Habib Bank AG Zurich

Annual Disclosures according to Basel III (Year 2013)

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1. Scope of Consolidation

a) Scope of consolidation for capital adequacy purposes

The scope of consolidation for capital adequacy purposes consist of the following companies:

• Habib Bank AG Zurich, Parent Company	
• Habib European Bank Limited	(100% ownership)
• Habib Canadian Bank	(100% ownership)
• HBZ Bank Limited (South Africa)	(100% ownership)
• Habib Metropolitan Bank Ltd. (Pakistan)	(51% ownership)
• HBZ Finance Ltd (Hong Kong)	(51% ownership)

b) Scope of consolidation according to RRV-FINMA

In addition to the scope of consolidation for capital adequacy purposes, the scope of consolidation according to RRV-FINMA includes the subsidiary HBZ Services FZ-LLC (100% ownership). This company acts as a service provider for the group and does not operate in the financial sector. (Refer to Annual Report 2013 page 20)

c) Changes in the scope of consolidation

Since 01 January 2013, HBZ Finance Ltd (Hong Kong) is part of the scope for capital adequacy purpose as well as for the consolidation scope according to RRV-FINMA.

2. Risk Management

The Board of Directors is reviewing all relevant risk areas on a semi-annual basis. This review is based on exposure data and risk measurements provided by the risk department of the Group and encompass liquidity risk, interest rate risk and other market risk, credit risk, operational risk and other risk types as far as relevant. The system of internal risk controls is included in this review.

Habib Bank AG Zurich's business strategy is to keep risks minimal by broad diversification in terms of geography and product mix, and by spreading the Group'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 protection of the assets and ensuring long-term profitability of the Group. Clear guidelines and limits – which are under regular review – are backed up by a comprehensive system of internal controls and management inspections.

a) 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 Group'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 Group 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 is 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 37% of our Group credit exposure is secured by property, another 8% by cash deposits and around 33% by pledge of receivables, inventory and other removable assets and 6 % by other collaterals. Only 16% of the Group's credit exposure is unsecured. Actual credit exposures and limits, together with asset quality, are regularly monitored and controlled by management.

The Group is mainly lending in the SME sector as well as giving advances to private clients. For the assessment of corporate clients, the Group has developed its own internal rating system, which captures the borrower's creditworthiness without taking the collateral received into consideration. These internal ratings are reviewed on a yearly basis. Further, concentration risk is monitored on parent level and Group level on a quarterly and semi-annual basis, respectively. The current asset quality of the credit portfolio is well within all internal benchmarks set.

From a capital adequacy point of view the Group uses the standardized approach under Basel III. External ratings are only used for Group counterparties and financial investments, as all corporates within the SME sector do not have external ratings from eligible rating agencies. Furthermore, the Group uses the simple approach for collateral recognition for the time being.

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

b) Market Risk

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

Profits earned in the overseas branches of the Parent Company are subject to exchange rate risk up to their remittance to Head Office. These risks are monitored at Head Office, and larger exposures are hedged as 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 largely re-financed 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 Group 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).

c) Operational Risk

The Group uses the Basic Indicator approach for Basel III 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 an irregularity. These procedures and mitigations are constantly reviewed and amended, if necessary.

d) Liquidity Risk

Liquidity risk is the inability of a Group to fund increases in assets or to meet its obligations when they become due, without incurring unacceptable losses. All branches and subsidiaries closely monitor their liquidity, maintain a liquidity reserve, perform liquidity stress tests and establish contingency funding plans as stipulated in the Liquidity Risk Policy issued by the Board of Directors.

Furthermore, it is the Group's clear guideline to follow a conservative A/D ratio. Currently the A/D ratio on parent level is around 32%. Further, the Parent Company and the Group exceed the Swiss regulatory requirements with regards to liquid assets by 200% and 255% respectively.

e) Interest Rate Risk

Interest rate risk is monitored locally in each country, and at a consolidated level at Head Office, in line with the regulations of the Swiss Financial Market Supervisory Authority (FINMA). The Group'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 move of 1% parallel shift is applied to all credit and deposit exposure. The bank's benchmarks are such that this shock shall not exceed 5% of equity based on the net present value of equity impact.

Table 1: Disclosure regulatory Eligible Capital according to RRV FINMA

In CHF 000's	31.12.2013	Ref
Assets		
Liquid Assets	795'823	
Due From Money Markets	854'691	
Due From Banks	1'857'781	
Due From Customers	2'579'304	
Secured By Mortgage		
Securities/metals trading	440	
Financial Investments	1'459'702	
Participations	127	
Fixed Assets	79'037	
Intangible Assets (Goodwill)	6'854	
Accrued Exp/Other Assets	140'401	
of which: Deferred Tax Assets	*37'602*	
Total Assets	**7'774'159**	
Liabilities		
Due to Money Markets	28'751	
Due to Banks	233'310	
Due to Customers	6'376'061	
Accrued expenses / deferred income	64'371	
Other Liabilities	41'682	
Value adjustments and provisions	20'581	
Total Liabilities	**6'764'756**	
Equity		
Share Capital	150'000	A
Reserves for General Banking Risks	502'015	B
Revenue Reserves	193'558	C
Equity attributable to minorities	127'566	D
Group Profit	36'264	E
Total Equity	**1'009'403**	F

Table 2A: Eligible Capital

In CHF 000's	31.12.2013	Ref
Common Equity (CET1)		
Share Capital	150'000	A
Reserves for general banking risks	502'015	B
Other Reserves	321'124	C, D
Group Profit	36'264	E
Common Equity before deductions	**1'009'403**	F
Deductions		
Presumed Dividend (incl. payments to minority interests)	-22'865	
Participations	-127	
Goodwill	-6'854	
Deductions for Minority Interests	-42'167	
Total deductions from Common Equity (CET1)	**-72'013**	
Total eligible Capital		
Eligible adjusted common equity Tier 1 Capital (CET1)	937'390	
Eligible additional Tier 1 Capital (AT1)	0	
Eligible Tier 2 Capital (T2)	0	
Total eligible Capital	**937'390**	

Table 2B: Capital Requirements

In CHF 000's		31.12.2013	
Credit Risk	Standardised Approach	281'234	
Non-Counterparty Risks	Standardised Approach	13'538	
Market Risk	Standardised Approach	20'465	
of which: currencies		*20'430*	
Operational Risks	Basic Indicator Approach	41'491	
Total minimum capital requirements		**356'728**	

Table 2C: Capital Ratio

Solvency ratio (%) in respect of minimal capital requirements	21.02%	
The minimal requirement is 11.2%		

Table 3: Credit Risk Allocation according to Counterparty

In CHF 000's 31.12.2013

On Balance Sheet Exposure	Sovereigns	Banks	Other Institutions	Corporates	Retail	Equity	Other Exposure	Total
Liquid Assets	772'750	2'280					20'793	**795'823**
Due From Money Markets	479'043	164'713		101'575	108'417		944	**854'691**
Due From Banks	2'114	1'855'667						**1'857'781**
Due From Customers	83'157		106'640	1'580'365	799'886		9'257	**2'579'304**
Securities/metals trading							440	**440**
Financial Investments	707'495	227'299	198'487	192'956		105'908	9'340	**1'441'485**
Fixed Assets							73'547	**73'547**
Other Assets	28'583	21'314	2'011	11'001	13'033	36	26'821	**102'799**
Total	**2'073'142**	**2'271'273**	**307'137**	**1'885'896**	**921'336**	**105'944**	**141'142**	**7'705'870**
Off Balance Sheet Exposure	**Sovereigns**	**Banks**	**Other Institutions**	**Corporates**	**Retail**	**Equity**	**Other Exposure**	**Total**
Contingent Assets	8'824	143'566	121'358	631'090	234'091		2'400	**1'141'328**
Irrevocable Commitments				25'154			1'724	**26'878**
Commitment Debits		9'966		138'648	24'387			**173'001**
Total	**8'824**	**153'532**	**121'358**	**794'892**	**258'477**		**4'124**	**1'341'207**

Table 4: Credit Risk Mitigation (CRM)

In CHF 000's 31.12.2013

	Exposure net of value adjustments and provisions, post application of credit conversion factors on off-balance sheet items	Exposure covered by Guarantees	Exposure covered by Credit Derivates	Financial collateral: simple method	Net exposure
Sovereigns	2'081'966				2'081'966
Banks	2'424'805			-806	2'423'999
Other Institutions	428'495				428'495
Corporates	2'680'788	-2'672		-191'857	2'486'259
Retail	1'179'813	-1'241		-380'184	798'388
Equity	105'944				105'944
Other Exposure	145'266				145'266
Total	**9'047'077**	**-3'913**		**-572'847**	**8'470'317**

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

In CHF 000's 31.12.2013

	0%	20%	35%	50%	75%	100%	150%	350%	Total
Sovereigns	1'980'848	17'681				83'437			2'081'966
Banks		1'970'479		424'067		12'100	18'159		2'424'805
Other Institutions	113'717	41'521		16'201		257'056			428'495
Corporates		35'186		46'259		2'550'082	49'261		2'680'788
Retail			7'852		1'019'289	149'336	3'337		1'179'813
Equity						105'676	268		105'944
Other Exposure	16'660			1'724		126'882			145'266
Total	**2'111'224**	**2'064'867**	**7'852**	**488'251**	**1'019'289**	**3'284'569**	**71'025**		**9'047'077**

Table 6: Analysis of Credit Risk Allocation by region

In CHF 000's 31.12.2013

On Balance Sheet Exposure	Europe	thereof Switzerland	Asia	Rest	Total
Liquid Assets	105'824	103'017	623'520	66'479	**795'823**
Due From Money Markets	10'844		787'710	56'137	**854'691**
Due From Banks	615'568	295'059	928'782	313'431	**1'857'781**
Due From Customers	382'983	23'547	1'875'355	320'966	**2'579'304**
Securities/metals trading	440	440			**440**
Financial Investments	338'462	57'329	927'465	175'558	**1'441'485**
Fixed Assets	24'092	11'540	46'470	2'984	**73'547**
Other Assets	15'370	12'785	83'421	4'008	**102'799**
Total	**1'493'583**	**503'715**	**5'272'724**	**939'563**	**7'705'870**
Off Balance Sheet Exposure	**Europe**	**thereof Switzerland**	**Asia**	**Rest**	**Total**
Contingent Liabilities	25'233	7'987	1'053'193	62'902	**1'141'328**
Irrevocable Commitments	1'724	1'724		25'154	**26'878**
Commitment Credits	476		165'127	7'398	**173'001**
Total	**27'433**	**9'711**	**1'218'320**	**95'454**	**1'341'207**

Table 7: Impaired loans from customers by region

In CHF 000's 31.12.2013

On Balance Sheet Exposure	Europe	thereof Switzerland	Asia	Rest	Total
Impaired Loans	69'056		237'500	3'207	**309'763**
Value Adjustments and Provisions	24'716		143'874	1'251	**169'841**

Table 8: Interest Risk Report

In CHF 000's 31.12.2013

	+ 100 basis points	- 100 basis points
Net monetary variation caused by a movement of the interest curve by:	-37'966	41'148
in percent of own means	-3.87%	4.19%