INTERNAL AUDIT CHARTER

Classification: General Business

Internal Audit Charter	
Approval Sheet	
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Summary of the changes made to the Charter since the last version: Numerous changes to achieve better alignment of the Charter to: (i) the IIA Global Internal Audit Standards, effective from 9 January 2025 and; (ii) the CIIA Internal Audit Code of Practice, effective January 2025.	
Proposed by: *Head of Internal Audit*	
Draft reviewed and recommended for approval by: *Chair of the Board Audit Committee, 1 July 2026*	
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1. Introduction

The Board of Directors ("the Board") of HBL Bank (UK) Limited ("the Bank") has ultimate responsibility for overseeing senior management's establishment and maintenance of an effective and efficient governance, risk management, and internal control framework. As part of this, the Board has established a Board Audit Committee (BAC), comprising of members of the Board, to assist in effectively discharging these responsibilities.

The HBL Bank (UK) Internal Audit function has been established and its responsibilities defined by the BAC. The operation of the Internal Audit function (specifically its mission, purpose, authority, independence and mandate) is governed by this Internal Audit Charter.

The BAC will review, challenge, and approve the Internal Audit Charter at least annually.

2. Mission and Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance and advisory services. The primary purpose of Internal Audit is to help the Board and executive management to protect the stakeholder's assets, reputation and sustainability of the Bank. Internal Audit does this by:

- Providing independent, risk-based and objective assurance, advice, insight and foresight.
- Assessing whether all significant risks are identified and appropriately reported by management to the Board and executive management.
- Evaluating whether the organisation is adequately controlled.
- Challenging and influencing senior management to improve the effectiveness of governance, risk management and internal controls, including identifying efficiencies and removing duplicative and/or redundant controls.

3. Definition of Internal Auditing

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to challenge, evaluate, and improve the effectiveness of risk management, control, and governance processes.

4. Key Features of the Internal Audit Function

The Internal Audit function provides independent assurance to the HBL Bank (UK) Board and executive management regarding the quality and effectiveness of the Bank's internal control, risk management and governance systems and processes. The Internal Audit function has key features essential for its effective operation. These are: (i) integrity; (ii) objectivity; (iii) competency; (iv) due professional care; and (v) confidentiality.

5. Organisation and Authority

Internal Audit receives its authority from the BAC and reports directly to the Chair of the BAC. Authority is granted to Internal Audit to have full, free, and unrestricted access to decision-making fora, and unrestricted access to all the Bank's businesses and functions, files, data, records, information, personnel, and physical properties, including management information, records and minutes of all consultative and decision-making bodies relevant to any function or subject under review.

All employees are required to assist Internal Audit in fulfilling their staff function. Documents and information given to Internal Audit during any review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

The Internal Audit team has unrestricted access to the BAC. Internal Audit communicates and interacts directly with the Chair of the BAC and the Chief Executive Officer (CEO) including in private meetings without management present (at least one private meeting per year). The Head of Internal Audit, with any required support from the Chair of the BAC, communicates with the Chief Internal Auditor of HBL Group for audit support as required. Information sharing and other protocols with HBL Group Audit are mutually agreed upon as required with Non-Disclosure Agreements established, as appropriate.

Further, the BAC authorises Internal Audit to:

- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; and
- Obtain assistance from the necessary personnel of the Bank, as well as other specialised services from within or outside the Bank, subject to approval, in order to complete its activities.

6. Independence and Objectivity

Internal Audit is independent of management and has no direct operational responsibility or authority over any of the activities which it reviews. Internal Audit team members are independent, objective, and constructive when carrying out their duties. All Internal Audit activities shall remain free of influence and interference by any element of the business including matters of audit selection, scope, procedures, frequency, timing, completing special investigations/special projects or report content, to permit maintenance of an independent and objective mental attitude necessary in rendering reports. Accordingly, Internal Audit shall not develop, nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited. Internal Audit staff will not review a business area or function where they have had recent management or operational responsibilities or are in any other way conflicted. If there is an impairment of the Head of Internal Audit, either in fact or appearance, or there is an impairment that affects the reliability or perceived reliability of audit issues, recommendations, and/or conclusions, the Head of Internal Audit will discuss the concern with Management and the Board and any other relevant stakeholders to determine appropriate actions to resolve the situation.

Given the administrative reporting line of the Head of Internal Audit into the Chief Executive Officer, audit reviews shall be given appropriate consideration to ensure conflicts of interest are managed. More broadly, Internal Audit is alert to conflicts of interest and will establish safeguards to manage all potential conflicts identified to check that independence and objectivity are not impacted. Internal Audit will confirm to the Board at least annually the organisational independence of Internal Audit's activity.

In addition to consideration of the Head of Internal Audit's objectivity and independence in his/her annual appraisal by the BAC Chair, that subject will be discussed explicitly with the BAC after the Head of Internal Audit has been in post for seven years.

Internal Audit will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Audit will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming conclusions.

7. Key Roles and Responsibilities of the Internal Audit Function

The primary role of the Internal Audit function is to complete internal audit activities and deliver internal audit services to help the HBL Bank (UK) Board and executive management protect the assets, reputation, and sustainability of the Bank. It does this by assessing whether significant risks are identified and appropriately reported by the businesses and Risk function to the relevant Board, Committees, and Executive Management, to improve the effectiveness of governance, risk management, and internal controls.

Internal Audit supports the Bank Board in their statutory responsibility for ensuring the effectiveness of, and reporting on, the Bank's system of corporate governance, in particular for assessing design, implementation, and operating effectiveness of internal controls. The Head of Internal Audit ("HIA") is responsible for the effective review of key aspects of risk management, compliance, internal control, and governance, as well as assessing the Bank's adherence to relevant statutory, legal, and regulatory requirements.

It is the responsibility of Management to identify, understand, and manage risks effectively, including taking appropriate and timely action in response to Internal Audit findings. It is also Management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of the Internal Audit function, therefore, does not in any way relieve Management of this responsibility.

Management is responsible for fraud prevention and detection. As the Internal Audit function completes its work programmes, it will analyse and assess any evidence implying the existence of fraud and weaknesses in internal control which could permit fraud to occur or would impede its detection.

More broadly, the key responsibilities of the Internal Audit function include, but are not limited to:

- Submitting a risk-based Internal Audit plan to the BAC for review and approval at least annually.
- Discussing the focus of the proposed audit plan with management to facilitate appropriate consideration of risk and other input from management.
- Communicating the impact of resource limitations on the Internal Audit plan to the BAC.
- Reviewing and adjusting the Internal Audit plan as necessary in response to changes in the Bank's business, risks, operations, programs, systems, and controls.
- Communicating to executive management and the BAC significant interim changes to the Internal Audit plan.
- Delivering each engagement within the Internal Audit plan, including the establishment of objectives and scope, assignment of appropriate and adequately supervised resources, documentation of work programs and testing results, and communication of engagement results with applicable conclusions and to appropriate parties.
- Reporting and presenting results to the quarterly BAC as appropriate.
- Following up on engagement findings and corrective/remediating actions and reporting periodically to executive management and the BAC for any corrective actions not effectively implemented.
- Confirming that the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Providing ongoing training and development to Internal Audit personnel to confirm they collectively possess the knowledge, skills, and other competencies needed to fulfil their responsibilities.
- Assessing trends and emerging issues that could impact the Bank and communicating to senior management and the BAC as appropriate.

- Considering emerging trends and successful practices in internal auditing.
- Establishing and checking adherence to policies and procedures designed to guide Internal Audit.
- Adhering to the Bank's policies and procedures unless such policies and procedures conflict with the Internal Audit Charter, any conflicts to be resolved or otherwise communicated to executive management and the BAC.
- Using tools and technology including data analytics to drive efficiencies and effectiveness.
- Maintaining an open and constructive relationship with the first line, second line, and external audit whilst maintaining independence, coordinating assurance activities and sharing information regarding results to minimise duplication of effort.
- Materially conforming with professional standards, legislation and regulation.

8. Key Roles and Responsibilities of the Board Audit Committee ("BAC")

The key responsibilities of the BAC include, but are not limited to:

- Challenging and approving the Internal Audit Charter.
- Setting and monitoring objectives (success criteria) for the Internal Audit function.
- Challenging and approving the risk-based Internal Audit plan and any material changes.
- Approving Internal Audit's budget and resource plan.
- Reviewing communications from the Internal Audit team on the Internal Audit's performance relative to its plan and other matters.
- Approving decisions regarding the appointment and removal of any external services provider.
- Evaluating the performance of Internal Audit and the HIA including the appointment and removal of the latter.

9. Accountability of the Head of Internal Audit (HIA)

The Head of Internal Audit is responsible for establishing and maintaining an adequate internal organisation which is in compliance with relevant external regulations and good practice and capable of effectively fulfilling its objectives. This includes the maintenance of Internal Audit independence and material adherence to the Global Internal Audit Standards Ethics and Professionalism requirements comprising Integrity, Objectivity, Competency, Due Professional Care, and Confidentiality; as well as the management of, and reporting on, the performance of any third-party provider of resource engaged in internal audit work. It also includes checking that the Internal Audit team has the skills and experience commensurate with the risks of the Bank. Achieving this may entail training, recruitment, internal secondments, and the use of third-party co-sourcing.

10. Scope of the Internal Audit Function

The Internal Audit function is independent of Risk, Compliance, Finance and Legal and acts as a trusted independent adviser to the Bank's Board and to the Bank's BAC. The scope of internal audit encompasses the examination and evaluation of the design adequacy and effectiveness of the organization's governance, risk management, and compliance functions; compliance with relevant external regulations, systems, and internal control structure processes (including process outcomes), and the quality of performance in carrying out assigned responsibilities to achieve the Bank's stated goals and objectives. In setting its scope Internal Audit takes into account business strategy, emerging and systemic risks. Internal Audit scope setting is also informed by, but not determined by, the views of management and the risk function. Internal Audit's scope is unrestricted and includes but is not limited to the review and challenge of:

- Internal governance.

- The reliability and integrity of financial, strategic, and operating information and the means used to identify, measure, classify and report on such information.
- The processes and controls supporting strategic and operational decision making and the adequacy and fairness of information presented, and representations made to, the Board and executive management.
- Purpose, strategy, and business model (excluding the setting of).
- The setting of, embedding of, and adherence to, risk appetites.
- The risk and control culture of the organisation including remuneration, conduct, customer treatment (including the protection of customer data), process outcomes, values, ethics and policies. In relation to the culture of the organisation, Internal audit assesses whether observed behaviours across the organisation are in line with the formally espoused values, ethics, risk appetite(s) and the policies of the business. In relation to customer treatment, Internal Audit includes taking into account, as appropriate, Principle 12, the Cross-Cutting Rules, and the supporting Four Outcomes as they relate to Consumer Duty regulatory expectations.
- The Bank's processes and controls to manage and maintain adequate capital and liquidity including the modelling and management of capital and liquidity risks, and processes for establishing and maintaining scenario analysis (stress testing) and recovery plans related to economic shocks.
- The systems established to check compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports and whether the organisation is in compliance. This includes evaluating the design of policies and procedures and alignment with risk appetites.
- The means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- The economy and efficiency with which resources are employed.
- Operations or programmes to ascertain whether results are consistent with objectives and goals and whether the operations or programmes are being carried out as planned.
- Key corporate events including acquisitions, divestments, outsource decisions, new product initiatives, and reviewing specific operations or completing special projects at the request of the Board, the Board Audit Committee, or executive management, as appropriate.
- The effectiveness of the organisation's Risk, Compliance, Legal, Finance and other control functions and systems. It is the responsibility of Internal Audit to assess not only the processes followed by the first and second lines of defence, but also the quality of their work.
- Environmental sustainability, climate change risks and social issues.
- Financial crime, economic crime and fraud.
- Technology, cyber, digital and data risks.

Internal Audit may provide advice to Management on governance, risk and controls, either as part of audit reviews or as a separate exercise. This can be orally and/or in writing and is based on knowledge and experience held by Internal Audit or derived from external sources e.g. relationships with other organisations such as a co-source partner. Management is responsible for considering advice received and deciding what action to take. The advice element of Internal Audit's role is expected to form a smaller part of the department's overall workload. In considering and completing advisory work, Internal Audit will give due regard to any potential impact on its independence and objectivity.

Where appropriate, Internal Audit may also provide assurance to external parties including regulators and industry bodies such as payment attestations. This assurance should follow Internal Audit's standard methodology and procedures.

In evaluating the effectiveness of internal controls and risk management processes, in no circumstances does Internal Audit rely exclusively on the work of Risk, Compliance, Legal, or Finance functions. Internal Audit examines for itself an appropriate sample of the activities under review. Internal Audit evaluates the effectiveness of such functions before deciding to what extent it can take account of their work, either in completing its initial assessment or in determining its own level of audit testing.

The scope of Internal Audit is reviewed regularly to take account of new and emerging risks.

11. Annual Planning

Annually, or as requested by the BAC, the Head of Internal Audit submits to the BAC, for challenge and approval, a summary of audit work schedule, staffing/resource plan, and budget for the following twelve months. The audit work schedule (annual audit plan) is to be developed based on a prioritisation of the Audit Universe using a risk-based methodology. It is for the Internal Audit to decide (subject to review, challenge and approval by the BAC) which areas should, or need to be covered, in the annual audit plan, on the basis of its own assessment.

The annual work schedule is supported by an internal requirement for Internal Audit to annually assess the overall effectiveness of the governance, and risk and control framework of the Bank's audit universe, together with an analysis of themes and trends emerging from Internal Audit work and their impact on HBL's risk profile. It is the responsibility of Internal Audit to come to its own view as to how the audit universe should be structured, given the structure and risk profile of the Bank.

The Internal Audit plan, including budget, will have the flexibility to deal with unplanned events and allow Internal Audit to prioritise emerging risks. Any significant deviation from the BAC approved work plan and budget shall be communicated to executive management and the BAC through activity reports. The Internal Audit plan and material changes to it, shall be approved and minuted by the BAC.

12. Reporting

The Head of Internal Audit will attend the BAC and provide written and oral reports on the adequacy and effectiveness of the Bank's systems and risk management, internal control and governance, and on the status and results of the annual audit work plan and the sufficiency and performance of Internal Audit resources. Reports will focus on significant risk exposures, control and governance issues, risks and issues, themes, independent views of Management's risk reporting, and areas of remediation delay, as well as other matters needed and requested by the BAC. Internal Audit's reporting to the BAC should include any relevant post-mortem or 'lessons learned' analyses following significant adverse events within the Bank including the role of key actors.

A written report will be prepared and issued by the Head of Internal Audit or designee following the conclusion of each audit/engagement and will be distributed as appropriate, and as agreed, to executive management and the BAC members. As a minimum, any reports rated 'Significant Improvement Required' or 'Unsatisfactory' shall be forwarded to the Chair of the BAC for follow up and further distribution as required. If a final report contains a significant error or omission, the Head of Internal Audit will communicate corrected

information promptly to all parties who received the original communication. The definition of significant is set out in Internal Audit Methodology.

Internal Audit shall be responsible for the appropriate follow-up on audit findings and recommendations. All findings will remain in an open file and be monitored by the Head of Internal Audit and BAC until closed.

Each year, Internal Audit shall report to the BAC, in the context of its opinion on the overall control environment and on whether the Bank's framework for risk appetite is being adhered to across the risk functions. The Head of Internal shall also escalate and report on any unacceptable risk acceptance(s) to the BAC with the BAC recording such escalations. In addition, Internal Audit shall report annually to the BAC on how the principles of the IIA Internal Audit Code of Practice have been applied and also on the results of any Quality Assurance work and assessments.

13. Reporting Lines

The Head of Internal Audit reports functionally to the BAC through the chair of that committee and reports administratively into the Chief Executive Officer who provides day-to-day support to the function and the Head of Internal Audit (including approving the Head of Internal Audit's expenses). The Head of Internal Audit has unfettered access to the board and board sub-committees.

The annual objectives and performance appraisal of the Head of Internal Audit are determined by the chair of the BAC with input as appropriate from other Bank board members. The performance appraisal gives consideration to independence, objectivity, and tenure of the Head of Internal Audit.

The Head of Internal Audit's remuneration will be recommended by the chair of BAC and approved by the Remuneration Committee. The remuneration of the Head of Internal Audit and other internal audit staff is structured in a manner such that it avoids conflict of interest, does not impair their independence and objectivity, and is not directly or exclusively linked to the short-term performance of the business.

BAC is responsible for appointing the Head of Internal Audit and removing him/her from the position.

14. Use of Co-Source Provider(s) and Other External Experts

Internal Audit may from time-to-time utilise co-source relationships and Head Office Internal Audit resources having given consideration to the varied nature of Bank activities and risks and the need for a wide range of auditing skill sets in a small team. Co-source and head office relationships can help provide a constant availability of professional staff and ready access to staff expertise that may not be deemed economic to maintain within the internal function. Whilst a co-partner or audit manager from head office may act as lead auditor and provide the majority of resource for some internal audit reviews, the Head of Internal Audit maintains oversight of the planning, fieldwork, and reporting for all internal audit reviews. For such arrangements, as and when used, the CIIA Code still applies and the accountability of the internal audit engagements must be retained by the Internal Audit team.

15. Relations with Other Control Functions, The External Auditor, Regulators, and Other External Parties

Internal Audit liaise with the external auditor and other control functions both periodically and on an ad hoc basis to maintain an understanding of each other's roles and responsibilities and to share business and industry

knowledge and discuss key aspects of risk management, compliance, internal control, and governance. Internal Audit independently assesses the effectiveness and efficiency of the internal control risk management and governance systems and processes created by other control functions.

Internal Audit is the third line of defence within the Bank's governance/risk management framework and independently assesses the effectiveness of processes created in both the first and second lines and aims to provide assurance on these processes.

Where work is completed on behalf of the Internal Audit function specifically as part of a co-source or head office arrangement, Internal Audit independently assesses and overseas review scoping and assesses reports on audit conclusions.

Where appropriate, Internal Audit may provide assurance to external parties, including regulators and other industry participants and bodies. Internal Audit maintains an open, honest, and constructive communication with relevant regulators and other relevant external stakeholders.

16. Professional Standards and Quality Assurance

Internal Audit supports and seeks to materially adhere to: (i) the Institute of Internal Auditors (IIA) Global Internal Audit Standards (the standards) including Topical Requirements and Global Guidance; (ii) the UK Chartered Institute of Internal Auditors (CIIA) Internal Audit Code of Practice, which sets out principles on effective internal audit in the financial services, private and third sectors; and (iii) the Bank's policies and applicable legal and regulatory requirements.

Monitoring of Internal Audit's processes is carried out on an ongoing basis by Internal Audit staff and is supported by an ongoing internal quality assurance and improvement programme (QAIP) that covers several aspects of Internal Audit. The programme will include an evaluation of Internal Audit's conformance with industry standards. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement. The Internal Audit team will communicate to the BAC on Internal Audit's quality assurance and improvement programme, including the results of any ongoing internal assessments. From time to time independent and objective reviews are carried out by third parties: for example, peer reviews by another Internal Audit function or review by competent independent party. The BAC chair is responsible for overseeing this process.

The Internal Audit function is to be subject to an independent and objective external assessment at least every five years with the review giving consideration to compliance with the CIIA Code of Practice as well as with the IIA Global Internal Audit Standards. Such reviews (selection of external assessor, scope, execution, and reporting) are independently overseen by the Board Audit Committee Chair.

17. Audit Charter Governance

The Head of Internal Audit periodically assesses whether the purpose, authority, and responsibility as defined in this Charter continues to be adequate to enable the internal auditing activity to accomplish its objectives. The result of this periodic assessment is communicated to the BAC.

This Charter is the responsibility of the Head of Internal Audit. It is reviewed annually by the Head of Internal Audit and presented to the BAC. Any changes to this Charter are to be approved by the BAC.

Certain circumstances may justify changes to this Audit Charter and Internal Audit's mandate. Such circumstances include but are not restricted to:

- Material changes in the CIIA Code of Practice or IIA Global Internal Audit Standards.
- Significant acquisition, reorganization or changes in Board and/or senior management.
- Significant change in Bank strategy, objectives, risk profile, or the environment in which it operates.
- New laws or regulations affecting the nature and/or scope of internal audit services.
- Material changes in executive management expectations of topics to be covered in this Charter to enable effective internal audit.

Approved by the Board Audit Committee on 1 July 2026