HBL BANK UK

Pillar III Disclosures

31st December 2022

HBL BANK UK

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1. Introduction

1.1 Ownership Structure

HBL Bank UK Limited (Bank) is authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and is supervised by the PRA. The Bank is a wholly owned subsidiary of Habib Allied Holding Limited (HAHL), which is a non-banking company and itself is wholly owned by HBL Bank Limited (HBL). During the year 2022 HBL acquired the 9.5% shareholding of Allied Bank Limited in HAHL to become the sole parent of HAHL.

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 network clients and UK small cap family-owned companies. The product offering primarily includes working capital, trade financing, targeted private equity placements and associated UK real estate lending.

Further the commercial banking segment contributes significantly towards the Bank's liquidity and offers savings and other deposit products, remittances to its customers through the retail network.

Wealth Management
The Bank has a well-defined history of attracting affluent to High Net Worth individuals, mainly from the South Asian diaspora, looking to diversify their asset holdings by investing in global securities. Wealth Management provides clients with the opportunity to achieve their wishes through an Execution Only Services under which clients' risk appetite as well as suitability and affordability, are assessed. However, the decision to buy or sell securities lies solely with the clients. The aim of Wealth Management is to be the centre of execution, booking and settlement of investments, for the entire HBL Group network.

Financial Institutions
Financial Institutions business continues to provide the critical role of supporting the businesses by using 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, mitigating risk and supporting 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 function supports the Bank in ensuring adequate liquidity is available to businesses through its asset liability management (ALM) function. It supports customers by providing foreign exchange products including forwards while managing liquidity through its money market activities.

The Bank is a member of the Financial Services Compensation Scheme (FSCS), full details of deposits protected can be viewed on the FSCS website www.fscs.org.uk.

1.3 Basis, Purpose and Frequency of Disclosures

The 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 Prudential Regulation Authority (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 2022, 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 2022.

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 Financial Statements as of 31 December 2022.

1.5 The UK Withdrawal From The European Union (EU)

Any references to EU regulations and directives should, as applicable, be read as references to the PRA Rulebook (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 Brexit and Zurich branch closure

Having closed its branch in Zurich, Switzerland in the final quarter of 2022 the Bank no longer has any branches in Europe and therefore does not foresee any further impacts from Brexit.

1.7 Covid-19

The Bank supported its customers and relevant operations during the Covid-19 pandemic and did not face any material disruption in business and operations at that time and continues to operate effectively without any material disruption.

1.8 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 and embed climate-related financial risks, the Bank has recognised that climate change presents risks 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 Internal Capital Adequacy Assessment Process (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.

1.9 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 who were historically linked with GBP LIBOR were successfully transferred to BOE benchmark. For any new US dollars-based lending products, the Bank has started to use the Secured Overnight Financing Rate (SOFR) benchmark instead of US dollar LIBOR.

1.10 Operational Resilience

The Bank has continued to provide its services without fail to the customers and has adopted a hybrid model for its employees to work both remotely and in office. The Bank also continued to focus on the potential operational risks arising from this change in working practices. The Bank adopted a pragmatic and flexible approach to operational resilience that is based on the size and nature of the Bank considering the regulatory recommendations, business profile and risk tolerances. This approach assists the Bank to ensure that the developed Framework, supports the Bank in facing operational challenges arising from changes / events at local / global level, ensuring that the Bank can respond appropriately while continue to operate within the acceptable tolerance limits. Going forward the Bank intends to test the developed plans that can highlight the strengths and weaknesses of the framework, improve the early warning triggers, and strengthen the service level agreements with the key and business critical vendors.

1.11 Russian and Ukraine Exposure

Both Ukraine and Russia are not primary markets, and the Bank does not have any material exposure to them.

1.12 Other Emerging Risks

The Bank is continuously monitoring other emerging risks such as economic factors (high interest rates, inflation, energy prices, the cost-of-living crisis and real estate prices), competition to attract and retain high quality staff, the profile of the Bank's customers and the ability to execute sustainably given the reliance on legacy manual processes, so that proactive action can be taken when required.

Since late 2022, the country of Pakistan is facing significant economic challenges that have impacted its foreign exchange reserves resulting in downgrading of the country's rating. The Bank is monitoring this closely and have taken appropriate steps to manage and reduce its exposure where required. The remaining exposure primarily relates to the sovereign bond which has been assessed for impairment and no impairment was recorded.

2. Key Metrics

The key prudential metrics of the bank are as follows:

Regulatory Capital and Capital Ratios

	2022	2021
	£'000	£'000
Total Risk Weighted Assets	302,527	294,454
Common Equity Tier 1 Capital (CET 1)	44,784	41,624
Additional Tier 1 Capital (AT 1)	9,786	9,786
Tier 1 Capital (T 1) = (CET 1 + AT 1)	*54,570*	*51,409*
Tier 2 Capital (T 2)	11,351	11,351
Total Capital (CET 1 + AT 1 + T 2)	*65,921*	*62,761*
CET 1 Ratio (%)	14.80%	14.14%
T 1 Ratio (%)	18.04%	17.46%
Total Capital Ratio (%)	21.79%	21.31%

Leverage Ratio

	2022	2021
Total Leverage Ratio Exposure Measure - £ 000	543,633	546,542
Leverage Ratio (%)	13.01%	9.41%

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

	2022	2021
Total High quality liquid assets (HQLA) - £ 000	155,488	149,771
Total Net Flow - £ 000	25,380	26,725
Liquidity Coverage Ratio (LCR) (%)	613%	560%
Total Available Stable Funding - £ 000	413,951	429,109
Total Required Stable Funding - £ 000	226,616	238,839
Net Stable Funding Ratio (NSFR) (%)	183%	180%

3. Risk Management Framework

3.1 Corporate Governance

The Bank has its own independent Board of Directors who 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 risk management, core operations, human resources, technology, compliance and other functions.

The Board is responsible for the overall governance, leadership, controls, oversight of operations and financial soundness of the Bank. Further, the Board also support the CEO and executive team 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 roles and responsibilities of the Board include:

- Setting the Bank's strategy taking into account stakeholder interests
- Monitoring changes to the Bank's management, capital and control structure

- 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 and controls of the Bank and reviewing overall financial condition and its position as a going concern
- Review and approval of all policies and corporate documents
- Establishing the culture across all the business and ensuring that the business of the Bank is conducted with a high degree of integrity and transparency.
- Supervisory management, exercising business judgement, and acting in good faith.

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

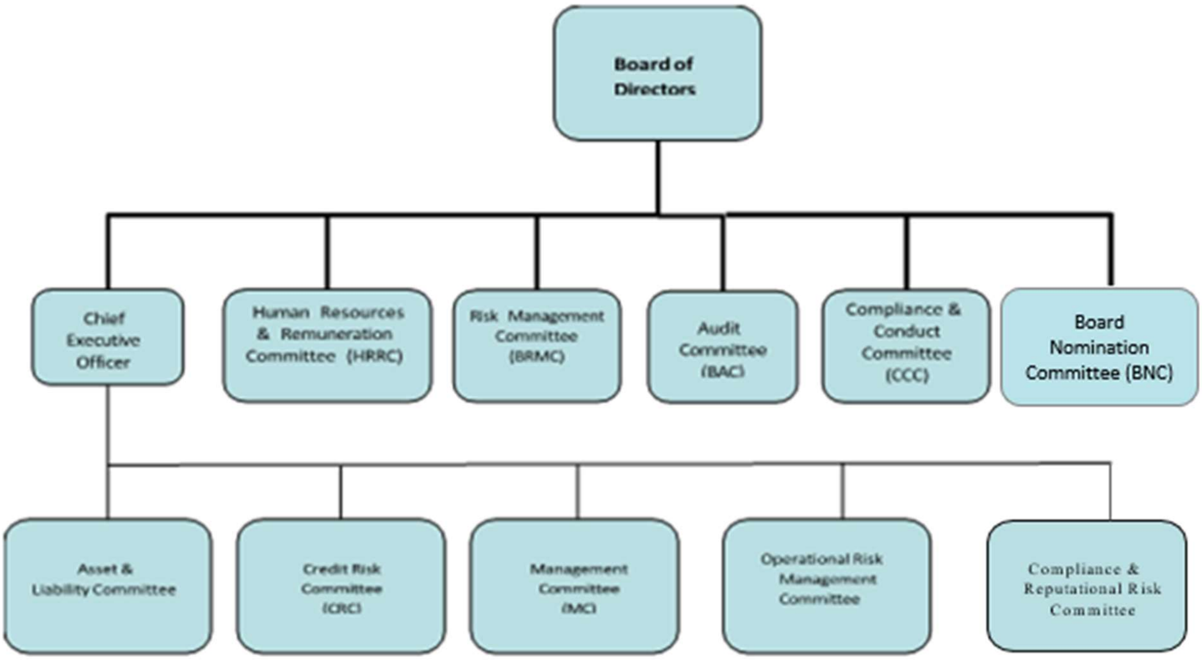
The corporate governance framework of the Bank is based on an effective and independent Board which is not involved in day-to-day management. The position of the Chairman of the Board and CEO are held by separate individuals. Board meetings are held at least four times a year and if required, additional 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, development 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 Executive 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

Human Resources & Remuneration Committee (HR&RC)

The HR&RC comprises five Directors, including the CEO. The Head of the HR & Corporate Affairs department is the secretary.

HR&RC's role is to ensure that the Bank recruits, retains and develops its people to achieve the best possible customer outcomes. As such the HR&RC is responsible for HR strategy and policy, whilst overseeing procedure and practices, such as remuneration and benefits, professional and leadership development, recruitment and performance management to support the Bank's business and risk strategy. Further, as a regulated institution, the HR&RC, with the Compliance function, ensures that HR and Remuneration policies and practices are in accordance with the FCA/PRA rules, guidance and expectations.

The HR&RC supports the Board in its responsibility to ensure the continual positive development of the Bank's workplace culture, including diversity, inclusion and equal opportunities.

The Committee meets prior to Board of Directors' meetings and provides relevant update and MI to the Board on material and key HR and people matters, such as emerging legislation, cultural development, code of conduct, remuneration and performance and staff movement. The Chairman will report on the proceedings of the HR&RC to the Board and will also share its minutes. Additional meetings can be called at the request of the HR&RC, if required.

Risk Management Committee (BRMC)

The BRMC is a committee of the Board, from which it derives its authority and to which it regularly reports. The quality, integrity and reliability of the Bank’s overall risk management shall be the responsibility of the BRMC. The Committee will consist of at least three directors and the CEO and the CRO is the Secretary of the Committee. The Chairperson of the BRMC will be appointed by the Board and will be a Non-Executive Director.

The BRMC 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. The BRMC ensures compliance with regulatory requirements (liquidity, capital adequacy etc.) that are stipulated by the Regulators from time to time.

The BRMC has the responsibility of ensuring that the Bank has adequate risk management policies and a framework to support its overall business strategy including key risks faced by the Bank. Further it ensures that the Bank has systems/tools/proper methodologies and controls to measure, monitor and manage all the risks embedded in the Bank’s books. It ensures that the Bank has clear, comprehensive, and well documented policies and procedures, guidelines relating to the risk management for all major risks. It reviews and assesses the integrity of the risk control systems and ensures that the Bank’s risk policies, procedures and strategies are effectively managed through reporting.

Board Audit Committees (BAC)

The Board Audit Committee (BAC) has been constituted by the Board, from which it derives its authority and to which it regularly reports. The members of the Committee, including the Chairperson, shall be appointed by the Board. The Committee shall comprise of at least two Non-Executive Directors, including the Chairperson and the Head of Audit is the Secretary. The Bank's external auditors are permanent invitees while CEO and other members of the management can attend on an invitation basis.

The Bank has an independent Audit function with the Head of Audit reporting directly to the Chairperson 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 and Conduct Committee (CCC)

The CCC 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 an invitation basis.

The CCC 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 CCC, Board Audit Committee, Human Resource & Remuneration Committee and Risk Management Committee, actively coordinate with each other to achieve overall objectives of improving compliance and conduct environment.

Board Nomination Committee (BNC)

The BNC comprises of four Directors including the Chairman. The Head of the HR & Corporate Affairs department is the secretary.

The BNC has the responsibility of leading the process for appointments and contract termination of members of the Board. The BNC reviews the structure, size, and composition of the Board as a whole and makes recommendations to the Board as appropriate on Board developmental needs and/or succession planning requirements. The Committee reviews strategic priorities and trends to ensure the Board continuously has the right skills mix to support the long-term success of the Bank and continued good customer outcomes.

The Committee evaluates optimum Board composition based on the balance of skills, knowledge, experience, diversity of thought and culture and range of critical skills necessary for the Board to effectively carry out its role and responsibility in relation to the challenges and opportunities faced by the Bank.

The Committee meets prior to the Board of Directors' meeting and updates the Board on any recommendations. The Chairman will report any recommendations and share the minutes with the Board.

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, Head of Treasury, and the Financial Controller as Secretary to the Committee. Head of Audit may attend the meetings at his discretion as an 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 3.2.2 Liquidity Risk which incorporates within the components of risk management.

Credit Risk Committee (CRC)

The CRC is primarily responsible for managing the Bank's credit risk and is chaired by the CEO. The CRC's role and responsibilities include the administration and monitoring of credit exposures reported by Heads of Credit Administration Department (CAD) and Remedial Asset Management (RAM). The CRC is responsible for implementation of the credit risk management framework including structures, controls, policies, processes and systems. The CRC reviews and discusses the portfolio with Business

Heads and RAM for potential weaknesses and provides an opportunity for the Business to discuss in the committee accounts which have been identified with a potential weakness developed in their business operations and/or financial standing which may impact the company's debt serviceability but are not as yet overdue or defaulted and not watch listed as yet. The 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 every two months; 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 BRMC as defined in the Bank's Risk Appetite Statement and Credit Policy. The CRC reviews and recommends changes in the Risk Appetite Statement in line with changes in risk dynamics and business environment.

Refer to Section 3.2.1 Credit Risk which incorporates within the components of risk management.

Management Committee (MC)

MC is a monthly meeting, chaired by the CEO. It is responsible for the implementation of the approved strategy and establishing a robust control environment and 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 and people related issues.

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.

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

Operational Risk Management Committee (ORMC)

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 BRMC. These objectives are achieved by reviewing, proposing operational risk management strategies and appetite to the BRMC, 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.

Refer to Section 3.2.4 Operational Risk which incorporates within the components of risk management.

Compliance & Reputational Risk Committee (CRRC)

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 and Head of HR. 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 either available for sale or held to maturity. 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 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 would start monitoring the performance of that advance more closely; RAM 's involvement would be taken where required.

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 13.01% as of 31 December 2022.

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 PRA Rulebook, Liquidity (CRR) Part. 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 and/or State Bank of Pakistan). 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;
- 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 provided hereunder:

GBP'000

Liquidity Coverage Ratio (LCR)	**2022**	**2021**
Total High quality liquid assets (HQLA)	155,488	149,771
Total Net Flow	25,380	26,725
Liquidity Coverage Ratio (LCR) (%)	613%	560%
Regulatory Requirement	100%	100%
Net Stable Funding (NSFR)	**2022**	**2021**
Total Available Stable Funding	413,951	429,109
Total Required Stable Funding	226,616	238,839
Net Stable Funding Ratio (NSFR) (%)	183%	180%
Regulatory Requirement	100%	100%

3.2.3 Market Risk

Market risk is the risk that the value of on and off-balance sheet positions of a financial institution will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates and equity prices resulting in a loss to earnings and capital. The Bank has an investment securities portfolio of High Quality Liquidity Assets (HQLA) for the purposes of liquidity management. The price movement on the portfolio is exposed to market risk based on the volatility of the bond markets.

3.2.3.1 Interest Rate Risk

The interest rate risk reflects the degree of vulnerability for the Bank to adverse changes in the interest rates. It is the potential risk that an asset's value could change as a reflection of the change in the level of interest rates.

The two main sources of interest rate risk considered in the asset portfolio arise from loans and advances and investments due to their mix of repricing period and maximum tenor. On the liabilities side, the term deposits also consider the same factors and impact the net gap.

The interest rate risk is monitored using the PRA's approach and sets the Bank's tolerance to manage interest rate exposure using the "Interest rate risk on banking book" (IRRBB) approach which reflects the risk of losses from changes to interest rates is sensitised using a 2% change in interest rates.

The Bank's ICAAP utilises the same approach to ascertain the Pillar 2A requirement and the IRRBB is reported and monitored against the requirement arrived at in the ICAAP.

The impact as at 31 December 2022 for the Bank is as below:

GBP'000

Interest Rate Position Risk Requirement (PRR)	December 31, 2022	December 31, 2021
GBP	**1,958**	1,596
USD	**460**	966
EUR	**6**	1
All Other Currencies	**368**	438
Total Interest Rate PRR	**2,792**	**3,001**

3.2.3.2 Foreign Exchange Risk

Foreign exchange risk refers to the risk that the Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either in the form of a balance sheet asset or liability account, or an off-balance sheet item.

Under the regulatory guidance, "trading book" means all positions in financial instruments and commodities held by an institution either with trading intent, or to hedge positions held with trading intent.

The Bank does not engage itself in any proprietary trading nor any FX proprietary trading as all transactions are executed on behalf of the customers and therefore has a low appetite and exposure for exchange rate risk. This is reflected in the overall net open position limit for small currency positions held at the end of the working day after Treasury balances the assets and liabilities.

The Bank's tolerance to intraday and overnight currency positions is based on the premise that Treasury will maintain nominal overnight balances. There is no dealing in FX Futures, FX Options or Options on FX Futures transacted by the Bank.

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 losses resulting from inadequate or failed internal processes, people, and systems, or from external events. It includes legal risk but excludes reputational risks.

The Bank aims to maximise its revenue and experience in line with the core values. The Management accepts some operational risk to be part of the activities and aims to mitigate risks where the benefit outweighs the cost of mitigation, unless in cases of operational risk to which the Bank does not have appetite.

The management of the risk is primarily based on four broad areas of the framework: people, systems, processes, external factors.

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 is 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 the Bank has appropriate risk management policies and processes in place.

The primary objectives of this ICAAP 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 is 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 Solvency Stress 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.

5.1 Countercyclical Capital Buffer

The specific Countercyclical Buffer (CCyB) enables the institutions to manage the resilience with the buildup of the system, and raise capital to absorb losses, enhancing its resilience and contributing stable financial system during the period of stress.

On 13 December 2021, Financial Policy Committee (FPC) announced 1% CCyB rate for UK exposure that is applicable from 13 December 2022 and a further increase to 2% that will be applicable from 5 July 2023.

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 (HR&RC). HR&RC terms of reference, scope of the work and roles and responsibilities has been described before under the heading of Board Committees. The HR&RC is responsible for recommending all remuneration policies and policy changes for Board approval, ensuring that the Bank's remuneration policy adheres to the Remuneration code and supports good customer outcomes.

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 throughout the year and formally at the mid-year and the year-end performance review cycles. Individual performance ratings are dependent on achievement against agreed individual goals and objectives. It should be noted that performance rating is based on 1: task and work completion and 2: Equal weighting is given to adherence to the Bank's Values and exhibiting the right Values and behaviours when carrying out duties and responsibilities.

The performance incentive payment 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 2022:

Category	No. of Staff	Fixed Remuneration	Variable Remuneration	Total Remuneration
				GBP '000
Business Approved persons, senior management and risk takers	38	4,306	464	**4,770**
Support Staff Staff whose activities have material impact on the Bank's risk profile and other staff members	96	6,025	369	**6,394**
Total	**134**	**10,331**	**833**	**11,164**

HBL BANK UK

7. Capital Adequacy Resources

	As at Dec 31, 2022 £ '000	As at Dec 31, 2021 £ '000
Tier I Capital		
Permanent share capital	**53,315**	50,315
Retained earnings	**(2,159)**	(6,191)
Deferred Taxation	**(4,875)**	(2,303)
Surplus/(Deficit) on revaluation of investments	**(1,163)**	(96)
Prudent Valuation Adjustment	**(85)**	(101)
Other Intangible Assets	**(249)**	
Total Common Equity Tier I Capital	**44,784**	41,624
Additonal Tier 1 Capital	**9,786**	9,786
Total Tier 1 Capital	**54,570**	51,409
Tier II Capital		
Other Equity Instruments	**10,701**	10,701
General provision	**650**	650
Total Tier II Capital	**11,351**	11,351
Total Tier I and Tier II capital after deductions	**65,921**	**62,761**

HBL BANK UK

7.1 Capital Requirement under PRA Rulebook (CRR Part)

	(As at Dec 31, 2022)			(As at Dec 31, 2021)		
	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	**20,777**	**1,662**	**17,044**	11,799	944	20,675
Institutions	**36,000**	**2,880**	**49,088**	35,388	2,831	39,821
Corporates	**85,497**	**6,840**	**94,662**	90,506	7,240	95,231
Retail	**4,209**	**337**	**4,869**	4,391	351	9,360
Secured on real estate property	**116,995**	**9,360**	**107,445**	112,069	8,966	117,628
Overdue and impaired accounts	**4,184**	**335**	**5,775**	7,053	564	7,199
Other items	**5,078**	**406**	**4,523**	3,647	292	4,568
Total credit risk requirement	**272,740**	**21,819**	**283,405**	264,852	21,188	294,482
Operational risk		**2,347**			2,341	
Market risk		**0**			14	
Credit value adjustment		**36**			12	
Total capital requirement under CRD IV		**24,202**			23,555	

CAPITAL RATIOS

	2022	2021
CET1 Capital Ratio	14.80%	14.14%
T1 Capital Ratio	18.04%	17.46%
Total Capital Ratio	21.79%	21.31%

7.2 Credit Exposures subject to the Standardised Approach

AS AT DEC 31, 2022						
			FINANCIAL COLLATERAL			
	CQS	EXPOSURE £ '000	GUARANTEE £ '000	CASH £ '000	TOTAL £ '000	NET EXPOSURE £ '000
Sovereign	1	163,009	-	-	-	163,009
Sovereign	2 to 6 / non-rated	15,234	-	-	-	15,234
Institutions	1	27,561	-	-	-	27,561
Institutions	2 & 3	26,680	-	-	-	26,680
Institutions	4 to 6 / non-rated	36,639	-	-	-	36,639
Corporates	1	9,309	-	-	-	9,309
Corporates	2 to 6 / non-rated	87,923	-	10,842	10,842	77,081
		366,355	-	10,842	10,842	355,513

AS AT DEC 31, 2021						
			FINANCIAL COLLATERAL			
	CQS	EXPOSURE £ '000	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

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

7.3 Exposure Relevant for the Calculation of the Countercyclical Capital Buffer

As at Dec 31, 2022

Geographical breakdown	Exposure values and /or risk-weighted assets used in the computation of the countercyclical capital buffer		Own fund requirements weights	Risk weighted assets	Countercyclical buffer rate (%)
	Exposure values	Risk weighted assets			
	£'000	£'000	%	£'000	%
United Kingdom	174,380	122,273	1.00%	1,223	0.57%
Europe	11,414	8,648	0.00%	-	0.00%
Asia Pacific (including South Asia)	34,817	33,928	0.00%	-	0.00%
Africa	11,799	14,511	0.00%	-	0.00%
Middle East	39,226	31,958	0.00%	-	0.00%
Other countries	4,755	4,755	0.00%	-	0.00%
Grand Total	**276,391**	**216,073**	**0**	**1,223**	**0.57%**

Amount of institution - specific countercyclical capital buffer

This table shows an overview of institution specific countercyclical exposure and buffer requirements

As at Dec 31, 2022		
1	Total risk exposure amount	302,527
2	Institution specific countercyclical capital buffer rate	0.57%
3	Institution specific countercyclical capital buffer requirement	1,713

8. Concentration of Credit Risk

8.1 Sector Concentration

AS AT DEC 31 2022

Sector concentration (2022)	Loans to customers £ '000	Loans to banks £ '000	Debt securities £ '000	Contingencies £ '000	Derivative instruments £ '000	Total £ '000
Automobile and transportation equipment	-	-	2,491	-	-	**2,491**
Chemicals and Pharmaceuticals	-	-	-	304	-	**304**
Financial	-	145,200	3,991	812	2,033	**152,036**
Foods, Tobacco and Beverages	16,163	-	-	2,209	-	**18,372**
General traders	1,077	-	-	856	-	**1,933**
Government	-	-	79,918	-	-	**79,918**
Shipping	16	-	-	-	-	**16**
Hotel and Hospitality	9,984	-	-	-	-	**9,984**
Retail and wholesale trade	374	-	-	-	58	**432**
Metal and Allied	794	-	-	-	-	**794**
Printing and Packaging	386	-	-	-	-	**386**
Textile	7,990	-	-	2,600	-	**10,590**
Property Investments	138,069	-	-	-	-	**138,069**
Individual	16,539	-	-	-	-	**16,539**
Medical Services	3,300	-	-	-	-	**3,300**
Others	10,042	-	-	5,965	-	**16,007**
	204,734	**145,200**	**86,400**	**12,746**	**2,091**	**451,171**

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**

8.2 Geographical Concentration

AS AT DEC 31 2022

Geographical concentration (2022)	Loans to Customers £ '000	Loans to Banks £ '000	Debt Securities £ '000	Contingencies £ '000	Derivative instruments £ '000	Total £ '000
Europe	164,455	50,921	2,490	12,524	2,091	**232,481**
North America	1,162	27,287	72,262	-	-	**100,711**
Asia Pacific (including South Asia)	16,212	18,495	3,509	114	-	**38,330**
Africa	6,589	15,856	6,061	108	-	**28,614**
Middle East	16,316	32,641	2,078	-	-	**51,035**
						-
	204,734	**145,200**	**86,400**	**12,746**	**2,091**	**451,171**

Analysis of debt securities by Asset Class	Banks £ '000	Governments £ '000	Corporates £ '000	Total £ '000
Europe	-	-	2,490	**2,490**
North America	3,991	68,271	-	**72,262**
Asia Pacific (including South Asia)	-	3,509	-	**3,509**
Africa	-	6,061	-	**6,061**
Middle East	-	2,078	-	**2,078**
	3,991	**79,919**	**2,490**	**86,400**

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**

9. Residual Maturity of Loans and Debt Securities

	AS AT DEC 31 2022					
	On Demand £ '000	3 months or less but not on demand £ '000	Over 3 months but less than 1 year £ '000	Over 1year but less than 5 years £ '000	Greater than 5 years £ '000	Total £ '000
Loans and advances to:						
Banks	37,065	81,702	24,839	1,594	-	145,200
Customers (net)	25,896	12,143	19,711	119,269	27,715	204,734
						-
Debt securities	-	37,250	41,648	7,501	-	86,399
TOTAL	62,961	131,095	86,198	128,364	27,715	436,333

	AS AT DEC 31 2021					
	On Demand £ '000	3 months or less but not on demand £ '000	Over 3 months but less than 1 year £ '000	Over 1year but less than 5 years £ '000	Greater than 5 years £ '000	Total £ '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

10. Impaired and Past Due Analysis

	AS AT DEC 31, 2022							
	Loans to Customers (Gross)				Investments			
Impaired and Past Due (2022)	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	800	-	(1,454)	225	-	-	-	-
General Traders	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-
Hotel & Hospitality	-	-	-	-	-	-	-	-
Retail and Wholesale Trade	-	-	-	-	3,901	-	-	3,901
Metal & Allied	-	-	-	-	-	-	-	-
Printing & Packaging	-	-	-	-	-	-	-	-
Textiles	-	-	-	-	-	-	-	-
Property Investment		2,545	(2)		-	-	-	-
Individuals	270	1,453	-	183	-	-	-	-
Others		-	-		-	-	-	-
Total	**1,070**	**3,998**	**(1,456)**	**408**	**3,901**	**-**	**-**	**3,901**
Europe	1,070	1,453	(1,456)	408	3,901	-	-	3,901
North America	-	-	-	-	-	-	-	-
Asia Pacific (including South Asia)	-	-	-	-	-	-	-	-
Africa and Middle East	-	2,545	-	-	-	-	-	-
Total	**1,070**	**3,998**	**(1,456)**	**408**	**3,901**	**-**	**-**	**3,901**

Impaired and Past Due (2021)	AS AT DEC 31, 2021							
	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	-		-	-	-	-	-	-
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**

11. Reconciliation of Provision (Specific and General)

	As at Dec 31, 2022		
	Specific £ '000	General £ '000	TOTAL £ '000
January 1, 2022	2,714	650	**3,364**
Provision charge during the year	225	-	**225**
Provision (reversals) during the year	(1,681)	-	**(1,681)**
Provision charge/(reversals) during the year - net	(1,456)	-	(1,456)
Written off during the year	(850)	-	**(850)**
December 31, 2021	**408**	**650**	**1,058**

	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)**
December 31, 2021	**2,714**	**650**	**3,364**

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