



INTERNAL AUDIT CHARTER

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<u>Internal Audit Charter</u>	
Approval sheet	
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Summary of the changes made to the charter since the last version:	
<ul style="list-style-type: none"> Alignment of the Charter to the Global Internal Audit Standards, effective from 9 January 2025 	
Proposed by:	
<i>Internal Audit Team</i>	
Draft reviewed and recommended for approval by:	
<i>Board Audit Committee, 30 September 2024</i>	
Approved by:	
<i>Board of Directors, 12 December 2024</i>	

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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. The Board has established a Board Audit Committee (BAC), comprising of members of the Board, to assist in effectively discharging these responsibilities. The Board has established an outsourced Internal Audit (IA) function as a key component of the corporate governance framework. This Charter defines the mission, purpose, authority, independence and mandate of the Bank's IA function.

2. Mission and purpose

The mission of IA is to enhance and protect organisational value by providing risk-based and objective assurance and advisory services.

The primary purpose of IA is to help the Board and senior management to protect the stakeholder's assets, reputation and sustainability of the Bank. IA 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 senior management;
- Evaluating whether the organisation is adequately controlled; and
- 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. Organisation and authority

IA receives its authority from the BAC and reports directly to the Chair of the BAC. IA has unrestricted access to all the Bank's businesses and functions, data, records, information, personnel, and physical properties.

The IA team has unrestricted access to the BAC. IA communicates and interacts directly with the Chair of the BAC and the Chief Executive Officer (CEO) including in private meetings without management present. 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 will be mutually agreed upon with Non-Disclosure Agreements in place.

The BAC authorises IA 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, in order to complete its activities.

4. Independence and objectivity

IA is independent of management and has no direct operational responsibility or authority over the activities for which it provides assurance over. IA team members are independent, objective, and constructive when carrying out their duties. IA is alert to conflicts of interest and will establish safeguards to manage all potential conflicts identified to ensure independence and objectivity are not impacted. IA will confirm to the Board at least annually the organisational independence of IA's activity.

IA will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. IA 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.

IA will remain free from interference, including over matters of audit selection, scope, procedures, frequency, timing, or report content.

5. Scope

IA's scope is unrestricted, and the scope of IA's work extends to all business, risk management, and support units, and all risks the organisation is exposed to.

IA fulfils its mission and purpose by providing assurance, advisory and investigation services.

The scope and nature of services provided by IA include, but is not limited to:

- Examination and evaluation of the adequacy and effectiveness of the system of internal control;
- Review of the application and effectiveness of risk management procedures and risk assessment methodologies;
- Review of the management and financial information systems, including the electronic information system and electronic banking services;
- Review of means of safeguarding assets;
- Review of the Bank's system of assessing its capital in relation to its estimated risk exposures and established minimum ratios;
- Appraisal of the economy and efficiency of the operations and functions;
- Review of processes and systems established to ensure compliance with legal and regulatory requirements, codes of conduct, and the implementation of policies and procedures that could significantly impact the Bank;
- Review of the design, implementation, and effectiveness of the governance structures and processes of the Bank;
- Assess whether the Bank's first line (business management and delivery) and second line (risk management, compliance and monitoring) are adequate and effective; and
- Review of the system for reporting and investigating suspicious transactions and activities.

Where appropriate, internal audit may also provide assurance to external parties including regulators and industry bodies such as payment attestations. This assurance follows internal audit's standard methodology and procedures.

6. Responsibilities

The responsibilities of the IA function include, but are not limited to:

- Submitting a risk-based IA 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 IA plan to the BAC;
- Reviewing and adjusting the IA plan as necessary in response to changes in the Bank's business, risks, operations, programs, systems, and controls;
- Communicating to senior management and the BAC significant interim changes to the IA plan;
- Delivering each engagement within the IA 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 recommendations to appropriate parties;
- Reporting and presenting results to the quarterly BAC as appropriate;
- Following up on engagement findings and corrective actions and reporting periodically to senior 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 training and development to IA 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 ensuring adherence to policies and procedures designed to guide IA;
- Adhering to the Bank's policies and procedures unless such policies and procedures conflict with the IA Charter, any conflicts will be resolved or otherwise communicated to senior 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; and
- Conforming with professional standards, legislation and regulation.

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

- Approving the IA Charter;
- Setting objectives for the IA function;
- Approving the risk-based IA plan and any significant changes;
- Approving IA's budget and resource plan;
- Reviewing communications from the IA team on the IA's performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the external provider; and
- Evaluating the performance of IA;

7. Standards of audit practice and quality assurance

IA adheres to the Institute of Internal Auditors (IIA) Global Internal Audit Standards, the Chartered IIA (CIIA) UK Code of Practice, the Bank's policies and applicable legal and regulatory requirements.

IA will maintain a quality assurance and improvement programme that covers all aspects of IA. The programme will include an evaluation of IA's conformance with industry standards. The programme will also assess the efficiency and effectiveness of IA and identify opportunities for improvement. The IA team will communicate to senior management and the BAC on IA's quality assurance and improvement programme, including the results of ongoing internal assessments.

8. Review, approval and effective date

This Charter was reviewed and approved by the BAC and will be effective 09 January 2025.

- ✓ This Charter will be reviewed and approved annually by the BAC.
- ✓ This Charter supersedes the previously approved Charter.