2021

HBL BANK UK

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1. Introduction

1.1 Ownership Structure

HBL Bank UK Limited (HBL UK/The Bank) is a wholly (100%) owned subsidiary of Habib Allied Holding Limited (HAHL). The Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

As at the date of this disclosure HBL UK is operating with four branches in the United Kingdom and one overseas branch, in Zurich, Switzerland.

HBL UK which was formerly Habibsons Bank Limited was acquired by HAHL in April 2011. In 2014 HAHL transferred its entire banking business to HBL UK under a FSMA 2000 Part VII Transfer of Business (TOB/Part VII Transfer). HAHL thus became a holding company of HBL UK and was de-authorised.

The shareholding of HAHL as at 31 December 2021 is as under:

- 90.50% owned by Habib Bank Limited, Pakistan ("HBL"); and
- 9.50% is owned by Allied Bank Limited, Pakistan.

HBL, which is the principal shareholder, is in turn 51% owned by The Aga Khan Fund for Economic Development S.A. (AKFED), registered in Switzerland, the ultimate parent.

1.2 The Bank's Products/Services

The Bank's business model is not complex, and it serves its customers through four main areas as follows:

Commercial Banking

The aim of commercial banking is to become a niche corporate bank and focused Corporate Finance advisor to our target market of blue chip corporate Pakistani resident clients and UK small cap family owned companies. The product offering includes cross border financing, working capital, trade financing, targeted private equity placements and associated UK real estate lending.

Further it is also a core supplier of liquidity to the Bank and offers savings and other deposit products, remittances to its customers through the retail network.

Wealth Management

HBL UK has a well-defined history of attracting affluent to High Net Worth entities, mainly from the South Asian diaspora. Wealth Management provide clients with personalized investment solutions, and a flexible approach to managing their wealth and lifestyle, via an Execution Only Services. Under this Service, clients' needs, objectives, and risk appetite, as well as suitability and affordability, are taken into account. However, any decision whether buy or sell of securities, lies solely with our clients. The aim of Wealth Management is to be the HBL Group's centre of execution, booking and settlement of investments, and to service both Group and HBL UK's clients, as well as Group's network treasuries.

Financial Institutions

Financial Institutions business continues to provide the critical role of supporting the businesses by leveraging on Banks and Non Bank Financial Institutions to balance the risk and opportunities. It works with its customers and stakeholders to find innovative solutions for optimising the use of

the capital, mitigate risk and support liquidity requirements. It is engaged in providing correspondent banking relationships, cash management, discounting facilities, syndicated financing and negotiation facilities among others to its customers.

Treasury

The Treasury business is to support the Bank in ensuring adequate liquidity is available to businesses through its asset liability management (ALM) function. It supports the customers by providing foreign exchange and forwards while managing liquidity through its money market activities.

The Bank is a member of the Financial Services Compensation Scheme (FSCS) and its equivalent in Switzerland where eligible deposits are protected as per the terms of the scheme in each jurisdiction. Full details of those deposits protected in the UK and Switzerland can be viewed on the FSCS website www.fscs.org.uk and www.einlagensicherung.ch/en/ respectively.

1.3 Basis, Purpose and Frequency of Disclosures

These Pillar III disclosures have been prepared for the Bank in accordance with the disclosure requirements set out by the Basel Committee on Banking Supervision (BCBS). The document also fulfils the requirements under Part Eight of CRR as set out in the Public Disclosure section of the PRA Rulebook and has otherwise directed.

The Pillar III disclosures aim to provide a comprehensive view of Bank's risk profile, capital adequacy, liquidity, etc. and other market disciplines.

Unless stated otherwise, all figures are as at 31 December 2021, which is the Bank's financial year end. The comparative figures in these disclosures follow the same principle as per the annual accounts of the Bank for 2020.

The Bank has not taken any exemptions from these disclosures with regards to confidential or proprietary information.

The disclosures are published on annual basis with the release of Bank's annual Financial Statements and displayed on the Bank's website.

1.4 Location and Verification

These disclosures have been reviewed internally by the Bank's relevant senior management. On the recommendation of senior management, the Chief Executive Officer (CEO) has approved the publication of these disclosures on the Bank's website www.hblbankuk.com

These disclosures have not been subjected to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Bank's Annual Report and Accounts as of 31 December 2021.

1.5 The UK Withdrawal From The EU

Any references to EU regulations and directives should, as applicable, be read as references to the UK's version of such regulation and / or directive, as on-shored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.

1.6 Changes Since Last Disclosures

- **Brexit and Zurich branch closure**
  The Bank had already taken relevant actions in previous periods such as closure of branches in Europe to minimise the impact of Brexit. It has had no impact on our Zurich branch which as a part of refreshed strategy the Board has decided to close in year 2022 and therefore we do not foresee any further impact from Brexit.

- **Covid-19**
  The Bank supported its customers and relevant operations during the Covid-19 pandemic and as envisaged did not had any further impact on respective operational and business capabilities.

- **Climate Change**
  The Bank is committed to providing financing to customers that meet the minimum applicable requirements in consideration of UK law on climate-related issues and managing climate risks and adverse impacts arising from the activities of its customers. The Bank is also committed to continually enhancing its approach to managing the financial risks from climate change in line with regulatory requirements from the PRA and FCA, on a proportionate basis to the size, scale and complexity of its business model.

  The Bank recognises the need for the wider global economy to reduce the use of fossil fuels and to transition to a low carbon, climate resilient economy. Therefore, the importance of reviewing our customers' climate impact and sensitivity to climate change is acknowledged to understand the physical and transition risks related to their business models.

  In enhancing the risk management framework to integrate climate-related financial risks, the Bank has recognised that climate change presents risk which cut across multiple traditional risk types. Climate risk can drive credit risk by causing losses that leave the Bank's clients unable to meet their obligations to repay and service debt. As the Bank does not engage in any proprietary trading, therefore climate-related market risk is limited to the debt exposures of sovereign and financial institution counterparties. Thus, the financial impact is similar to that of credit risk whereby the effects of climate change can reduce the value of collateral that the Bank can use to secure funding and access liquidity.

  The Bank is specifically managing the financial risks from climate change in four broad areas:
  - Governance – clear board-level engagement and responsibility for managing financial risks from climate change and oversee these risks within the firm's overall business strategy and risk appetite.

  - Risk Management – addressing risks through the firms existing risk management frameworks, in line with board approved risk appetite, whilst recognising nature of financial risk require a strategic approach.

  - Scenario Analysis – conducted to inform firms strategic planning and determine impact on overall business strategy and ICAAP.

  - Disclosure – Consider relevance of disclosing information and how these risks are integrated into the governance and risk management processes.

These broad areas have been integrated into the Bank's existing policies and processes and will continue to be enhanced as the journey for regulation and global commitment to climate change evolves.

- **IBOR Reform**
  In 2017, the Financial Conduct Authority (FCA) announced that it had reached an agreement with LIBOR panel banks to contribute to LIBOR until the end of 2021, after which there would be a transition from LIBORs to risk-free rates (RFRs). The regulators directed that certain non-US dollar LIBOR tenors would cease at the end of 2021 while certain US dollar LIBOR tenors are to cease by the end of June 2023, and restrictions have been imposed on new use of US dollar LIBOR.

  The Bank's main lending product primarily uses the Bank of England (BOE) rate as benchmark which is not affected by the LIBOR transition. A small number of customers were however historically linked with GBP LIBOR which have now been successfully transferred to BOE benchmark. For any new US dollars-based lending products, the Bank intends to use the Secured Overnight Financing Rate (SOFR) benchmark instead of US dollars LIBOR.

- **Operational Resilience**
  Throughout the year due to pandemic, the Bank continued its services without fail to the customers by allowing employees working remotely. However, there was significant focus on the potential operational risks arising from the change in working practices. The regulators also released new Operational Resilience recommendations through a policy update. The Management also focused heavily to develop a new operational resilience framework to ensure that planning, controls, and operational activities remained robust and appropriate.

- **Russian and Ukraine Exposure**
  The Bank has performed a detailed analysis of its exposure to Russia and Ukraine. As both countries are not primary markets, the Bank does not have any material exposure to them. Further the Bank is continuously monitoring other emerging risks such as higher inflation and oil prices so that proactive action can be taken when required.

2. Key Metrics

The key prudential metrics of the bank are as follows:

Regulatory Capital and Capital Ratios

	2021	2020
	£'000	£'000
Total Risk Weighted Assets	294,454	320,323
Common Equity Tier 1 Capital (CET 1)	41,623	46,321
Additional Tier 1 Capital (AT 1)	9,786	7,595
Tier 1 Capital (T 1) = (CET 1 + AT 1)	*51,409*	*53,916*
Tier 2 Capital (T 2)	11,352	13,206
Total Capital (CET 1 + AT 1 + T 2)	62,761	67,122
CET 1 Ratio (%)	14.14%	14.46%
T 1 Ratio (%)	17.46%	16.83%
Total Capital Ratio (%)	21.31%	20.95%

Leverage Ratio

	2021	2020
Total Leverage Ratio Exposure Measure - £ 000	546,542	536,405
Leverage Ratio (%)	9.41%	8.64%

Liquidity Ratios – Liquidity Coverage (LCR) and Stable Funding (NSFR).

	2021	2020
Total High quality liquid assets (HQLA) - £ 000	149,771	141,186
Total Net Flow - £ 000	26,725	50,597
Liquidity Coverage Ratio (LCR) (%)	560.42%	279.04%
Total Available Stable Funding - £ 000	429,109	429,353
Total Required Stable Funding - £ 000	238,839	255,573
Net Stable Funding Ratio (NSFR) (%)	180%	168%

3. Risk Management Framework

3.1 Corporate Governance

The Bank has its independent Board of Directors and all the directors are nominee directors of the shareholder. Board has delegated various authorities and responsibilities to the CEO to manage the day-to-day business and affairs of the Bank. The Bank has four major segments which are Commercial Banking, Wealth Management. Financial Institutions and Treasury. These segments are supported by operating functions such as core operations, human resources, technology, compliance and other functions.

The Board of Directors (the Board) are responsible for the overall governance and are ultimately responsibility for the overall leadership, controls, operations and financial soundness of the Bank. Further they support in creating and delivering sustainable shareholder value through the prudent management of the business. The Board, therefore, determines the strategic objectives and policies to deliver long term value, protecting the reputation, integrity, safety, soundness, and interest. The primary role and responsibilities of the Board include:

- Setting the Bank's strategy taking into account stakeholder interests;
- Ensuring that the business has an effective system of internal control and management of business risks is conducted in accordance with the FCA's and PRA's Principles for Business;
- Monitoring financial information of the Bank and reviewing overall financial condition and its position as a going concern;
- Reviewing market, credit and liquidity risks and exposures with additional oversight and control over credit risk management;
- Reviewing the application of stress tests as appropriate; and
- Supervisory management, exercising business judgement, and acting in good faith.

Board meets regularly to discharge its responsibilities and review all important aspects of the Bank's affairs. It provides objective advice on the activities of the Bank including monitoring performance, considering major strategic issues, approving strategies, annual budget, business plans, risk control framework and risk appetite to support the strategy.

The Board is firmly committed to the highest standards of corporate governance which is directed not only towards regulatory and legal requirements but also towards adherence to sound business practices, transparency and disclosures to shareholder. In dealing with its borrowers, depositors, shareholder and

other stakeholders, the Bank always ensures that the fundamental principles of corporate governance – that of integrity, transparency and fairness is always maintained. This provides an enabling environment to harmonise the goals of compliance with the regulatory/legal framework, maximises shareholder value and support in maintaining a customer centric focus.

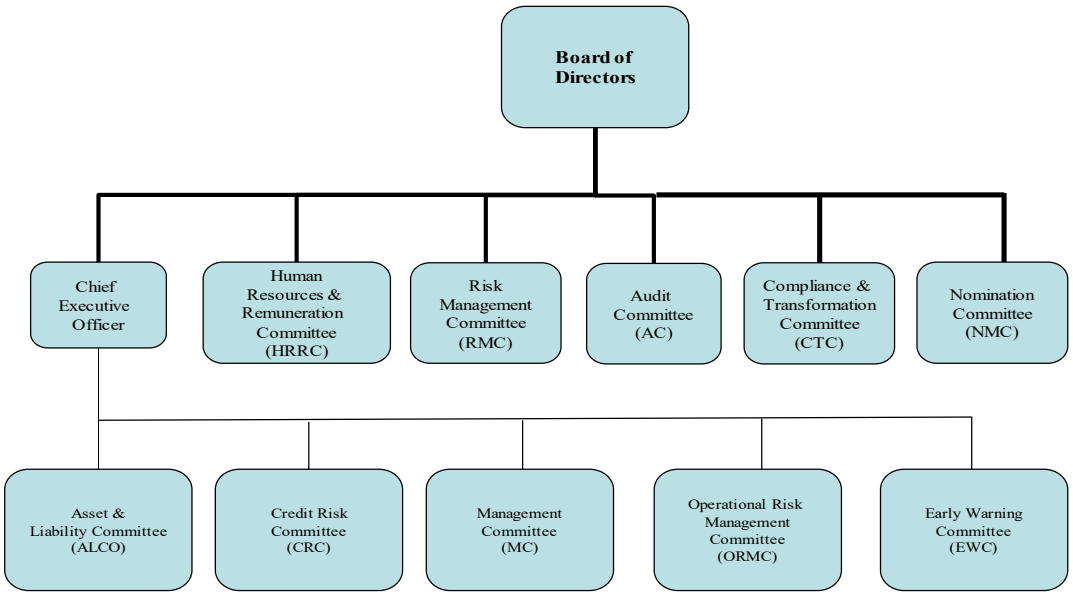
The corporate governance framework of the Bank is based on an effective and independent Board which is not involved in day-to-day management. The position of the Chairman of the Board and CEO are held by separate individuals. Board meetings are held at least four times a year and if required, additional 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 Board meetings. Agenda papers and other explanatory notes are circulated to the directors in advance. The Directors have complete access to all information 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 to provide additional input to the items or issues being reviewed or discussed by the Board.

To enable a better and more focused attention to the affairs of the Bank, the Board has put in place five Board Committees, including the Nominations Committee for the composition and appointments of the Board.. The Committees, have been delegated specific responsibilities with defined terms of reference, scope of work, roles and responsibilities to prepare the groundwork for decision making and to assist the Board in monitoring the implementation of the policies, processes and procedures.

The Board Committees review various MIS and policies to ensure that activities of the Bank are always conducted in accordance with appropriate and required standards. The membership of the Board Committees is drawn from the Directors.

All significant matters discussed and decided at each meeting of the Board Committees are reported to the Board by the Chairman of the respective Committee. Approved minutes of the Board Committees are reviewed and adopted by the Board in its following meeting. The following Board and Bank's Management Committees ("the Committees") have been established to conduct detailed analysis and reviews of the Bank's established policies and critical issues.

Board and CEO's Committees



Board Committees

Risk Management Committee (RMC)

The RMC comprises of three Notified Directors including the Chairman and the CEO for a total of four members. The Chief Risk Officer (CRO) is the secretary.

The RMC has the responsibility of ensuring that the Bank has adequate risk management policies and a framework to support its overall business strategy including certain key risks faced by the Bank such as Credit, Market, Liquidity, Operational and Reputational risks. Further it ensures quality, integrity and reliability in the Bank's overall risk management reporting, which enables the Board to discharge its duties through review and challenge.

The RMC establishes the role, responsibility and authority of the Bank's risk management function, ensures independence and monitors its performance. Further it also recommends various risk related policies to the Board including the Risk Appetite.

Where required, the RMC can address issues or breaches elevated by the Credit Risk Committee (CRC) or CRO. These are then communicated to the next Board meeting or Chairman, depending on the urgency. A description of the roles and responsibilities of this committee is covered in detail in Section 2.2.1 Credit Risk Management.

Board Audit Committees (BAC)

The BAC comprises of two Notified Directors, the Chairman of the Committee who is also a Senior Independent Director and the Head of Audit is the Secretary. The Bank's external auditors are permanent invitees while the Chief Executive Officer (CEO) and other members of the management can attend on invitation basis.

The Bank has an independent Audit function with the Head of Audit reporting directly to the Chairman of the BAC. The BAC monitors their independence and performance. Further it also reviews the Bank's internal controls and risk management systems. The Committee apprises the Board of Directors of any significant issues including those observed by internal and external auditors and related corrective measures/ implementation plan.

BAC reviews activities of the Audit function and the Internal Control Unit, on a regular basis.

Compliance & Transformation Committees (CTC)

The CTC comprises of two Notified Directors, Chairman and CEO for a total of four members. The Head of Compliance is the secretary. The Bank's directors and the CEO are permanent invitees whilst other members of the management can attend on invitation basis.

The CTC support the Board in inculcating compliance and conduct culture into the Bank. It guides the design of Bank-wide compliance program, review measures instituted by the management to develop business responsibility and monitoring the Bank's compliance with legal and regulatory requirements and internal policies and procedures including code of conduct.

Since compliance and conduct are Bank-wide considerations, relevant committees of the Board notably CTC, Board Audit Committee, Human Resource & Remuneration Committee and Risk Management Committee, actively coordinate with each other and achieve overall objectives of improving compliance and conduct environment

Human Resources & Remuneration Committee (HR&RC)

The HR&RC comprises of two Notified Directors, the Chairman and the CEO, total of four members. The Chairman of the committee is a Senior Independent Director and the Head of the HR department is the secretary.

HR&RC's role is to ensure that the Bank has relevant people for performing the various roles related policies and procedures such as remuneration, professional development, recruitment and performance appraisal process in place that supports the strategy and objective of the Bank. Further it ensures that policies and practices are in accordance with the FCA/PRA Remuneration Code. It also approves employee benefits, redundancy packages and rewards scheme and ensures that the Bank is following the policy to ensure diversity including non-discrimination based on race, colour, gender, marital status, religion or beliefs, age.

The Committee meets prior to Board of Directors' meetings and updates the Board on material issues, emerging legislation, code of conduct and best practices. The Chairman will report on the proceeding of the HR&RC to the Board and will also share its minutes. Additional meetings can be called at the request of CEO to Chairman of HR&RC, if required.

Board Nomination Committee (BNC)

The BNC comprises of three Notified Directors including the Chairman. The secretary of the committee is the Head of the HR department.

The BNC has the responsibility of leading the process for appointments of members of the Board. The BNC primarily reviews the structure, size and composition of the Board as a whole to make recommendations to the Board giving full consideration to succession planning in view of challenges and opportunities faced by the Bank. The Committee also reviews strategic priorities and trends for long term success and future viability in this respect.

For all members of the Board and new candidates, the Committee evaluates the balance of skills, knowledge experience, diversity and length of service on the Board, and the range of critical skills of value to the Board relevant to the challenges and opportunities facing the Bank.

The Committee meets at once a year prior to a Board of Directors' meeting and updates the Board on any recommendations. The Chairman will report any recommendations and share the minutes with the Board unless exceptionally appropriate to do so.

Chief Executive Officer's Committees

Asset & Liability Committee (ALCO)

This is a monthly management committee and is chaired by the CEO. Members of the ALCO are the Chief Financial Officer (CFO), CRO, Head of Commercial Bank and Strategy, Head of Wealth Management, Head of Financial Institutions, the Head of Treasury and the Financial Controller as Secretary to the Committee. Head of Audit may attend the meetings at his discretion as observer on an invitation basis. ALCO is primarily responsible for management of the Bank's Liquidity, Capital and Market Risks and has responsibility for implementing Liquidity and Interest Rate Policies including changes in the Bank's deposit interest rates, monitoring liquidity and market exposure limits, management of thresholds and compliance with the internal and regulatory liquidity policy and Individual Liquidity Guidance.

Refer to Section 2.2.2 Liquidity Risk which incorporates within it the components of market risk.

Credit Risk Committee (CRC)

The CRC is primarily responsible for managing the Bank's credit risk and is chaired by CEO. The CRC's role and responsibilities include the administration and monitoring of credit exposures and investment portfolios (credit risk) reported by Heads of Credit Administration Department (CAD) and Remedial Asset Management (RAM). CRC identifies and manages problem credits and recommends adequate value adjustments and provisions. It also reviews the portfolio and acts on any exceptions, ensuring compliance with the approved credit and risk appetite policies. Further it takes reasonable steps to ensure adequate systems are available for safeguarding and improving the quality of the portfolio. The CRC meets monthly, however, additional meetings may be called in case of need.

The CRC also escalates any potential or actual breaches in key risk indicators to the RMC as defined in the Bank's Risk Appetite Statement and Credit Policy Manual.

Management Committee (MC)

MC is a monthly meeting, chaired by the CEO. It is responsible for the implementation of the approved strategy and establishing robust control environment, systems to mitigate risks to the Bank's strategic goals and objectives.

The MC monitors the progress of the strategic plan and has the responsibility for embedding the right culture across the business through effective performance management, training and development. The Committee among other is also responsible for addressing People related issues, including Treating Customers Fairly, as well as handling of complaints.

MC reviews and monitors compliance with prudential requirements and is also responsible for initiating and monitoring approved projects and initiatives, e.g. regulatory and compliance reviews, audit plans, operational and IT, Disaster Recovery /Business Continuity Plans, External Audits, Recovery and Resolution Plans (including CASS RP).

This meeting is attended by the members of the Bank's senior management team.

Operational Risk Management Committee

This Committee is primarily responsible for monitoring, measuring and overseeing the reduction of operational risk exposures in the Bank. The ORMC's role is to ensure compliance of the operational risk objectives of the RMC. These objectives are achieved by reviewing, proposing operational risk management strategies and appetite to the RMC, monitoring those strategies through effective KRI's and MIS. The committee is also expected to monitor the development and implementation of the operational risk methodologies, tools, systems, and techniques.

Further the committee reviews all operational risk policies and procedures in relation to exposures in specific business units and support functions within the Bank.

The Committee meets quarterly and is chaired by the CEO. Its members include the CRO, Head of Compliance, Head of Operations, CFO, Head of Human Resources and Business heads. The Operational Risk Head is Secretary of the Committee.

Early Warning Committee

This Committee is primarily responsible for monitoring the Bank's asset portfolio with a view to the future outlook in reducing any negative risks or impact to the Bank. The purpose of the committee is to discuss potential customer deterioration across the lending, trade and investment portfolios in order that any problems are identified, and remedial actions taken in a timely manner.

The core objective is to enhance the credit risk management process and to ensure timely identification of problem credits for appropriate remediation actions.

The committee meets every month and is chaired by the CEO. Its members include the CRO, CFO, Head of Retail Banking, Head of Corporate Banking, Business Head – Corporate & Retail, Head of Wealth Management, Head of Financial Institutions, Head of Treasury, Head of RAM. The Head of Credit Approval Unit (CAU) is the secretary. This committee has been merged with CRC from year 2022 onwards.

Compliance & Reputational Risk Committee

This Committee is responsible for the oversight of all compliance and reputational risk related matters, including the execution and embeddedness of an enterprise-wide compliance risk management program. The Committee also ensures that compliance matters are identified, managed, and mitigated.

Further the committee, assists and facilitate in the implementation of policies, processes, and procedures to manage all compliance risks. All Compliance policies and/or procedures that are presented at CTC are presented and discussed at CRRC first. The committee also get involved in the developing and implementation of an organization-wide training program on compliance risk to ensure that relevant staff maintain a satisfactory level of knowledge of laws, rules, and regulations.

The committee meets every month and is chaired by the CEO. Its members include the Head of Compliance, Head of Commercial Banking, Head of Wealth Management, Head of Financial Institutions, MLRO, Head of Operations, Head of HR, Country Manager of Zurich branch and Head of Compliance in Zurich. The Head of Assurance and Governance is the secretary.

3.2 Risk Management – Risk Appetite & Risk Management Framework

The RMC is responsible for managing and controlling risks other than compliance and financial crime risks which are managed by CTC. The Bank's RMC addresses the risks present in the Bank's businesses to ensure that the controls and mitigation techniques are available to oversee enterprise-wide risks including credit, market, operational and reputational risks.

RMC ensures quality, integrity and reliability of the Bank's overall risk management structure and assists the Board in the discharge of their duties relating to corporate accountability and associated risks in terms of management, assurance and reporting.

The Senior Managers Regime (SMR), which came into force on 07 March 2016 for approving individuals and holding them to account has been embedded into the Bank's framework. The SMR contains several concepts designed to promote a clear allocation of responsibilities to Senior Managers and, significantly, to enhance their individual accountability.

Under the SMR, the Bank is required to produce and keep an updated Management Responsibility Map containing an organisational structure which illustrates the Bank's management and governance arrangements and shows how the responsibilities have been allocated to Senior Managers under the Regime. Details of the reporting lines and lines of responsibilities enable the Regulators to identify who they need to speak to in case of need about a particular issue.

One of the key intentions of the SMR is to ensure that Senior Managers are individually accountable for those areas over which they have been designated responsibility. However, the Board still retains ultimate decision-making power and authority over key aspects of the Bank's affairs and the SMR is not intended to undermine the fiduciary, legal and regulatory responsibilities of the Board.

The regime ensures that the Board of Directors have established clear and coherent policies for identifying and mitigating the various types of risk in the business, that there are suitable forums for discussing, monitoring and managing risks, suitable internal processes and procedures are established to mitigate risks and resources including MIS are deployed adequately to manage the Bank's overall operations.

The Board continues to maintain policies where all the risks are closely managed. The risks identified in the Bank's risk profiles are all at a level commensurate with the current business operations and Business Plan. Risk management is supported by the Risk Appetite Statement (RAS), Credit Authorities Matrix and the various risk management policies embodied in the Credit Policy Manual (CPM). The Management can clearly demonstrate through the policies and procedures that it is managing its associated risks through the guidance of the policies and the strategies.

The Bank's Senior Managers Regime has been well embedded. As previously mentioned, one of the four key corporate objectives is 'to maintain the highest standards of corporate governance'. The Board of Directors oversees the Bank's business, strategic direction, policy formulation, organisational structure and its activities. The Senior Management at the Bank seek to realise the Bank's strategic goals, which are to maximise long term shareholder value and to maintain the highest standards of integrity and transparency. The table below depicts the risk management culture, overall risk management strategy and how it interacts with the Bank's Risk Appetite Statement:

FRAMEWORK ELEMENT	LINKAGE TO RISK APPETITE
Risk governance	Clear Risk Appetite Statement, updated as needed, approved by the Board, and embodied in risk policy articulated in the Credit Policy Manual and Credit Authority Matrix which defines delegated authority. Further Conduct Risk, Operational Risk Management Framework, AML documentation also sets the 'tone from the top' and a foundation for managing the risk culture.
Risk assessment	Frequent risk assessment process to identify new and changing risk landscape in the context of Bank's risk appetite.
Risk quantification and aggregation	Regular quantification and aggregation of risk to prioritise, focus of risk management and control.
Monitoring and reporting	Monitoring and reporting as per risk-based limits based on risk appetite.
Risk and control optimisation	Framework of controls and escalation procedures, calibrated in line with risk appetite to optimise cost / benefit.

The key material risks affecting the Bank are credit, operations, liquidity, interest rate, market, reputational and exchange rate risk. The Bank's strategies in managing these risks are set out below:

3.2.1 Credit Risk Management

Credit risk is the risk of loss due to the failure of a counterparty to meet its credit obligations in accordance with agreed contract terms.

Credit risk makes up the largest part of the Bank's risk exposures. The RMC is responsible for ensuring appropriate governance and oversight functions are in place, relating to all risks faced by the Bank i.e. credit risk, market risk, operational risk, and reputational risk. In terms of credit risk, the RMC's responsibilities include:

- setting out the nature, role, responsibility and authority of the risk management function and outline the scope of risk management and reporting requirements;
- ensure that the Bank has clear, comprehensive and well documented policies and procedures, guidelines relating to the risk management for all major risks;

- ensure that the Bank's risk management policies and framework are adequate to support its overall business strategy;
- ensure that the Bank's risk appetite is well articulated and captures the strategic focus of the Bank;
- periodically, review the Bank's overall risk appetite to ensure that it is commensurate with the latest business strategy of the Bank;
- deliberate and review the tolerance limits in respect of credit, market, liquidity, conduct, counterparty and operational risk; detailed review of the overall portfolio, large exposures, concentrations e.g. geographical, sectors wise risks etc.;
- determine the credit approval process, and large exposure, country risk exposures and loan provisioning policies of the Bank;
- establish overall lending policies through credit policy manual (CPM), credit risk appetite and guidelines;
- ensure portfolio performance is in line with the set benchmarks and determine that overall provisions are adequate; and
- review and discuss the results of the stress testing of the asset book;

3.2.1.1 Commercial Loans (Loans & Advances)

The Bank offers lending products comprising of funded facilities, including term loans and overdraft and non-funded facilities, including letters of credit, acceptances and guarantees.

Commercial loans are considered based on the following underlying criteria:

- Borrowers and/or counterparties must be established UK or overseas entities with a good financial track record and the key directors or principals must be competent, knowledgeable and experienced in their line of business;
- Property collateral should preferably be UK based; and
- Borrowers must demonstrate the ability to generate sufficient cash flow to service obligations.

Salient features of the risk approval process are delineated below:

- Every extension of credit to any counterparty requires approval as per the Credit Authority Matrix approved by the Banks' RMC and BOD;
- All business managers apply consistent standards in recommending their credit proposals and subsequent renewals; and
- Every material change to a credit facility requires approval from the Risk / Credit Approval Unit (CAU).

The Bank uses a risk rating system to supplement the credit risk measurement procedure. The risk rating of counterparties is an essential requirement of the credit approval process. All credit takers comprising of individuals, corporates, financial institutions and sovereigns are risk rated.

Mitigation Techniques

The Bank's loan and advances product in most cases, are collateralised by first charge on property assets, cash, marketable securities and debentures on company assets and guarantees to secure obligations. The cash flow is also analysed to ensure that the borrower has the debt servicing ability. With a concentration in property as collateral, market volatility is measured by reference to a standard quarterly index published by HBOS and Nationwide Building Society. The index tracks residential house prices on both a regional and consolidated basis for the UK. Volatility is the percentage increase or decrease in the index. There is no index for commercial property. However, residential property price movements generally influence commercial property values. Commercial and retail property prices are monitored quarterly through specialist property websites.

To ensure continued enforceability of the Bank's security, all legal charge forms and supporting documentation have been produced with the guidance of the Bank's legal counsel.

In addition, any new or revised security requirements are handled by the Credit Administration Department in conjunction with the Bank's approved panel of solicitors, who are responsible for ensuring the perfection of the security required for the advance.

3.2.1.2 Investment in debt securities and placements

The Bank in its normal course of activity deploys its excess liquidity in a diversified mix of debt securities with the intent to hold the instrument as available for sale. These generally include:

- Floating rate notes and Bonds purchased from the primary market and selected secondary market offerings through approved brokers;
- Investment grade, marketable paper only as categorised by the international ratings agencies – Moody's, Standard & Poor's and Fitch;
- High quality liquid assets or debt securities issued by a government or central bank as per risk appetite; and
- Prime bank or corporate paper.

Investment decisions are taken considering efficient use of capital, risk weighting, market price and yield to maturity.

Formal credit assessment includes review of the financial status of the issuer, proposed or traded paper rating, underlying collateral, if any, the offering document and legal agreement or trust deed document.

For managing short term liquidity and surplus cash, the Treasury makes money market placements and purchases certificate of deposits (CD). The criteria established for these investments are set out below:

- Placements generally to be for overnight and up to three months only and as an exception allowed for more than three months;
- CD's up to 1-year tenor;

The Bank complies with the Credit Quality assessment scale (CQS) and primarily uses ratings by Moody's for all type of exposures and where a rating from Moody's is not available ratings by Standard and Poor's and Fitch are used. The Bank uses CQS for all rated exposures.

3.2.1.3 Trade Finance (Funded and Unfunded)

The Bank has an established financial institutions business which allows it to conduct trade finance business undertakings such as Letters of Credit confirmation, negotiation and discounting. Trade finance transactions are considered "lower credit risk" due to the preferential treatment received in the event of default by sovereign or financial institutions under UCP 600 (The Uniform Customs and Practice for Documentary Credits) rules. The broad parameters used are:

- Limits on banks and countries established through allocation from the global lines of the Parent Bank;
- Country limits set by a risk rating model based upon economic factors and political stability with modifiers to downgrade or upgrade the rating;
- When setting limits, due consideration is given to country, bank and trade sector concentrations;
- The Bank's risk appetite and limits established through a local credit appraisal process;
- Country and bank trade exposures are monitored regularly; and
- Banks on continued watch with on-line links to ratings agencies to capture rating actions.

For the different types of credit risks that have been mentioned above, the Bank has a documented policy and procedures as stated in the Credit Policy Manual and Risk Appetite Statement.

3.2.1.4 Past Due and Impaired Assets

Impaired assets are those assets for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms. The policy for specific and collective impairment is available in the Annual Financial Statements.

The Bank monitors its credit portfolio on a continuing basis through Risk Reporting / MIS and trigger events as set out in the Credit Policy Manual where any early signs of weakness in the accounts is immediately acted upon. The impaired portfolio is also discussed in the Credit Risk Committee, Early Warning Committee and the Risk Management Committee. These committees have been introduced in the Bank to closely monitor and strategize its impaired portfolio as well as to review potential problem accounts to bring greater focus on prevention rather than cure. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our risk culture and is intended to ensure that greater attention is paid to such exposure. Based on a review of the portfolio at regular committee meetings with the monitoring reports on advances, each and every individual advance would remain under constant watch by the CRO, CAD and the Business team. The moment any account starts delaying in repayment or deviating from the loan agreement, the Business team and RAM would start monitoring the performance of that advance on a more regular basis.

Impairment losses and Specific and General Provisions

The Bank has adopted IAS39 for the accounting of its loan portfolio and related impairments thereof.

For the purpose of classification and categorisation, evaluation and risk assessment of each loan and trade asset will be conducted on the basis of determinant factors. The evaluation will be carried out by Remedial Asset Management (RAM) on the basis of counterparty's financial conditions, liquidity, earnings, adequacy of security inclusive of its realisable value, cash flow of the borrower, transactions in the account, documentation covering the advances and credit worthiness of the borrower and other factors that may require such evaluation to be carried out.

The concept of impairment has been segregated into two areas whereby the first area addresses a portfolio of advances where there has been an incurrence of an impairment event that will require close monitoring including active discussions in the relevant forums. This portfolio is subject to quarterly impairment tests that will determine any specific provisioning required. The second area consists of a portfolio of advances that are regular and performing and show no signs of impairment. A collective provision is applicable on this portfolio based on the probability of historical losses.

3.2.1.5 Leverage ratio

This ratio is disclosed in compliance with article 451 of CRR under CRDIV and measures proportion of Tier 1(T-1) capital to total exposure. T-1 capital is the numerator and is as in Paragraph 6 (Capital Adequacy Resources) and exposure is the denominator and consists of the sum of balance sheet assets, plus off-balance sheet items.

The Bank has a leverage ratio of 9.41% as of 31 December 2021.

This is a conservative ratio taking into account that a major part of the assets consists of short-term placements, debt securities and marketable trade exposures. All exposures are governed by the Bank's Risk Appetite Statement which is monitored through regular MIS by the management and various risk management forums.

3.2.2 Liquidity Risk

This is the risk arising from the maturity profile, and type and nature of the Bank's assets and liability mix. If not satisfactorily controlled the Bank could be faced with being unable to meet customer demands for repayment of deposits, which can lead to a run on the Bank's deposits.

The Bank has documented its liquidity management to be in compliance with the rule set out in CRD IV. The requirements include the overall liquidity adequacy rule, risk tolerances, thresholds, systems and controls, stress testing scenarios, liquidity contingency plan, quantitative reporting and the documentation of the internal liquidity adequacy assessment process (ILAAP). The Bank has also further strengthened the intra-day management of liquidity in compliance with regulations

The Bank's liquidity policy is to ensure the Bank "at all times maintains adequate liquidity through a prudent funding profile and appropriate mix of assets to ensure compliance with the overall liquidity adequacy rule as defined in regulations. The Bank's liquidity adequacy has to be achieved on a self-sufficient basis, i.e. without recourse to liquidity support from other members of the Group including the principal shareholder or any Central Bank (Bank of England, State Bank of Pakistan, and/or the Swiss Financial Market Supervisory Authority 'FINMA'). The policy document sets out the Bank's liquidity management framework and sets out the overall liquidity policy, liquidity risk appetite, thresholds and tolerance levels, and system and controls. Senior management is responsible for regularly reviewing this policy document and recommending changes, if any required, to the Board in a timely manner.

The Bank will continue to evolve liquidity risk management arrangements based on feedback from the FCA and PRA and from developments in the market and industry best practices..

The Assets and Liabilities Committee ("ALCO") has the responsibility for the formulation of the overall strategy and oversight of the asset liability management function. Roles and responsibilities of "ALCO" include but are not limited to:

- Developing strategies and assigning tasks to the relevant businesses for balance sheet growth by maintaining appropriate levels of interest rate and liquidity risks and reviewing their implementation for the effectiveness of strategies and performance measurement;

- Discussing the current/ expected future economic and financial environment and market trends to assess the balance sheet position and off-balance sheet exposures of the Bank and devising and monitoring strategies to achieve medium to long term goals of the Bank and achieve profitability targets within the defined risk appetite;

- Managing the overall liquidity of the Bank and ensuring preservation, enhancement and utilization of cost-effective sources of funds, including the Bank's own deposit base;

- Monitoring enhancement of profitability while ensuring availability of funding and minimizing the reliance on external funding sources;

- Deciding the Transfer Pricing policy of the Bank including the methodologies to be used and the applicable rates;

- Approving interest rate setting mechanism for assets and liabilities products;
- Recommend the assumptions to be applied to generate gap reports for liquidity and interest rate risk management and reviewing the liquidity reports based on normal and stress scenarios;
- Reviewing investment portfolio, gap limits etc. and recommending remedial actions for limit exceptions in line with the relevant framework;
- Ensuring timely identification of the sources of market and liquidity risks;
- Deciding on the required maturity profile and the mix of incremental assets and liabilities;
- Controlling foreign exchange and interest rate exposures arising from ongoing banking activities, especially stemming from the business side;
- Evaluating the market and liquidity risks involved in launching of new products and;
- Reviewing compliance with relevant regulatory requirements.
- Review the capital position of the bank by monitoring RWA trends and capital usage. Advise necessary actions to optimise the RWA levels and capital usage.
- Approving balance sheet budget and forecasts and managing material balance sheet movements against budgets and forecasts.
- To approve the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) documents.
- To evaluate market risk such as interest rate and liquidity risk in launching of new products.

The liquidity disclosure template with liquidity risk limits are provided hereunder:

GBP'000

Liquidity Coverage Ratio (LCR)	**2021**	**2020**
Total High quality liquid assets (HQLA)	149,771	141,186
Total Net Flow	26,725	50,597
Liquidity Coverage Ratio (LCR) (%)	560.42%	279.04%
Regulatory Requirement	100%	100%
Net Stable Funding (NSFR)	**2021**	**2020**
Total Available Stable Funding	429,109	429,353
Total Required Stable Funding	238,839	255,573
Net Stable Funding Ratio (NSFR) (%)	180%	168%
Regulatory Requirement	100%	100%

3.2.3 Market Risk

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. The Bank does not maintain an active trading book and hence carries limited market risk which emanates from mismatches in structural assets' and liabilities' positions.

3.2.3.1 Interest Rate Risk

Interest rate risk (IRR) arises when there is a mismatch between positions which are subject to interest rate adjustments within a specific period. A substantial part of the Bank's assets and liabilities are subject to floating rates and hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small portion of its assets and liabilities and assets funded through equity and fixed deposits. The major portion related to this risk is reflected in the banking book.

The IRR has been assessed as per the table below. The information captures all material interest rate positions of the Bank and considers all relevant re-pricing and maturity data. As per the interest rate gaps an impact of 2% positive and negative shift in interest rate is calculated with reference to the central rate, in line with the Basel Committee's recommendation.

The impact as at 31 December 2021 for the Bank is as below:

GBP'000

Interest Rate Position Risk Requirement (PRR)	December 31, 2021	December 31, 2020
GBP	**1,596**	1,521
USD	**966**	422
EUR	**1**	1
All Other Currencies	**438**	296
Total Interest Rate PRR	**3,001**	**2,240**

3.2.3.2 Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. Foreign currency transactions are undertaken only on behalf of customers who are covered from the market on the same day.

The Foreign exchange risk appetite is defined by ALCO and monitored on a daily basis. The Foreign exchange position risk is calculated as 8% higher of the net overbought or oversold position in foreign currencies.

Counterparty Credit Risk (CCR) is the risk to the Bank that a counterparty to a transaction could default before the final settlement of the transaction's cash flows. In the normal course of business, the Bank enters into foreign exchange contracts on behalf of its customers which are generally covered by entering into reciprocal transactions with other banks in the market on a daily basis to avoid position risk. Counterparty credit risk emanating from these transactions is managed by maintaining sufficient collateral from customers to mitigate customer default exposure at the time of settlement. Further, all customers are required to sign a FX trading agreement with the Bank before executing any transactions with the Bank. Exposures on Banks which are other counterparties to these transactions are managed within overall limit allocations determined as part of the Bank's credit assessment of such institutions.

3.2.4 Operational Risk

Operational risk is the risk of loss resulting from weaknesses in systems, procedures and people or from external events. The Bank has adopted the 'Basic Indicator Approach', as given in CRR under CRD IV, which is equal to 15% of the three-year average of the sum of (a) A firm's net interest income; and (b) A firm's net non-interest income. In addition, the Bank has considered Legal and regulatory risk, Conduct risk, Control risk, Human Resource risk, Outsourcing dependency risk and System integration risk as additional internal and external factors in quantifying Operational Risk.

The Bank has established a robust Risk Management Framework with the objective to ensure that a strong control environment is maintained and evidenced in every area of the business. This will minimise any inherent operational risk. In addition to the view that there are a number of unknown external factors, the framework is periodically reviewed and approved by the RMC, and overall risk management is kept at a high profile within the business to ensure any unmitigated operational risk is identified at an early stage.

To supplement the updated risk profiles, a micro review of operational risks, which includes all operational areas, products and processes is undertaken at the Operational Risk Management Committee and documented in the 'Operational Risk Framework' and ICAAP when deemed necessary.

4. Supervisory Review

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are risk-based regulators who conduct their supervision under a "Twin Peaks" approach.

Both the PRA and the FCA address different areas of the regulations to ensure that all banks that are authorised and regulated in the UK are compliant with the overall principles, rules and guidance. An overview of both regulators is summarised below:

Prudential Regulatory Authority (PRA)

- Responsible for the Prudential Regulations and Supervision of Banks, Building Societies, Credit Unions, Insurers and major Investment firms in the UK;
- PRA has two statutory objectives: to promote the safety and soundness of these firms;
- PRA focuses primarily on the harm that firms can cause to the stability of the UK Financial System;
- A stable financial system is one in which firms continue to provide critical financial services – a precondition for a healthy and successful economy;
- PRA makes forward-looking judgments on the risks posed by firms to its statutory objectives. Those Institutions and issues which pose the greatest risk to the stability of the financial system are the focus of its work; and
- PRA responsibilities also include facilitation of competition, which is subordinate to its general objective to promote the safety and soundness of the firms.

Financial Conduct Authority (FCA)

- Main aim to protect consumers, ensure the UK Financial Services industry remains stable and promotes healthy competition;
- FCA has the rulemaking, investigative and enforcement powers required to protect and regulate the financial services industry;
- FCA has a fair and principled approach to regulations; and
- Endeavors to reduce financial crime and implement whatever action is required to censure firms which act unethically or disregard consumer interests.

The PRA has adopted a proactive supervisory approach whereby the Supervisory Assessment Framework will be a continuous assessment model focusing on the key risks the Bank poses to the PRA's objectives.

The areas of focus that the PRA will be concentrating on amongst other objectives will be the Governance within the appropriate systems and controls in place, the viability of the Business Model along with Capital and Liquidity requirements and the Recovery and Resolution Plan.

As part of the continuous assessment that the PRA expects to carry out, the Bank will be engaged with them to ensure that the Bank meets its regulatory requirements.

5. Capital Management

The Bank is managing and monitoring its capital resources as per the Total Capital Requirement (TCR) in addition to the Pillar 2B Buffers as set out by the FCA and PRA. The Bank's capital resources consist of paid-up capital, retained earnings, additional tier 1 capital and general provision and subordinated debt classed as Tier II capital. There are no terms and conditions attached to the Banks's capital resources.

The firm's own assessment of the capital required to hold against its risks is included through the ICAAP (Internal Capital Adequacy Assessment Process), and SREP (Supervisory Review and Evaluation Process). The assessment conducted alongside the Supervisory review to assess the overall risks of the firm, are the two main parts of the Supervisory Review Process. The SREP also includes a qualitative and a quantitative assessment of the ICAAP.

The Bank continues to monitor and follow the TCR as prescribed previously in the last ICAAP submitted to the PRA. The approach adopted by the Bank in its ICAAP is summarized below:

An Internal Capital Adequacy Assessment Process (ICAAP) is produced and designed to assess the level of capital required at both consolidated and solo level to cover all relevant current and future risks to the strategic business objectives and demonstrates that HBL Bank UK (the Bank) has appropriate risk management policies and processes in place.

The primary objectives of this document are to:

- Provide the Board with an ongoing assessment of the risks faced by the Bank;
- Explain how the Bank addresses the mitigation of those risks;
- Indicate how much current and future capital is necessary to cover those risks; and
- Seek the approval of the Board.

The Senior Management of the Bank will be responsible for regularly reviewing this document and for recommending changes to the Board of Directors in a timely manner. The Bank will continue to evolve risk management arrangements based on experiences, developments in the market, industry best practices and feedback from the external consultants and the regulators.

The Management has carried out a detailed review as part of the ICAAP process to assess the underlying exposures in order to determine the adequacy of capital. This process involves reviewing credit, market, operational and business-related risks which are discussed in the capital adequacy.

In assessing the new capital requirement as a part of this ICAAP review, the Management has considered all those risks, which are either not accounted for, or not fully captured in the Pillar 1 requirement. It has, therefore, provided the assurance that a total of Pillar 2A and 2B gives a comprehensive aggregation

of all the risks the Bank could potentially be exposed to and factors the impact on the capital resources and its overall requirement

Based on the comprehensive guidance in the consultation papers issued by the PRA, the Management has made an assessment and arrived at the total capital requirement (TCR) plus Pillar 2B buffers on both consolidated and solo basis. To arrive at this requirement, the Management has reviewed the factors for inclusion in the Pillar 2 requirement that would include the add-ons from areas such as credit risk, operational risks, interest rate risk and concentration risk

The Management has designed scenarios to test the resilience of the Bank's model in terms of viability and capital adequacy under different stress events. While designing stress scenarios, consideration has been given to relating the PRA anchor scenario or rates down scenario to the Bank's business model and to include firm specific defined stresses, market driven systemic stresses and reverse stress testing. The stress scenarios have been designed, keeping in view the strategic plan for the Bank, with the objective to uncover areas of weakness primarily to anticipate any emerging risks and take any such preventive measures.

6. Remuneration Policies

The Board of Directors is responsible for the oversight of remuneration policies for the Bank and is assisted by the Board's Human Resource & Remuneration Committee which has its defined terms of reference, scope of the work and roles and responsibilities described before under the heading of Board Committees. The Human Resource & Remuneration Committee is responsible for deciding all remuneration policies.

As described earlier, the Bank operates a discretionary performance driven bonus process that is related to the Bank's and individual's performance. Performance of the Bank is judged against fiscal and non-fiscal targets agreed with the Board at the start of the year. An individual's performance is assessed through an annual appraisal and is dependent on achievement of Goals and Objectives agreed with the line Managers.

The performance incentive payments to Remuneration Code Staff is in accordance with the FCA and PRA's Remuneration Code principle 12 proportionality rule and all the Remuneration Code staff fall within the de minimis concession.

The Bank does not operate any long-term incentive plan for the staff and there are no other non-cash benefits to staff except a pension scheme, insurance scheme and a health insurance scheme.

The table below shows the remuneration for the Bank charged during 2021:

Category	**No. of Staff**	**Fixed Remuneration**	**Variable Remuneration**	**Total Remuneration**
				GBP '000
Business Approved persons, senior management and risk takers	24	4,256	814	**5,070**
Support Staff Staff whose activities have material impact on the Bank's risk profile and other staff members	112	6,600	298	**6,898**
Total	**136**	**10,856**	**1,112**	**11,968**

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7. Capital Adequacy Resources

	As at Dec 31, 2021 £ '000	As at Dec 31, 2020 £ '000
Tier I Capital		
Permanent share capital	**50,315**	50,315
Retained earnings	**(6,191)**	131
Deferred Taxation	**(2,303)**	(4,153)
Surplus/(Deficit) on revaluation of investments	**(97)**	109
Prudent Valuation Adjustment	**(101)**	(81)
Total Common Equity Tier I Capital	**41,623**	46,321
Additonal Tier 1 Capital	**9,786**	7,595
Total Tier 1 Capital	**51,409**	53,916
Tier II Capital		
Other Equity Instruments	**10,702**	12,556
General provision	**650**	650
Total Tier II Capital	**11,352**	13,206
Total Tier I and Tier II capital after deductions	**62,761**	**67,122**

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7.1 Capital Requirement under CRR

	(As at Dec 31, 2021)			(As at Dec 31, 2020)		
	RWA	**Capital charge @ 8%**	**Average exposure**	RWA	Capital charge @ 8%	Average exposure
	£ '000	**£ '000**	**£ '000**	£ '000	£ '000	£ '000
Credit Risk						
Central Governments or Central Bank	**11,799**	**944**	**20,675**	21,307	1,705	18,640
Institutions	**35,388**	**2,831**	**39,821**	33,036	2,643	42,246
Corporates	**90,506**	**7,240**	**95,231**	94,397	7,552	107,079
Retail	**4,391**	**351**	**9,360**	11,052	884	11,828
Secured on real estate property	**112,069**	**8,966**	**117,628**	114,835	9,187	113,511
Overdue and impaired accounts	**7,053**	**564**	**7,199**	10,050	804	11,113
Other items	**3,647**	**292**	**4,568**	4,436	355	4,991
Total credit risk requirement	**264,852**	**21,188**	**294,482**	289,113	23,129	309,408
Operational risk		**2,341**			2,410	
Market risk		**14**			31	
Credit value adjustment		**12**			56	
Total capital requirement under CRD IV		**23,555**			25,626	

CAPITAL RATIOS

CET1 Capital Ratio	14.14%	14.46%
T1 Capital Ratio	17.46%	16.83%
Total Capital Ratio	21.31%	20.95%

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7.2 Credit Exposures subject to the Standardised Approach

	CQS	EXPOSURE £ '000	AS AT DEC 31, 2021 ----------FINANCIAL COLLATERAL---------- GUARANTEE £ '000	CASH £ '000	TOTAL £ '000	NET EXPOSURE £ '000
Sovereign	1	179,464	-	-	-	179,464
Sovereign	2 to 6 / non-rated	11,873	-	-	-	11,873
Institutions	1	44,048	-	-	-	44,048
Institutions	2 & 3	20,551	-	-	-	20,551
Institutions	4 to 6 / non-rated	36,901	-	-	-	36,901
Corporates	1	14,848	-	-	-	14,848
Corporates	2 to 6 / non-rated	101,313	-	12,364	12,364	88,949
		408,998	-	12,364	12,364	396,634

	CQS	EXPOSURE £ '000	AS AT DEC 31, 2020 ----------FINANCIAL COLLATERAL---------- GUARANTEE £ '000	CASH £ '000	TOTAL £ '000	NET EXPOSURE £ '000
Sovereign	1	143,752	-	-	-	143,752
Sovereign	2 to 6 / non-rated	21,381	-	-	-	21,381
Institutions	1	40,635	-	-	-	40,635
Institutions	2 & 3	20,645	-	-	-	20,645
Institutions	4 to 6 / non-rated	29,351	-	-	-	29,351
Corporates	1	14,646	-	-	-	14,646
Corporates	2 to 6 / non-rated	104,750	-	5,879	5,879	98,871
		375,160	-	5,879	5,879	369,281

Note: The bank follows Moody's ratings as its primary ratings agency. Where's Moody's ratings are not available the bank uses ratings provided by Standard & Poors or Fitch

8. Concentration of Credit Risk

8.1 Sector Concentration

AS AT DEC 31 2021

Sector concentration (2021)	Loans to customers £ '000	Loans to banks £ '000	Debt securities £ '000	Contingencies £ '000	Derivative instruments £ '000	Total £ '000
Automobile and transportation equipment	-	-	3,710	-	-	**3,710**
Chemicals and Pharmaceuticals	-	-	-	-	-	**-**
Financial	-	169,942	3,827	2,155	679	**176,603**
Foods, Tobacco and Beverages	12,848	-	-	1,637	-	**14,485**
General traders	3,723	-	-	1,681	-	**5,404**
Government	-	-	88,049	-	-	**88,049**
Shipping	3,007	-	-	-	-	**3,007**
Hotel and Hospitality	10,585	-	-	-	-	**10,585**
Retail and wholesale trade	334	-	-	-	285	**619**
Metal and Allied	825	-	-	-	-	**825**
Printing and Packaging	427	-	-	-	-	**427**
Textile	9,277	-	-	3,292	-	**12,569**
Property Investments	114,334	-	-	-	-	**114,334**
Individual	14,619	-	-	-	-	**14,619**
Others	8,288	-	-	15,319	919	**24,526**
	178,267	**169,942**	**95,586**	**24,084**	**1,883**	**469,762**

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Sectoral concentration (2020)	Loans to customers £'000	Loans and advances to £'000	Debt securities £'000	Contin-gencies £'000	Derivative & Others £'000	Total £'000
Automobile and transportation	4	-	7,626	-	-	7,630
Chemicals and Pharmaceuticals	106	-	-	293	-	399
Financial	-	161,163	19,463	11,709	3,307	195,642
Food, Tobacco and Beverages	6,196	-	-	101	-	6,297
General traders	1,624	-	-	66	-	1,690
Government	15,377	-	46,746	-	-	62,123
Shipping	4,650	-	-	-	-	4,650
Hotel and Hospitality	14,759	-	-	-	-	14,759
Retail and wholesale trade	557	-	-	-	95	652
Metal and Allied	439	-	-	366	-	805
Printing and Packaging	455	-	-	-	-	455
Textile	8,663	-	-	3,399	-	12,062
Property Investments	118,432	-	-	112	-	118,544
Individual	17,126	-	-	202	-	17,328
Others	7,804	-	2,767	3,347	1,638	15,556
	196,192	**161,163**	**76,602**	**19,595**	**5,040**	**458,592**

8.2 Geographical Concentration

AS AT DEC 31 2021

Geographical concentration (2021)	Loans to Customers £ '000	Loans to Banks £ '000	Debt Securities £ '000	Contingencies £ '000	Derivative instruments £ '000	Total £ '000
Europe	142,475	53,349	7,423	23,419	1,598	**228,264**
North America	1,188	40,514	68,748	-	-	**110,450**
Asia Pacific (including South Asia)	12,591	22,712	7,578	336	-	**43,217**
Africa	7,979	24,072	6,499	329	-	**38,879**
Middle East	14,034	29,295	5,338	-	285	**48,952**
						-
	178,267	**169,942**	**95,586**	**24,084**	**1,883**	**469,762**

Analysis of debt securities by Asset Class	Banks £ '000	Governments £ '000	Corporates £ '000	Total £ '000
Europe	-	3,714	3,709	**7,423**
North America	-	68,748	-	**68,748**
Asia Pacific (including South Asia)	-	7,578	-	**7,578**
Africa	3,827	2,672	-	**6,499**
Middle East	-	5,338	-	**5,338**
	3,827	**88,050**	**3,709**	**95,586**

	2020					
	Loans to customers	Loans and advances to Banks	Debt securities	Contin-gencies	Derivative & Others	Total
Geographical concentration:	£'000	£'000	£'000	£'000	£'000	£'000
Europe	140,060	37,501	36,214	17,624	4,722	236,121
North America	1,246	28,253	22,602	-	-	52,101
Asia Pacific (including South Asia)	24,494	32,445	7,444	1,859	-	66,242
Africa	12,680	17,412	766	112	-	30,970
Middle East	17,712	45,552	9,576	-	318	73,158
	196,192	161,163	76,602	19,595	5,040	458,592

Analysis of debt securities by Asset Class	Banks £'000	Corporates £'000	Government £'000	Grand Total £'000
Africa	-	-	766	766
Asia Pacific (including South Asia)	-	-	7,444	7,444
Europe	15,774	9,654	10,787	36,214
Middle East	3,689	743	5,144	9,576
North America	-	-	22,602	22,602
Grand Total	19,463	10,397	46,742	76,602

9. Residual Maturity of Loans and Debt Securities

AS AT DEC 31 2021	On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1year but less than 5 years	Greater than 5 years	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Loans and advances to:						
Banks	34,495	84,845	49,885	717	-	169,942
Customers (net)	28,238	12,488	12,362	97,248	27,931	178,267
						-
Debt securities	-	54,351	17,200	24,035	-	95,586
TOTAL	62,733	151,684	79,447	122,000	27,931	443,795

AS AT DEC 31 2020	On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1year but less than 5 years	Greater than 5 years	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Loans and advances to:						
Banks	25,471	53,520	82,172	-	-	161,163
Customers (net)	16,542	6,945	29,078	70,326	73,301	196,192
						-
Debt securities	-	22,030	29,426	25,146	-	76,602
TOTAL	42,013	82,495	140,676	95,472	73,301	433,957

10. Impaired and Past Due Analysis

	AS AT DEC 31, 2021							
	Loans to Customers (Gross)				Investments			
Impaired and Past Due (2021)	**Impaired Exposure £ '000**	**Past Due £ '000**	**Charges / (Reversals £ '000**	**Specific Provision £ '000**	**Impaired Exposure £ '000**	**Past Due £ '000**	**Charges / (Reversals) £ '000**	**Specific Provision £ '000**
Automobile & Transportation Equipment	-		-	-	-	-	-	-
Chemical & Pharmaceutical	-	-	-	-	-	-	-	-
Financial	-	-	-	-	-	-	-	-
Food, Tobacco and Beverages	5,781	-	-	2,531	-	-	-	-
General Traders	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-
Hotel & Hospitality	-	-	-	-	-	-	-	-
Retail and Wholesale Trade	-	-	-	-	3,901	-	(124)	3,901
Metal & Allied	-	-	-	-	-	-	-	-
Printing & Packaging	-	-	-	-	-	-	-	-
Textiles	-	-	-	-	-	-	-	-
Property Investment		2,275	(10)		-	-	-	-
Individuals	450	1,412	(178)	184	-	-	-	-
Others		-	-		-	-	-	-
Total	**6,231**	**3,687**	**(188)**	**2,714**	**3,901**	**-**	**(124)**	**3,901**
Europe	6,231	1,412	(188)	2,714	3,901	-	(124)	3,901
North America	-	-	-	-	-	-	-	-
Asia Pacific (including South Asia)	-	-	-	-	-	-	-	-
Africa and Middle East	-	2,275	-	-	-	-	-	-
Total	**6,231**	**3,687**	**(188)**	**2,714**	**3,901**	**-**	**(124)**	**3,901**

Impaired and Past Due (2020)	AS AT DEC 31, 2020							
	Loans to Customers (Gross)				Investments			
	Impaired Exposure £ '000	Past Due £ '000	Charges / (Reversals) £ '000	Specific Provision £ '000	Impaired Exposure £ '000	Past Due £ '000	Charges / (Reversals) £ '000	Specific Provision £ '000
Automobile & Transportation Equipment	-	4	-	-	-	-	-	-
Chemical & Pharmaceutical	-	-	-	-	-	-	-	-
Financial	-	-	-	-	-	-	-	-
Food, Tobacco and Beverages	6,493	-	1,186	2,531	-	-	-	-
General Traders	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-
Hotel & Hospitality	-	-	-	-	-	-	-	-
Retail and Wholesale Trade	-	-	-	-	4,025	-	1,080	4,025
Metal & Allied	-	-	-	-	-	-	-	-
Printing & Packaging	-	-	-	-	-	-	-	-
Textiles	-	-	-	-	-	-	-	-
Property Investment	494	2,244	(201)	426	-	-	-	-
Individuals	7,193	80	-	4,264	-	-	-	-
Others	56	-	-	-	-	-	-	-
Total	**14,237**	**2,329**	**985**	**7,220**	**4,025**	**-**	**1,080**	**4,025**
Europe	14,237	85	985	7,220	4,025	-	1,080	4,025
North America	-	-	-	-	-	-	-	-
Asia Pacific (including South Asia)	-	-	-	-	-	-	-	-
Africa and Middle East	-	2,244	-	-	-	-	-	-
Total	**14,237**	**2,329**	**985**	**7,220**	**4,025**	**-**	**1,080**	**4,025**

11. Reconciliation of Provision (Specific and General)

	As at Dec 31, 2021		
	Specific £ '000	General £ '000	TOTAL £ '000
January 1, 2021	7,220	650	**7,870**
Provision charge/(reversals) during the year	(188)	-	**(188)**
Written off during the year	(4,318)	-	**(4,318)**
Effect of movements in exchange rates	-	-	**-**
December 31, 2021	**2,714**	**650**	**3,364**

	As at Dec 31, 2020		
	£ '000	£ '000	£ '000
January 1, 2020	19,869	650	**20,519**
Provision charge/(reversals) during the year	985	-	**985**
Written off during the year	(13,629)	-	**(13,629)**
Effect of movements in exchange rates	(5)	-	**(5)**
December 31, 2020	**7,220**	**650**	**7,870**

Classification: General Business

HBL Bank UK Limited
Registered Office:
9 Portman Street
London W1H 6DZ
United Kingdom

www.hblbankuk.com

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