Habib Bank AG Zurich

Annual Disclosures according to Basel II (Year 2012)

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1. Qualitative Information

Risk Management

The Board of Directors is reviewing all relevant risk areas on an annual basis usually at its April meeting. This review is based on data and risk measurement tools provided by the risk department of the bank and encompass credit risk, interest rate risk, liquidity risk, operational risk and market risk as far as relevant. The internal risk control system is included in this review.

Habib Bank AG Zurich's business strategy is to keep risks to a minimum by a clear policy of broad diversification in terms of geography and product mix, and by spreading the bank's credit and trade financing activities over a wide range of customers, with the emphasis on secured, short-term, self-liquidating lending.

Effective risk management is considered essential in the preservation of the assets and long-term profitability of the bank. Clear guidelines and limits – which are under regular review – are backed up by a comprehensive system of internal controls and management inspections. Risk reporting is performed on a quarterly basis at the parent level and at a half-yearly basis at the group level. The General Management reviews the risk reporting on a half yearly basis.

Interest Rate Risk

Interest rate risk is monitored locally in each country, and at a consolidated level in Zurich, in line with the regulations of the Swiss Financial Market Supervisory Authority (FINMA). The bank's exposure, however, is very low due to the short-term nature of the majority of business transacted and the fact that the vast majority of loan and deposit rates are variable.

To monitor our low risk exposure an interest rate shock of 1% is applied to all credit and deposit exposure. The banks benchmarks are that this shock shall not exceed 2% of equity based on the earnings impact and 5% of equity based on the net present value of equity impact.

Market Risk

As the bank carries out very limited trading on its own behalf, market risks are also kept to a minimum. The major exception is exchange rate risk, which is detailed below.

Profits earned in the bank's overseas branches are subject to exchange rate risk up to their remittance to Head Office. These risks are monitored in Zurich, and profits hedged as felt appropriate. Capital and reserves held in the overseas branches are also subject to risk insofar as they are held in local currencies. Any unrealized gains or losses on these reserves are taken directly to the P&L in the year in which they occur.

Otherwise, the overseas operations of the bank are re-financed entirely locally, with treasury management being carried out in each country in accordance with strict limits and guidelines, subject to regular monitoring from Head Office.

The bank employs the "standard methodology" for calculating market risks for capital adequacy purposes in line with the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA).

Credit Risk

Credit risk arises from the possibility that a counterparty in a transaction may default on its credit exposure with the Bank. It arises principally in relation to the lending and trade finance business carried out by the bank and, to a limited extent, from transactions with derivative financial instruments (mainly FX forwards).

The bank's credit policy defines the credit extension criteria, the credit approval and monitoring process, the loan classification system and provisioning policy. It also takes into account the requirements of the Banking Ordinance.

The bank manages its credit risk within a conservative framework by evaluating the creditworthiness of the counterparties, setting appropriate credit limits and obtaining collateral as deemed necessary. Collateral is assessed at market values which are subject to regular review. A haircut is then applied to arrive at the lending value. Additional haircuts are applied where the collateral is denominated in a different currency to the borrowing. Around 40% of our group credit exposure is secured by property, another 8% by cash deposits and around 27% by pledge of receivables and inventory. Only 15% of the bank's credit exposure is unsecured. Actual credit exposures and limits, together with asset quality, are regularly monitored and controlled by management.

The bank is mainly lending in the SME sector as well as giving advances to personal clients. For corporates the bank has developed its own internal rating system which is capturing the borrower's creditworthiness without taking the collateral into consideration. These ratings are reviewed on a yearly basis. Further, concentration risk is monitored on a half-yearly basis on the group level. The current asset quality of the credit portfolio is well within all internal benchmarks set.

From a capital adequacy point of view the bank uses the standardized approach under Basel II. External ratings are only used for bank exposure and financial investments as all corporate exposure within the SME sector do not bear external ratings from eligible rating agencies. Further, the bank uses the simple approach for collateral recognition for the time being.

Country risks are monitored quarterly and are either guaranteed with the World Bank (MIGA) or provided for in accordance with the guidelines of the Swiss Bankers' Association using international ratings.

Liquidity Risk

Liquidity risk is monitored on a monthly basis at parent level. Subsidiaries are monitoring their own liquidity situation. It is the bank's clear guideline to follow a conservative A/D ratio. Currently the A/D ratio on parent level is around 32%. Further, the bank exceeds the Swiss regulatory requirements with regards to liquid assets by around 200%.

Operational Risk

The bank uses the Basic Indicator approach for Basel II purposes and internally collects all loss data. All business lines have clear procedure guidelines which help mitigate any operational risks. The internal IT system is based on the four eye principle and has inbuilt risk mitigations which trigger warnings if data indicates a flaw. These procedures and mitigations are constantly reviewed and amended if necessary.

Table 1: Eligible Capital

In CHF 000's	31.12.2012
Capital and Reserves	956'448
Annual Profit	40'379
Presumed Dividend	-24'717
Deductions (Goodwill)	
Deductions (Participations)	-192
Total Eligible Capital	**971'918**

Table 2: Capital Requirements

In CHF 000's	31.12.2012
MCR Sheets	
Sovereigns	8'232
Banks	59'641
Other Institutions	3'489
Corporates	140'562
Retail	48'575
Equity	1'049
Other exposures	14'034
Total MCR Sheets	**275'582**
Settlement Risk	369
Non Counterparty Risk	17'810
Market Risk	21'336
Operational Risk	41'342
Total Capital Requirements	**356'439**
Memorandum items	
Surplus of Capital	**615'479**
BIS Ratio	21.81%

TABLE 3: Credit Risk Allocation according to Counterparty

31.12.2012

On Balance Sheet Exposure	Sovereigns	Banks	Other Institutions	Corporates	Retail	Equity	Other Exposure	Total
Liquid Assets	673’956	1’269					11’712	**686’937**
Due From Money Markets	1’088’216			115’361	76’771			**1’280’348**
Due From Banks	145’229	1’990’615						**2’135’844**
Due From Customers	38’737		51’667	1’467’769	793’147			**2’351’321**
Secured By Mortgage								
Securities/metals trading							630	**630**
Financial Investments	490’851	475’874	3’964	123’917		8’531	97’860	**1’200’997**
Participations							192	**192**
Fixed Assets							72’685	**72’685**
Other Assets	15’496	4’819	703	25’477	3’225		85’254	**134’974**
Total	**2’452’485**	**2’472’577**	**56’334**	**1’732’524**	**873’143**	**8’531**	**268’333**	**7’863’928**

Off Balance Sheet Exposure	Sovereigns	Banks	Other Institutions	Corporates	Retail	Equity	Other Exposure	Total
Contingent Liabilities	43	55’157	141	292’341	238’447		2’224	**588’354**
Irrevocable Commitments	1’400		91’864	301’247	88’423		2’262	**485’195**
Commitment Credits		23’230		27’813	18’951			**69’993**
- (positive repl. Values)		615		272	721			**1’608**
Total	**1’443**	**79’001**	**92’005**	**621’673**	**346’542**		**4’486**	**1’145’149**

Table 4: Credit Risk Mitigation (CRM)

In CHF 000's 31.12.2012

	Sovereigns	Banks	Other Institutions	Corporates	Retail	Equity	Other Exposure	Non Counterparty	Total
Exposure net of value adjustments and provisions, post application of credit conversion factors on off-balance sheet items	2'452'856	2'511'577	79'353	2'014'769	1'054'991	8'531	196'594	75'093	**8'393'764**
Exposure covered by Guarantees				-17'310	-3'734				**-21'044**
Exposure covered by Credit Derivates									
Financial collateral: simple method	-10'307	-1'767	-35'735	-331'598	-511'401		-30		**-890'838**
Net exposure	**2'442'549**	**2'509'810**	**43'618**	**1'665'861**	**539'856**	**8'531**	**196'565**	**75'093**	**7'481'882**

Table 5: Segmentation by Risk Weights (On + Off-Balance)

In CHF 000's 31.12.2012

	Sovereigns	Banks	Other Institutions	Corporates	Retail	Equity	Other Exposure	Non Counterparty	Total
0%	2'284'370						20'285		**2'304'655**
25%	88'883	2'122'080		48'900			2'262		**2'262'125**
35%				10'044	14'519				**24'563**
50%		388'521		26'886					**415'407**
75%		35'284		80'346	966'748				**1'082'378**
100%	80'675	5'496	148'339	2'085'275	221'211		175'178	1'357	**2'717'531**
125%									
150%		198		102'745	17'461	8'216			**128'620**
250%						315		63'889	**64'204**
625%								9'847	**9'847**
Total	**2'453'927**	**2'551'578**	**148'339**	**2'354'196**	**1'219'939**	**8'531**	**197'725**	**75'093**	**9'009'330**

Table 6: Analysis of Credit Risk Allocation by region

In CHF 000's 31.12.2012

On Balance Sheet Exposure	Europe	thereof Switzerland	Asia	Rest	Total
Liquid Assets	48'797	45'645	578'964	59'176	**686'937**
Due From Money Markets	144'451	60'826	994'183	141'715	**1'280'348**
Due From Banks	970'186	380'953	895'931	269'726	**2'135'844**
Due From Customers	419'583	1'369	1'614'697	317'040	**2'351'321**
Secured By Mortgage					
Securities/metals trading	630	630			**630**
Financial Investments	172'565	37'774	930'499	97'932	**1'200'997**
Participations	192	192			**192**
Fixed Assets	14'631	12'450	55'785	2'269	**72'685**
Other Assets	11'053	8'188	106'074	17'847	**134'974**
Total	**1'782'089**	**548'028**	**5'176'133**	**905'706**	**7'863'928**

Off Balance Sheet Exposure	Europe	thereof Switzerland	Asia	Rest	Total
Contingent Liabilities	54'469	9'589	468'175	65'710	**588'354**
Irrevocable Commitments	2'440	2'262	482'755		**485'195**
Commitment Credits	601		43'170	26'223	**69'993**
Derivative financial Instruments - (pos.repl. Values)	834	429	324	450	**1'608**
Total	**58'344**	**12'280**	**994'423**	**92'383**	**1'145'150**

Table 7: Impaired loans from customers by region

In CHF 000's 31.12.2012

On Balance Sheet Exposure	Europe	thereof Switzerland	Asia	Rest	Total
Impaired Loans	82'652		273'301	2'696	**358'650**
Value Adjustments and Provisions	17'960		167'706	1'101	**186'766**