Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

Habib Bank AG Zurich

Capital adequacy and liquidity disclosure requirements
Disclosure as of 31 December 2021

Purely for ease of reading, the masculine form used in this document is intended to refer to both genders.
This concolidated regulatory disclosure report is published in English only.
Due to rounding, the numbers presented in this report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Capital adequacy and liquidity disclosure requirements (consolidated)

Habib Bank AG Zurich is providing this information as of 31 December 2021 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 2021, 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.

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. Around 35% of the Group's credit exposure is secured by property and only 12% 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. Roughly 70% of the credit exposure to financial institutions is of investment grade quality and the remaining 30% 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. Our risk exposure to Russia is insignificant.

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 2021 was nil.

The Group has adopted an ECL concept in accordance with IFRS 9 guidelines in six out of eight country operations. HMB will adopt it fully during 2022 while already complying with the required value adjustments as of end of 2021. Therefore, the concept of providing for latent credit risks is now established and will be perfected during 2022. During 2021, CHF 2.4 million of latent credit risk provisions were added, reaching a total of CHF 58.1 million of ECL coverage, while CHF 25.5 million of specific provisions for actual non-performing loans were released. The Group has also undertaken an extensive external validation of all the existing models and is in the final stages of overhauling all models. Full implementation of these revised models will be undertaken during the first half of 2022.

Cross country risks are monitored quarterly and are either protected by guarantees obtained from the World Bank (MIGA) or are covered by the forward looking element in the ECL models. Switzerland keeps separate country provisions if required.

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, equity risk and, to a very limited extent, 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 employs a sophisticated Interest Rate Risk in the Banking Book (IRRBB) approach 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.

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.

The Group maintains an equity investment program with the aim to acquire and maintain highly liquid equities with stable business models in industry-leading positions and regular dividend flows. The Board of Directors approves the Group's risk limits for equities and adherence is monitored by the Group Asset & Liability Committee.

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. These consist of key risk indicators, change risk assessment, risk self-assessment, scenario analysis, risk event management and issue management and action tracking. Group Operational Risk establishes and manages these operational risk processes.

Operational risks can arise from all business lines and from all activities carried out by the Group. In addition to the operational risk management processes, risk mitigation measures are used and comprise of control enhancement, model risk management, business continuity management and other mitigation measures (risk avoidance, risk reduction and risk transfer) across the Group.

In 2021, the Group due to the continued impact of the pandemic, business continuity and operational resilience was well managed with the deployment of remote working capabilities across our network. This allowed the Group to ensure the health & well being of our employees was maintained in addition to providing uninterrupted services to our clients.

An after-effect of the pandemic was the increased focus on digitalizing our activities further. As a result our risk exposure to cyber risk was heightened.

The Group has developed a risk-based cyber risk strategy. The Head Group Information & Technology Risk 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 across the Group.

3. Disclosure

KM1: Key metrics at consolidated Group level

	in CHF 1'000 (unless stated otherwise)	31.12.21	31.12.20
	Eligible Capital		
1	Common equity Tier 1 (CET1)	1'159'331	1'098'896
2	Tier 1 capital (T1)	1'159'331	1'098'896
3	Total capital	1'230'918	1'160'286
	Risk weighted assets (RWA)		
4	RWA	7'110'433	6'167'138
4a	Minimum capital requirements	568'835	493'371
	Risk-based capital ratio (in % of RWA)		
5	CET 1 ratio	16.3%	17.8%
6	Tier 1 capital ratio	16.3%	17.8%
7	Total capital ratio	17.3%	18.8%
	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	9.3%	10.8%
	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	14'085'241	11'491'991
14	Basel III leverage ratio (Tier 1 capital in % of leverage ratio exposure measure)	8.2%	9.6%

		Quarter 4 2021	Quarter 3 2021	Quarter 2 2021	Quarter 1 2021	Quarter 4 2020
	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)	4'041'100	3'976'101	3'659'404	3'289'727	2'993'741
16	LCR denominator: total net outflows of funds	-2'491'011	-2'552'610	-2'640'586	-2'433'156	-2'346'141
17	Liquidity coverage ratio (LCR) (in %)	162.2%	155.8%	138.6%	135.2%	127.6%

The "Total capital" increased by CHF 70.6 million, which is driven by higher Group profit. Due to the substantial business growth total risk weighted assets increased by 15.3%. Consequently the "Total capital ratio" decreased from 18.8% to 17.3%. Overall the Group has a CET1 buffer of 9.3% compared to 10.8% in the previous year.

KM1: Key metrics at Bank level

	in CHF 1'000 (unless stated otherwise)	31.12.21	31.12.20
	Eligible Capital		
1	Common equity Tier 1 (CET1)	963'171	936'347
2	Tier 1 capital (T1)	963'171	936'347
3	Total capital	993'714	964'982
	Risk weighted assets (RWA)		
4	RWA	4'212'695	3'958'108
4a	Minimum capital requirements	337'016	316'649
	Risk-based capital ratio (in % of RWA)		
5	CET 1 ratio	22.9%	23.7%
6	Tier 1 capital ratio	22.9%	23.7%
7	Total capital ratio	23.6%	24.4%
	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	15.6%	16.4%
	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	5'012'353	3'899'203
14	Basel III leverage ratio (Tier 1 capital in % of leverage ratio exposure measure)	19.2%	24.0%

	in CHF 1'000	Quarter 4 2021 Weighted values	Quarter 3 2021 Weighted values	Quarter 2 2021 Weighted values	Quarter 1 2021 Weighted values	Quarter 4 2020 Weighted values
	Liquidity Coverage Ratio (LCR)					
15	LCR numerator: total high-quality liquid assets (HQLA)	380'265	368'294	379'981	435'771	357'822
16	LCR denominator: total net outflows of funds	-264'331	-252'994	-211'166	-251'790	-247'655
17	Liquidity coverage ratio (LCR) (in %)	143.9%	145.6%	179.9%	173.1%	144.5%

The "Total capital" increased by CHF 28.7 million, which is driven by Profit of CHF 36.5 million for the period and dividend payment of CHF 15 million from the profit 2020. The "Total capital ratio" decreased from 24.4% to 23.6% mainly due to the business growth in 2021. Total risk weighted assets increased by 6.4%. Overall the Bank has a CET1 buffer of 15.6% compared to 16.4% in the previous year.

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

			a	b	c
			RWA	RWA	Minimum capital requirements
	in CHF 1'000		**31.12.21**	**31.12.20**	**31.12.21**
1	Credit risk	SA-BIZ approach	5'825'713	4'991'025	466'057
20	Market risk	Standardised approach	470'362	377'388	37'629
24	Operational risk	Basic indicator approach	750'871	703'725	60'070
25	Amounts below the thresholds for deduction (subject to 250% risk weight)		63'488	95'000	5'079
27	**Total (1 + 20 + 24 + 25)**		**7'110'433**	**6'167'138**	**568'835**

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 2021 between 135.1% and 173.6%. The devaluation of the foreign currencies, specially the Pakistan Rupee, affected the total "High quality liquid assets" (HQLA) as well as the "Total net outflow of funds" over the course of the year 2021.

The Group's total HQLA of CHF 4.0 billion in Quarter 4 2021 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
	31.12.21 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)	186'002	4'084'011	131'220	4'138'793
2	Debt securities		5'756'381		5'756'381
3	Off-balance-sheet exposures		2'152'624	2'620	2'150'004
4	**Total**	**186'002**	**11'993'016**	**133'839**	**12'045'178**

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 2021 page 29.

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

	31.12.21 in CHF 1'000	a
1	Defaulted loans and debt securities at end of the previous reporting period	253'139
2	Loans and dept securities that have defaultet since the last reporting period	2'180
3	Returned to non-defaulted status	27'788
4	Amounts written off	38'514
5	Other changes (+ / -)	-3'015
6	**Defaulted loans and debt securities at end of the reporting period (1 + 2 - 3 - 4 + 5)**	**186'002**

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

31.12.21 in CHF 1'000	Carrying values
Breakdown of exposures by geographical area	
Switzerland	466'288
Rest of Europe	1'364'823
Americas	806'386
Asia and Oceania	9'296'361
Africa	784'738
Total exposures	**12'718'595**

31.12.21 in CHF 1'000	Carrying values
Breakdown of exposures by industry	
Agriculture	30'847
Manufactoring	1'684'797
Services	7'047'442
Individuals and others	3'955'509
Total exposures	**12'718'595**

31.12.21 in CHF 1'000	Carrying values
Breakdown of exposures by residual maturity	
Up to 3 months	6'082'396
Due between 3 and 12 months	3'247'357
Due between 1 and 5 years	1'743'142
After more than 5 years	1'267'902
No maturity	377'799
Total exposures	**12'718'595**

31.12.21 in CHF 1'000	Impaired exposures (gross debt)	Specific value adjustments
Breakdown of impaired exposures by geographical area		
Switzerland		
Rest of Europe	13'957	4'594
Americas	2'275	325
Asia and Oceania	158'436	120'637
Africa	11'333	5'664
Total impaired exposures	**186'002**	**131'220**

31.12.21 in CHF 1'000	Impaired exposures (gross debt)	Specific value adjustments
Breakdown of impaired exposures by industry		
Agriculture		
Manufacturing	96'308	75'259
Services	57'816	39'339
Individuals and others	31'877	16'622
Total impaired exposures	**186'002**	**131'220**

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.

31.12.21 in CHF 1'000	Past due exposures (gross debt)	Specific value adjustments
Ageing analysis of accounting past-due exposures		
Up to 3 months	33'720	26'189
Due between 3 and 12 months	2'502	467
Due between 1 and 5 years	33'177	19'698
After more than 5 years	2'586	2'584
No maturity	102'420	78'003
Total past due exposures	**174'404**	**126'941**

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		
31.12.21 in CHF 1'000	Impaired	Not impaired	**Total**
Breakdown of restructured exposures			
Restructured exposures	37'093	54'934	**92'027**

CR3: Credit risk: overview of mitigation techniques

	a	c	e & g
31.12.21 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)	11'200'361	1'838'069	
Off-balance sheet transactions	1'555'774	618'269	
Total	**12'756'135**	**2'456'338**	
- of which defaulted	127'071		

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

		a	b	c	d	e	f	g	h	i	j
	31.12.21 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	4'267'783		532'162		12'344		162'537	18'178		4'993'004
2	Banks and securities firms			817'513		823'294		332'094	501'980		2'474'881
3	Non-central government public sector entities and multilateral development banks	24'041		69'824		31'612		38'172			163'649
4	Corporates			79'553	70'419	227'477	3'798	1'470'922	471'161		2'323'330
5	Retail				172'666		317'218	625'638	27'995		1'143'517
6	Equity							34'479	9'215		43'694
7	Other exposures	239'458		11'953		5'624		289'909	1'227		548'171
8	**Total**	**4'531'282**		**1'511'005**	**243'085**	**1'100'351**	**321'016**	**2'953'751**	**1'029'756**		**11'690'246**
9	- of which covered by mortgages						10'448	40'611			51'059
10	- of which past-due loans							4'788	94'846		99'634

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

31.12.21	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	1'391'065	474	1'130'482	0.22	0.50
Due from customers	1'854'887	418	1'683'185	0.97	1.21
Fixed-term mortgages	386'842		269'464	1.72	
Financial investments	6'140'444	306'401	5'222'246	1.11	2.61
Other assets	30'901		30'705	0.05	
Receivables on derivatives	2'373'580	2'790	2'321'302	0.15	0.47
Due to banks	-1'758'767		-1'667'055	0.25	
Due to customers	-2'925'526	-18	-2'236'896	0.36	0.62
Liabilities on derivatives	-2'360'103	-104'802	-2'250'356	0.15	0.08
Non-defined resetting date of interest rates					
Due from banks	267'163	408	117'384	0.00	0.00
Due from customers	1'998'059	11'966	1'262'144	0.26	0.15
Liabilities in personal and current accounts at sight	-4'733'632	-36'775	-3'797'557	1.22	1.51
Other liabilities at sight	-197'031	-3'413	-175'055	0.00	0.00
Liabilities from client deposits, callable but not transferable (savings)	-1'794'196	-43'297	-1'481'879	0.11	0.42
Total	**673'685**	**134'151**	**428'115**	**3.93**	**5.37**

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

* 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	**31.12.21**	**31.12.20**	**31.12.21**	**31.12.20**
Paralellel up	21'306	22'639	97'709	69'543
Paralellel down	10'993	10'827	-84'097	-63'193
Steepener (1)	14'531	4'645		
Flattener (2)	-368	9'786		
Short rate up	1'872	12'201		
Short rate down	10'325	-630		
Worst scenario	-368	-630	-84'097	-63'193
Tier 1 capital	1'159'331	1'098'896		

(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.