Habib Bank AG Zurich

Annual Disclosures according to Basel II (Year 2011)

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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. Risk reporting is reviewed on a half yearly basis by the General Management.

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 10% by cash deposits and around 30% by pledge of receivables and inventory. Only 10% 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 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. In order to mitigate the liquidity risk the bank does not provide for an integrated group wide treasury management. It is the bank's clear guideline to follow a conservative D/A ratio. Currently the D/A ratio on parent level is around 50%. Further, the bank exceeds the Swiss regulatory requirements with regards to liquid assets by around 200 - 300%.

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	31.12.2011
Capital and Reserves	940'325
Annual Profit	62'211
Presumed Dividend	-23'098
Deductions (Goodwill)	0
Deductions (Participations)	-192
Total Eligible Capital	**979'246**

Table 2: Capital Requirements

In CHF 000's	31.12.2011
MCR Sheets	
Sovereigns	9'761
Banks	68'628
Other Institutions	1'287
Corporates	169'088
Retail	58'899
Equity	909
Other exposures	17'807
Total MCR Sheets	**326'378**
Settlement Risk	745
Non Counterparty Risk	16'959
Market Risk	18'503
Operational Risk	41'967
Total Capital Requirements	**404'552**
Memorandum items	
Surplus of Capital	**574'694**
BIS Ratio	19.36%

TABLE 3: Credit Risk Allocation according to Counterparty

31.12.2011

On Balance Sheet Exposure	Sovereigns	Banks	Other Institutions	Corporates	Retail	Equity	Other Exposure	Total
Liquid Assets	773’513	658					4’657	**778’828**
Due From Money Markets	1’013’098	268’145		184’450	71’926		6’115	**1’543’734**
Due From Banks	1’164	2’282’365					2’864	**2’286’393**
Due From Customers	22’284		2’181	1’661’055	980’819		11’207	**2’677’547**
Secured By Mortgage					2’500			**2’500**
Securities/metals trading							888	**888**
Financial Investments	481’309	153’589	8’746	96’797	194	7’127	134’666	**882’428**
Fixed Assets							66’860	**66’860**
Other Assets	13’329	5’249	130	39’208	4’619		82’656	**145’192**
Total	**2’304’696**	**2’710’006**	**11’058**	**1’981’511**	**1’060’059**	**7’127**	**309’914**	**8’384’370**
Off Balance Sheet Exposure	**Sovereigns**	**Banks**	**Other Institutions**	**Corporates**	**Retail**	**Equity**	**Other Exposure**	**Total**
Contingent Liabilities		66’047	75	396’926	270’135		12’548	**745’730**
Irrevocable Commitments			100’345	352’577	82’451		1’978	**537’351**
Commitment Credits		42’976		6’613	19’290			**68’879**
- (positive repl. Values)		2’534		458	1’874			**4’866**
Total		**111’556**	**100’420**	**756’573**	**373’751**		**14’526**	**1’356’825**

Table 4: Credit Risk Mitigation (CRM)

In CHF 000's 31.12.2011

	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	2'304'696	2'740'098	36'217	2'362'573	1'271'285	7'127	246'069	69'513	**9'037'578**
Exposure covered by Guarantees				-20'157	-3'046				**-23'203**
Exposure covered by Credit Derivates									
Financial collateral: simple method		-678		-375'148	-592'438		-145		**-968'408**
Net exposure	**2'304'696**	**2'739'420**	**36'217**	**1'967'268**	**675'801**	**7'127**	**245'924**	**69'513**	**8'045'966**

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

In CHF 000's 31.12.2011

	Sovereigns	Banks	Other Institutions	Corporates	Retail	Equity	Other Exposure	Non Counterparty	Total
0%	2'172'095						22'634		**2'194'728**
25%	14'124	2'298'445	102'108	13'056			1'978		**2'429'712**
35%				3'962	18'438				**22'400**
50%		368'888		10'119					**379'007**
75%		70'877		95'292	1'108'590				**1'274'760**
100%	118'477	67'789	9'370	2'526'816	296'245		222'454	1'159	**3'242'310**
125%									
150%		16		87'646	12'777	6'459			**106'897**
250%						668		57'705	**58'373**
625%								10'650	**10'650**
Total	**2'304'696**	**2'806'016**	**111'478**	**2'736'891**	**1'436'051**	**7'127**	**247'065**	**69'513**	**9'718'837**

Table 6: Analysis of Credit Risk Allocation by region

In CHF 000's

31.12.2011

On Balance Sheet Exposure	Europe	thereof Switzerland	Asia	Rest	Total
Liquid Assets	194'807	191'512	544'030	39'990	**778'828**
Due From Money Markets	94'023		1'365'770	83'941	**1'543'734**
Due From Banks	1'245'887	637'702	603'008	437'498	**2'286'393**
Due From Customers	633'297	38'729	1'258'408	785'843	**2'677'547**
Secured By Mortgage	2'500	2'500			**2'500**
Securities/metals trading	634	634	254		**888**
Financial Investments	127'971	23'837	272'561	481'896	**882'428**
Fixed Assets	27'178	12'134	37'382	2'300	**66'860**
Other Assets	11'536	7'293	112'955	20'700	**145'192**
Total	**2'337'835**	**914'341**	**4'194'368**	**1'852'168**	**8'384'370**
Off Balance Sheet Exposure	**Europe**	**thereof Switzerland**	**Asia**	**Rest**	**Total**
Contingent Liabilities	98'196	22'381	552'008	95'526	**745'730**
Irrevocable Commitments	2'988	1'978	534'363		**537'351**
Commitment Credits	1'801		59'024	8'055	**68'879**
Derivative financial Instruments - (pos.repl. Values)	2'425	1'176	1'027	1'414	**4'866**
Total	**105'410**	**25'535**	**1'146'421**	**104'994**	**1'356'826**

Table 7: Impaired loans from customers by region

In CHF 000's

31.12.2011

On Balance Sheet Exposure	Europe	thereof Switzerland	Asia	Rest	Total
Impaired Loans	49'950		186'090	6'206	**242'246**
Value Adjustments and Provisions	8'018		120'053	2'400	**130'471**