Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

Habib Bank AG Zurich

Capital adequacy and liquidity disclosure requirements

Disclosure as of 31 December 2020

Capital adequacy and liquidity disclosure requirements (consolidated)

Habib Bank AG Zurich is providing this information as of 31 December 2020 in accordance with the provisions of the Capital Adequacy Ordinance (CAO) and the disclosure requirements set out in FINMA Circular 2016/1 "Disclosure - banks".

1. Scope of consolidation

Scope of consolidation for capital adequacy purposes

The scope of consolidation for capital adequacy purposes consist of the following companies (hereafter referred to as "the Group"):

• Habib Bank AG Zurich	(hereafter referred to as "the Bank")
• Habib Canadian Bank, Canada	(100% ownership)
• HBZ Bank Ltd., South Africa	(100% ownership)
• Habib Metropolitan Bank Ltd., Pakistan	(51% ownership)
• Habib Bank Zurich (Hong Kong) Ltd., Hong Kong	(51% ownership)
• Habib Bank Zurich Plc, United Kingdom	(100% ownership)
• Habib Metropolitan Financial Services Ltd., Pakistan	(51% ownership)
• Habib Metropolitan Modaraba Management Company (Private) Ltd., Pakistan	(51% ownership)
• First Habib Modaraba, Pakistan	(5% ownership)
• Habib Metro Modaraba, Pakistan	(36% ownership)

Scope and method of consolidation according to FINMA Circular 2020/1 "Accounting - Banks"

The Group's method of capital consolidation follows the purchase method. The scope of consolidation according to FINMA Circular 2020/1 "Accounting - banks" additionally includes the subsidiary HBZ Services FZ-LLC, United Arab Emirates (100% ownership), Habib Europe Limited, Isle of Man (100%), HBZ Services (Private) Ltd., Pakistan (100%), HBZ Services (Asia) Limited, Hong Kong (100%) and HBZ Services AG, Switzerland (100%). HBZ Services FZ-LLC, HBZ Services AG, HBZ Services (Private) Ltd. and HBZ Services (Asia) Limited, Hong Kong act as service providers for the Group and do not operate in the financial sector (please refer to the Annual Report 2020, page 43). Habib Europe Limited (former Habib European Bank Ltd.) is in liquidation.

2. Group risk principles

Risk & Control Framework

The Group's Risk & Control Framework is the cornerstone of its risk management and controlling. It provides the basis to identify, assess and effectively manage risks within the Group. Furthermore, the Risk & Control Framework assigns the overall responsibility for a particular risk class, defines who manages risk and who performs independent risk control.

Risk organisation

The Board of Directors' responsibilities are:
- The Board of Directors is responsible for the strategic direction, supervision and controlling of the Group, and for defining its overall risk tolerance by means of a risk appetite statement and overall risk limits;
- The Risk & Control Committee supports the Board of Directors in fulfilling its oversight responsibilities by providing guidance regarding risk governance and the Group's risk profile, including the regular review of major risk exposures and overall risk limits;
- The Audit Committee supports the Board of Directors in fulfilling its oversight responsibilities by monitoring General Management's approach with respect to financial reporting, and the design and effectiveness of internal controls regarding financial accounting and reporting. Additionally, the Audit

Committee is responsible for ensuring independence and monitoring the performance of Group Internal Audit and the external auditors.

On an operational level, the Group operates with a three lines of defence model, whereby business and revenue generation, risk management oversight and risk control are performed by functions independent of one another.

Furthermore, a clear distinction is made between "risk owners", "risk managers" and "risk controllers":
- Risk owners keep oversight and bear the overall responsibility for the management of specific risk classes or risk types;
- Risk managers focus on the monitoring and proactive management of risk. They initiate risk management measures and can change the risk profile;
- Risk controllers independently monitor and assess risk as well as highlight deviations from target risk parameters and non-compliance with policies.

Risk management principles

The following general principles are applied to maintain an appropriate balance between risk and return to:
- safeguard the financial strength of the Group by monitoring the risk exposures and avoiding potential risk concentrations at individual exposure levels, at specific portfolio levels and at an aggregate Group-wide level across all risk types;
- protect the Group's reputation through a sound risk culture characterised by a holistic and integrated view of risk, performance and reward, and through full compliance with the Group's standards and principles;
- systematically identify, classify and measure risks applying best practice. A Group risk assessment is thereby performed, which encompasses all risk classes and subsequently allows Management to focus on significant risk exposures;
- ensure management accountability, whereby business line management owns all risks assumed and is responsible for the active management of all risk exposures to ensure that risk and return are balanced;
- set up independent risk control functions or units, which monitor the effectiveness of risk management and oversee risk-taking activities;
- disclose risks to the Board of Directors, regulators and other stakeholders in a comprehensive and transparent manner.

Furthermore, the Group pays attention to emerging risks. For instance, a Group-wide impact assessment on financial risks related to climate change was performed during 2020.

Internal controls

Internal controls are processes and instruments used to monitor and control operational and other business risks. In order to continuously enhance the Group's internal control system and the effectiveness of controls, the results of current control processes are reviewed and the outcome of the Group's operational risk management processes is taken into account. The organisational units responsible for internal controls work closely with other organisational units within the Group.

Credit risk

Credit risk arises from the possibility that a counterparty (i.e. private and corporate clients, financial institutions as well as issuers or sovereigns) will not fulfil contractual obligations or the credit quality will deteriorate. In order to manage potential default risk and other prevailing credit risks as effectively as possible, it is divided into the following risk types: client credit risk, issuer credit risk, counterparty credit risk, country risk (including cross-border/transfer risk), settlement risk and credit concentration risk.

The Group Credit Management Committee is responsible for credit risks and credit decisions, which may be delegated to the respective Country Credit Management Committees. The Group manages its credit risk within a conservative framework by evaluating the creditworthiness of the borrowing counterparties, setting appropriate credit limits and obtaining collateral as deemed necessary. For each collateral type a minimum haircut is defined in order to account for the volatility in market values according to the nature and liquidity of the collateral. More than 40% of the Group's credit exposure is secured by property and only 10% is unsecured.

The Group's credit risk appetite is defined and monitored through a comprehensive system of credit limits.

The Group has its own rating system for corporate clients. Each credit is assessed as to the borrower's creditworthiness, collateral coverage and collateral quality, as well as the underlying transaction rationale, business potential and any additional risk mitigations. Personal credits are usually only granted on a fully collateralised basis. Collateral coverage is monitored on a regular basis and according to the prevailing market conditions. An adequate and clear segregation of duties is established among the various organisational units involved in the acquisition of credit business, the analysis and approval of a credit request, and the subsequent administration.

Bank counterparties, issuers and sovereigns are analysed according to their financial performance and their external rating. Over 74% of the credit exposure to financial institutions is of investment grade quality and the remaining 26% consists mainly of short-term trade finance exposure in emerging markets to which the Group has close links, and the portfolio is monitored with a set of country limits.

Regarding non-performing loans, the Group is in a comfortable position. After taking into account collateral at market value and the specific value adjustments for default risks, the net unsecured and unprovided position as at the end of December 2020 was only CHF 0.1 million.

The Group has adopted IFRS 9 in six out of eight country operations and the remaining two will also be integrated over time. Therefore, the concept of providing for latent credit risks is now established and will be perfected in 2021 and 2022. During 2020, CHF 6.3 million of latent credit risk provisions were added, reaching a total of CHF 72.7 million of ECL coverage. The Group has also undertaken an extensive external validation of all the existing models and will address all findings during 2021.

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

Liquidity risk

The Group applies a prudent approach to liquidity risk management. The Group Asset & Liability Management Committee regularly monitors liquidity and market risks.

The Group grants advances and loans to clients both on a short-term basis and with tenors generally of up to five years. Funding is primarily obtained through deposits, which are mainly at sight or short-term deposits. Wholesale funding is not significant and deposits are well diversified. No single depositor accounts for more than 5% of the Group's total deposits. Excess liquidity is held as bank placements or financial investments. The latter primarily consist of bond portfolios of sovereign issuers or other issuers that are high quality.

The contractual maturities of the Group's financial assets exceed the contractual maturities of the financial liabilities. However, when determining maturity gaps, the stickiness of deposits or economic maturities are considered, which significantly reduces the contractual gaps. Furthermore, individual client groups in different countries will not act in the same way and at the same time.

In general, the Group is exposed to potentially larger deposit outflows and sudden adverse market developments. Therefore, related scenarios have been analysed as part of three liquidity stress tests performed throughout the Group. The stress test results showed that the liquid assets available could absorb projected outflows in all cases.

The Group has a strong liquidity position, which is further supported by established repo functionalities. In addition, liquidity coverage ratio and net stable funding ratio targets have been defined for all operating Group companies. Both funding and liquidity management is performed on a decentralised basis. The short-term liquidity disposition and liquidity situation of individual countries are monitored by the respective country treasury functions. In addition, liquidity reserves are held both at the Group and at the country level, and contingency funding plans are in place for the Group as well as all branches and subsidiaries.

Market risk

The Group is exposed to interest rate risk, foreign exchange risk and, to a very limited extent, to equity and commodity risk.

The Group's market risk appetite is defined and monitored through a comprehensive system of market risk limits by the Group Asset & Liability Management Committee. Furthermore, the Group regularly performs scenarios and stress tests for interest rate, foreign exchange and equity risks based on prevailing risk exposures.

The Group is exposed to interest rate risk due to interest periods set for advances made to clients exceeding the interest periods for client deposits taken. To limit interest rate repricing risk, most client advances are agreed on a three or six-month base rate plus a credit spread.

In addition, branches and subsidiaries have placed excess liquidity in bank placements or in financial investments with tenors usually of up to three to five years. However, the interest-rate risk related to long-term fixed income instruments included in the financial investment portfolio largely offset by the stable portion of the customer deposits. Behavioural deposit analyses are performed for all branches and subsidiaries. These highlight that a significant portion of deposits will remain with the Group, even if interest rates move.

The Group pursues limited trading activities only. They relate to short-term purchases and sales of local governmental securities in the local currency of a Group entity for profit generation.

The Group introduced the Interest Rate Risk in the Banking Book (IRRBB) approach in 2019 and considers both the value and the earnings perspective. For both IRRBB and the combined trading book and banking book, Economic Value of Equity (EVE) sensitivity limits have been defined by the Board of Directors. EVE sensitivity limits are in place for all countries and limit adherence is monitored by the Group Asset & Liability Management Committee.

With regard to LIBOR replacement, the Group performed a Change Risk Assessment in 2018 and rolled out an implementation plan to all branches and subsidiaries in January 2019. In December 2020, the Group adopted the ISDA 2020 IBORs Fallbacks Protocol.

For foreign exchange transaction risks, the Group pursues a risk-averse approach and aims to keep the potential foreign exchange losses to a minimum. The Group does not pursue proprietary foreign exchange trading activities.

Profits earned in the Bank's branches are subject to exchange rate risk up to their remittance to Habib Bank AG Zurich, Zurich. These risks are monitored at Head Office, and projected profits are hedged as deemed appropriate. Capital and reserves held at the branches are also subject to foreign exchange risk when they are held in local currencies. Any foreign exchange translation gain or loss on these capital and reserves is taken to the income statement in the year in which it occurs.

The Group analyses and projects the foreign exchange translation exposure which arises from its investments in foreign subsidiaries. The exchange rate movements on the net asset exposure of the subsidiaries give rise to revaluation gains and losses, which are included in consolidated equity. In general, the Group does not hedge net asset translation exposures with derivative financial instruments.

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 Group makes use of six operational risk management processes, which consist of key risk indicators, change risk assessment, risk self-assessment, scenario analysis, risk event management and issue management and action tracking.

Furthermore, several types of risk mitigation measures are used and comprise control enhancement, model risk management, business continuity management and other mitigation measures (risk avoidance, risk reduction and risk transfer).

To pro-actively address risks related to potential business disruptions, business impact analyses, crisis management teams and business continuity plans have been established for the Group as well as for all branches and subsidiaries.

In 2020, the coronavirus pandemic affected all the countries in which the Group operates. In the wake of this, the Group developed and implemented a strategy to limit the effects of the coronavirus to both health of the employees as well as to the business of its clients entrusted with the Group. Working from home and remote system access helped to avoid disruption to key business activities.

The Group has developed a risk-based cyber risk strategy. The Chief Information Security Officer and his dedicated team of cyber specialists monitor cyber risk, perform risk assessments, vulnerability and penetration tests as well as run information security campaigns to raise employee awareness.

3. Disclosure

KM1: Key metrics at consolidated Group level

	in CHF 1'000 (unless stated otherwise)	31.12.20	31.12.19
	Eligible Capital		
1	Common equity Tier 1 (CET1)	1'098'896	1'131'290
2	Tier 1 capital (T1)	1'098'896	1'131'290
3	Total capital	1'160'286	1'192'587
	Risk weighted assets (RWA)		
4	RWA	6'167'138	6'061'712
4a	Minimum capital requirements	493'371	484'937
	Risk-based capital ratio (in % of RWA)		
5	CET 1 ratio	17.8%	18.7%
6	Tier 1 capital ratio	17.8%	18.7%
7	Total capital ratio	18.8%	19.7%
	CET1 buffer requirements (in % of RWA)		
8	Capital conservation buffer requirement as per the Basel minimum standards (2,5% from 2019)	2.5%	2.5%
9	Countercyclical capital buffer (Art. 44a CAO) as per the Basel minimum standards	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements	10.8%	11.7%
	Capital target ratio as per Annex 8 of the CAO (in % of RWA)		
12a	Capital conservation buffer according Annex 8 of the CAO	3.2%	3.2%
12b	Countercyclical capital buffer (Art. 44 and 44a CAO)	0.0%	0.0%
12c	CET1 total requirement according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	7.4%	7.4%
12d	T1 target ratio according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	9.0%	9.0%
12e	Total capital target ratio according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	11.2%	11.2%
	Basel III Leverage Ratio		
13	Total Basel III leverage ratio exposure measure	11'491'991	12'163'269
14	Basel III leverage ratio (Tier 1 capital in % of leverage ratio exposure measure)	9.6%	9.4%

		Quarter 4 2020	Quarter 3 2020	Quarter 2 2020	Quarter 1 2020	Quarter 4 2019
	in CHF 1'000	Weighted values	Weighted values	Weighted values	Weighted values	Weighted values
	Liquidity Coverage Ratio (LCR)					
15	LCR numerator: total high-quality liquid assets (HQLA)	2'993'741	2'746'988	3'110'401	3'122'160	2'874'083
16	LCR denominator: total net outflows of funds	-2'346'141	-2'196'714	-2'161'232	-2'400'112	-3'147'679
17	Liquidity coverage ratio (LCR) (in %)	127.6%	125.0%	143.9%	130.1%	120.6%

The "Total capital" decreased by CHF 32.3 million, which is driven by a 44.0% lower Group profit and a significant devaluation of foreign currencies against the reporting currency CHF. Consequently the "Total capital ratio" decreased from 19.7% to 18.8%. Due to the 4.6% increase of the total assets, the risk weighted assets and the minimum capital requirements respectively increased by 1.7%. Overall the Group has a CET1 buffer of 10.8% compared to 11.7% in the previous year..

KM1: Key metrics at Bank level

	in CHF 1'000 (unless stated otherwise)	**31.12.20**	**31.12.19**
	Eligible Capital		
1	Common equity Tier 1 (CET1)	936'347	962'123
2	Tier 1 capital (T1)	936'347	962'123
3	Total capital	964'982	988'142
	Risk weighted assets (RWA)		
4	RWA	3'958'108	3'780'621
4a	Minimum capital requirements	316'649	302'450
	Risk-based capital ratio (in % of RWA)		
5	CET 1 ratio	23.7%	25.4%
6	Tier 1 capital ratio	23.7%	25.4%
7	Total capital ratio	24.4%	26.1%
	CET1 buffer requirements (in % of RWA)		
8	Capital conservation buffer requirement as per the Basel minimum standards (2,5% from 2019)	2.5%	2.5%
9	Countercyclical capital buffer (Art. 44a CAO) as per the Basel minimum standards	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements	16.4%	18.1%
	Capital target ratio as per Annex 8 of the CAO (in % of RWA)		
12a	Capital conservation buffer according Annex 8 of the CAO	3.2%	3.2%
12b	Countercyclical capital buffer (Art. 44 and 44a CAO)	0.0%	0.0%
12c	CET1 total requirement according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	7.4%	7.4%
12d	T1 target ratio according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	9.0%	9.0%
12e	Total capital target ratio according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	11.2%	11.2%
	Basel III Leverage Ratio		
13	Total Basel III leverage ratio exposure measure	3'899'203	3'701'797
14	Basel III leverage ratio (Tier 1 capital in % of leverage ratio exposure measure)	24.0%	26.0%

	in CHF 1'000	Quarter 4 2020 Weighted values	Quarter 3 2020 Weighted values	Quarter 2 2020 Weighted values	Quarter 1 2020 Weighted values	Quarter 4 2019 Weighted values
	Liquidity Coverage Ratio (LCR)					
15	LCR numerator: total high-quality liquid assets (HQLA)	357'822	451'387	447'522	533'315	538'165
16	LCR denominator: total net outflows of funds	-247'655	-385'920	-313'216	-451'970	-410'186
17	Liquidity coverage ratio (LCR) (in %)	144.5%	117.0%	142.9%	118.0%	131.2%

The "Total capital" decreased by CHF 23.2 million, which is driven by the loss of CHF 11.7 million for the period and dividend payment of CHF 15 million for the year. Consequently the "Total capital ratio" decreased from 26.1% to 24.4%. Due to an increased of risk weighted assets the minimum capital requirements increased by 4.7%. Overall the Bank has a CET1 buffer of 16.4% compared to 18.1% in the previous year.

OV1: Overview of risk-weighted assets (partial disclosure)

			a	b	c
			RWA	RWA	Minimum capital requirements
	in CHF 1'000		**31.12.20**	**31.12.19**	**31.12.20**
1	Credit risk	SA-BIZ approach	4'991'025	4'983'138	399'282
20	Market risk	Standardised approach	377'388	359'988	30'191
24	Operational risk	Basic indicator approach	703'725	650'825	56'298
25	Amounts below the thresholds for deduction (subject to 250% risk weight)		95'000	67'763	7'600
27	**Total (1 + 20 + 24 + 25)**		**6'167'138**	**6'061'712**	**493'371**

LIQA: Liquidity: management of liquidity risks

Please find detailed information regarding the management of liquidity in the section "Liquidity risk" on page 3 of this document. As indicated the Group maintains a strong liquidity position, which results in a average liquidity coverage ratio over the year 2020 between 125.0% and 143.9%. The devaluation of the foreign currencies, specially the Pakistan Rupee, affected the total "Total high quality liquid assets" (HQLA) as well as the "Total net outflows of funds" over the course of the year 2020.

The Group's total HQLA of CHF 3.0 billion in Quarter 4 2020 includes mainly balances with central banks in countries where the Group is active, investments in local government bonds in Pakistan and bond investments in Switzerland. Moreover, HQLA government bonds in Pakistan are only be considered up to the net cash outflow of the entity, which is in line with the FINMA Circular 2015/2 "Liquidity risks - banks", margin no. 161.

CR1: Credit risk: credit quality of assets

		a	b	c	d
	31.12.20 in CHF 1'000	Gross carrying values of defaulted exposures	Gross carrying values of non-defaulted exposures	Value adjustments / impairments	Net values (a + b - c)
1	Loans (excluding debt securities)	253'139	3'332'201	156'368	3'428'972
2	Debt securities		4'533'730	2'762	4'530'968
3	Off-balance-sheet exposures		1'958'938	2'612	1'956'325
4	**Total**	**253'139**	**9'824'869**	**161'743**	**9'916'265**

Value adjustments for default and latent credit risks

Please refer for further information regarding "Value adjustments for default and latent credit risks" to the Annual Report 2020 page 29.

CR2: Credit risk: changes in stock of defaulted loans and debt securities

	31.12.20 in CHF 1'000	a
1	Defaulted loans and debt securities at end of the previous reporting period	275'759
2	Loans and dept securities that have defaultet since the last reporting period	33'193
3	Returned to non-defaulted status	20'707
4	Amounts written off	28'887
5	Other changes (+ / -)	-6'218
6	**Defaulted loans and debt securities at end of the reporting period (1 + 2 - 3 - 4 + 5)**	**253'139**

CRB: Credit risk: additional disclosures related to the credit quality of assets

31.12.20 in CHF 1'000	Carrying values
Breakdown of exposures by geographical area	
Switzerland	549'742
Rest of Europe	1'335'941
Americas	564'272
Asia and Oceania	8'304'941
Africa	719'199
Total exposures	**11'474'094**

31.12.20 in CHF 1'000	Carrying values
Breakdown of exposures by industry	
Agriculture	17'972
Manufactoring	1'553'141
Services	6'481'329
Individuals and others	3'421'652
Total exposures	**11'474'094**

31.12.20 in CHF 1'000	Carrying values
Breakdown of exposures by residual maturity	
Up to 3 months	6'141'238
Due between 3 and 12 months	1'952'989
Due between 1 and 5 years	1'775'897
After more than 5 years	1'178'633
No maturity	425'337
Total exposures	**11'474'094**

31.12.20 in CHF 1'000	Impaired exposures (gross debt)	Specific value adjustments
Breakdown of impaired exposures by geographical area		
Switzerland		
Rest of Europe	15'837	4'769
Americas	8'053	665
Asia and Oceania	213'930	148'514
Africa	15'320	5'181
Total impaired exposures	**253'139**	**159'129**

31.12.20 in CHF 1'000	Impaired exposures (gross debt)	Specific value adjustments
Breakdown of impaired exposures by industry		
Agriculture		
Manufacturing	140'984	97'946
Services	71'244	43'734
Individuals and others	40'911	17'450
Total impaired exposures	**253'139**	**159'129**

Non-performing loans / receivables

Non-performance of a credit exposure is considered with regard to a particular obligor when either or both of the two following events have taken place:

- The Group considers that the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral (if held)
- The obligor is 90 days or more past due on any material credit obligation to the Group. Overdrafts will be considered as being past due once the client has breached an advised limit or been advised of a limit smaller than current outstandings.

The assessment as to whether a credit exposure is non-performing is made on an entity level entailing all exposures of the respective entity.

31.12.20 in CHF 1'000	Past due exposures (gross debt)	Specific value adjustments
Ageing analysis of accounting past-due exposures		
Up to 3 months	50'498	29'631
Due between 3 and 12 months	26'943	14'548
Due between 1 and 5 years	40'155	21'712
After more than 5 years	1'467	1'138
No maturity	130'102	89'400
Total past due exposures	**249'165**	**156'429**

Restructured credits

A restructuring of a credit agreement is generally defined to be a breach of contract under the initially agreed terms and conditions. Regardless of the interest and amortization payments, it is only possible in exceptional cases to keep restructured advances in the normal credit category and not to flag it as heightened or impaired credit risk.

A restructuring flag is set in the system showing the inability of the borrower to continue servicing its debt without relief in terms and conditions.

	Gross debt		
31.12.20 in CHF 1'000	Impaired	Not impaired	**Total**
Breakdown of restructured exposures			
Restructured exposures	48'603	62'797	**111'401**

CR3: Credit risk: overview of mitigation techniques

	a	c	e & g
31.12.20 in CHF 1'000	Unmitigated credit exposures	Exposures mitigated by collateral, of which: mitigated amount	Exposures mitigated by financial guarantees or credit derivatives, of which mitigated amount
Claims (including debt securities)	10'054'334	1'693'565	
Off-balance sheet transactions	1'417'774	564'271	
Total	**11'472'108**	**2'257'836**	
- of which defaulted	168'994		

CR5: Credit risk: exposures by exposure category and risk weights under the standardised approach

		a	b	c	d	e	f	g	h	i	j
	31.12.20 in CHF 1'000	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post-CCF and post-CRM)
1	Central governments and central banks	3'864'067		283		1'319		151'238	12'219		4'029'126
2	Banks and securities firms			897'762		1'055'609		390'238	505'175		2'848'784
3	Non-central government public sector entities and multilateral development banks	40'475		8'311		11'364		974	27'509		88'633
4	Corporates			34'245	57'803	144'053	2'790	1'205'972	326'467		1'771'330
5	Retail			2'613	138'170		285'368	448'001	21'890		896'042
6	Equity								7'527		7'527
7	Other exposures	700'880		2'405				251'988	2'226		957'499
8	**Total**	**4'605'422**		**945'619**	**195'973**	**1'212'345**	**288'158**	**2'448'411**	**903'013**		**10'598'941**
9	- of which covered by mortgages						6'964	32'650			39'614
10	- of which past-due loans							4'722	96'784		101'506

IRRBBA : Objects and policies of the interest rate risk in the banking book

a) **Description of how the bank defines IRRBB for the purpose of managing and measuring risk**
For Interest Rate Risk in the Banking Book (IRRBB) the Group considers all interest rate sensitive positions in the banking book. For interest rate risk management and control purposes, both value and earnings impact is determined. Thereby the focus is on two measures: Economic Value of Equity (EVE) as well as Net Interest Income (NII) sensitivity.

b) **Description of the overall strategy of the bank to manage and mitigate IRRBB**
For IRRBB management and risk mitigation purposes, EVE and NII sensitivities are reported to the Group Asset & Liability Committee (GALC) and the respective Country Asset & Liability Committee (CALC). In addition, several IRRBB stress tests are performed (see paragaph d below). Furthermore, a front-independent unit checks that the worst case regulatory IRRBB stress test result is within the defined risk limits. Models used for IRRBB computation purposes form part of the Group's model inventory, require a model description and undergo a periodic model validation process. Model validation results are reported to the Group Risk & Control Committee (GRCC).

c) **Frequency of calculation of the bank's IRRBB metrics and description of the specific metrics the bank uses to estimate its sensitivity to IRRBB**
The Group focuses on two measures: EVE sensitivity (EVE change / EVE) as well as the NII sensitivity (NII change / NII), which are computed on a quarterly basis.

d) **Description of the interest shock and stress scenarios the bank uses to estimate in economic value and earnings**
The Group performs several IRRBB stress tests (parallel up / down, flattener / steepener, short term up / down) based on regulatory required as well as internally defined stress factors.

e) **Differences between the model assumptions used in the bank's internal interest risk measurement system and the model assumptions prescribed to disclosure in Table IRRBB1**
For internal IRRBB computations, other stress factors are applied for individual Emerging Markets currencies to better reflect recent developments and economic realities. For example, no 300 basis points stress is applied for the AED as the currency is pegged to the USD (for which a 200 basis points stress is prescribed by FINMA)

f) **Overall description of how the bank hedges its IRRBB and the associates accounting treatment**
At present, the Group does not employ interest rate derivatives to hedge its IRRBB exposure. When deemed necessary, EVE sensitivity is reduced by changing the duration of the Group's fixed income portfolio through purchase and sale of securities as well as changing the composition of repurchase / reverse repurchase positions.

g)	**Key modelling assumptions and calculation parameters used to calculate ΔEVE and ΔNII in Table IRRBB1 with refeence to the items and currencies shown in Table IRRBBA1**		
1)	Change in net present value of capital (ΔEVE)	Calculation of cash flows: Recognition of interest rate margins and other components	Interest cash flows used for EVE change computation include client credit spreads
2)		Mapping: Description of the cash flow mapping used	Interest cash flows and repricing positions are included in the respective time bucket in accordance with the date of the interest payment or the date of repricing, respectively. However, for EVE change computations, actual payment or repricing dates are applied.
3)		Discount rates: Description of the (product specific) discount rates or interpolation assumptions	For discounting purposes, the risk-free yield curve in the respective currency plus a credit spread by asset class is used. This ensures an economically consistent computation in line with the chosen approach under 1 above.
4)	Changes to planned income (ΔNII)	Description of the procedure and central assumptions in the model for calculating future income	NII change is computed based on NII resulting from prevailing contractually agreed positions (run-off balance sheet) and future transactions, which fall into the defined 12-month horizon. Given the constant volume, lifetime and margin assumption, actual transactions reaching maturity are rolled over or "re-newed" and modelled as future transactions. For the NII change computation, new interest rates for floating rate positions, fixed rate instruments and Non Maturing Balances (NMB) are determined based on the prevailing risk free yield for the currency, the respective forward adjustment and the defined interest rate stress factors for the currency (parallel shift up and down).
5)	Variable exposures	Description of the procedure and central assumptions and parameters for determining the interest rate reset date and cash flows of variable exposures	For Non Maturing Balances (NMB), the interest repricing dates are determined based on internal models.
6)	Exposures with repayment options	Description of the assumptions and procedures for recognising behaviour-related early repayment options	The Group has no material asset positions with early repayment features. Most loans are granted as floating or managed rate loans. Therefore, no related optionalities are considered.
7)	Term deposits	Description of the assumptions and procedures for recognising behaviour-related early withdrawals	Early withdrawals of deposits are not very frequent. In addition, a penalty payment applies in most cases when an early deposit repayment is made. This largely compensates for potential unrealized gains foregone. Therefore, early withdrawal options are not considered for the Group's IRRBB computation.
8)	Automatic interest rate options	Description of the assumptions and procedures for recognising automatic, behaviour-independent interest rate options	Except for very few bonds held with a prepayment option by the issuer, there are no automatic interest rate options. The prepayment options are not modelled for IRRBB purposes in view of immateriality.
9)	Derivative exposures	Description of purpose,assumptions and procedure for linear and non-linear interest rate derivatives	The Group does not make use of interest rate derivatives at the present time.
10)	Other assumptions	Description of other assumptions and procedures affecting the calculation of figures in Tables IRRBBA1 and IRRBB1, e.g. aggregation across currencies and correlation assumptions for interest rates	The EVE change results by currency are simply added up based on regulatory requirements (FINMA Circular 2019/2 "Interest rate risk - Banks"). This aggregation does not consider correlations.

IRRBBA1: Interest rate risk: Quantitative information on the structure of positions and repricing of interest rates*

31.12.20	Amounts in CHF 1'000			Average time to resetting of interest rates (in years)	
	Total	- of which in CHF	- of which in other significant currencies**	**Total**	- of which in CHF
Defined resetting date of interest rates					
Due from banks	1'861'085	2'202	1'548'607	0.21	0.35
Due from customers	1'530'326	351	1'391'545	0.83	1.26
Fixed-term mortgages	342'518		227'915	1.50	
Financial investments	4'907'564	299'745	4'142'961	1.31	2.48
Other assets	78'113		77'978	0.09	
Receivables on derivatives	2'593'438	1'218	2'577'562	0.17	0.29
Due to banks	-1'111'776	-14'973	-1'082'341	0.07	0.11
Due to customers	-3'105'586	-45'308	-2'290'983	0.37	0.02
Liabilities on derivatives	-2'602'797	-90'883	-2'505'632	0.17	0.12
Non-defined resetting date of interest rates					
Due from banks	237'328	262	105'381	0.00	0.00
Due from customers	1'624'996	14'504	945'555	0.13	0.23
Liabilities in personal and current accounts at sight	-4'289'814	-29'003	-3'549'006	1.57	1.78
Other liabilities at sight	-177'134	-2'130	-159'964	0.00	0.00
Liabilities from client deposits, callable but not transferable (savings)	-1'560'742	-46'526	-1'312'836	0.48	0.12
Total	**327'520**	**89'459**	**116'743**	**0.34**	**7.57**

Maximum repricing period of interest rates for positions with model-based interest rates	5 years

* The table shows quantitative information of positions by including principal amounts and interest cash flows.

** Representing more than 10% of total balance sheet.

Comment:
The net position above does not include sight deposits with the Swiss National Bank, clearing houses regulated by FINMA and foreign central banks.

IRRBB1: Interest rate risk: Quantitative information on the economic value of equity and net interest income

	ΔEVE (change in the economic value of equity)		ΔNII (change in net interest income)	
in CHF 1'000	**31.12.20**	**31.12.19**	**31.12.20**	**31.12.19**
Paralellel up	22'639	-16'721	69'543	40'219
Paralellel down	10'827	37'066	-63'193	-35'156
Steepener (1)	4'645	8'182		
Flattener (2)	9'786	-6'597		
Short rate up	12'201	-12'787		
Short rate down	-630	22'470		
Worst scenario	-630	-16'721	-63'193	-35'156
Tier 1 capital	1'098'896	1'131'290		

(1) The steepener scenario considers a reduction of short term rates combined with an increase of long term rates.
(2) The flattener scenario considers an increase of short term rates combined with a reduction of long term rates.

Comment:
EVE changes for emerging market currencies continue to exceed the EVE changes for western currencies.

ORA: Operational risks: general duties

Please find detailed information regarding the management of operational risks in the section "operational risk" on page 4 in this document. Habib Bank AG Zurich applies the basic indicator approach for operational risks.