

**HBL**



# Pillar III Disclosures

31 December 2008

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# 1. Introduction

## 1.1 Ownership Structure

Habib Allied International Bank PLC (the Bank) is a UK incorporated company authorised and regulated by the Financial Services Authority (FSA). The current shareholding of the Bank is as under:

- 90.5% owned by Habib Bank Limited, Pakistan (HBL)
- 9.5% owned by Allied Bank Limited, Pakistan

HBL, which is the major shareholder, is in turn 51% owned by The Aga Khan Fund for Economic Development S.A. which is registered in Switzerland.

## 1.2 Bank Products / Activities

The principal activity of the Bank is the provision of a range of commercial banking services in the United Kingdom including a comprehensive service in all aspects of trade finance, short term finance through bills discounting, working capital finances, term loans and traditional deposit products, i.e. accepting deposits through current, saving and fixed account products. The Bank operates on a basic banking model and targets its niche market of South Asian Diaspora.

The key long term objectives of the Bank remain:

- To provide a suitable return on equity to the shareholders;
- To provide efficient and effective service to customers and thus be the preferred provider of banking service to its chosen target market segments;
- Be an employer of choice for its staff;
- To maintain the highest standards of corporate governance.

## 1.3 Background to Regulation

The FSA's Capital Requirement Directive (CRD) was designed to implement the European Commission's 'Capital Adequacy Directive' (the new Basel Capital Accord - Basel II) for UK regulated institutions by 31 December 2007.

The FSA Handbook chapter Prudential Sourcebook for Bank's ....' (BIPRU) 2.2 sets out guidance on GENPRU 1.2 (Adequacy of financial resources), and in particular, how a firm should carry out its 'Internal Capital Adequacy Assessment Process' (ICAAP).

The Basel Committee's revised framework known as Basel II was published in 2004 which replaced the previously accepted Basel Capital Accord of 1988. The Basel II Framework is intended to promote a more forward looking approach to capital supervision, one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability to manage those risks. It is intended to be more flexible and better able to evolve with advances in markets and risk management practices.

The fundamental objective of Basel II has been to develop a framework that would further strengthen the soundness and stability of the international banking system while maintaining sufficient consistency that capital adequacy regulation will not be a significant source of competitive inequality among internationally active banks and will promote the adoption of stronger risk management practices by the banking industry.

The Framework is based on three pillars which are:

- **Pillar I** - Minimum capital requirements for credit, market and operational risks;
- **Pillar II** (Supervisory review) - Establishing a constructive dialogue between a firm and the regulator on the risks, the risk management and capital requirements of the firm. The Board of Directors and Senior Managements' are required to adopt processes for assessing the resources and risk mitigation techniques to cover the major or supplementary sources of risks to which the Bank is or potentially could be exposed to, i.e. credit, market, liquidity, operational, people, strategic risks.
- **Pillar III** (Market discipline) - Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firms' capital, risk exposures and risk assessment processes. The disclosures are to be made to the market for the benefit of the market.

The intention is designed to improve capital regulation which would take into account changes in banking and risk management practices while at the same time preserve the benefits of a framework that can be applied as uniformly as possible at the national level.

## 2. Risk Management Framework

### 2.1 Corporate Governance

One of the 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 Management seeks 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.

Governance of the business by both the Board and senior management and the underlying financial performance of the business during the recent period of recession has re-emphasised and validated the appropriateness of the Bank's business model.

The following Board and Management Committees have been established to conduct detailed analyses and reviews of the Bank's established policies and critical issues. The Committees have been constituted to assist the Board and CEO in monitoring the effective implementation of the Policies, Processes and Procedures. All the significant matters discussed and decided at each meeting of the Board Committees are reported to the Board by the Chairman of the respective Committees:

#### **Board Committees**

- Credit Policy Committee
- Human Resources Committee
- Audit & Compliance Committee

#### **Management Committees**

- Asset and Liabilities Committee
- IT Steering Committee
- Business Review Committee
- Operations Review Committee

Since the Bank's inception in 2001, the Board has endeavoured to establish and maintain a robust Risk Management Framework, which is designed to meet, not only its governance obligations and best practices, but also to identify and mitigate any potential risks to the business objectives as and when circumstances arise.

The continued growth in financial performance, retention of deposits, increased profitability, and the absence of large volumes of complaints indicate the success of this approach.

## 2.2 Management of Risk – Appetite and Risk Framework

The Board of Directors continue to maintain a 'Risk Averse' policy to risk. The risks identified in the Bank's risk register are all at an acceptable level for the current business operations and proposed strategic plan.

A close review of the risks facing the Bank and its business strategy is maintained to ensure that any new or change to the existing risk profiles are identified at an early stage, and that appropriate mitigation tools are established as required.

The Bank's high level risk profiles provide a subjective view of the impact of each risk on the Bank and the probability of the risk occurrence. They are not expressed in terms of expected losses and do not provide any loss tolerance thresholds. Since its inception the 'Risk Averse' policy has been, on the whole, successful.

The key material risks affecting the Bank remain; Credit, Operational, Liquidity, Interest and Exchange Rate risks. The Bank's strategies to manage these risks are set out below:

### 2.2.1 Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower 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 the Credit Policy Committee (CPC) and approved by the Board. The CPC's responsibilities include;

- To determine the policies and processes for Credit Approval, Large Exposures, Country Risk Exposures and Provisioning;
- To establish overall lending policies and guidelines;
- To monitor effective implementation of policies and consider any desirable amendments in the light of market conditions;
- To ensure credit exposures of the bank are at all times in compliance with any legal or regulatory requirements or restrictions;
- To ensure portfolio performance is in line with the set benchmarks and determine that overall provisions remain at required level;
- To review the Large Exposures portfolio.

The Bank's strategies to manage its different type of credit risks are set out below:

#### 2.2.1.1 Commercial Loans

Commercial loans are considered based on the following underlying criteria:

- Borrowers and/or counterparties must be established in the UK or in off shore entities with a good financial track record and the key directors or principals must be competent and knowledgeable in their line of business
- Property collateral must be UK based
- Borrowers must demonstrate the ability to deliver sufficient cash flow to service obligations

Salient features of the risk approval processes are delineated below:

- Every extension of credit to any counterparty requires centralized approval by Credit Department
- All Business Managers apply consistent standards in recommending their credit proposals and subsequent renewals
- Every material change to a credit facility requires approval from the Credit Department

The Bank uses a risk rating system to supplement the credit risk measurement procedure for exposures exceeding a certain threshold. The risk rating of counterparties is an essential requirement of the credit approval process.

#### Mitigation Techniques

The Bank's loan and advances product is a secured programme and in most cases we take fixed charge on property assets, cash, floating charge 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, 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 a regional basis and consolidated 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 have an effect on 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.

The Bank's current 'Provisioning' Policy includes a requirement to instruct an independent firm of solicitors to undertake a review of the Bank's collateral to ensure its continued enforceability.

In addition, any new or revised security requirements are handled by the Credit 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.

#### General Provision

The Bank's Provisioning Policy states that *"as a matter of prudence and because of the reason that probable loss due to impairment of credit portfolio cannot be predicted with 100% accuracy, the Bank will carry a General Provision of 1% of the performing loans, overdrafts, bills discounted bearing customer's acceptances, and outstanding acceptances under our Letters of Credit. This reserve would be over and above the amount of specific provision required for any identified advance(s)"*.

### 2.2.1.2 Investments and Placements

The Bank in its normal course of activity deploys its liquidity in Treasury securities with the intent to hold the instrument to maturity. This includes;

- FRN's 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, S&P and Fitch
- Debt securities issued / guaranteed by the Government
- Prime bank or corporate paper with proceeds used by the issuer; government guaranteed bank is a plus factor
- No exotic papers

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

Formal credit assessment includes review of financial status of the issuer, the issuer and 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 short term CDs. The criteria established for these investments are as under:

- Placements to be for overnight and up to three months only and as an exception allowed for more than three months
- CD's up to 3 - 6 months tenor only
- Placed with or purchased through the top 50 global banks by tier 1 capital

The Bank primarily use ratings by Moody's for assigning risk-weightage to its Bank exposures and alternatively ratings by Standard and Poors and Fitch are used.

### 2.2.1.3 Trade Finance (funded and unfunded)

The Bank has established a sound business which allows it to conduct trade finance business using country and bank lines and undertaking LC confirmations, negotiations and discounting. The broad parameter for conducting this business includes;

- 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 down grade 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 credit appraisal process locally
- Country and banks trade exposures monitored daily with country exposures reviewed in ALCO on a monthly basis
- Banks on constant watch with on-line links to ratings agencies to capture grading changes

### 2.2.1.4 Past Due and Impaired Assets

#### *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.

#### *Past Due Assets*

Past due assets are assets where contractual interest or principal payments are past due, but based on evaluation by the Credit Department are not classified as impaired assets.

The Bank monitors its credit portfolio on a continuing basis. 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 credit culture and is intended to ensure that greater attention is paid to such exposure. Based on a review of portfolio monitoring reports on advances, each and every individual advance would remain under constant watch by the Head of Credit, and the moment any account starts defaulting in repayment or deviating from the loan agreement, the Business Manager and the Head of Credit would start monitoring the performance of that advance on a more regular basis.

#### *Specific Provision against Impaired Assets*

For the purpose of classification and categorisation, evaluation and risk assessment of each Advance and Trade Bill will be done on the basis of determinant factors for each classification and categorisation. The evaluation will be carried out by the Head of Credit on the basis of financial conditions, liquidity, earnings, adequacy of security inclusive of its realisable value, cashflow 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 Bank maintains three broad categories of classification i.e., Risk Ratings for regular accounts, Watch List for past due accounts and Classification Categories (Substandard, Doubtful and Loss) for impaired accounts. Provision requirement against impaired categories are earmarked as 25% for Substandard, 50% for Doubtful and 100% for Loss category after taking into account the realizable value of collateral.

## 2.2.2 Liquidity Risk

This is the risk arising from the maturity profile, and type and nature of the firm's assets and liability mix.

ALCO has the responsibility for the formulation of an overall strategy and oversight of the Asset Liability management function. Roles and responsibilities of ALCO include;

- Establish Liquidity and Interest Rate Policies including Bank Base Rate
- Monitoring liquidity and market exposure limits
- Review of the Treasury Market trends and forecasts on interest rates and FX rates and to decide on the Bank's strategy
- Establish the sterling and other currency interest rate forecasts that are to be used for planning and budgeting purposes
- Co-ordinating product pricing strategies
- Review of the Bank's liquidity position in sight to 8 days and sight to 1 month band and Capital Adequacy Ratio
- To review the market valuation of the Bank's portfolio of Floating Rate Notes and Fixed Income Securities

Principle 4 of the FSA Handbook, 'Principles of Business' requires an authorised bank to maintain adequate financial resources including liquidity'. The Board's approved Liquidity Policy Statement is designed to ensure the Bank's compliance with this.

The Bank's 'Liquidity Policy' is designed to ensure that the Bank at all times maintains sufficient liquidity to meet its obligations, as they fall due, e.g.:

- Requirements to repay deposits
- Requirements to provide committed funds
- Requirements to make other payments such as cash flows in respect of off balance sheet obligations, interest payments and other expenses

The above obligations will be met as under:

- By holding sufficient immediately available cash or marketable assets by maintaining a mix of sources of liquidity
- By securing an appropriate matching future profile of cash flows from maturing assets and liabilities
- Continuous focus and reliance on core deposits.

## 2.2.3 Market Risk

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

### 2.2.3.1 Interest Rate Risk

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

The Bank manages its interest rate exposure through an interest rate gap report whereby assets and liabilities are allocated into an appropriate time band, based on the next interest re-fix date.

The interest risk is then calculated at 2% of the resulting net position for each time band, in line with the Basel Committee's recommendation.

#### 2.2.3.2. Foreign Exchange Risk

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

The Foreign exchange risk appetite is defined by ALCO and monitored on a daily basis.

#### 2.2.4 Operational Risk

Operational risk is the risk of loss resulting from weaknesses in systems, procedures and people or from external events. The Bank has adopted the 'Basic Indicator Approach', which, as the BIPRU sourcebook states, is 'The Operational Risk Capital Requirement' (ORCR) under the Basic Indicator Approach equal to 15% of the three-year average of the sum of (a) a firm's net interest income; and (b) a firm's net non-interest income.

The Bank has established a robust Risk Management Framework with an objective to ensure that a strong control environment is maintained and evidenced in every area of the business. This will reduce any operational risk to a minimum, although in view of the number of unknown external factors, the framework has been continuously reviewed and overall risk management is kept at a high profile within the business to ensure any unmitigated operational risk is identified at an early stage.

The data available to the Bank since inception shows that the Bank has made insignificant operational losses during the period to date. The level of complaints received is minimal, and insufficient to identify any particular trends of weaknesses.

To supplement the updated risk profiles, a micro review of operational risks, which included all operational areas, products and processes has been undertaken and documented in the 'Operational Risk Framework'.

#### 2.2.5 Counterparty 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 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 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-off 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 Banks credit assessment of such institutions.

### 3. Capital Management

The Bank is managing and monitoring its capital resources as per the Individual Capital Guidance (ICG) as set out by the FSA. This threshold is applicable for an interim period till the FSA reviews the Bank's Internal Capital Adequacy Assessment Process (ICAAP). The Bank's initial ICAAP document, approved by the Bank's Board of Directors on 4<sup>th</sup> December 2007, was submitted to

the FSA for their review and feedback. The Bank is currently in the process of reviewing its initial ICAAP document and the revised version will be submitted to the FSA in due course. The approach adopted by the Bank for its ICAAP (revised) is summarized below:

### 3.1 Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP document summaries to the Board of Directors, Senior Management and to external parties, including the FSA, the Bank’s capital adequacy assessment process, and demonstrates the Bank’s sound and effective Risk Management Framework, i.e., risk management, capital planning and communication processes. The ICAAP has been structured to evidence the ongoing processes established to ensure existing and new risks to the Bank’s corporate objectives and that operations are promptly identified and the impact assessed to ensure the Bank has sufficient capital to meet these risks.

The Bank has defined its Pillar II requirement under ICAAP with the objective of ensuring availability of adequate capital resources at all times and to capture the capital charge against all possible risks under worst case scenarios. These scenarios have been defined as per subjective evaluations by senior management based on their expectation of worst case scenarios and the capital requirement arising from occurrence of such events. Further, the Bank’s business strategy depicts a sufficient capital buffer after accounting for Pillar II add-ons. This capital buffer has been maintained to account for such losses or events which are not captured under the Bank’s ICAAP. The following is a summary of the Bank’s approach in assigning the Pillar II add-ons against various risks.

#### 3.1.1 Credit Exposures

Exposure	ICAAP Approach
Large Loan Exposures	Additional capital charge allocated based on the management view on the probability of an impairment %age and loss on such impairment. This is based on the management assessment of worst case scenarios.
Mark-to-Market (MTM) loss on Marketable Securities	<p><b>Liquidity Risk</b> The Bank’s marketable securities portfolio is classified as Held to Maturity. In the event of a revaluation gain/loss it is not recognised in the books of accounts as the Bank has the intention and ability to hold such securities till maturity.</p> <p>However in the worst case scenario if the Bank has to opt for liquidation of such securities, MTM loss, if any, has to be realised against the reversal of a capital charge against Risk Weighted Assets (RWA).</p> <p>As a matter of prudence management has set the capital requirement as the higher of the capital charge against RWA or MTM losses.</p> <p><b>Credit Risk</b> Additional capital charge allocated as defined in the large loan exposures.</p>
Short-term exposure on rated banks	Additional capital charge allocated based on the assumption that 10% of the rated counterparties will be downgraded to next Credit Quality Steps (CQS).
Foreign Currency Asset Base	As referred above that the Bank’s assets are funded in the same currency as that of the business transacted to eliminate foreign currency position risk. FX contracts executed on behalf of the customers are covered on the same day from the market with other

	<p>counterparties to eliminate position risk and to maintain a square position to the maximum possible extent.</p> <p>However the Bank is exposed to movements in sterling against other currencies particularly the dollar in its foreign currency banking book. Such movement significantly impacts the balance sheet size and RWA and therefore the management has allocated additional capital to cater for 10% depreciation of the sterling against other currencies.</p>
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### 3.1.2 Business / Strategic Risk

The Bank's business plan is designed to ensure the continued growth of the business within a robust control environment, which includes appropriate management oversight, and in line with one of the key corporate objectives, a high standard of corporate governance.

The Bank's performance during the recent credit crunch period has validated the appropriateness of the Bank's business model. No additional capital charge is allocated under Pillar II.

### 3.1.3 Regulatory Risks

The Bank's approach to risk management and the resultant Risk Management Framework, policies, governance, etc. are designed to ensure the Bank meets the provisions of the FSA handbook and industry best practices. No additional capital charge is allocated under Pillar II.

### 3.1.4 Principal shareholder / Home Country Exposure Risk

The shareholders of the Bank as well as their supervisors have and continue to be very supportive of the Bank's operations.

With an objective to maintain a high standard of corporate governance, the constitution of the Board ensures the Bank's interest is always at the forefront. The role of the Independent Non Executive Director is essential for ensuring this risk is fully mitigated.

In addition, with the Bank's parent origins being in Pakistan, a change in the political, economic or environmental arena within Pakistan could have an adverse affect on the Bank's activities and performance. The Board approved Home Country Exposure Policy has been established to mitigate any risk of this nature.

A capital charge on this risk is considered within 3.1.1.

### 3.1.5 Other Risks

Further to the above the Bank has also assessed the following specific risks and the appropriate capital charge has been allocated, where considered necessary, as per the management's subjective evaluation:

- Business continuity risk
- Information technology risk
- People risk

### 3.1.6 Residual Risk

In view of the nature of the Bank's business and products, and the Board and Management's appetite for risk, once risk mitigation techniques and tools are taken into account, the residual risk to the Bank, its strategy and corporate objectives is considered minimal.

Where any residual risk is identified, an appropriate risk assessment is undertaken by Senior Management to enable an informed decision as to what action is to be taken, i.e., tighten controls, insurance, transfer of risk, etc.

Also, where the controls established to mitigate an already identified risk are proved to be too onerous, a decision is taken to re-assess the Bank's appetite to the concerned risk and this may result in the level of controls being reduced to a more prudent level. No additional capital allocation is ear-marked under Pillar II.

#### 4. Capital Adequacy Resources

	Dec 31, 2008 (£ 000)
Tier I capital	
Permanent share capital	25,000
Retained earnings	16,348
	41,348
Tier II capital	
General provision	1,162
Total Tier I and Tier II capital after deductions	42,510

#### 4.1. Capital Requirement Under Basel II

	(As at Dec 31, 2008) (£ 000)	
	RWA	Capital charge
Credit Risk		
Central Governments or Central Bank	25,913	2,073
Institutions	118,788	9,503
Corporates	17,050	1,364
Retail	7,738	619
Secured on real estate property	74,550	5,964
Impaired assets	5,225	418
Other items	9,575	766
Total credit risk requirement		20,707
Operational risk - basic indicator approach		1,400
Market risk		
- Interest rate risk		1,126
- FEX risk		294
Total capital requirement under Basel II		23,527

The above requirement is based under standard Basel II capital requirement and does not represent the Bank's capital requirement under ICG as set by the FSA or ICAAP as referred in Note 3.

#### 4.2. Type of Exposure and ECAI's Used

	MOODY's	STANDARD & POOR	FITCH
Central Governments or Central Bank	x	x	x
Institutions	x	x	x
Corporates	x	x	x

#### 4.3. Credit Exposure Subject To Standardised Approach

	AS AT DEC 31 2008 (£ 000)			
	CQS	EXPOSURE	CRM	NET
Central Governments or Central Bank	5	25,915	-	25,915
Institutions	1	130,143	5,000	125,143
Institutions	2 & 3	22,244	-	22,244
Institutions	5	101,835	18,174	83,661
Corporates	5	20,401	1,899	18,502
		300,538	25,073	275,465

## 5. Concentration of Credit Risk

	AS AT DEC 31 2008 ( £ 000)				Total
	Loans to customers (net)	Loans to banks	Debt securities	Contingencies	
Sectoral concentration:					
Chemicals and Pharmaceuticals	204	-	-	-	204
Textile	4,844	-	-	-	4,844
Automobile and transportation equipment	12,788	-	-	-	12,788
Financial	-	179,032	25,936	43,765	248,733
Government	-	-	12,403	-	12,403
Foods, tobacco and beverages	11,780	-	-	-	11,780
General traders	21,065	-	-	1,500	22,565
Individuals	13,425	-	-	-	13,425
Others	53,119	-	18,243	3,357	74,719
	<u>117,225</u>	<u>179,032</u>	<u>56,582</u>	<u>48,622</u>	

### Geographical concentration:

	AS AT DEC 31 2008 ( £ 000)				Total
	Loans to customers (net)	Loans to banks	Debt securities	Contingencies	
Europe	100,903	123,542	38,642	3,203	266,290
North America	4,188	6,434	3,404	-	14,026
Asia Pacific (including South Asia)	9,723	25,176	14,536	28,680	78,115
Africa and Middle East	2,411	23,880	-	16,739	43,030
	<u>117,225</u>	<u>179,032</u>	<u>56,582</u>	<u>48,622</u>	

	AS AT DEC 31 2007 ( £ 000)				Total
	Loans to customers (net)	Loans to banks	Debt securities	Contingencies	
<b>Sectoral</b>					
Chemicals and Pharmaceuticals	211	-	-	-	211
Textile	4,353	-	-	2,239	6,592
Automobile and transportation equipment	9,333	-	-	-	9,333
Financial	-	151,034	26,493	48,189	225,716
Government	-	-	3,740	-	3,740
Foods, tobacco and beverages	9,608	-	-	-	9,608
General traders	18,039	-	-	1,106	19,145
Individuals	10,897	-	-	1,877	12,774
Others	56,029	-	10,858	4,144	71,031
	<u>108,470</u>	<u>151,034</u>	<u>41,091</u>	<u>57,555</u>	

### Geographical concentration:

	AS AT DEC 31 2007 ( £ 000)				Total
	Loans to customers (net)	Loans to banks	Debt securities	Contingencies	
Europe	95,228	124,600	29,513	4,699	254,040
North America	5,121	831	2,488	-	8,440
Asia Pacific (including South Asia)	6,543	15,954	9,090	18,877	50,464
Africa and Middle East	1,578	9,649	-	33,979	45,206
	<u>108,470</u>	<u>151,034</u>	<u>41,091</u>	<u>57,555</u>	

## 6. Residual Maturity of Loans and Debt Securities

AS AT DEC 31 2008 ( £ 000)						
On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Greater than 5 years	Total	
Loans and advances to:						
Banks	27,607	128,232	20,838	2,355	-	179,032
Customers (net)	13,751	34,010	22,510	35,492	11,462	117,225
Debt securities	-	9,790	10,035	32,839	3,918	56,582
	<u>41,358</u>	<u>172,032</u>	<u>53,383</u>	<u>70,686</u>	<u>15,380</u>	<u>352,839</u>

AS AT DEC 31 2007 ( £ 000)						
On Demand	3 months or less but not on demand	Over 3 months but less than 1 year	Over 1 year but less than 5 years	Greater than 5 years	Total	
Loans and advances to:						
Banks	4,876	119,234	26,148	776	-	151,034
Customers (net)	-	43,418	11,316	45,209	8,527	108,470
Debt securities	-	-	2,488	38,603	-	41,091
	<u>4,876</u>	<u>162,652</u>	<u>39,952</u>	<u>84,588</u>	<u>8,527</u>	<u>300,595</u>

## 7. IMPAIRED AND PAST DUE ANALYSES

	AS AT DEC 31, 2008 ( £ 000)					
	Loans to Customers (Gross)			Debt Securities		
	Impaired	Past Due	Specific Provision	Impaired	Past Due	Specific Provision
Chemicals and Pharmaceuticals	-	-	-	-	-	-
Textile	560	1	5	-	-	-
Automobile and transportation equipment	168	2	15	-	-	-
Financial	-	-	-	6,000	-	4,500
Government	-	-	-	-	-	-
Foods, tobacco and beverages	193	2,233	50	-	-	-
General traders	423	800	100	-	-	-
Individuals	53	58	5	-	-	-
Others	3,517	2,417	390	-	-	-
<b>Total</b>	<b>4,914</b>	<b>5,511</b>	<b>565</b>	<b>6,000</b>	<b>-</b>	<b>4,500</b>
Europe	4,914	5,458	565	6,000	-	4,500
North America	-	-	-	-	-	-
Asia Pacific (including South Asia)	-	-	-	-	-	-
Africa and Middle East	-	53	-	-	-	-
<b>Total</b>	<b>4,914</b>	<b>5,511</b>	<b>565</b>	<b>6,000</b>	<b>-</b>	<b>4,500</b>

	AS AT DEC 31, 2007 ( £ 000)					
	Loans to Customers (Gross)			Debt Securities		
	Impaired	Past Due	Specific Provision	Impaired	Past Due	Specific Provision
Chemicals and Pharmaceuticals	-	-	-	-	-	-
Textile	21	116	9	-	-	-
Automobile and transportation equipment	20	17	15	-	-	-
Financial	-	-	-	-	-	-
Government	-	-	-	-	-	-
Foods, tobacco and beverages	143	1,239	-	-	-	-
General traders	5	-	6	-	-	-
Individuals	49	400	2	-	-	-
Others	3,736	47	-	-	-	-
<b>Total</b>	<b>3,974</b>	<b>1,819</b>	<b>32</b>	<b>-</b>	<b>-</b>	<b>-</b>
Europe	3,974	1,816	32	-	-	-
North America	-	-	-	-	-	-
Asia Pacific (including South Asia)	-	3	-	-	-	-
Africa and Middle East	-	-	-	-	-	-
<b>Total</b>	<b>3,974</b>	<b>1,819</b>	<b>32</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 8. RECONCILIATION OF PROVISION (SPECIFIC AND GENERAL)

	AS AT DEC 31, 2008 (£000)	
	specific	general
Balance as at 1 Jan 2008	32	1,066
charges for the year		
- loans to customers	545	96
- debt securities	4,500	-
recoveries	(12)	-
Balance as at 31 Dec 2008	5,065	1,162

	AS AT DEC 31, 2007 (£000)	
	specific	general
Balance as at 1 Jan 2007	29	850
charges for the year		
- loans to customers	16	216
- debt securities	-	-
recoveries	(13)	-
Balance as at 31 Dec 2007	32	1,066