



**Pillar III  
Disclosures**

2024

**HBL** BANK UK

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## 1. Introduction

### 1.1 Ownership Structure

HBL Bank UK Limited (Bank) is a private company limited by shares and wholly owned subsidiary of Habib Allied Holding Limited (HAHL), a non-banking company which itself is wholly owned by Habib Bank Limited Pakistan (HBL). The Bank is authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and is supervised by the PRA. The Bank operates four branches in UK.

HBL, which is the principal shareholder, is in turn 57% 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 serves its customers in the following ways:

#### Deposits and Other Services

The Bank is providing both deposit and payment solutions to UK resident and non-resident individuals, as well as business customers. Customers with deposit accounts have access to debit cards, savings accounts, fixed-term deposits, and online banking services. During the year, the Bank implemented the Faster Payments system, significantly enhancing the customer experience and improving operational efficiency. The Bank is now one of the few UK Banks with this capability.

#### Client Lending and International Trade Financing

The Bank offers business, network (customers of the parent bank) and high-net-worth individual customers real estate financing, working capital, term lending, trade finance (including invoice discounting), and foreign exchange (FX) products. The customers are serviced both through the branches and dedicated relationship managers.

#### Wealth Services

Dedicated wealth desks provide high net worth individual and network customers with execution only investment accounts.

#### Financial Institutions (FI)

This business collaborates with banks to provide customer-centric products, opportunities to balance risk, optimise capital, and manage the placement of surplus liquidity.

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](http://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 Capital Requirements Regulations (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 of 31 December 2024, 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 2024. 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 audited Financial Statements and displayed on the Bank's website [www.hblbankuk.com](http://www.hblbankuk.com).

#### 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 the disclosures on the Bank's website [www.hblbankuk.com](http://www.hblbankuk.com).

These disclosures have not been subjected to external audit review 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 2024.

## 2. Key Metrics

The key prudential metrics of the bank are as follows:

#### Regulatory Capital and Capital Ratios

	2024	2023
	£'000	£'000
Total Risk Weighted Assets	330,996	273,837
Common Equity Tier 1 Capital (CET 1)	55,598	48,949
Additional Tier 1 Capital (AT 1)	13,744	9,786
<i>Tier 1 Capital (T 1) = (CET 1 + AT 1)</i>	<i>69,342</i>	<i>58,635</i>
Tier 2 Capital (T 2)	8,411	11,501
<i>Total Capital (CET 1 + AT 1 + T 2)</i>	<i>77,754</i>	<i>70,136</i>
CET 1 Ratio (%)	16.80%	17.84%
T 1 Ratio (%)	20.95%	21.41%
Total Capital Ratio (%)	23.49%	25.61%

## Leverage Ratio

	2024	2023
Total Leverage Ratio Exposure Measure - £ 000	532,088	409,798
Leverage Ratio (%)	11.85%	13.42%

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

	2024	2023
Total High quality liquid assets (HQLA) - £ 000	215,324	154,579
Total Net Flow - £ 000	57,288	22,021
Liquidity Coverage Ratio (LCR) (%)	376%	702%
Total Available Stable Funding - £ 000	435,703	387,842
Total Required Stable Funding - £ 000	219,242	209,372
Net Stable Funding Ratio (NSFR) (%)	199%	185%

The Bank has complied with all the capital (CET-1, T1 and Total capital) and liquidity (LCR and NSFR) ratios with the respective regulatory requirements.

The Bank's leverage ratio decreased by 1.57% compared to the previous year, reflecting a £122 million increase in the leverage exposure measure, primarily due to an increase in available-for-sale (AFS) bond exposures.

### 3. Risk Management Framework

The Bank has a comprehensive Risk Management Framework designed to proactively and efficiently identify, assess, measure (as far as possible), monitor, and control risks to its strategic advantage. It is important to note that the bank's risk management approach will always remain aligned with regulatory requirements..

#### 3.1 Risk Appetite Statement (RAS)

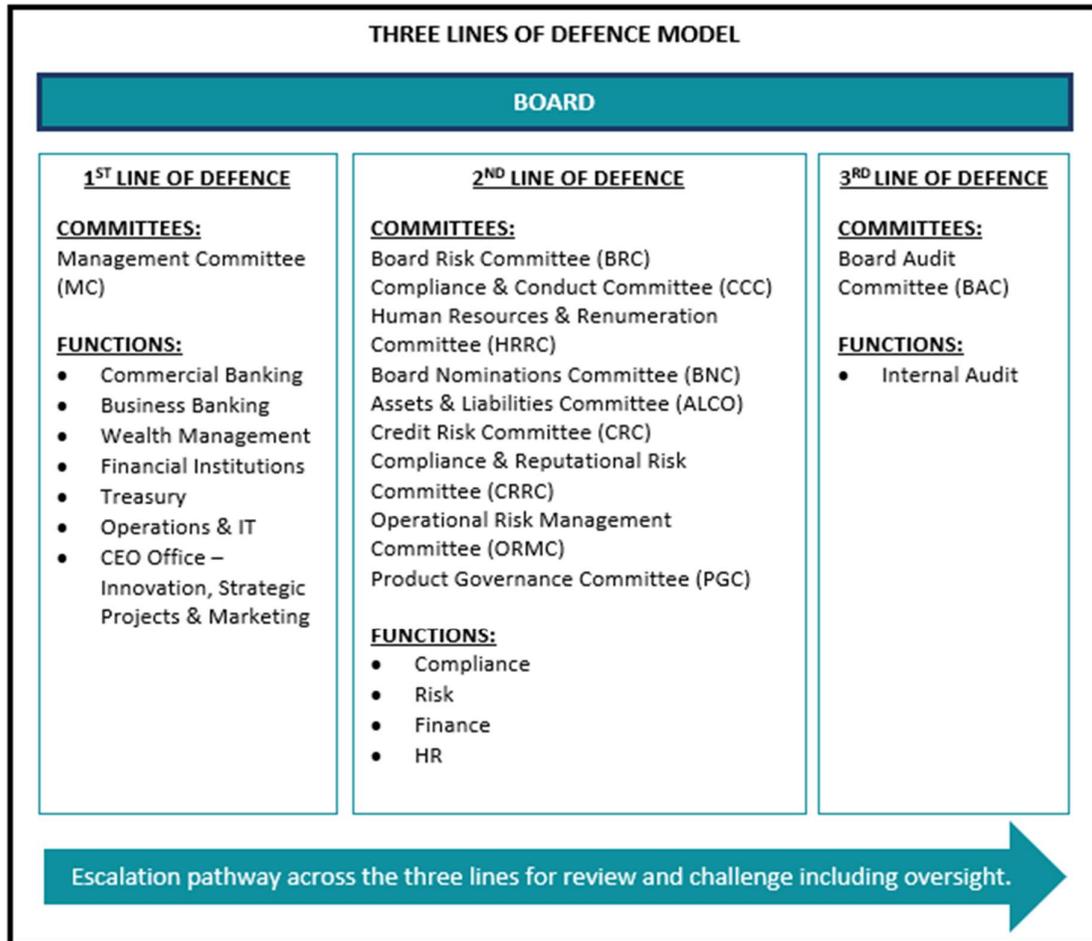
Risk appetite statement (RAS) ensures that the bank has defined risk limits and tolerance levels for all underlying risks, and that these limits are set in accordance with the bank's financial resources and capacity.

The core objective of the RAS is to measure the total amount of quantifiable risk the Bank is prepared to carry in aggregate across the various risk types, i.e., credit, market, operational, liquidity, and other defined Tier 1 risks. For risks that are challenging to quantify, qualitative risk management measures are identified. Hence, the Bank identifies and manages its risk appetite in the following manner:

- Identification of risk limits and tolerance levels in the form of Early Warning Indicator's (EWIs) for each material risk that can be quantified.
- Defined monitoring mechanisms are also in place for the same to ensure risks remain manageable and within prescribed limits.
- Identification of qualitative risk management measures for material risks that cannot be quantified.

**3.2 Three Lines of Defence model**

The Bank uses a three lines of defence model to ensure that the risks are managed effectively on an entity level. Management of the Bank uses the three lines of defence model at the various committee forums at both Management and Board level as a basis to escalate up the chain based on the severity and impact to the Bank.



The first line consists of business units that own and manage risks as part of their daily operations. The second line includes independent risk management and compliance functions that oversee risk-taking activities and ensure adherence to internal policies and regulatory requirements. The third line is the internal audit function, which provides independent assurance to the board and senior management on the effectiveness of governance, risk management, and internal controls.

**3.3 Corporate Governance**

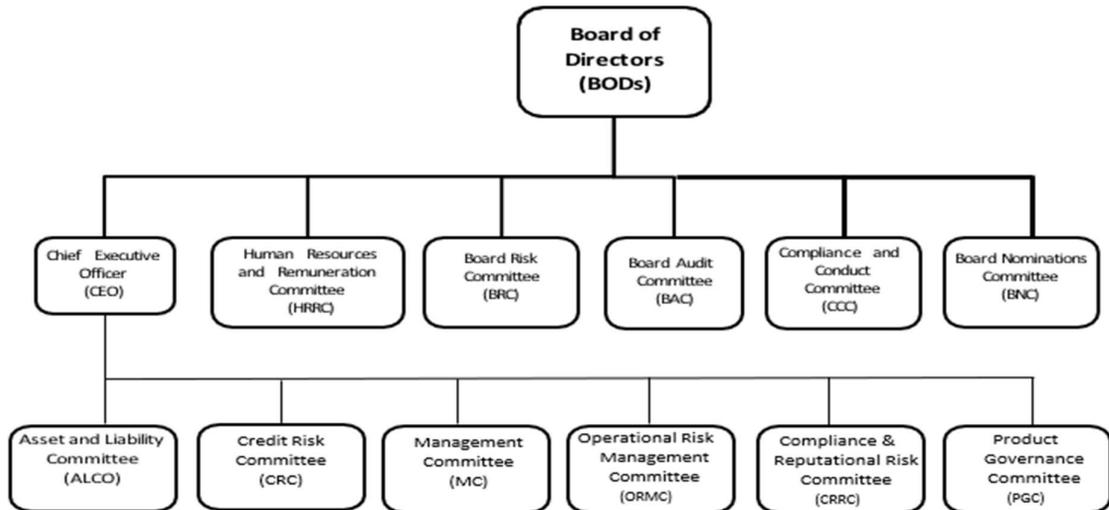
The Board is responsible for the overall governance and is ultimately responsible for the overall leadership, controls, operations and financial soundness of the Bank. Further, they support in creating

and delivering sustainable shareholder value through the prudent management of the business. The Board, therefore, determines the strategic objectives and policies to deliver long term value, protecting the reputation, integrity, safety, soundness, and interest.

The 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 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 Committee**

**Human Resources and Remuneration Committee (HRRC)**

The HRRC is responsible for ensuring that HR and remuneration arrangements support the strategic aims of the Bank and enable the recruitment, motivation, and retention of employees, while complying with relevant laws and regulations. The Chairman of the HRRC, Andrea Farace, is an Independent Non-Executive Director and an approved person by the PRA/FCA.

**Board Risk Committee (BRC)**

The BRC is responsible for ensuring appropriate governance and oversight of all risks within the Bank, including credit, liquidity, market, operational, and reputational risk. The Chairman of the BRC is an Independent Non-Executive Director and an approved person by the PRA/FCA.

**Board Audit Committees (BAC)**

The BAC is responsible for overseeing the integrity of the financial reporting processes, the performance of internal and external audit, and assessing the effectiveness of the internal control environment. The Bank has an independent internal audit function, with the Head of Internal Audit reporting directly to the Chairperson of the BAC. The Chairperson is an Independent Non-Executive Director and an approved person by the PRA/FCA.

**Compliance and Conduct Committee (CCC)**

The CCC is responsible for supporting the Board in instilling a strong compliance and conduct culture within the Bank. It guides the design of the Bank-wide compliance program, reviews measures instituted by management to foster business responsibility, and monitors the Bank's compliance with legal and regulatory requirements, as well as internal policies and procedures, including code of conduct and whistleblowing. The Chairman of the CCC is a Non-Executive Director and an approved person by the PRA/FCA.

Since compliance and conduct are Bank-wide considerations, relevant committees of the Board actively coordinate with each other to achieve the overall objective of improving the compliance and conduct environment.

**Board Nomination Committee (BNC)**

The BNC is responsible for making recommendations regarding appointments to the Board, including Board committee memberships. The Chairman of the BNC is an independent Non-Executive Director and an approved person by the PRA/FCA.

**Chief Executive Officer's Committees****Asset & Liability Committee (ALCO)**

ALCO is primarily responsible for management of the Bank's Liquidity, Capital and Market Risks. It is responsible for implementing Liquidity and Interest Rate Risk Policies including changes to the deposit interest rates, liquidity ratios, market exposure limits, risk thresholds and compliance with the internal and regulatory liquidity policy and Individual Liquidity Guidance.

**Credit Risk Committee (CRC)**

The CRC is primarily responsible for managing the Bank's credit risk. The CRC's role and responsibilities include the administration and monitoring of credit exposures reported by Heads of Credit Administration Department (CAD) and Credit Approval Unit (CAU).

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 CAU for credit issues and provides an opportunity for the Business to highlight accounts which have been identified with potential weaknesses but are not yet overdue,

defaulted or watch listed. The CRC identifies and manages problem credits and recommends adequate value adjustments and provisions.

#### **Management Committee (MC)**

The MC 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.

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 with the operational risk objectives of the BRC. These objectives are achieved by reviewing, proposing operational risk management strategies and appetite to the BRC and monitoring those strategies through effective key risk indicators (KRI's) and MIS. The committee is also expected to monitor the development and implementation of the operational risk methodologies, tools, systems, and techniques.

#### **Compliance & Reputational Risk Committee (CRRC)**

The 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.

#### **Product Governance Committee (PGC)**

The Committee oversees and governs the Bank's products and services, both current and prospective. The responsibility includes periodic reviews of existing products (as outlined in the Product Management Policy), modifications to existing products, product withdrawals, and the introduction of new products.

### **4. Own Fund**

The Bank maintains a prescribed excess of own funds over its capital resources requirements. The Bank's total capital resources comprise of Tier I and Tier II capitals.

Tier I capital comprises of total common equity Tier I capital (CET 1) and Additional Tier I (AT 1) capital. CET 1 consists of permanent share capital and retained earnings with regulatory deduction for deferred tax asset, deficit on revaluation of investments, prudent valuation adjustment and intangible assets. The Bank has included profit for the year into retained earnings and updated deferred tax value as per audited annual accounts in the below tables.

Tier II capital is the supplementary capital and comprises of other equity instruments and general provision.

	As at Dec 31, 2024 £ '000	As at Dec 31, 2023 £ '000
<b>Tier I Capital</b>		
Permanent share capital	53,315	53,315
Retained earnings	9,649	2,068
Deferred Taxation	(6,746)	(5,469)
Deficit on revaluation of investments	(119)	(618)
Prudent Valuation Adjustment	(164)	(90)
Other Intangible Assets	(337)	(356)
<b>Total Common Equity Tier I Capital</b>	<b>55,598</b>	<b>48,849</b>
<b>Additional Tier 1 Capital</b>	<b>13,744</b>	<b>9,786</b>
<b>Total Tier 1 Capital</b>	<b>69,342</b>	<b>58,635</b>
<b>Tier II Capital</b>		
Other Equity Instruments	7,611	10,701
General provision	800	800
<b>Total Tier II Capital</b>	<b>8,411</b>	<b>11,501</b>
<b>Total Tier I and Tier II capital after deductions</b>	<b>77,754</b>	<b>70,136</b>

## 5. Capital Requirements

The Bank complies with the minimum capital requirements to ensure financial stability by maintaining sufficient capital to cover all relevant risks and exposures.

The key material risks affecting the Bank are credit, market, operations, liquidity, interest rate, exchange rate risk and reputational.

**Capital Requirement under PRA Rulebook (CRR Part)**

	(As at Dec 31, 2024)			(As at Dec 31, 2023)		
	RWA £ '000	Capital charge @ 8% £ '000	Average exposure £ '000	RWA £ '000	Capital charge @ 8% £ '000	Average exposure £ '000
<b>Credit Risk</b>						
Central Governments or Central Bank Institutions	5,564	445	5,272	4,969	398	6,071
Corporates	32,883	2,631	32,752	30,035	2,403	35,184
Retail	109,849	8,788	81,343	67,448	5,396	63,495
Secured on real estate property	2,948	236	2,916	3,122	250	3,296
Overdue and impaired accounts	131,504	10,520	130,855	126,694	10,136	120,153
Other items	1,931	154	2,024	4,683	375	4,892
	4,980	398	4,789	4,468	357	4,456
<b>Total credit risk requirement</b>	<b>289,659</b>	<b>23,173</b>	<b>259,950</b>	<b>241,419</b>	<b>19,314</b>	<b>237,548</b>
<b>Operational risk</b>		<b>3,282</b>			<b>2,581</b>	
<b>Market risk</b>		<b>0</b>			<b>0</b>	
<b>Credit value adjustment</b>		<b>25</b>			<b>12</b>	
<b>Total capital requirement under CRD IV</b>		<b>26,480</b>			<b>21,907</b>	

**CAPITAL RATIOS**

<b>CET1 Capital Ratio</b>	16.80%	17.84%
<b>T1 Capital Ratio</b>	20.95%	21.41%
<b>Total Capital Ratio</b>	23.49%	25.61%

## 5.1 Credit Risk

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

Credit risk makes up the largest part of the Bank's risk exposures. Credit risk policies are established by BRC and are approved by the Board. In terms of credit risk, the BRC's responsibilities include:

- detailed review of the overall portfolio, large exposures, concentrations e.g., geographical, sectors wise etc;
- to ensure credit exposures of the Bank are always in compliance with Risk Appetite Statement and any breaches are reported to BRC and reviewed;
- to determine the credit approval process, and Large Exposure, Country Risk Exposures and Loan Provisioning Policies of the Bank;
- to establish overall lending policies through Credit Policy (CP), credit risk appetite and guidelines;
- review the general health of the portfolio and discuss any new major disbursement undertaken since the last BRC was held;
- to monitor effective implementation of policies and consider any desirable amendments in the light of market conditions;
- to ensure portfolio performance is in line with the set benchmarks and determine that overall provisions are adequate;
- review the status of Credit related legal cases and management's recommendation on the way forward; and
- review and discuss the results of the stress testing of the asset book.

The Bank employs a risk rating system to enhance its credit risk assessment process. Assigning risk ratings to counterparties is a critical component of the credit approval procedure. All credit exposures, including those involving individuals, corporations, financial institutions, and sovereign entities, are subject to risk rating.

In the Bank's credit strategy, maintaining credit quality is prioritized over business development. This is achieved through a comprehensive credit risk management framework that encompasses processes for risk identification, measurement, grading/aggregation techniques, reporting, and risk control/mitigation strategies. It also includes documentation, legal considerations, and the management of problematic facilities.

The Bank is exposed to credit risk through the following products, which are integral to the Bank's strategy.

- Property Financing (Residential & Commercial Buy-To-Let)
- Trade and Financial Institutions exposures (funded and non-funded)
- Working capital and Terms Loans for UK SMEs
- Debt Securities
- Lombard Lending

**5.1.1 Credit Exposures subject to the Standardised Approach**

The below table shows the measurement of credit risk using regulatory-defined risk weights assigned to different classes based on their credit quality. The Bank used external credit ratings from recognised agencies to disclose the details on the distribution of exposure across various categories.

		AS AT DEC 31, 2024		
CQS		EXPOSURE £ '000	FINANCIAL COLLATERAL £ '000	NET EXPOSURE £ '000
Sovereign	1	238,054	-	238,054
Sovereign	2 to 6 / non-rated	3,709	-	3,709
Institutions	1	7,799	-	7,799
Institutions	2 & 3	2,627	-	2,627
Institutions	4 to 6 / non-rated	55,677	7,470	48,207
Corporates	1	14,034	-	14,034
Corporates	2 to 6 / non-rated	93,593	3,101	90,492
		<b>415,493</b>	<b>10,571</b>	<b>404,922</b>

		AS AT DEC 31, 2023		
CQS		EXPOSURE £ '000	FINANCIAL COLLATERAL £ '000	NET EXPOSURE £ '000
Sovereign	1	177,161	-	177,161
Sovereign	2 to 6 / non-rated	3,313	-	3,313
Institutions	1	24,647	-	24,647
Institutions	2 & 3	8,833	-	8,833
Institutions	4 to 6 / non-rated	41,274	9,695	31,579
Corporates	1	10,773	-	10,773
Corporates	2 to 6 / non-rated	70,773	7,017	63,756
		<b>336,774</b>	<b>16,712</b>	<b>320,062</b>

**5.1.2 Sector Concentration**

The below table shows the distribution of the Bank's credit exposure across various industry sectors. The Bank assesses by regularly analysing the distribution of credit exposures across key economic sectors, with limits set to mitigate excessive exposure to any single industry. The Bank monitors and manages these concentrations to ensure a balanced and diversified credit portfolio.

AS AT DEC 31 2024							
	Balance at Central Bank	Loans to customers	Loans to banks	Debt securities	Contingencies	Derivative instruments	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<b>Sector concentration (2024)</b>							
Chemicals and Pharmaceuticals	-	6,185	-	-	229	-	6,414
Financial	67,422	-	100,848	-	34,085	1,077	203,432
Food, Tobacco and Beverages	-	12,132	-	-	2,209	-	14,341
General traders	-	1,433	-	-	1,540	-	2,973
Government	-	-	-	166,870	-	-	166,870
Hotel and Hospitality	-	2,888	-	-	-	-	2,888
Retail and wholesale trade	-	-	-	-	-	140	140
Metal and Allied	-	191	-	-	-	-	191
Printing and Packaging	-	219	-	-	-	-	219
Textile	-	4,375	-	-	1,480	-	5,855
Property Investments	-	166,148	-	-	-	-	166,148
Individual	-	6,227	-	-	-	-	6,227
Other Commodity Trading	-	1,858	-	-	-	-	1,858
Others	-	13,907	-	-	1,726	-	15,633
	<b>67,422</b>	<b>215,563</b>	<b>100,848</b>	<b>166,870</b>	<b>41,269</b>	<b>1,217</b>	<b>593,189</b>

AS AT DEC 31 2023							
	Balance at Central Bank	Loans to customers	Loans to banks	Debt securities	Contingencies	Derivative instruments	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<b>Sector concentration (2023)</b>							
Chemicals and Pharmaceuticals	-	10,000	-	-	-	-	10,000
Financial	77,556	-	102,904	3,886	2,150	344	186,840
Food, Tobacco and Beverages	-	15,209	-	-	1,533	-	16,742
General traders	-	2,402	-	-	652	-	3,054
Government	-	-	-	93,223	-	-	93,223
Shipping	-	13	-	-	-	-	13
Hotel and Hospitality	-	9,517	-	-	-	-	9,517
Retail and wholesale trade	-	-	-	-	-	16	16
Metal and Allied	-	454	-	-	-	-	454
Printing and Packaging	-	322	-	-	-	-	322
Textile	-	6,485	-	-	2,590	-	9,075
Property Investments	-	148,907	-	-	-	-	148,907
Individual	-	8,048	-	-	-	-	8,048
Medical Services	-	3,234	-	-	-	-	3,234
Others	-	13,377	-	-	4,198	-	17,575
	<b>77,556</b>	<b>217,968</b>	<b>102,904</b>	<b>97,109</b>	<b>11,123</b>	<b>360</b>	<b>507,020</b>

### 5.1.3 Geographical Concentration

The below table shows the distribution of the Bank's credit exposure across various regions. This assessment highlights the bank's exposure to region-specific economic, political, or regulatory risks. The Bank monitors and manages these exposures to maintain a diversified credit portfolio, thereby

reducing the impact of adverse conditions in any single location on its overall credit risk profile and capital adequacy.

AS AT DEC 31 2024							
Geographical concentration (2024)	Balance at	Loans to	Loans to	Debt	Contingencies	Derivative	Total
	Central Bank	Customers	Banks	Securities	£ '000	instruments	
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Europe	67,422	187,827	46,893	59,572	9,404	1,217	372,335
North America	-	1,154	14,428	103,589	-	-	119,171
Asia Pacific (including South Asia)	-	10,751	8,280	3,709	31,761	-	54,501
Africa	-	3,358	8,534	-	104	-	11,996
Middle East	-	12,473	22,713	-	-	-	35,186
	<b>67,422</b>	<b>215,563</b>	<b>100,848</b>	<b>166,870</b>	<b>41,269</b>	<b>1,217</b>	<b>593,189</b>
Analysis of debt securities by Asset Class							
	Banks	Governments	Corporates	Total			
	£ '000	£ '000	£ '000	£ '000			
Europe	-	59,572	-	59,572			
North America	-	103,588	-	103,588			
Asia Pacific (including South Asia)	-	3,709	-	3,709			
Africa	-	-	-	-			
	<b>-</b>	<b>166,870</b>	<b>-</b>	<b>166,870</b>			

AS AT DEC 31 2023							
Geographical concentration (2023)	Balance at	Loans to	Loans to	Debt	Contingencies	Derivative	Total
	Central Bank	Customers	Banks	Securities	£ '000	instruments	
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Europe	77,556	188,839	51,428	19,818	9,844	360	347,845
North America	-	1,150	13,369	70,092	-	-	84,611
Asia Pacific (including South Asia)	-	11,436	14,012	3,313	1,177	-	29,938
Africa	-	4,142	13,352	3,886	102	-	21,482
Middle East	-	12,401	10,743	-	-	-	23,144
	<b>77,556</b>	<b>217,968</b>	<b>102,904</b>	<b>97,109</b>	<b>11,123</b>	<b>360</b>	<b>507,020</b>
Analysis of debt securities by Asset Class							
	Banks	Governments	Corporates	Total			
	£ '000	£ '000	£ '000	£ '000			
Europe	-	19,818	-	19,818			
North America	-	70,092	-	70,092			
Asia Pacific (including South Asia)	-	3,313	-	3,313			
Africa	3,886	-	-	3,886			
	<b>3,886</b>	<b>93,223</b>	<b>-</b>	<b>97,109</b>			

#### 5.1.4 Residual Maturity of Loans and Debt Securities

The Bank closely monitors the residual maturity profile of its loans and debt securities portfolio to manage liquidity risk and ensure balanced asset-liability positioning. This maturity structure supports the Bank's liquidity management strategy and aligns with its risk appetite for duration and credit exposure.

AS AT DEC 31 2024						
	On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1year but less than 5 years	Greater than 5 years	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<b>Loans and advances to:</b>						
Banks	26,556	23,204	51,088	-	-	100,848
Customers (net)	20,691	11,784	19,148	160,828	3,112	215,563
<b>Debt securities</b>	-	45,805	113,374	7,691	-	166,870
<b>TOTAL</b>	<b>47,247</b>	<b>80,793</b>	<b>183,610</b>	<b>168,519</b>	<b>3,112</b>	<b>483,281</b>

AS AT DEC 31 2023						
	On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1year but less than 5 years	Greater than 5 years	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<b>Loans and advances to:</b>						
Banks	20,317	37,159	45,428	-	-	102,904
Customers (net)	18,250	22,319	16,451	149,833	11,115	217,968
<b>Debt securities</b>	-	23,864	27,099	46,146	-	97,109
<b>TOTAL</b>	<b>38,567</b>	<b>83,342</b>	<b>88,978</b>	<b>195,979</b>	<b>11,115</b>	<b>417,981</b>

### 5.1.5 Impaired Assets and Past Due

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 Bank monitors its credit portfolio on a continuing basis through Risk Reporting / MIS and trigger events as set out in the Credit Policy and any early signs of weakness in the accounts is immediately acted upon.

Past due assets are those assets for which contractual interest or principal payments were due in past, but the Bank believes that impairment is not appropriate because of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

The table below shows the impaired exposures by sector.

AS AT DEC 31, 2024								
Impaired and Past Due (2024)	Loans to Customers (Gross)				Investments			
	Impaired Exposure	Past Due	Charges / (Reversals)	Specific Provision	Impaired Exposure	Past Due	Charges / (Reversals)	Specific Provision
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Chemical & Pharmaceutical	-	-	-	-	-	-	-	-
Financial	-	-	-	-	-	-	-	-
Food, Tobacco and Beverages	787	-	35	260	-	-	-	-
General Traders	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-
Hotel and Hospitality	-	-	-	-	-	-	-	-
Retail and Wholesale Trade	-	-	-	-	-	-	-	-
Metal and Allied	-	-	-	-	-	-	-	-
Printing and Packaging	-	-	-	-	-	-	-	-
Textiles	-	-	-	-	-	-	-	-
Property Investment	-	-	-	-	-	-	-	-
Individuals	1,422	104	49	132	-	-	-	-
Other Commodity Trading	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,209</b>	<b>104</b>	<b>84</b>	<b>392</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Europe	2,209	104	84	392	-	-	-	-
North America	-	-	-	-	-	-	-	-
Asia Pacific (including South Asia)	-	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,209</b>	<b>104</b>	<b>84</b>	<b>392</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

AS AT DEC 31, 2023								
<b>Impaired and Past Due (2023)</b>	Loans to Customers (Gross)				Investments			
	Impaired Exposure	Past Due	Charges / (Reversals)	Specific Provision	Impaired Exposure	Past Due	Charges / (Reversals)	Specific Provision
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Chemical & Pharmaceutical	-	-	-	-	-	-	-	-
Financial	-	-	-	-	-	-	-	-
Food, Tobacco and Beverages	800	-	(1,272)	225	-	-	-	-
General Traders	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-
Shipping	-	-	-	-	-	-	-	-
Hotel & Hospitality	-	-	-	-	-	-	-	-
Retail and Wholesale Trade	-	-	-	-	3,901	-	-	3,901
Metal and Allied	-	-	-	-	-	-	-	-
Printing and Packaging	-	-	-	-	-	-	-	-
Textile	270	-	-	-	-	-	-	-
Property Investment	-	2,545	-	-	-	-	-	-
Individuals	-	1,453	(184)	183	-	-	-	-
Medical Services	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,070</b>	<b>3,998</b>	<b>(1,456)</b>	<b>408</b>	<b>3,901</b>	<b>-</b>	<b>-</b>	<b>3,901</b>
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	-	-	-	-	-	-
<b>Total</b>	<b>1,070</b>	<b>3,998</b>	<b>1,456</b>	<b>408</b>	<b>3,901</b>	<b>-</b>	<b>-</b>	<b>3,901</b>

**5.1.6 Provisions**

The Bank has adopted IAS-39 for the accounting of its loan portfolio and related impairments thereof.

For classification and categorisation, evaluation and risk assessment of each loan and trade asset is conducted based on determinant factors. The evaluation is carried out by Remedial Asset Management (RAM) based on 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.

Impairment is reviewed broadly for two categories. The first category includes a portfolio of assets including advances where an impairment event has occurred, necessitating close monitoring and active discussions in relevant forums. This portfolio undergoes quarterly impairment tests to determine any specific provisioning required. The second category comprises a portfolio of assets including advances that are regular, performing well, and show no signs of impairment.

The collective impairment allowance is determined by considering the expected loss of the customer derived through the probability of default data calculated by the internal credit risk model and using discounted cash flows (including collateral) to arrive at the relevant loss given default.

The table below shows the movement in provision for loan losses:

	As at Dec 31, 2024		
	Specific £ '000	General £ '000	TOTAL £ '000
<b>January 1, 2024</b>	308	800	<b>1,108</b>
Provision charge during the year	84	-	<b>84</b>
Provision (reversals) during the year	-	-	-
Provision charge/(reversals) during the year - net	84	-	84
Written off during the year	-	-	-
<b>December 31, 2024</b>	<b>392</b>	<b>800</b>	<b>1,192</b>
	As at Dec 31, 2023		
	Specific £ '000	General £ '000	TOTAL £ '000
<b>January 1, 2023</b>	408	650	<b>1,058</b>
Provision charge during the year	84	150	<b>234</b>
Provision (reversals) during the year	(184)	-	<b>(184)</b>
Provision charge/(reversals) during the year - net	(100)	150	50
Written off during the year	-	-	-
<b>December 31, 2023</b>	<b>308</b>	<b>800</b>	<b>1,108</b>

## 5.2 Market Risk

Market risk is the risk that the value of the Banks' on-and-off-balance sheet positions are adversely affected by movements in market rates or prices, such as interest rates, foreign exchange rates, and equity prices which may result in a loss to its 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.

## 5.3 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 which are people, systems, processes, external factors.

### 5.3.1 Operational Resilience

The Bank has 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. The framework developed, supports the Bank in responding to operational challenges arising from a range of events to ensure that the Bank continues to operate within the acceptable tolerance limits agreed by the Board.

## 5.4 Liquidity Risk

Liquidity 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 follow 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 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 Central Bank. 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 its liquidity risk management arrangements based on feedback from the FCA and PRA and from developments in the market and industry best practices.

The ALCO has responsibility for the formulation of the overall strategy and oversight of the asset liability management function.

The liquidity disclosure template with liquidity risk limits provided hereunder:

	GBP'000	
Liquidity Coverage Ratio (LCR)	2024	2023
Total High quality liquid assets (HQLA)	215,324	154,579
Total Net Flow	57,288	22,021
Liquidity Coverage Ratio (LCR) (%)	376%	702%
Regulatory Requirement	100%	100%

Net Stable Funding (NSFR)	2024	2023
Total Available Stable Funding	435,703	387,842
Total Required Stable Funding	219,242	209,372
Net Stable Funding Ratio (NSFR) (%)	199%	185%
Regulatory Requirement	100%	100%

## 5.5 Interest Rate Risk

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 main sources of interest rate risk includes loans and advances, investments and term deposits due to their mix of repricing period and maximum tenor.

Interest rate risk is monitored using the PRA's interest rate risk on banking book approach (IRRBB) and sets the Bank's tolerance to manage interest rate exposure. IRRBB reflects the risk of losses from a change of 2 percentage points to interest rates. The Bank's ICAAP also 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 below table shows the impact of 1% shift in interest rate.

Interest Rate Position Risk Requirement (PRR)	December 31, 2024	December 31, 2023
GBP	414	149
USD	212	129
EUR	60	1
All Other Currencies	82	23
<b>Total Interest Rate PRR</b>	<b>768</b>	<b>302</b>

## 5.6 Foreign Exchange Risk

Foreign exchange risk is the potential for the Bank to incur losses due to unfavourable exchange rate fluctuations while holding an open position, whether it is a balance sheet asset or liability, 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 including FX as all transactions are executed on behalf of the customers. Therefore, there is a low appetite for exchange rate risk which is reflected in the overall net open position limit.

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.

## 5.7 Counterparty Credit Risk

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 foreign exchange contracts on behalf of its customers which are generally covered by entering reciprocal transactions with other banks in the market daily to avoid position risk. Counterparty credit risk emanating from these transactions is generally managed by maintaining sufficient collateral from customers or by allocating internal risk limits based on credit assessments. Further, all customers are required to sign a FX trading agreement with the Bank before executing any transactions with the Bank. Exposures on Financial Institutions which are other counterparties are managed within overall limit allocations determined as part of the Bank’s credit assessment of such institutions.

## 5.8 Financial risks arising from Climate Change

The Bank recognises the global need to reduce reliance on fossil fuels and transition to a low carbon, climate-resilient economy. As such, the Bank acknowledges the importance of reviewing its

customers' climate impact and their sensitivity to climate change in order to understand the physical and transition risks associated with their business models.

The Bank is committed to providing financing only to customers who meet the minimum applicable requirements in accordance with UK law on climate-related issues. Additionally, the Bank is committed to continuously improving its approach to managing the financial risks from climate change, in alignment with regulatory requirements set by the PRA and FCA, and in a manner proportional to its size, scale and complexity of business model.

The Bank recognises that climate change presents risks which intersect with various other risk types. For example, climate risk can exacerbate credit risk by causing losses that prevent customers from meeting their debt repayment obligations. Similarly, climate risk can affect the market value of securities held for investment purposes or used as collateral, thereby impacting the Bank's access to liquidity. Climate-related market risk is primarily limited to the debt exposures from sovereign and financial institution counterparties, as the Bank does not engage in proprietary trading.

The Bank is managing the financial risks associated with climate change in four broad areas:

- Governance – ensuring clear board-level engagement and responsibility for managing financial risks from climate change and overseeing these risks within the Bank's overall business strategy and risk appetite.
- Risk Management – addressing climate-related risks through the Bank's existing risk management frameworks, in alignment with Board-approved risk appetite, while recognising that the nature of these risks requires a strategic approach.
- Scenario Analysis – undertaking scenario analysis to inform the Bank's strategic planning, assessing the potential impact on the overall business strategy and Internal Capital Adequacy Assessment Process (ICAAP).
- Disclosure – ensuring relevant information is disclosed on how climate-related risks are integrated into the governance and risk management processes.

The areas have been incorporated into the Bank's existing policies and processes and will continue to be refined as climate change-related regulations evolves.

## **6. Encumbrances**

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn.

As at 31 December 2024 the Bank's maintains £6 million portfolio of encumbered assets with Bank of England. Further, the Bank's investment portfolio was un-encumbered as there were no investments

pledged as collateral. The Bank's Repos lines are utilised, to test the liquidity of assets on the investment portfolio and usually for a shorter tenor of less than three months.

## **7. Supervisory Review**

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) are risk-based regulators who jointly supervises the institution. 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. The Bank engages with both supervisors on periodical basis and ensures that the relevant rules and regulations are complied with in spirit.

## **8. 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.

During the year, the Bank issued Additional Tier 1 (AT1) Capital of \$5m and repaid Tier 2 (T2) Capital of the same amount after receiving approval from the PRA. After year end the Bank has further issued AT1 of \$2m and utilised the proceeds to redeem equal amount of T2. These transactions resulted in improvement in quality of the capital which will allow the Bank to pursue planned growth in its lending and trade businesses.

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 ICAAP is developed annually to evaluate the amount of capital needed to address all pertinent current and future risks to the strategic business objectives. It demonstrates that the Bank has effective risk management policies and processes in place to ensure overall capital adequacy. The ICAAP further assesses and documents the capital adequacy of the Bank through a range of ratios and reports to ensure that the Bank has sufficient capital under all severe but plausible scenarios to support and substantiate adequate capital at all times.

The capital monitoring limits have been set using the outcome of the stresses and ensures that the capital remains adequately above the regulatory requirement. These ratios are monitored by ALCO and are also presented to the BRMC for their noting.

**9. 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. The Financial Policy Committee (FPC) announced 2% CCyB rate for UK exposure that is applicable from 5 July 2023.

As at 31 December 2024, the applicable CCyB requirement for the Bank stood at 1.15%, which has been incorporated into the Bank's overall capital adequacy calculations.

As at Dec 31, 2024					
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	193,990	144,938	2.00%	2,899	2.31%
Europe	6,204	4,082	0.00%	-	-
Asia Pacific (including South Asia)	50,307	63,158	0.00%	-	-
Africa	12,045	11,199	0.00%	-	-
Middle East	36,546	26,869	0.00%	-	-
Other countries	1,165	967	0.00%	-	-
<b>Grand Total</b>	<b>300,257</b>	<b>251,213</b>	<b>1.15%</b>	<b>2,899</b>	<b>1.15%</b>

**Amount of institution - specific countercyclical capital buffer**

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

As at Dec 31, 2024	
1 Total risk exposure amount	330,996
2 Institution specific countercyclical capital buffer rate	1.15%
3 Institution specific countercyclical capital buffer requirement	3,818

As at Dec 31, 2023

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	184,605	137,235	2.00%	2,745	2.66%
Europe	16,001	10,426	0.00%	-	0.00%
Asia Pacific (including South Asia)	26,961	26,625	0.00%	-	0.00%
Africa	12,779	12,116	0.00%	-	0.00%
Middle East	22,711	15,163	0.00%	-	0.00%
Other countries	5,044	4,851	0.00%	-	0.00%
<b>Grand Total</b>	<b>268,102</b>	<b>206,415</b>	<b>1.33%</b>	<b>2,745</b>	<b>1.33%</b>

**Amount of institution - specific countercyclical capital buffer**

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

As at Dec 31, 2023	
1 Total risk exposure amount	273,837
2 Institution specific countercyclical capital buffer rate	1.33%
3 Institution specific countercyclical capital buffer requirement	3,641

## 10. Remuneration Policies

The Board of Directors is responsible for the oversight of remuneration policies for the Bank and is assisted by the Board's HRRC. HRRC terms of reference, scope of the work and roles and responsibilities has been described before under the heading of Board Committees. The HRRC 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.

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 task / work completion and equal weighting is given to adherence to the Bank's Values and good conduct, whilst 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 level 3 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 and life/ health insurance schemes.

The table below shows the remuneration for the Bank charged during 2024:

Category	No. of Staff	Fixed Remuneration	Variable Remuneration	Total Remuneration
		GBP '000		
<b>Business</b> Approved persons, senior management and material risk takers	31	5,165	988	<b>6,153</b>
<b>Support Staff</b> Staff whose activities have material impact on the Bank's risk profile and other staff members	105	7,064	689	<b>7,753</b>
<b>Total</b>	<b>136</b>	<b>12,229</b>	<b>1,677</b>	<b>13,906</b>

#### 11. Leverage ratio

This ratio is disclosed in compliance with article 451 of CRR under CRDIV and measures proportion of Tier 1 (T1) capital to total exposure. Leverage ratio is calculated by T1 capital as per Paragraph 6 (Capital Adequacy Resources) divided by the exposure which consists of balance sheet assets plus off-balance sheet items excluding claims on central banks.

The Bank has a leverage ratio of 11.85% as of 31 December 2024.

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 review by the management and various risk management forums.

**HBL** BANK UK

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