



# **Hewlett-Packard International Bank Plc Basel II Pillar 3 Disclosures**

**December 2008**

## **Section 1: Overview**

### **1.1 Business Overview**

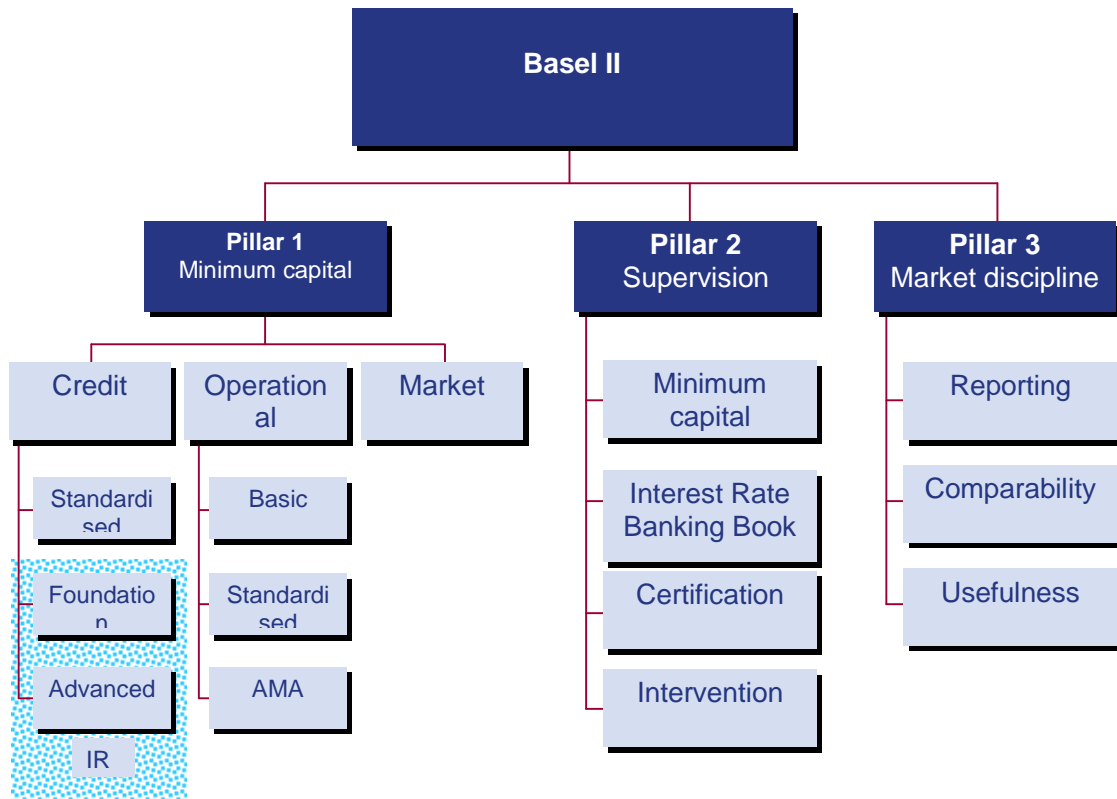
Hewlett-Packard International Bank (“HPIB” or “the Bank”) is a captive leasing company of Hewlett-Packard Company (“HP Co.”). The primary activity of the Bank is the provision of leases, rentals and loan facilities to clients of Hewlett-Packard. The technology solutions can be composed of exclusively Hewlett-Packard products or be integrated with third party products.

### **1.2 Requirements of the Capital Requirements Directive**

The Capital Requirements Directive (Directive 2006/48/EC) also known as the Basel II Accord is a complex standard for capital adequacy of banks worldwide. Basel II was implemented by HPIB on 1<sup>st</sup> January 2008. The HPIB disclosures are based on a consolidated basis.

The purpose of the Accord is to promote the safety and soundness in the financial system, align regulatory capital more closely with underlying risks and to encourage ongoing investment in bank’s risk management practices by offering incentives.

**Basel II Menu:**



The Basel II Pillar 3 disclosure requirements are specified in Articles 145-149 and Annex X of Directive 2006/48/EC. The purpose of this document is to report HPIBs disclosure requirements as per Pillar 3.

**1.3 Reporting Dates**

Where possible, information contained in this disclosure document is extracted from the annual accounts to 31<sup>st</sup> October 2008. Where required disclosures were not included in the annual accounts, it has been reported based on data gathered for the quarterly submissions to the Financial Regulator as at 31<sup>st</sup> December 2008.

## Section 2: Capital Resources

### 2.1 Summary of HPIB's approach to assessing the adequacy of internal capital to support current and future activities

Historically HPIB has been, and continues to be, 80% capitalised by its parent, HP Co. and holds a Letter of Comfort from its parent confirming continued parental support.

HPIB has a formal internal process for assessing its internal capital adequacy. This consists of the annual business planning process, the key areas of which are outlined as follows:

- At a strategic level an environmental scan is undertaken on an annual basis for each geographical region. The findings are presented and discussed by the HPIB management team and then are reviewed on a world wide basis at the HP Financial Services (HPFS) Global Leadership meeting, attended by the HPIB Managing Director. The environmental scan details market trends, competitor analysis, customer needs and implications and opportunities for each key market segment and country per region.
- As an output of the environmental scan review; annual business plans are set for each HPFS geographic region including HPIB. The business plans set specific sales volume and profitability targets.
- Action plans are put in place to ensure each region meets their business plan. One of which is to ensure sufficient capital is available to meet the business requirements and to ensure that capital usage is optimised.
- HPIB ensures that capital is optimised through its risk management processes.

Each quarter the Asset and Liability Committee (ALCO) review compliance with capital adequacy requirements as outlined in the HPIB Capital Management Policy.

### 2.2 HPIB Own Funds

<b><u>Tier 1 Capital</u></b>	<b>31 October 2008</b>
	<b>\$000</b>
Share capital	10,893
Capital contribution	1,620,269
Revenue reserves	<u>449,011</u>
Total Tier 1 capital	2,080,173
<b><u>Tier 2 Capital</u></b>	
General provision	<u>20,796</u>
Total Capital	2,100,969

### Section 3: Risk Management

The Bank is firmly committed to the management of risk, recognising that sound internal risk management is essential to its prudent operation. Risk management is given top priority throughout the Bank. Responsibility for risk management policies and limits on the level of risk assumed lies with the Board of Directors. The Board charges management with developing, presenting and implementing these policies, controls and limits. The framework is designed to provide a reasonable degree of assurance that no single event, or combination of events, will materially affect the well-being of the Bank.

Senior management plays a key role in the identification, evaluation and management of all risks. All credit and new product decisions require direct senior management approval. Management is supported by a comprehensive structure of internal controls, analyses and reporting processes and periodic examinations by the Bank's Internal audit department.

Management have identified HPIB's material risks as follows:

- Credit Risk (leasing and treasury counterparty risk)
- Treasury Risk (including liquidity risk, interest rate risk & currency risk)
- Operational Risk (risk of loss arising from people, processes, systems & external events)
- Residual Risk (residual value exposures at end of lease term)

The HPIB Governance Structure:

<b>Material Risk</b>	<b>Governing Board Committees</b>	<b>Governing Management Committees</b>
Credit Risk	Credit Committee	Credit & Investment Committee
Treasury Risk	ALCO Committee	N/a
Operational Risk	Operational Risk Committee	Operational Excellence Council
Residual Risk	Board via Business Plan review	Pricing & Residual Committee

HPIB's appetite for risk is expressed in its Board approved Risk Appetite statement, an extract from which is given below:

“A certain level of risk is inherent in any business and it is the responsibility of the Board to approve the level acceptable to HPIB. The HPIB risk appetite should be a satisfactory trade off between the level of risk and likely level of returns.”

**3.1 HPIB Minimum Capital Requirements**

<b>Material Risks</b>	<b>31 December 2008</b>
	<b>\$ 000</b>
Operational risk	23,734
Treasury risk	12,226
Credit risk	188,375
Residual risk	<u>24,911</u>
	<b><u>249,246</u></b>

## Section 4: Credit Risk

HPIB has adapted the standardised approach to Credit Risk under Pillar 1 of the CRD.

The core values and main procedures governing the provision of credit are laid down in the HPIB Credit policy document. This has been approved by the Board of Directors and is reviewed regularly. The Bank's credit risk management system operates through a hierarchy of exposure discretions. All exposures over a certain level require the approval of the Credit Committee, which is composed of senior executives of Hewlett-Packard Financial Services Company as well as some of the directors of the Bank. Exposures below Credit Committee's discretion are approved by the Head of Credit of the Bank.

A detailed credit review is performed on each new business case. The Bank uses a risk rating system to evaluate the financial and repayment risk of proposed advances and to ensure appropriate returns for assuming risks. Credit analysts undertake a detailed review of each client prior to approval of advances. Credit lines are approved for certain customers; these tend to be 'Blue Chip' companies with the highest credit ratings. An annual financial review is conducted for all credit line customers. The thirty largest exposures are reviewed each quarter by the Board of Directors of the Bank.

The quality of Bank lending is reviewed monthly by the Head of Credit of the Bank, the objective of which is to provide an accurate measure of the underlying quality of the group's loan portfolio, to facilitate early identification of a deterioration in quality and to enable management to focus on problem loans as soon as weaknesses begin to emerge. This review includes a review of the aged debtors listing, historic write off experience and an analysis of the lease portfolio by risk category.

The table below shows the gross maximum exposure to credit risk for the components of the balance sheet including derivatives, including the amount of leased assets that are considered to be impaired (impaired assets are fully provided against). The main considerations for the impairment assessment are where payments are due for more than 90 days and there are known cash-flow difficulties for the lessee. Past due leased assets are aged separately in the section below. Given the intricacies of the leasing business, past due payments of up to 90 days are not uncommon and are not generally considered a default. Hence, management focus is on the >90 days past due data and this is reported below. In respect of all lease contracts, the Bank retains the title to the underlying assets as collateral. In the event of a default the Bank reserves the right to recover the leased assets.

## HPIB Pillar 3 Disclosures

<u>Gross maximum exposure to credit risk 2008</u>	Investment	Non Investment	Impaired	maximum
	Grade	Grade		exposure
	2008	2008	2008	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with Central Bank	7,146			7,146
Loans and advances to banks (excluding cash on hand)	431,651			431,651
Lease assets	1,011,248	781,086	8,925	1,801,259
Financial fixed assets	857			857
Other assets	172,680			172,680
Prepayments and accrued income	6,513			6,513
Foreign exchange contracts	210,168			210,168
Amounts due from fellow subsidiaries	113,855			113,855
<b>Total</b>	<b>1,954,118</b>	<b>781,086</b>	<b>8,925</b>	<b>2,744,129</b>
Commitments	-			4,200
<b>Total credit risk exposure</b>	<b>1,954,118</b>	<b>781,086</b>	<b>8,925</b>	<b>2,748,329</b>

<u>Past due but not impaired</u>	>90 < 180 days	> 180 < 360 days	> 360 days	Total
	2008	2008	2008	2008
	US\$'000	US\$'000	US\$'000	US\$'000
Lease assets	66,775	28,166	8,979	103,920

<u>Gross maximum exposure to credit risk 2007</u>	Investment	Non Investment	Impaired	maximum
	Grade	Grade		exposure
	2007	2007	2007	2007
	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with Central Bank	6,624			6,624
Loans and advances to banks (excluding cash on hand)	512,924			512,924
Lease assets	1,306,743	878,161	11,618	2,196,522
Financial fixed assets	857			857
Other assets	216,254			216,254
Prepayments and accrued income	10,912			10,912
Foreign exchange contracts	578			578
Amounts due from fellow subsidiaries	126,441			126,441
<b>Total</b>	<b>2,181,333</b>	<b>878,161</b>	<b>11,618</b>	<b>3,071,112</b>
Commitments				15,529
<b>Total credit risk exposure</b>	<b>2,181,333</b>	<b>878,161</b>	<b>11,618</b>	<b>3,086,641</b>

<u>Past due but not impaired</u>	>90 < 180 days	> 180 < 360 days	> 360 days	Total
	2007	2007	2007	2007
	US\$'000	US\$'000	US\$'000	US\$'000
Lease assets	74,541	32,339	3,931	110,811

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result in changes in value. All figures are based on financial year end 31 October 2007 and 31 October 2008 balances.

**Impaired exposure by industry type**

<b>31 December 2008</b>	<b>\$000</b>
Construction	163
Manufacturing	4,275
Wholesale Trade	835
Services	8,821
Public Admin	160
Transportation, Communications, Energy	32
Retail Trade	196
Finance, Insurance, Real Estate	865
Agriculture	599
	<b>15,945</b>

**Past due exposure by industry type**

<b>31 December 2008</b>	<b>\$000</b>
Agriculture	1,339
Construction	1,211
Finance, Insurance, Real Estate	27,385
Manufacturing	70,081
Mining	4,538
Public Admin	4,988
Retail Trade	41,587
Services	47,208
Transportation, Communications, Energy	10,936
Wholesale Trade	8,918
	<b>218,191</b>

**Impaired exposure by geographical area**

<b>31 December 2008</b>	<b>\$000</b>
Austria	166
Denmark	7,461
France	682
Germany	756
Netherlands	88
Portugal	267
Spain	932
Sweden	104
Switzerland	283
UK	5,207
	<b>15,945</b>

**Past due exposure by geographical area**

<b>31 December 2008</b>	<b>\$000</b>
<b>Ireland</b>	454
<b>Denmark</b>	1,264
<b>Belgium</b>	10,050
<b>Germany</b>	20,364
<b>Spain</b>	40,780
<b>France</b>	40,804
<b>UK</b>	33,832
<b>Netherlands</b>	3,752
<b>Portugal</b>	16,232
<b>Sweden</b>	39,961
<b>Other</b>	10,698
	<u>218,191</u>

**Concentrations of credit risk**

The Bank's lease assets can be analysed by the following geographical regions:

	Gross maximum exposure 2008 US\$'000	Gross maximum exposure 2007 US\$'000
United Kingdom	354,511	410,331
Germany	326,170	364,725
France	223,802	254,508
Sweden	195,570	315,719
Spain	151,697	160,214
Netherlands	121,791	147,857
Finland	93,325	90,550
Denmark	75,753	99,194
Other countries	258,640	353,424
<b>Total</b>	<b>1,801,259</b>	<b>2,196,522</b>

**Total Exposure by geographical area**

31 December 2008 (US\$000)

	Central Government / Central Banks	Admin bodies	Institution	Corporates	Retail	Other items	TOTAL
<b>Ireland</b>	7,846	-	429,648	33,930	4,167	321,875	797,466
<b>Denmark</b>	162	1,212	1,266	32,300	23,246	24,970	83,156
<b>Belgium</b>	264	1,239	1,656	16,636	3,062	54,953	77,809
<b>Germany</b>	22	764	27,849	84,961	12,290	273,020	398,905
<b>Spain</b>	1,889	1,617	7,636	106,107	11,306	49,451	178,006
<b>France</b>	62	-	2,208	95,529	35,216	158,334	291,350
<b>UK</b>	4,757	5,836	14,016	120,497	38,578	152,044	335,729
<b>Netherlands</b>	761	2,078	1,258	38,081	12,351	91,642	146,172
<b>Portugal</b>	132	34	10,998	29,539	13,679	24,920	79,303
<b>Sweden</b>	675	10,413	1,482	53,024	1,576	129,823	196,992
<b>Other</b>	1,050	8,020	2,980	69,729	14,815	162,902	259,496
	<b>17,620</b>	<b>31,213</b>	<b>500,998</b>	<b>680,333</b>	<b>170,286</b>	<b>1,443,933</b>	<b>2,844,388</b>

**Minimum related capital requirements by exposure class**

	<b>31 December 2008</b>
<b><u>Standardised exposure class</u></b>	<b>\$000</b>
	<b>Minimum capital requirements</b>
Central governments or central banks	109
Administrative bodies	1,332
Institutions	7,506
Corporate	43,866
Retail	8,120
Other items	<u>73,335</u>
<b>Total for standardised approach</b>	<b><u>134,268</u></b>

**Total exposure by exposure class**

	<b>31 December 2008</b>
<b><u>Standardised exposure class</u></b>	<b>US \$000</b>
	<b>Total exposure</b>
Central governments or central banks	17,620
Administrative bodies	31,214
Institutions	500,998
Corporate	680,332
Retail	170,537
Other items	<u>1,443,683</u>
<b>Total for standardised approach</b>	<b><u>2,844,384</u></b>

**Total lease exposure by industry type**

<b>31 December 2008</b>	<b>US \$000</b>	<b>US \$000</b>	<b>US \$000</b>
	<b>Tangible Fixed assets</b>	<b>Finance lease receivables</b>	<b>Total</b>
Agriculture	5,510	2,530	8,041
Mining	9,743	5,361	15,103
Manufacturing	358,484	313,055	671,539
Transportation, Communications, Energy	183,427	91,046	274,473
Construction	5,465	14,120	19,585
Retail Trade	63,844	139,917	203,761
Services	42,251	105,835	148,086
Finance, Insurance, Real Estate	177,722	310,592	488,313
Public Admin	8,411	25,067	33,478
	<u>854,856</u>	<u>1,007,523</u>	<u>1,862,379</u>

#### **4.1 External Credit Assessment Institutions (ECAIs)**

HPIB has nominated Standard and Poors as its external credit assessment institution. Customers that do not have an external credit rating agency rating are allocated an internal credit rating.

#### **4.2 Portfolio and Specific Provisioning Policy**

The objective of HPIB's portfolio and specific bad debt provisioning policy is to establish write-offs within specific reserve targets. HPIB maintains a portfolio provision to cover latent loan losses, which are known from experience to be present in any portfolio of loans and advances but yet to be specifically identified, and specific reserves for credit losses from identified customers.

The portfolio provision is based on a percentage of the lease portfolio assets. The percentage is reviewed periodically and is based on several factors, which include:

- Historical performance
- Portfolio risk profile
- Competitive benchmarking

Specific bad debt reserves are established for identified loss exposures on leases or loans that have not yet been written-off within the lease accounting system. A write-off or specific reserve of billed accounts receivable is mandatory at 180 days past due, unless specific exceptions are granted by the HPFS Global Risk Management Head and CFO. A write-off or specific reserve may be warranted sooner if it is deemed that the account is not collectible. The remaining net investment is to be reviewed on a deal by deal basis with final reserve decisions based on credit quality and the status of collection efforts.

**Extract from HPIB statutory accounts (note 6) 31 October 2008**

6 Provision for bad and doubtful debts	2008		2008	2007
	US\$'000		US\$'000	US\$'000
	Specific	Portfolio	Total	Total
At 1 November	17,308	25,308	42,616	38,021
Provisions acquired during period	-	-	-	326
Provisions created during period	8,695	-	8,695	7,167
Provisions released during period	(10,048)	(1,756)	(11,804)	(6,645)
Adjustments including FX	(2,153)	(2,756)	(4,909)	3,747
<b>At 31 October</b>	<b>13,802</b>	<b>20,796</b>	<b>34,598</b>	<b>42,616</b>
The charge against profits is analysed as follows:				
Provisions created during period	8,695	-	8,695	7,167
Provisions released during period	(10,048)	(1,756)	(11,804)	(6,645)
Write-off	12,160	-	12,160	7,027
Recoveries	(6,697)	-	(6,697)	(7,849)
<b>Charge/(credit) against profits</b>	<b>4,110</b>	<b>(1,756)</b>	<b>2,354</b>	<b>(300)</b>

All of which relates to loans and advances to customers and receivables under operating leases.

## Section 5: Treasury Risk

### 5.1 Liquidity Risk

Liquidity risk arises from fluctuations in cash flows. The liquidity risk management process is designed to ensure that the Bank is able to honour all of its financial commitments as they fall due. As lease assets are financed by capital resources, the liquidity is monitored through the cash forecasts that are prepared by the treasury department and reviewed by the Board of Directors of the Bank.

The Bank currently has third party financing requirements of approx US\$540 million. This debt may vary depending on the requirements of the business. The debt is drawn from the Bank's three active debt programmes – a European Certificate of Deposit programme with a maximum value of US \$500 million, an Interbank programme with uncommitted facilities of US \$300 million and a Corporate Depositing programme. The main component of the Bank's financing, totalling US\$2 billion, is provided by way of capital contributions from HP Company and the Bank's retained earnings. Hewlett Packard Company is committed to providing for the Bank's ongoing financing as required. These contingency financing arrangements are formalised by way of a letter of comfort.

The Bank ensures its liquidity ratios meet the requirements of the Financial Regulator's "Management of Liquidity Risk" guidance note. The Bank is in full compliance with the qualitative and quantitative requirements of this directive. Specifically the Bank is committed to maintaining appropriate liquidity ratios across all the prescribed time bands. These ratios are achieved by ensuring the mix of debt and investment maturities are consistent with both the needs of the business and the required ratios set out by the Financial Regulator. In addition, the Bank maintains a statutory deposit with the Central Bank.

The liquidity ratio at the end of financial year, 31 October 2008 was as follows:

	2008	2007	Regulator Requirements
	%	%	%
31 October			
0 - 8 days	216	141	100
8 - 30 days	137	143	90

The following table shows an analysis of assets and liabilities analysed according to when they are expected to be mature or be settled:

**Liquidity analysis 31 October 2008**

Liquidity analysis 2008

	Not more than 3 months US\$ '000	More than 3 months but not more than 6 months US\$ '000	More than 6 months but not more than 1 year US\$ '000	More than 1 year but not more than 5 years US\$ '000
<b>Assets</b>				
Cash and balances with Central Bank	7,146	-	-	-
Loans & advances to banks	376,651	55,000	-	-
Tangible Fixed assets	11,434	21,000	66,978	728,455
Loans & advances to customers	15,595	21,592	87,722	789,272
Amounts due from fellow subsidiaries	-	-	-	-
<b>Total assets</b>	<b>410,826</b>	<b>97,592</b>	<b>154,700</b>	<b>1,517,727</b>
<b>Liabilities</b>				
Deposits by banks	144,031	204,641	-	-
Customer accounts (including debt securities in issue)	46,518	140,102	-	-
<b>Total liabilities</b>	<b>190,549</b>	<b>344,743</b>	<b>-</b>	<b>-</b>
	More than 5 years US\$ '000	Total US\$ '000		
<b>Assets</b>				
Cash and balances with Central Bank	-	7,146		
Loans & advances to banks	-	431,651		
Tangible Fixed assets	43,522	871,389		
Loans & advances to customers	15,689	929,870		
Amounts due from fellow subsidiaries	113,855	113,855		
<b>Total assets</b>	<b>173,066</b>	<b>2,353,911</b>		
<b>Liabilities</b>				
Deposits by banks	-	348,672		
Customer accounts (including debt securities in issue)	-	186,620		
<b>Total liabilities</b>	<b>-</b>	<b>535,292</b>		
Net liquidity surplus/(gap)		<b>1,818,619</b>		

## Liquidity analysis 31 October 2007

### Liquidity analysis 2007

	Not more than 3 months US\$ '000	More than 3 months but not more than 6 months US\$ '000	More than 6 months but not more than 1 year US\$ '000	More than 1 year but not more than 5 years US\$ '000
<b>Assets</b>				
Cash and balances with Central Bank	6,624	-	-	-
Loans & advances to banks	457,924	-	55,000	-
Tangible Fixed assets	39,461	29,241	140,683	641,804
Loans & advances to customers	52,964	29,383	161,677	1,055,114
Amounts due from fellow subsidiaries	-	-	-	-
<b>Total assets</b>	<b>556,973</b>	<b>58,624</b>	<b>357,360</b>	<b>1,696,918</b>

<b>Liabilities</b>				
Deposits by banks	130,000	35,000	-	-
Customer accounts (including debt securities in issue)	342,314	128,139	-	-
<b>Total liabilities</b>	<b>472,314</b>	<b>163,139</b>	<b>-</b>	<b>-</b>

	More than 5 years US\$ '000	Total US\$ '000
<b>Assets</b>		
Cash and balances with Central Bank	-	6,624
Loans & advances to banks	-	512,924
Tangible Fixed assets	36,859	888,048
Loans & advances to customers	9,336	1,308,474
Amounts due from fellow subsidiaries	126,441	126,441
<b>Total assets</b>	<b>46,195</b>	<b>2,842,511</b>

<b>Liabilities</b>		
Deposits by banks	-	165,000
Customer accounts (including debt securities in issue)	-	470,453
<b>Total liabilities</b>	<b>-</b>	<b>635,453</b>

Net liquidity surplus/(gap) 2,207,058

## 5.2 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and market prices. The Bank eliminates its exposure to market risk by entering into forward currency contracts which hedges any risk associated with interest rate and foreign currency fluctuations.

	Interest Rate	Foreign Exchange	Market Price
<b>Assets</b>			
Bank investments	Investments are short term. Interest rate risk is managed by matching investment and deposit maturities.	All investments are hedged as part of the Balance Sheet FX risk management process.	N/A
Finance leases	Fixed rate, mis-match approved by board	Balance sheet hedging process which is monitored monthly	N/A
Operating leases	Fixed rate, mis-match approved by board	Balance sheet hedging process which is monitored monthly	N/A
<b>Liabilities</b>			
Customer deposits	Deposits are short term. Interest rate risk managed by matching investment and deposit maturities.	All investments are hedged as part of the Balance Sheet FX risk management process.	N/A
Capital	N/A	N/A	N/A

### 5.3 Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustment within a specific period. The Bank does not have a trading Book. At this time the Bank's lease portfolios are fully financed by the Bank's capital resources. The Bank has an internal structure to match fund the lease portfolios from a central funding database. The match funding are hedged with FX forwards thereby locking in the interest rate differentials between the currency of the leases and the currency of the capital. The Bank reviews its cash position on an ongoing basis. Any changes in the underlying funding of the lease portfolios will be immediately reflected in the related match funding. The maturities of the Bank's cash investment and cash deposit portfolios are structured to minimise interest rate risk.

The effect on net interest income, and therefore profit before tax, of a 1 basis points change would be as follows:

	+1 basis points US\$ '000 2008	-1 basis points US\$ '000 2008	+1 basis points US\$ '000 2007	- 1 basis points US\$ '000 2007
Currency				
EUR	(5,287)	5,287	(7,605)	7,605
GBP	2,143	(2,143)	(13)	13
Others	(2,277)	2,277	(2,171)	2,171
Total	(5,421)	5,421	(9,789)	9,789

## 5.4 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The table below (extract Note 20 HPIB Statutory Accounts 2008) shows the Bank's transactional currency exposure in the non trading book; in other words those non-structural exposures that give risk to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the non-trading monetary assets and monetary liabilities of the bank that are not denominated in the operating (or "functional") currency of the Bank which is US Dollars. The objective is to eliminate this exposure through active management by the treasury department.

Management of the transactional currency exposures is performed by the treasury department. Forward rate contracts are entered into to manage this exposure. The actual currency exposures are monitored against the anticipated exposures which were hedged by the treasury department. The exposure is reviewed as part of the monthly financial review carried out by the managing director of the Bank.

The Bank mitigates the effect of currency fluctuations caused by the revaluation of the Balance Sheet at the end of each accounting period by hedging all assets with different source currencies from the Banks functional currency of USD, thereby hedging 100% of foreign currency denominated exposures.

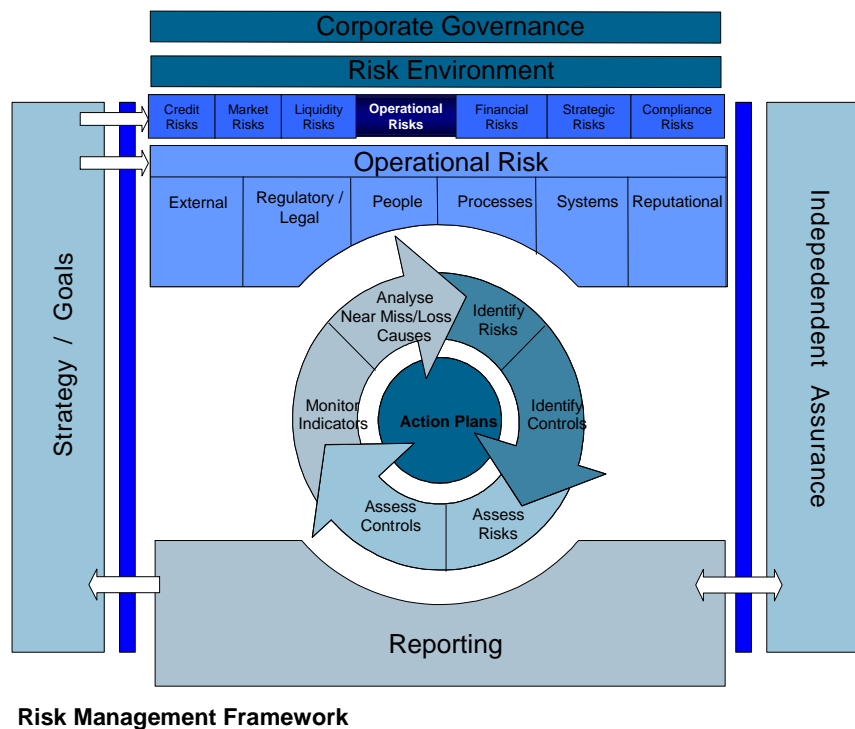
Balance sheet by currency	2008	2008	2007	2007
	US\$'000	US\$'000 (incl. effects of hedging)	US\$'000	US\$'000 (incl. effects of hedging)
Denominated in United States Dollars	497,466	2,334,210	283,287	2,733,057
Denominated in Euro	1,394,981	1,420,495	1,669,991	1,669,991
Denominated in GBP	405,552	405,552	436,902	440,009
Denominated in other currencies	460,457	463,525	680,932	686,770
<b>Total assets</b>	<b>2,758,456</b>	<b>4,623,782</b>	<b>3,071,112</b>	<b>5,529,827</b>
Denominated in United States Dollars	2,297,840	2,326,423	2,710,413	2,719,359
Denominated in Euro	368,768	1,421,042	345,410	1,677,507
Denominated in GBP	58,348	400,320	7,690	434,386
Denominated in other currencies	33,500	475,998	7,599	698,575
<b>Total liabilities</b>	<b>2,758,456</b>	<b>4,623,783</b>	<b>3,071,112</b>	<b>5,529,827</b>

## Section 6: Operational Risk

HPIB has adapted the standardised approach to Operational Risk.

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. The Board has approved the HPIB Operational Risk Management Framework.

HPIB Operational Risk Management Framework:



Risk and Control Assessments (RCA) have been completed for all departments. Risks have been assessed using the HPIB Risk Appetite Matrix. Controls have been assessed for their design and their performance. The RCAs are reviewed and updated quarterly or as risk profiles change within the business. Key risks and operational risk loss events are monitored and reported monthly to senior management via the Operational Excellence Council and quarterly to the Board via the Operational Risk Committee.

## Section 7: Residual Risk

Extract from HPIB Statutory Accounts dated 31<sup>st</sup> October 2008 (Note 30):

Residual value exposure arises where, at lease inception, there is a future expectation that an asset value remains at the end of the primary term which can be recovered through a secondary transaction. Details of unguaranteed residual values are outlined below. These residual values are arrived at through a detailed analysis of transaction history on asset recovery to project future values. Residual realisation is constantly monitored.

	2008 US\$'000	2007 US\$'000
	Finance Leases	Finance Leases
- Over 5 years	1,269	-
- 5 years or less but over 3 years	21,141	5,719
- 3 year or less but over 1 year	42,717	61,716
- 1 year or less	10,106	42,414
	<u>75,233</u>	<u>109,849</u>
	US\$'000	US\$'000
	Tangible Fixed Assets	Tangible Fixed Assets
- Over 5 years	7,156	15,544
- 5 years or less but over 3 years	27,291	4,044
- 3 year or less but over 1 year	92,469	62,797
- 1 year or less	16,344	45,728
	<u>143,260</u>	<u>128,113</u>

The residual value risk appetite is defined in the residual value authority matrix.

On a monthly basis the Pricing and Residual Committee review residual risk decisions on an individual product group basis. This assessment includes the review of historical residual recovery rates, along with customer behaviours at end of term. Scenario testing is employed to assess impacts of predicted future events and to ensure the financial levels of risk assigned to the product groups are within the committee's comfort levels.

All standard product groups are reviewed at Committee at least annually as per the FAB13, SEC and Sarbanes Oxley requirements. Any impairment concerns identified through the review process are further analysed in a specific impairment analysis and review. Corrective measures are taken if an impairment is identified.