Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

Habib Bank AG Zurich

Annual Report 2018

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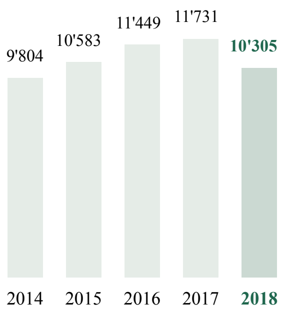
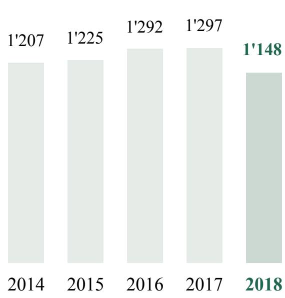
Group key figures

in CHF million	31.12.14	31.12.15	31.12.16	31.12.17	31.12.18
Balance sheet					
Total assets	9'804	10'583	11'449	11'731	10'305
Equity	1'207	1'225	1'292	1'297	1'1'48
Advances customers	3'408	3'195	3'319	3'557	3'546
Deposits customers	8'018	8'696	9'314	9'393	8'422
Income statement					
Total income[1]	418.9	397.2	374.3	333.1	305.3
Operating expenses	178.3	194.0	204.5	220.7	224.4
Operating result	207.8	148.2	123.1	85.9	-11.7
Group profit / loss	77.6	88.2	92.4	60.5	79.7

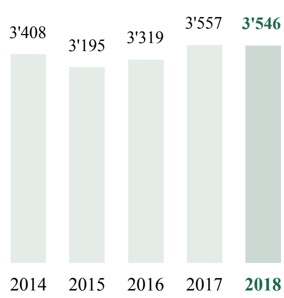
Total assets, in CHF million



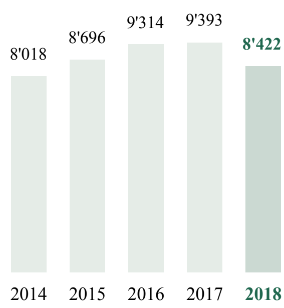
Equity, in CHF million



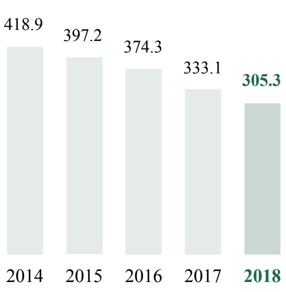
Advances customers, in CHF million



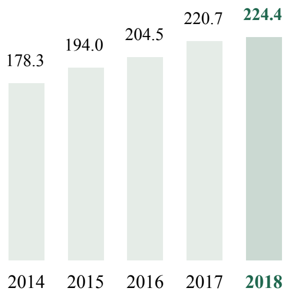
Deposits customers, in CHF million



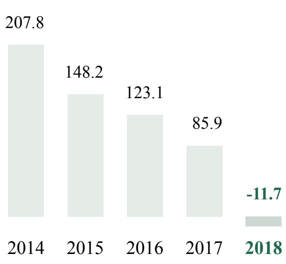
Total income, in CHF million



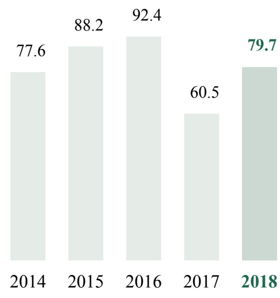
Operating expenses, in CHF million



Operating result, in CHF million



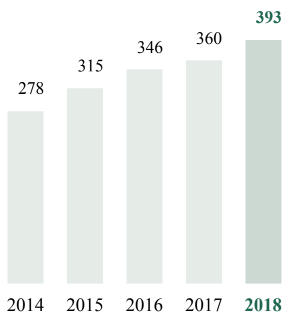
Group profit / loss, in CHF million



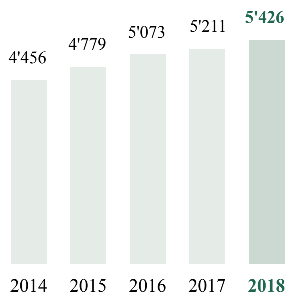
[1] Including "Gross result from interest operations", "Result from comission business and services", "Result from trading activities and the fair value option" and "Other result from ordinary activities"

	31.12.14	31.12.15	31.12.16	31.12.17	31.12.18
Key figures and ratios					
Number of offices	278	315	346	360	393
Number of employees	4'456	4'779	5'073	5'211	5'426
Return on equity (ROE) (%)[1]	7.0%	7.3%	7.3%	4.7%	6.5%
Equity ratio (%)	12.3%	11.6%	11.3%	11.1%	11.1%
Cost / income ratio (%)	42.6%	48.8%	54.6%	66.3%	73.5%
Capital ratio (%)	19.5%	19.9%	19.7%	19.4%	19.5%

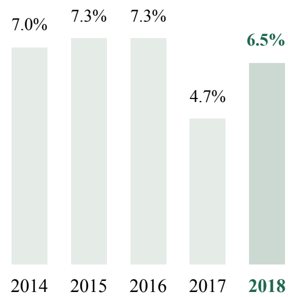
Number of offices



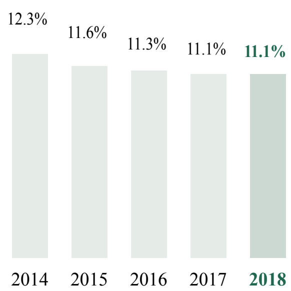
Number of employees



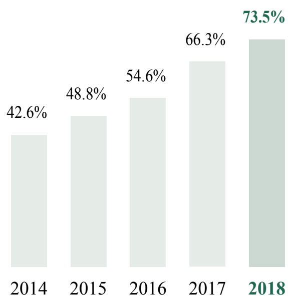
Return on equity (ROE) (%)[1]



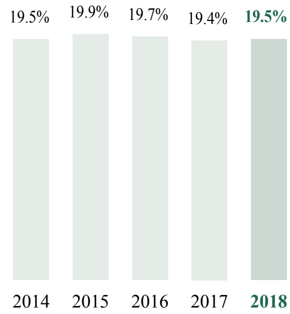
Equity ratio (%)



Cost / income ratio (%)



Capital ratio (%)



[1] Group profit / loss as percentage of average equity at year end

Joint letter from the Chairman and the President

It is our pleasure to present you with the 51st Annual Report of Habib Bank AG Zurich, based on the accounting principles issued by the Swiss Financial Market Supervisory Authority.

2018 was a year of celebrating the past and looking to the future. Golden jubilee celebrations continued and events were held in Canada (Toronto), Hong Kong, Kenya (Nairobi) and Pakistan (Karachi) with our clients, stakeholders and employees. The Group also focused on the reformulation and revising its strategy plan.

From a business point of view, 2018 was a challenging year. After robust global growth in the first months, a tighter US monetary policy and the protectionist agenda of the US government strongly impacted global trade and business sentiment. Pakistan also faced some difficult developments, such as ballooning external imbalances, resulting in a major devaluation of its currency, the aggressive tightening of monetary policy and an increase in the policy rate by 425 basis points. This substantially affected Group profitability. The financial statements for 2018 also carry the result of a one-time impact as the Group adopted the "expected credit loss" (ECC) methodology. However, by the grace of God, Habib Bank AG Zurich’s operations delivered good results for 2018 while maintaining a strong capital base and high liquidity.

The Board of Directors bid farewell to Dr. Marco Duss in 2018. He served for more than 20 years as a Board member and headed the Audit Committee since its inception in 2008. We thank him for his highly professional and competent contribution over the years and wish him all the best for the future. At the Annual General Meeting, Roland Müller-Ineichen was elected to the Board of Directors and appointed as Chairman of the Audit Committee.

The Board of Directors has proposed that the following appropriations should be made out of the profit for the year ending 31 December 2018 and the profit carry forward from last year, adding up to a distributable amount of CHF 43'396'599:

- Allocation to statutory retained earnings reserves	CHF	1'300'000
- Allocation to voluntary retained earnings reserves	CHF	13'000'000
- Distribution of dividend from distributable profit	CHF	15'000'000
- Profit carried forward	CHF	14'096'599

We would like to thank our clients for their loyalty and trust in 2018. We are also grateful to all of our employees for their ongoing commitment and contribution to the overall success of Habib Bank AG Zurich.

Dr. Andreas Länzlinger	Muhammad H. Habib
Chairman of the Board of Directors	President

Habib Bank AG Zurich

Habib Bank AG Zurich (hereinafter the "Bank") was incorporated in Switzerland in 1967 and is privately owned. The Habib family has been actively involved in banking for over 75 years. Two family members, Mr. Muhammad H. Habib, President, and Mr. Mohamedali R. Habib, Group CEO, are members of General Management. Other members of the family are currently working their way up through the management ranks.

The Bank and Group are subject to the consolidated supervision of the Swiss Financial Market Supervisory Authority (FINMA). The Group has a strong capital base and liquidity ratios that are above industry standards. The Group also cooperates closely with various regulatory bodies and central banks in the countries in which it operates.

The Group places a strong emphasis on personalized service. This is deeply rooted in its core values of trust, integrity, commitment, respect, responsibility and teamwork as well as in its vision and mission statements:

"Vision"
To be the most respected financial institution based on trust, service and commitment.

"Mission"
To be the 'Bank of Choice' for family enterprises across generations.

With it's Head Office in Zurich, the Bank has branch operations in United Arab Emirates and Kenya. The Bank controls five other subsidiaries in Canada, United Kingdom, South Africa, Pakistan and Hong Kong. The Group's operations are supported by it's own service company. As of December 2018, headcount totaled 5'426 staff distributed among 393 offices providing personalised services to our valued clients. The Group is active in commercial banking, retail banking, trade finance, wealth management and Islamic banking.

Corporate Governance

Corporate Governance Principles

Habib Bank AG Zurich is committed to responsible, value-oriented management and control. Habib Bank AG Zurich complies with all relevant Swiss legal and regulatory requirements in terms of corporate governance. The governance documents of Habib Bank AG Zurich constitute our primary guidelines regarding corporate governance and are based on Article 716b of the Swiss Code of Obligations and the Articles of Association of Habib Bank AG Zurich.

Board of Directors

The Board of Directors has ultimate oversight over Habib Bank AG Zurich and its subsidiaries. Under the leadership of its Chairman, it decides on the strategy of the Group based on the recommendations of General Management. It is responsible for the overall direction, management, control and financial reporting of the Group as well as for supervising compliance with applicable laws, rules and regulations.

The Board of Directors consists of five or more members, which are individually elected at the Annual General Meeting and is made up of non-executive and independent directors, all of whom have extensive experience in their respective fields of competence.

Members of the Board of Directors

Name	Board of Directors	Audit Committee	Risk & Control Committee
Dr. Andreas Länzlinger	Chairman		Member
Urs W. Seiler	Vice Chairman	Member	Member
Roland Müller-Ineichen	Member	Chairman	
Ursula Suter	Member		Chairwoman
Dr. Stephan Thaler	Member	Member	

Dr. Andreas Länzlinger
Swiss, born 1959

Chairman of the Board of Directors
Member of the Risk & Control Committee

Professional history and education
Andreas Länzlinger was elected to the Board of Directors of Habib Bank AG Zurich at the 2008 Annual General Meeting. He has been Chairman of the Board of Directors since 2013.

Prior to and since joining the Board of Directors of Habib Bank AG Zurich, Andreas Länzlinger has regularly represented and advised a number of Swiss banks in civil, criminal and regulatory matters, including in matters relating to FINMA supervision. He has conducted internal investigations, some under the indirect supervision of FINMA, at various Swiss financial institutions. His experience includes representing clients before foreign authorities (mainly in regulatory or criminal matters, with a focus on US authorities including the DOJ, SEC, Fed and FDIC). He has advised corporate clients in matters of compliance and corporate governance, and he holds various teaching engagements in this field. Andreas Länzlinger completed his studies in Law from the University of Zurich in 1983 and was admitted to the Zurich Bar in 1986. He received his Doctorate in Law (Dr. iur.) from the University of Zurich in 1992.

Corporate Governance

Urs W. Seiler
Swiss, born 1949

Vice Chairman of the Board of Directors
Member of the Audit Committee
Member of the Risk & Control Committee

Professional history and education
Urs Seiler was elected to the Board of Directors of Habib Bank AG Zurich at the 2012 Annual General Meeting and was appointed Vice Chairman of the Board in April 2015. He became a member of the Audit Committee and member of the Risk and Control Committee in 2013.

From 2002 to 2012 Urs Seiler was founding partner of Bugmann, Stocker, Seiler Capital Partners AG (based in Zurich), a company providing advisory services in the areas of capital markets, finance, general management consulting, real estate and corporate restructuring, including the takeover of directorships. He was Chairman of the Board of Directors of PBS Private Bank Switzerland Ltd. (he stepped down from this function in 2002). He was Member of the Board at the Republic New York Corporate (New York) and member of the Executive Committee of the Republic Bank of New York (Switzerland) from 1998 to 1999. Prior to this, he spent 15 years at UBS AG, holding various top executive and senior management positions, including: Executive Vice President International, Chairman Emerging Markets (Europe, Africa, Middle East), and member of the Group Management Board (he stepped down from this function in 1998). From 1970 to 1984 he worked for Credit Suisse (Zurich), serving as Vice-President in the foreign exchange division. He began his career at Bank of Nova Scotia (Toronto). His banking career has also included teaching as a lecturer at the Swiss Finance Institute in Zurich from 1986 to 1991. Urs Seiler completed his studies as a Swiss Certified Banking Expert in 1968.

Roland Müller-Ineichen
Swiss, born 1960

Member of the Board of Directors
Chairman of the Audit Committee

Professional history and education
Roland Müller-Ineichen was elected to the Board of Directors of Habib Bank AG Zurich at the 2018 Annual General Meeting and was appointed as Chairman of the Audit Committee.

Since 2009 Roland Müller-Ineichen is servicing as independent director on the Board of Directors of multiple Swiss and foreign companies and has developed and further enhanced his thorough understanding of corporate governance and the strategic and operating challenges of today’s banking industry. Prior to this, he was working 12 years as lead partner in charge of financial and regulatory audits of national and international banks, securities dealers and fund management companies in the audit department of KPMG in Zurich. He joined KPMG Fides Peat in 1995 as Senior Manager and became Partner of KPMG Switzerland in 1998 and of KPMG Europe in 2006. Before joining KPMG, he progressed through various senior audit and executive management roles at Switzerland-based financial institutions. His experience in the financial and banking services industry provides the Board of Directors with valuable strategic, financial and banking business insights and comprehensive corporate governance and accounting expertise. Roland Müller-Ineichen is recognized as audit expert by the Swiss Audit Oversight Authority (FAOA) and qualifies as a financial expert. Roland Müller-Ineichen is a Swiss Certified Public Accountant and has been a member of EXPERTsuisse since 1990.

Ursula Suter
Swiss, born 1954

Member of the Board of Directors
Chairwoman of the Risk & Control Committee

Professional history and education
Ursula Suter was elected to the Board of Directors of Habib Bank AG Zurich at the 2012 Annual General Meeting and has been Chairwoman of the Risk & Control Committee since its inception in 2013.

Ursula Suter spent most of her professional career with UBS. She was General Counsel of the Wealth Management & Business Banking Division from 2002 to 2009 with global responsibilities. Prior to that, she held various positions as legal counsel. Since 1992, she served as judge at the Commercial Court of the Canton of Zurich. In 2011 she became a founding partner of LCR Services AG, a firm providing legal, compliance and regulatory services for financial institutions. Ursula Suter completed her studies in Law from the University of Bern in 1979 and was admitted to the bar in the same year.

Corporate Governance

Dr. Stephan Philipp Thaler
Swiss, born 1962

Member of the Board of Directors
Member of the Audit Committee

Professional history and education

Stephan Thaler was elected to the Board of Directors of Habib Bank AG Zurich at the Annual General Meeting in April 2015. He has been a member of the Audit Committee since 2015.

Stephan Thaler joined the Swiss Life Group in 1999 as Director Marketing & Client Relationship and member of the Management Committee of Swiss Life Asset Management. Since 2009 he has been the Chief Executive Officer of Swiss Life Investment Foundation (Zurich). From 1995 to 1998 he worked for American Express Services Europe Ltd. (Zurich), where he served in various management positions including Country Manager Switzerland for the Card Business and Director Consumer Services Group. Before joining the banking and insurance industry, he worked in the corporate sector for more than five years in various senior management roles, holding core responsibilities for marketing and product management strategies with an international scope in the fashion retail business. Stephan Thaler studied Economics, majoring in Business Administration and Marketing. He graduated with an MBA in 1986 and received his PhD in 1989 from the University of Basel. He is a Certified Financial Planner (1999) and completed the Executive Program at Robert Kennedy College/University of Wales in 2006 and the Senior Management Program in Banking at the Swiss Finance Institute in 2009. He has attended various Board of Directors training programs.

Elections and terms of office

In accordance with the Articles of Association, all members of the Board of Directors are elected individually at the Annual General Meeting. The members of the Board of Directors are elected for a period of three years (the time from one ordinary Annual General Meeting to the next is considered as one year). The members of the Board of Directors may be re-elected. The Board of Directors constitutes itself. It elects from among its members the Chairperson and one or several Vice-Chairpersons. The term of office for the Chairperson and Vice-Chairpersons coincides with the term of office as member of the Board of Directors. The Board of Directors appoints the members of the Board of Directors committees, their respective chairpersons and the Group Company Secretary. At least one third of the members of the Board of Directors must meet the independence criteria.

Organizational principles and structure

According to the Articles of Association and the Organizational Regulations, the Board of Directors meets as often as business requires, but at least four times per year. At every Board of Directors meeting, the President and the Group CEO provide the Board of Directors with a business update, and each committee chairperson provides the Board of Directors with an update on current activities of his or her committee as well as important committee issues. At least once per year, the Board of Directors reviews its own performance as well as the performance of each of its committees. This review seeks to determine whether the Board of Directors and its committees are functioning effectively. The committees (listed on page 6) assist the Board of Directors in the performance of its duties.

Corporate Governance

General Management

Habib Bank AG Zurich operates under a dual board structure, as mandated by Swiss banking law, which stipulates that no members of the Board of Directors may be members of General Management. The Board of Directors delegates the management of the business to General Management and General Management comprises at least three members appointed by the Board of Directors.

Under the leadership of the Group CEO, General Management is entrusted with management and planning of the activities of the Group with respect to organization, business development and expansion. General Management is responsible for the direction of day-to-day operations of the Group and bears overall responsibility for decisions and instructions issued in this regard.

Members of General Management

General Management consists of two members of the Habib family and three non-family members. The majority of the members of General Management have residency in Switzerland.

Name	Function
Muhammad H. Habib	President
Mohamedali R. Habib	Group CEO
Rajat Garg	Member of General Management and Head of Developed Markets
Anjum Iqbal	Member of General Management and Head of Emerging Markets
Walter Mathis	Member of General Management and Head of Shared Services

Muhammad H. Habib
Swiss, born 1959

President

Professional history and education

Muhammad H. Habib became a member of General Management in 1992. He was appointed President & Chief Executive Officer of Habib Bank AG Zurich in February 2011.

Muhammad H. Habib has over 37 years of banking experience dating back to 1981 in Dubai, where he underwent extensive training and occupied various management-level positions in all aspects of banking over a period of 11 years. After entering General Management in 1992, his remit and responsibilities have taken him across Africa, UK, North America and Switzerland. Under his leadership, the Bank has ventured into several new territories, including (but not limited to) South Africa (1995) and Canada (2001). During this period, he was promoted to the rank of Joint President in 1996. Muhammad H. Habib completed his studies at the College de Leman in Geneva, Switzerland, and in 1981 graduated from Babson College in Wellesley, Massachusetts (USA), with a degree in Business Administration, majoring in Finance.

Mohamedali R. Habib
Canadian, born 1964

Group CEO

Professional history and education

Mohamedali R. Habib became a member of General Management serving as Joint President of Habib Bank AG Zurich and Divisional Head responsible for the entire banking business in Asia in 2011 and was appointed Group Chief Executive Officer in 2016.

Mohamedali R. Habib has served at Metropolitan Bank since 1999 and in 2004, was appointed as the Executive Director and served till 2011. Thereafter Mohamedali R. Habib continued as non-executive director. In 2016 Mohamedali R. Habib has been elected as Chairman of the Board of Directors of Habib Metropolitan Bank Limited, a subsidiary of Habib Bank AG Zurich. Between 2012 and 2016 he has also served as a member of the Board of Directors of HBZ Bank Limited, another subsidiary of Habib Bank AG Zurich based in South Africa. Before joining Habib Bank AG Zurich, in 1996, Mohamedali R. Habib worked in the corporate sector for 10 years in various executive roles as well as certain BOD level positions.Mohamedali R. Habib graduated in Business Management – Finance from Clark University, Massachusetts (USA) in 1987. He holds a post graduate diploma in General Management from Stanford – National University of Singapore and is qualified as a Certified Director from the Pakistan Institute of Corporate Governance, Pakistan.

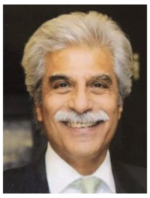
Corporate Governance

Rajat Garg
Singaporean, born 1963

Member of General Management and
Head of Developed Markets

Professional history and education
Rajat Garg became a member of General Management of Habib Bank AG Zurich and Regional CEO for Developed Markets in April 2016. He is responsible for Switzerland, UK, Hong Kong and Canada.

Before joining Habib Bank AG Zurich, Rajat Garg worked for Citibank for 26 years in a number of different areas of commercial banking and wealth management across multiple geographies in Asia, Middle East and Europe. He was Head of Retail Banking & Wealth Management for the Europe, Middle East & Africa region from 2008 to 2015, with oversight for 16 countries (based in London). Prior to that, he served as Country Business Manager for Citibank Turkey (based in Istanbul) and as Cards Business Head for Saudi American Bank (based in Riyadh). Between 2001 and 2003 he served as Regional CFO for Citibank Asia Cards, covering 12 countries (based out of Singapore). Prior to that, from 1997 to 2001, he helped start up and establish the Citibank Non Resident Indian Wealth Management Business, which operated from 15 cities globally (based out of Singapore). From 1989 to 1997 he served in various positions with Citibank India, notably in Risk Management, Finance and Business Planning. He started his professional career in 1989 as a Management Associate with Citibank. Rajat Garg holds an MBA from the Indian Institute of Management Calcutta and a Bachelor of Technology in Civil Engineering from the Indian Institute of Technology Kanpur.



Anjum Iqbal
British, born 1952

Member of General Management and
Head of Emerging Markets

Professional history and education
Anjum Iqbal became a member of General Management of Habib Bank AG Zurich and Regional CEO for Emerging Markets in February 2016. He oversees the banks' operations in Africa, consisting of the branch in Kenya and subsidiary in the South Africa. He is also a member of the Group Credit Management Committee (GCMC). He joined Habib Bank AG Zurich in late 2008 as the President and Chief Executive Officer of Habib Metropolitan Bank Ltd. (Pakistan), before being transferred to London in January 2012 where he was appointed Chief Executive Officer to lead operations in the UK (until 2015).

Prior to joining Habib Bank AG Zurich, Anjum Iqbal worked with Citigroup for more than 30 years, holding various senior management positions across different geographies including Pakistan, Greece, Lebanon, Venezuela, Turkey, Belgium, South Africa, UAE and the UK. In his last role with Citigroup he was Managing Director responsible for the EMEA Commercial Banking Group in London. Anjum Iqbal holds a Bachelor's degree in Commerce from the University of Karachi and holds a Master's degree in Business Administration (MBA) in Marketing and Finance from the Institute of Business Administration (IBA), University of Karachi, Pakistan.

Walter Mathis
Swiss, born 1961

Member of General Management and
Head of Shared Services

Professional history and education
Walter Mathis became a member of General Management and Head of Shared Services in August 2013 and was a member of the Board of Directors of Habib Bank AG Zurich from 2012 until 2013.

Walter Mathis has worked in the financial industry for over 35 years and has held management positions in international financial institutions and consultancy firms. Before joining Habib Bank AG Zurich, he worked for 15 years for Synergis Consulting Ltd, a consultancy boutique for the financial industry, which he co-founded. Prior to that, he was a Member of Management and Head of Controlling at Banca del Gottardo in Lugano, where he was employed for six years. From 1988 to 1992 he worked for Peat, International Consultants Ltd (KPMG), during which time he built up and headed – as Partner – the financial service consultancy in Geneva. Walter Mathis started his professional career with Credit Suisse, working for 5 years in various positions and locations. He was a member of the Financial Market Regulation and Accounting Commission (from 1996 - 1998 and 2013 - 2015) for the Association of Foreign Banks in Switzerland. Walter Mathis holds a Bachelor of Arts (BA) in Economics. In 1987 he graduated from the University of Applied Sciences of Zurich, and is a graduate of the Executive Program from the Swiss Finance Institute of Zurich.

Corporate Governance

Management of the branch network

Name	Born	Citizenship	Function	Country
Christian Lerch	1959	Swiss	Country Manager	Switzerland
Jamal Alvi	1962	British	Country Manager	United Arab Emirates
Mohammad Ali Hussain	1954	Kenyan	Country Manager	Kenya

Management of the subsidiaries

Name	Born	Citizenship	Function	Country
Muslim Hassan	1955	Canadian	Chief Executive Officer	Canada
Zafar Khan	1952	South African	Chief Executive Officer	South Africa
Mohsin A. Nathani	1965	Pakistani	Chief Executive Officer	Pakistan
Sachil Dagur	1969	Indian	Chief Executive Officer	Hong Kong
Satyajeet Roy	1967	British	Chief Executive Officer	United Kingdom

Group Support Functions

Name	Born	Citizenship	Function
Haja Alavudeen	1966	Indian	Head of Group Information & Technology Risk
Rizwan Arain	1969	Pakistani	Head of Group Information & Technology Risk
Sirajuddin Aziz	1956	Pakistani	Head of Group Financial Institutions
Umair Chaudhary	1968	British	Group Chief Operating Officer
Adnan Fasih	1967	Pakistani	Head of Group Islamic Banking
Felix Gasser	1959	Swiss	Head of Group Risk Control
Dr. Sitwat Husain	1964	Pakistani	Head of Group Human Resources
Arif Lakhani	1945	Pakistani	Head of Group Wealth Management
Dr. Pascal Mang	1964	Swiss	Head of Group Legal & Compliance
Alfred Merz	1962	Swiss	Head of Group Financial Control
Atif Mufti	1973	Pakistani	Head of Group Operations & Systems
Uzma Murshed	1970	Pakistani	Head of Group Operational Risk
Syam Pillai	1962	Indian	Head of Group Information Technology
Ralph Schneider	1964	Swiss	Head of Group Credit

Group Internal Audit

Name	Born	Citizenship	Function
Haroon Ahmad	1975	Pakistani	Head of Group Internal Audit

Directors' report

Economic environment

Global growth remained robust in 2018 but since the summer quarter the economic momentum slowed across most major economies and regions. Factors contributing to the slowdown included tighter US monetary policy and the protectionist agenda pursued by the US government, which impacted global trade and business sentiment. Higher US interest rates and the strong USD also revealed cracks in a number of emerging economies, forcing drastic corrective actions in countries such as Argentina and Turkey. At the same time, thanks to limited inflationary pressures, global monetary conditions remained fairly accommodative. The strength of the USD eased late in the year as markets became gripped by outsized fears about an impending US recession. Concerns about growth also triggered an abrupt correction to oil prices during the final quarter, which provided some relief to oil-importing economies.

Pakistan experienced a challenging year. Following a heated electoral campaign, the new government under Prime Minister Imran Khan was immediately confronted with numerous issues. Ballooning external imbalances forced a large devaluation of the currency – by some 20% over the course of the year – while the State Bank responded with an aggressive tightening of monetary policy. By year end, the policy rate had increased by a staggering 425 basis, points bringing it to a six-year high. In order to avoid tough IMF loan conditions, the new government sought funds from other sources such as Saudi Arabia and China instead. The absence of an IMF program weighed on sentiment and contributed to a slowdown in activity in the second half of the year. Despite a weaker currency, exports rose only moderately. The large fiscal deficit ultimately affected growth by crowding out private sector lending and creating further upside risks to interest rates.

Activity in the UAE recovered modestly in 2018, having dropped in 2017 to the lowest level since the global recession of 2009. During the first half of the year, higher oil prices and sustained public spending were important drivers of the economy. The tensions within the region had only a limited impact. While building activity remained high, real estate prices failed to find a bottom, highlighting the lingering risk emanating from this sector. Higher interest rates – the result of the USD currency peg – and falling oil prices were factors that limited further upside in the second half.

The year started out on a positive note for South Africa as the ascension of Cyril Ramaphosa to the presidency raised hopes for a swift return to more orthodox economic policies. However, despite best intentions, the economy continued to struggle with its many structural issues and fell into recession during the first half of the year, from which it has emerged only slowly. As global financial conditions deteriorated over the summer months, the ZAR came under renewed pressure. In turn, the Reserve Bank, which had cut rates in March, reversed course and increased its policy rate. Given that South Africa has entered into election period, we expect the uncertainty to continue until the elections, scheduled for Mai 2019 are out of the way.

Brexit dominated UK economic performance in 2018. While the economy showed surprising resilience in the face of ever-greater uncertainty, overall growth remained tepid and well below the levels achieved before its decision to leave the EU. The Bank of England responded to the pervasive weakness of GBP with a rate hike in August, which created substantial upside inflationary risks, but otherwise maintained a prudent policy. Late in the year, Prime Minister Theresa May finally secured a comprehensive withdrawal agreement from the EU, but then failed to obtain the necessary approval from Parliament, leaving the most important issue in recent British history in limbo.

Just like in many other countries, the growth of the Swiss economy decelerated over the course of the year. After a robust first half, the economy contracted during the third quarter under the impact of slower growth in the eurozone and weaker global trade.

Domestic demand meanwhile remained strong, even though the real estate market showed signs of peaking. The Swiss National Bank stayed its course as inflation remained subdued and CHF maintained its high valuation, not at least due to the recurring concerns about the long-term stability of the eurozone.

Kenya weathered the changing global economic environment surprisingly well. Although the interest rate cap continued to constrict private sector growth, plentiful harvests, solid tourism receipts and strong overseas remittances supported real GDP growth close to 6% for the full calendar year, easily the highest rate among the countries where the Group is present. The financing of the country's large current account deficit posed no problem, but the unexpected decision to forego the precautionary agreement with the IMF created medium-term risks.

Hong Kong's economic fortunes continued to be tied to the performance of China, as the structural and cyclical slowdown of the mainland economy impacted the local retail trade, the highly dependent tourism industry and the trade sector which were impacted by the rising trade tensions between China and the US. Growth moderated in 2018 also as a result of governmental measures to control the overheated property sector and higher local interest rates under the region's currency board arrangement.

Canada's solid economic performance allowed the Bank of Canada to raise the policy rate three times during 2018 in pursuit of further policy normalization. The high level of household debt remained a key concern and required policy makers to tread carefully. The successful renegotiation of the NAFTA trade agreement, renamed USMCA, removed a serious downside risk, given the close integration of the Canadian economy with the US. Constraints on pipeline capacity impacted growth in the oil sector, which was additionally hit by the sharp drop in crude prices toward the end of the year.

Banking sector

The global economic backdrop remained generally supportive for the banking industry. The continued normalization of US monetary policy lifted interest margins in USD-referenced markets, and solid activity contributed to volume growth. Within the Group's core markets, Pakistan enjoyed the highest rate of loan growth – some 21% compared to a year earlier – despite the challenging economic environment. In other markets credit expansion was more subdued, with slowing trends in South Africa and the UK.

The change in sentiment mid-year impacted businesses focused on Emerging Markets (EM), as many EM sovereigns and corporates suddenly experienced tighter financing conditions amid reduced liquidity. Although policy responses helped to avert a major financial crisis, this came often at the price of considerably higher funding costs and substantial currency depreciation, which in turn tested the risk appetite of many lenders.

High regulatory demands kept pressure on banks to further improve their governance and oversight. In particular, banks continued to build their capital buffers in anticipation of new requirements. The rapid digitization across all banking value chains required significant investments in IT systems and electronic distribution channels.

Operational performance and outlook

Income statement

While the Group has further progressed on its strategy in 2018, it achieved a profit of CHF 79.7 million, which was 31.8% higher than the previous year. This result was affected by certain unique developments. First, following the requirements of the banking industry which introduced the International Financial Reporting Standard 9 (IFRS 9) principles in 2018, the Group enhanced its impairment principles with the forward looking "expected credit loss" (ECL) methodology. The transition from an incurred loss model to an expected loss model for the credit loss calculation had a significant impact on the performance (income statement) and equity for 2018. The new forward-looking ECL methodology will help to adequately cover market developments in the future at an early stage and improve the Group's prudent provision policy on impaired loans and latent credit risk exposures. Second, unexpectedly high interest rate increases in Pakistan led to substantial revaluation losses on financial instruments, which was partially offset by releases of reserves established in prior years of CHF 36.7 million.

In a market environment with generally increasing interest rates, the "Gross result from interest operations" improved by CHF 15.3 million (5.6%) compared to 2017. This result was achieved despite decreasing volumes in interest-related assets and liabilities (see section "Balance sheet" below). By contrast, the rising interest rates in Pakistan impacted the "Result from trading activities and the fair value option", leading the Group to report a loss of CHF 52.4 million. This result includes revaluation losses on "Other financial instruments at fair value" of CHF 80.4 million.

Moreover, "Changes in value adjustments for default risks and losses from interest operations" of CHF 76.1 million included a one-time impact of CHF 71.3 million as a consequence of the introduced "expected credit loss" methodology mentioned above. Falling real estate prices in the United Arab Emirates and the respective additional value adjustments are the main reason for the remaining charges.

"Operating expenses" increased by only CHF 3.7 million (1.7%) to CHF 224.4 million, compared to 2017. The main reason for the increase is related to "General and administrative expenses", which went up by CHF 3.0 million or 4.0%. The largest single increase of CHF 3.3 million (10.0%) is related to increases in the Group's "Other operating expenses", which also includes the cost for renovation and expansion of its branch network of 33 new offices.

The release of reserves of CHF 111.4 million under "Changes in reserves for general banking risks" in 2018 was triggered by the following considerations (in CHF million):

"Changes in reserves for general banking risks"

Related to:	**31.12.2018**	**31.12.2017**
Offset revaluation losses on fair value investments (reserves created in 2014)	36.7	16.8
Offset first-time impact on newly introduced "expected credit loss" methodology	71.3	0.0
Other business and regulatory related changes	3.4	-3.9
Total	**111.4**	**12.9**

The decrease in "Taxes" by CHF 18.0 million to CHF 22.2 million was mainly the result of a lower level of "Operating results" and the substantial impact on the development of deferred tax assets due to the release of the general banking risk related to the first-time impact for the expected credit loss methodology.

Balance sheet

The balance sheet total decreased by CHF 1'425.7 million or 12.2%, driven by the devaluation of PKR (which lost more than 20% against CHF in 2018). Excluding FX exchange developments against CHF, the decrease in the balance sheet total would have been 0.7%.

"Liquid assets" decreased by CHF 101.6 million (8.2%), amounting to CHF 1'132.2 million in 2018. The decrease was related to lower central bank balances and lower liquidity requirements for reduced levels of "Amounts due in respect of customer deposits" funds.

"Total loans (after netting with value adjustments)" with customers decreased by CHF 11.2 million (0.3%) to CHF 3'546.3 million (see note 2). This development was impacted by the following special effects:

- Increase in "Value adjustments for latent credit risks": The introduction of the "expected credit loss" methodology led to an increase of CHF 61.9 million in latent credit risks in 2018 out of a total CHF 78.5 million.
- Decrease in "Value adjustments for default risks": The overall improvement in macroeconomic conditions in various countries resulted in decreased value adjustments for default risks of CHF 174.3 million, representing a reduction of CHF 39.5 million compared to 2017. The "Gross debt amount for impaired loans / receivables" of CHF 291.9 million decreased accordingly by CHF 65.2 million (18.3%).

In conclusion, "Total loans (before netting with value adjustments)" increased by CHF 16.6 million (0.4%).

"Other financial instruments at fair value" and "Financial investments" decreased by CHF 1'111 million (23.9%) to CHF 3'537.2 million. This reduction was the result of the decision to sell "Other financial instruments at fair value" positions in Pakistan during 2018 in anticipation of interest rate increases which ultimately materialized later in 2018.

"Amounts due in respect of customer deposits" decreased by CHF 971.2 million (10.3%) year-on-year. Excluding FX exchange developments against CHF, an increase in "Amounts due in respect of customer deposits" of 1.1% could instead be reported.

Capital and liquidity

The Group has a strong capital base and an adequate liquidity ratio.

The capital adequacy ratio at Bank level is 27.8%, while at Group level it is 19.5%. The liquidity coverage ratio increased to 128% at Bank level and 114% at Group level (for further details, please see the annual Basel III Year 2018 Disclosure, www.habibbank.com/Group Financials).

Risk assessment

The Board of Directors conducted a risk assessment of major risk exposures of the Bank and the Group in 2018.

Operations

The Group celebrated its golden jubilee again in 2018 with clients, employees and other stakeholders in Canada, Hong Kong, Kenya and Pakistan, while continuing to focus and execute its growth strategy also with a clear articulation and focus on the defined lines of business. In addition, the Group sought to serve clients across markets by leveraging its global network, improving its online banking presence, especially in United Kingdom and Canada, and launching RMB denominated transactions in Hong Kong. During 2018 the Group also expanded its network with 33 new branches, taking it to a total of 393 worldwide. Regulatory engagement and local board governance continued to be challenging, but the Group conducted various effective reviews with local regulators across the countries wherein it operates.

The Group has made continued efforts to improve its information security posture around IT landscape. While the focus in 2017 was on implementing centralized security solutions, in 2018 the endpoint security systems were improved by the implementation of thin clients and the rollout of endpoint controls at user machines. A highly scalable and resilient central storage solution was implemented, providing improved backup and sharing capabilities for users. The information security risk program was enhanced through improved security training and initiation of awareness campaigns across the group. A centralized Security Operations Center (SOC) was established, which has enabled the Group to detect, analyze, prevent and respond to cyber security incidents proactively. The Group has also made progress in improving several processes, leading to optimized and efficient operations group wide. Business continuity management has improved; focus on service quality has resulted in measuring turnaround times for various processes; several process improvements have been implemented across the organization under our "H-Improvement" initiative; and strides have been made in the digital space, improving our e-banking offerings.

During the last year, the Group also completed the first phase of succession planning for all key critical positions of the management of branch network and subsidiaries, Heads of Group Support Functions and their respective direct reports. They have been placed into predefined succession grids and their respective bench strength (replacement planning) and succession planning has been identified and populated.

Moreover, the Group increased the number of licenses on its e-learning portal in order to ensure that all staff members have access to this comprehensive training and developmental tool. The Group also rolled out an extensive credit training plan in 2018, including basic level credit training, intermediate level credit training, early warning signs and remedial management across Pakistan and United Arab Emirates.

Outlook

The Group anticipates a challenging year in 2019, with a slowdown in global growth and further interest rate increases, but at a slower pace as signaled by the US Fed. Nevertheless, the Group will continue to grow both its business as well as its network. On the business front the Group has initated three new initiatives, Group Financial Institution, Wealth Management and rolling out global Sharia compliant brand SIRAT. The Group expects to increase income as these initiatives acquire traction over time. The Group also plans to continue to expand the branch network by adding approximately 30 new branches.

During 2019, the Group also intends to roll out a talent management program, which will be linked to our core values in a similar manner as our performance appraisal system. This will be done simultaneously with the second phase of succession planning so the Group can ensure capacity building for all our nominated successors. This year the Group also plans to enter China by opening a representative office in Shanghai. The Group will continue its learning and development interventions as well, as it continues to focus on building a positive, engaged and participatory workforce and environment.

Hong Kong
Tsing ma bridge

Balance sheet
(before appropriation)

in CHF 000's	Note	31.12.18	31.12.17
Assets			
Liquid assets		1'132'162	1'233'777
Amounts due from banks		1'710'960	1'941'838
Amounts due from securities financing transactions	1	29'482	3'074
Amounts due from customers	2	3'072'108	2'996'119
Mortgage loans	2	474'147	561'326
Positive replacement values of derivative financial instruments	4	30'825	29'368
Other financial instruments at fair value	3	2'148'703	3'166'719
Financial investments	6, 7	1'388'540	1'481'118
Accrued income and prepaid expenses		150'537	149'987
Non-consolidated participations	9	77	88
Tangible fixed assets	10	86'467	86'697
Intangible assets	11	293	369
Other assets	12	81'155	80'630
Total assets		**10'305'456**	**11'731'110**

in CHF 000's	Note	31.12.18	31.12.17
Liabilities			
Amounts due to banks		434'710	577'180
Liabilities from securities financing transactions	1	94'181	252'217
Amounts due in respect of customer deposits		8'421'532	9'392'695
Negative replacement values of derivative financial instruments	4	26'510	18'522
Accrued expenses and deferred income		146'136	156'202
Other liabilities	12	28'252	31'818
Provisions	15	6'454	5'940
Reserves for general banking risks	15	447'463	540'877
Bank's capital		150'000	150'000
Retained earnings reserves		289'439	318'911
Minority interest in equity		181'079	226'277
Group profit / loss		79'700	60'471
- of which minority interests in group profit / loss		20'218	29'161
Total liabilities		**10'305'456**	**11'731'110**
Off balance sheet transactions			
Contingent liabilities	2, 22	1'305'284	1'410'767
Irrevocable commitments	2	1'096	1'252
Credit commitments	2, 23	125'482	188'833

Income statement

in CHF 000's	Note	2018	2017
Result from interest operations			
Interest and discount income		273'414	236'965
Interest and dividend income from financial investments		265'232	253'854
Interest expense		-252'088	-219'515
Gross result from interest operations		**286'558**	**271'304**
Changes in value adjustments for default risks and losses from interest operations		-76'077	-9'013
Subtotal net result from interest operations		**210'481**	**262'291**
Result from commission business and services			
Commission income from securities trading and investment activities		5'035	6'246
Commission income from lending activities		25'690	28'542
Commission income from other services		51'113	50'315
Commission expense		-6'823	-6'135
Subtotal result from commission business and services		**75'015**	**78'968**
Result from trading activities and the fair value option	25	**-52'365**	**-20'291**
Other result from ordinary activities			
Result from the disposal of financial investments		-881	247
Result from real estate		500	560
Other ordinary income		817	9
Other ordinary expenses		-4'350	2'272
Subtotal other result from ordinary activities		**-3'914**	**3'088**

in CHF 000's	Note	2018	2017
Operating expenses			
Personnel expenses	26	-146'091	-145'401
General and administrative expenses	27	-78'293	-75'280
Subtotal operating expenses		**-224'384**	**-220'681**
Value adjustments on participations, depreciation and amortisation on tangible fixed and intangible assets		-14'066	-15'125
Changes to provisions and other value adjustments, and losses		-2'417	-2'349
Operating result		**-11'650**	**85'901**
Extraordinary income	28	2'238	2'011
Extraordinary expenses	28	-33	-131
Changes in reserves for general banking risks		111'387	12'944
Taxes	30	-22'242	-40'254
Group profit / loss		**79'700**	**60'471**
- of which minority interests in group profit / loss		20'218	29'161

Cash flow statement

	2018		2017	
in CHF 000's	Source of funds	Use of funds	Source of funds	Use of funds
Cash flow from operating activities	**203'530**	**315'301**	**152'579**	**207'092**
Group profit for the period	79'700		60'471	
Change in reserves for general banking risks		111'387		12'944
Value adjustments on participation, depreciation and amortisation on tangible fixed assets and intangible assets	14'066		15'125	
Provisions and other value adjustments	3'955	3'441	2'561	3'436
Changes in value adjustments for default risks and losses	105'809	72'689	28'302	74'157
Currency translation reserves		95'100		3'858
Accrued income and prepaid expenses		550	46'120	
Accrued expenses and deferred income		10'066		75'144
Previous year's dividend		22'068		37'553
Cash flow from shareholders' equity transactions				
Bank's capital				
Recognised in reserves				
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets	**6'107**	**19'675**	**8'012**	**22'170**
Change in scope of consolidation				1'958
Non-consolidated participations	11			
Real estate	3'442	12'628	6'545	5'850
Other tangible fixed assets	2'578	7'047	1'467	13'993
Intangible assets	76			369

in CHF 000's	2018 Source of funds	2018 Use of funds	2017 Source of funds	2017 Use of funds
Cash flow from banking operations				
Medium to long-term business (> 1 year)	**207'110**	**288'200**	**205'973**	**155'706**
Amounts due to banks				
Amounts due in respect of customer deposits	4'669			46'740
Other liabilities		3'566		1'570
Amounts due from banks		35'107		79
Amounts due from customers	61'738		50'558	38'958
Mortgage loans	140'703			65'401
Other financial instruments at fair value				
Financial investments		249'002	155'415	
Other assets		525		2'958
Short-term business	**1'647'270**	**1'542'456**	**899'966**	**948'630**
Amounts due to banks		142'470	149'599	
Liabilities from securities financing transactions		158'036	119'453	
Amounts due in respect of customer deposits		975'832	125'121	
Negative replacement values for derivative financial instruments	7'988		7'604	
Amounts due from banks	265'985	3'125	408'835	
Amounts due from securities financing transactions		26'408	3'164	
Amounts due from customers	13'701	137'727		220'258
Mortgages loans		94'970	86'047	4'731
Trading portfolio assets			143	
Positive replacement values for derivative financial instruments		1'457		19'028
Other financial instruments at fair value	1'018'016			384'852
Financial investments	341'580	2'251		319'761
Currency differences		180		
Liquidity	**101'615**		**67'068**	
Liquid assets	101'615		67'068	
Total	**2'165'632**	**2'165'632**	**1'333'598**	**1'333'598**

Statement of changes in equity

in CHF 000's	Bank's capital	Retained earnings reserves	Reserves for general banking risks	Minority interest in equity	Group profit or loss	Total
Equity at 01.01.18	**150'000**	**318'911**	**540'877**	**226'277**	**60'471**	**1'296'536**
Transfer of profits to retained earnings		31'310		29'161	-60'471	
Currency translation differences		-52'782		-42'318		-95'100
Dividends and other distributions		-8'000		-14'068		-22'068
Other allocations to (transfers from) the reserves for general banking risks			-93'414	-17'973		-111'387
Other allocations to (transfers from) other reserves						
Group profit / loss					79'700	79'700
Equity at 31.12.18	**150'000**	**289'439**	**447'463**	**181'079**	**79'700**	**1'147'681**

Retained earnings reserve include currency translation reserves of CHF -87.0 million, which increased during 2018 by CHF 52.8 million.

Canada
Humber Bay bridge

Notes to the consolidated financial statements

Accounting and valuation principles

The Habib Bank AG Zurich Group's annual financial statements have been drawn up in accordance with the accounting rules incorporated into the Swiss Banking Act and its accompanying ordinance, together with FINMA Circular 2015/1 "Accounting - Banks".

These accounts, which are based on the following consolidation and accounting policies, give a true and fair view of the Bank's and the Group's assets, of its financial position and of the results of its operations.

Consolidation principles

Scope of consolidation

The Group accounts include the annual financial statements of Habib Bank AG Zurich, Zurich and its subsidiaries. Refer to note 8 for a list of consolidated subsidiaries.

Method of consolidation

The Group's capital consolidation follows the purchase method.

The interest in equity and profit or loss attributable to minority shareholders are disclosed separately. Intragroup assets and liabilities as well as expenses and income from intra-group transactions are eliminated.

Consolidation period

The consolidation period for all Group companies is the calendar year. The closing date for the consolidated financial statements is 31 December.

Foreign currency translation

In the financial statements of individual Group companies and branches, income and expenditure in foreign currencies are translated at the exchange rate prevailing on the transaction date. Amounts due from and due to third parties in foreign currencies are translated at the year-end rate. Gains and losses arising from currency translations into the local currencies are charged to the income statement as income from "Result from trading activities and the fair value option".

For consolidation purposes, the balance sheets of the financial statements of branches and subsidiaries based outside Switzerland are translated into CHF at exchange rates prevailing on the Group reporting date. The corresponding income statements are translated at the average rates of the respective year. Foreign exchange differences arising from the translation of the financial statements of subsidiaries are recorded within equity, whereas those from the translation of financial statements of branches are recorded in the income statement as "Result from trading activities and the fair value option".

The following exchange rates of the major currencies were used for the balance sheet:

	31.12.18	**31.12.17**
1 USD	0.98	0.98
1 GBP	1.25	1.32
100 AED	26.81	26.62
100 PKR	0.70	0.88
100 ZAR	6.85	7.90

The following exchange rates of the major currencies were used for the income statement:

	31.12.18	**31.12.17**
1 USD	0.98	0.99
1 GBP	1.30	1.27
100 AED	26.58	26.85
100 PKR	0.81	0.94
100 ZAR	7.46	7.42

Valuation and accounting principles

The valuation and accounting principles are consistent between the Bank and the Group.

The financial statements of all group companies used for consolidation comply with the valuation and accounting principles outlined below.

Recording of transactions

Transactions are recorded at the transaction date. Prior to the value date, forward foreign exchange and precious metal transactions are carried as off balance sheet business. Receivables and payables are disclosed according to the domicile or residency of clients.

Liquid assets and amounts due to and from banks and amounts due in respect of customer deposits

These amounts, including interest due but not paid, are shown at nominal value.

Amounts due from and liabilities from securities financing transactions

The Group buys and sells securities under agreements to resell or repurchase substantially identical securities. Such agreements do not normally constitute economic sales and are therefore treated as financing transactions. Securities sold subject to such agreements continue to be recognised in the balance sheet. The proceeds from the sale of these securities are treated as liabilities. Securities purchased under agreements to re-sell are recognised as loans collateralised by securities, or as cash deposits against which the Group's securities are pledged.

Amounts due from customers and mortgage loans

These claims are reported at nominal value. All client loans are assessed individually for default risks and, where necessary, value adjustments made in accordance with Group policy. These value adjustments take into account the value of any collateral (at liquidation values) and the financial standing of the borrower. They are set off against the corresponding assets.

Several Islamic Banking branches in Pakistan and South Africa maintain "Assets held under Ijarah" agreements. Acquired assets under this agreement are stated at cost less accumulated depreciation and impairment, if any.

Value adjustments for default and latent credit risks

The Group calculates expected credit losses (ECL), with the exception of Pakistan and Switzerland, and provides for these, according to the classifications, "performing credit exposure" (normal) as well as "heightened credit risk exposure" (watch). Principles are applied in accordance with local regulations in each of the operating countries. In Pakistan and Switzerland, latent credit risk provisions were made for industry and country risks only.

The methodology of the ECL calculation takes into account the probability of default, the loss given default, the exposure at default as well as an inbuilt forward-looking element considering the macroeconomic outlook for the respective operating country.

Non-performing credit exposure is taken into consideration when an obligor is unlikely to pay its credit obligations to the Group in full and without any possibility of recourse by the Group (such as realizing collateral) or if the obligor is 90 days or more past due on any material credit obligation. The assessment of whether a credit exposure is non-performing is made on a counterparty level (entailing all exposures of the respective entity), with the exception of Pakistan, where local regulation allows provisions on a facility level.

For credit receivables, whose interest and commissions are more than 90 days overdue are considered to be at risk. Interest at risk and interest, which is impaired are not recognised as income but are deducted, together with the value adjustment against the capital amount, from the respective asset. If the collection of interest in respect of "Amounts due from customers" and "Mortgage loans" is doubtful, interest is not calculated.

Value adjustments for latent credit risks in relation to country risks are assessed in accordance with the guidelines on the management of country risk from the Swiss Bankers Association. Furthermore, value adjustments for latent credit risks are maintained in Pakistan based on the differentiated risk profiles recognised for individual industry sectors of the loan portfolios. Value adjustments for latent credit risks in relation to country risks are deducted from "Amounts due from customers".

Trading portfolio assets

"Trading portfolio assets" positions consist mainly of debt instruments. They are valued at fair value as of the balance sheet date.

Other financial instruments at fair value

"Other financial instruments at fair value" which are traded on an active market, which meet the conditions for an assessment at fair value according to FINMA Circular 2015/1 "Accounting – Banks" and which are not intended to be held until maturity are valued according to this principle.

Financial investments

"Financial investments" consist mainly of debt instruments. The majority of these are acquired with the intention of holding them until maturity and are hence carried at cost adjusted for the amortisation of premiums and discounts using the accrual method.

The remaining investments in this position are valued at the lower of cost or market value principle. This position also includes some equity interests as well as real estate which has been assumed from the lending business for resale; these are valued at the lower of cost or market value.

Derivative financial instruments

Derivative financial instruments consist entirely of trading instruments which are reported at fair value. The realised and non-realised gains and losses from these transactions are reported under "Result from trading activities and the fair value option".

The Group had no significant open derivative transactions on its own account as of the balance sheet date. Positive and negative replacement values of open derivative financial instruments are shown in the balance sheet as a separate line item. The respective contract volumes are shown in note 4.

Non-consolidated participations

Long-term holdings in associated companies, none of which exceed 10%, are valued at cost less any economically necessary depreciation.

Tangible fixed assets

"Tangible fixed assets" used for more than one accounting period and which exceed the thresholds defined by the Group are capitalised. In this case they are depreciated on a straight-line basis over the period of their estimated useful lifetime. Estimated life times have been set as follows:

Bank buildings and other real estate	25-50 years
Proprietary or separately acquired software	3-5 years
Other tangible fixed assets	3-10 years

No depreciation is charged on land except where value adjustments have been made to allow for a reduction in market value. The "Tangible fixed assets" are reassessed whenever circumstances suggest that their value may have fallen below their book value.

Intangible assets: Goodwill

Goodwill in the balance sheet results from the premium paid over net asset value from an acquired company. In such cases, the recorded goodwill is reviewed for impairment every year, and is written off over five years on a straight line basis.

Provisions

The Group records "Provisions" to cover specific risks that are based on a past event that represent a probable obligation and for which the amount can be reliably estimated.

Reserves for general banking risks

These taxed reserves are held in line with the Group’s prudent policies as precautionary reserves to hedge against latent risks in the Group’s operating activities. They form part of the "Common equity Tier 1 capital" of the Group.

Off balance sheet transactions

"Contingent liabilities" relate mainly to irrevocable commitments originating from letters of credit and guarantees. These are generally fully secured. Necessary provisions are recorded on balance sheet under "Provisions". Contingent liabilities, together with irrevocable commitments and credit commitments, are recorded at nominal value.

Fiduciary transactions are converted into CHF at the rates prevailing on the balance sheet date and are shown at nominal value.

Taxes and deferred taxes

Income taxes are based on the tax laws of each tax authority and are expensed in the period in which the related profits are made. Deferred taxes arising from temporary differences between the stated values of assets and liabilities in the consolidated financial statements and their corresponding tax values are recongnised as deferred tax assets or deferred tax liabilities. Deferred tax assets are capitalised if there is likely to be enough taxable profit to offset these differences in the future.

Pension fund commitments

In Switzerland, the occupational benefit plans are covered by Allianz Suisse Insurance Company. All employees are insured in accordance with the law, the foundation document and the regulations of the benefit plan. In the other countries, pension liabilities are covered by insurance companies or are posted directly to the balance sheet. The employer contribution is included under "Personnel expenses".

Receivables and payables from related parties and governing bodies

Receivables and payables from governing bodies include credit lines to members of the Board of Directors and members of General Management. These transactions have been executed in accordance with the current internal regulations on employee loans, advances and deposits.

Receivables and payables from related parties are included in note 16.

Explanations of risk management

Risk & Control Framework

The Group’s Risk & Control Framework is the cornerstone for risk management and control. 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 following:

- The Board of Directors is responsible for the strategic direction, supervision and control 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, internal controls and accounting. 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:
- Assure the financial strength of the Group by monitoring our 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 our reputation through a sound risk culture characterised by a holistic and integrated view of risk, performance and reward, and through full compliance with our standards and principles;
- Systematically identify, classify and measure risks applying best practice;
- 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, results of actual 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) does not fulfill contractual obligations or the credit quality deteriorates. 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 44% 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 collateralized 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 64% of the credit exposure to financial institutions is of investment grade quality and the remaining 36% consists mainly of short-term trade finance exposure in emerging markets, to which the Group has close links, and monitors the portfolio with a set of country limits.

Regarding non-performing loans, the Group is in a comfortable position. After taking the collateral at market value and the specific value adjustments for default risks into account, the net unsecured and unprovided position at the end of December 2018 was only CHF 0.1 million.

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 oversees liquidity and market risks regularly.

The Group grants advances and loans to clients both on a short-term basis and with tenors generally 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 of 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 needs to be 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 potential 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 maintains a strong liquidity position, which is further supported by established repo functionalities. In addition, liquidity coverage ratio targets have been defined for all operating Group companies. Both funding and liquidity management is performed on a decentralized 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 risk, most client advances are agreed on a 3- or 6-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 up to 3-5 years. While the volume of financial investments is kept limited, the average duration of the fixed income portfolios creates interest rate risk exposure given the absence of long-term wholesale financing.

For foreign exchange transaction risks, the Group pursues a risk-adverse 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 profits hedged as deemed appropriate. Capital and reserves held at the branches are also subject to foreign exchange risk insofar as 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.

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 & action tracking.

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

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 an information security campaign to raise employee awareness.

Legal and compliance risk

Legal risk is the risk that the Group may conduct activities or carry out transactions in which it is inadequately covered or is left exposed to potential litigation. It is a possibility that failure to meet legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to the reputation the Group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its banking activities.

Measures aimed at minimizing legal and compliance risks include raising employee awareness of legal and regulatory issues through training and internal directives, and controls to ensure adherence to the legal and regulatory requirements within which the Group operates.

In line with the development of the legal and regulatory environment of the industry, the Group has consistently invested in personnel and technical resources to ensure adequate compliance coverage. A comprehensive framework of policies and regular specialised training sessions ensure that employees receive appropriate ongoing education and training in this area.

Reputation risk

Reputation risk is the risk that illegal, unethical or inappropriate behavior by representatives of the Group, members of staff or clients will damage Habib Bank AG Zurich's reputation, leading potentially to a loss of business, fines or penalties.

The Group has established a Code of Conduct and promotes transparency and ethical behavior.

Systemic risk

Systemic risk can be defined as a risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy.

The Group analyses on a regular basis factors which could have a destabilising impact on the financial system. These include among others, the fragile economic development, continued financial market uncertainty, numerous political crises, increased exposure to cyber attacks, as well as the ever-increasing extent and complexity of regulation. Based on this analysis, the Group implements mitigating measures wherever possible.

Events after the balance sheet date

No events that would adversely affect the financial statements included in this report occurred after the balance sheet date.

Information on the financial statements

1 Structure of securities financing transactions (assets and liabilities)

in CHF 000's	31.12.18	31.12.17
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions*	29'482	3'074
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions*	94'181	252'217
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	94'181	252'217
- with unrestricted right to resell or pledge		
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge		
- of which repledged securities		
- of which resold securities		

* Before taking into consideration any netting agreements

2 Presentation of collateral for loans / receivables and off balance sheet transactions, as well as impaired loans / receivables

in CHF 000's		Type of collateral: Secured by mortgage	Type of collateral: Other collateral	Type of collateral: Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers		1'155'699	1'668'313	449'399	3'273'411
Mortgage loans		521'919	66		521'985
- Residential and commercial property		471'846	66		471'912
- Commercial and industrial premises		50'073			50'073
Total loans (before netting with value adjustments)	**31.12.18**	**1'677'618**	**1'668'379**	**449'399**	**3'795'396**
	31.12.17	1'666'872	1'707'242	404'727	3'778'841
Total loans (after netting with value adjustments)	**31.12.18**	**1'561'149**	**1'587'251**	**397'855**	**3'546'255**
	31.12.17	1'579'463	1'600'851	377'131	3'557'445
Off balance sheet					
Contingent liabilities		90'431	1'090'285	124'568	1'305'284
Irrevocable commitments				1'096	1'096
Credit commitments		23'803	87'494	14'185	125'482
Total off balance sheet	**31.12.18**	**114'234**	**1'177'779**	**139'849**	**1'431'862**
	31.12.17	128'302	1'271'474	201'076	1'600'852

in CHF 000's		Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Specific value adjustments
Impaired loans / receivables					
	31.12.18	**291'891**	**118'673**	**173'218**	**174'335**
	31.12.17	357'067	137'190	219'877	213'838

3 Breakdown of trading portfolios and other financial instruments at fair value

in CHF 000's	31.12.18	31.12.17
Assets		
Trading portfolio assets		
Debt securities, money market securities / transactions		
- of which listed		
Equity securities		
Precious metals and commodities		
Other trading portfolio assets		
Other financial instruments at fair value	**2'148'703**	**3'166'719**
Debt securities	2'140'682	3'147'725
Structured products		
Other	8'021	18'994
Total assets	**2'148'703**	**3'166'719**
- of which determined using a valuation model		
- of which securities eligible for repo transactions in accordance with liquidity requirements		

The Group has no trading portfolio liabilities.


Pakistan
Gahkuch ghizer bridge

4 Presentation of derivative financial instruments (assets and liabilities)

	Trading instruments		
in CHF 000's	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments			
Forward contracts, including FRAs			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Foreign exchange / precious metals			
Forward contracts	30'825	26'510	3'694'890
Combined interest rates / currency swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Equity securities / indices			
Forward contracts			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			3'180
Credit derivatives			
Credit default swaps			
Total return swaps			
First-to-default swaps			
Other credit derivatives			
Other			
Forward contracts			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Total before netting agreements			
Total at 31.12.18	**30'825**	**26'510**	**3'698'070**
- of which determined using a valuation model			

in CHF 000's	Trading instruments: Positive replacement values	Negative replacement values	Contract volume
Total at 31.12.17	29'368	18'522	2'677'192
- of which determined using a valuation model			

in CHF 000's		Positive replacement values (cumulative)	Negative replacement values (cumulative)
Total after netting agreements			
Total	**at 31.12.18**	**30'825**	**26'510**
	at 31.12.17	29'368	18'522

5 Breakdown by counterparty

in CHF 000's		Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	**at 31.12.18**	**7'827**	**14'884**	**8'114**
Positive replacement values (after netting agreements)	at 31.12.17	605	20'655	8'108

The Group has no hedging instruments.

6 Breakdown of financial investments

	Book value		Fair value	
in CHF 000's	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
Debt securities	**1'383'222**	**1'470'883**	**1'374'876**	**1'470'417**
- of which intended to be held until maturity	1'130'896	1'176'054	1'122'549	1'175'319
- of which not intended to be held until maturity (available for sale)	252'326	294'829	252'327	295'098
Equity securities	**518**	**568**	**518**	**568**
- of which qualified participations				
Precious metals	**1'305**		**1'305**	
Real estate	**3'495**	**9'667**	**5'583**	**10'597**
Total	**1'388'540**	**1'481'118**	**1'382'282**	**1'481'582**
- of which securities eligible for repo transactions in accordance with liquidity requirements	155'292	152'240		

7 Breakdown of counterparties by rating

in CHF 000's		AAA	AA	A	BBB	BB to B	Unrated
Debt securities							
Book values	**at 31.12.18**	**138'885**	**87'312**	**390'895**	**582'356**	**176'029**	**13'063**
	at 31.12.17	166'142	98'105	361'822	653'380	178'520	23'149

Rating category is based on the sovereign foreign currency long-term rating system from S&P.

8 Disclosure of consolidated companies in which the Bank holds a permanent direct or indirect significant participation

	Business activity	Company capital (in 1'000)	Share of capital (in %)	Share of votes (in %)	Held directly	Held indirectly
Company name and domicile						
Habib Canadian Bank, Toronto, Canada	Bank	CAD 30'000	100%	100%	x	
HBZ Bank Ltd., Durban, South Africa	Bank	ZAR 50'000	100%	100%	x	
Habib European Limited, Douglas, Isle of Man	Company in liquidation	GBP 1	100%	100%	x	
HBZ Services FZ-LLC, Dubai, UAE	Service center	AED 300	100%	100%	x	
Habib Metropolitan Bank Ltd., Karachi, Pakistan	Bank	PKR 10'478'315	51%	51%	x	
Habib Bank Zurich (Hong Kong) Ltd., Hong Kong	Restricted licence Bank	HKD 300'000	51%	51%	x	
Habib Bank Zurich Plc, London, UK	Bank	GBP 60'000	100%	100%	x	
HBZ Services AG, Zug, Switzerland	Service center	CHF 100	100%	100%	x	
Habib Metropolitan Financial Services Ltd., Karachi, Pakistan	Broker	PKR 300'000	51%	51%		x
Habib Metropolitan Modaraba Management Company Ltd., Karachi, Pakistan	Modaraba management	PKR 350'000	51%	51%		x
First Habib Modaraba Ltd., Karachi, Pakistan	Leasing, Musharaka and Murabaha financing	PKR 1'008'000	5%	100%		x
Habib Metro Modaraba, Karachi, Pakistan	Car financing and Ijarah / rental and Musharakah financing	PKR 300'000	36%	100%		x
HBZ Services (Private) Ltd., Pakistan	Service center	PKR 100	100%	100%		x

During 2018 "HBZ Services (Private) Ltd., Pakistan" was added to the list of consolidated group companies.

9 Presentation of non-consolidated participations

in CHF 000's	Acquisition cost	Accumulated value adjustments and changes in book value (valuation using the equity method)
Other non-consolidated participation without market value		
- S.W.I.F.T. SCRL, Belgium	88	
Total	**88**	

10 Presentation of tangible fixed assets

in CHF 000's	Acquisition cost	Accumulated depreciation
Bank buildings and residential apartments	94'014	-38'081
Other real estate	25'632	-18'269
Proprietary or separately acquired software	5'034	-2'029
Other tangible fixed assets	61'204	-40'808
Tangible assets acquired under finance leases		
- of which bank buildings		
- of which other real estate		
- of which other tangible fixed assets		
Total	**185'884**	**-99'187**

* including net of foreign currency adjustments

	Reporting year					
Book value at **31.12.17**	Reclassifications	Additions	Disposals	Value adjustments	Book value at **31.12.18**	Market value
88			-11		77	
88			**-11**		**77**	

	Reporting year					
Book value at **31.12.17**	Reclassifications	Additions	Disposals*	Depreciation	Reversals	Book value at **31.12.18**
55'933	7'892	10'018	-2'389	-6'794		64'660
7'363		2'610	-1'053	-2'315		6'605
3'005		253	-286	-1'401		1'571
20'396	-7'892	6'794	-2'292	-3'375		13'631
86'697		**19'675**	**-6'020**	**-13'885**		**86'467**

11 Intangible assets

in CHF 000's	Cost value	Accumulated amortisations	**Book value at 31.12.17**	Reporting year Additions	Disposals*	Amortisation	**Book value at 31.12.18**
Goodwill							
Patents							
Licenses							
Other intangible assets	369		369		-76		293
Total	**369**		**369**		**-76**		**293**

* Including net of foreign currency adjustments

12 Breakdown of other assets and other liabilities

	Other assets		Other liabilities	
in CHF 000's	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
Compensation account				
Deferred income tax recognised as assets	35'076	44'329		
Others	46'079	36'301	28'252	31'818
Total	**81'155**	**80'630**	**28'252**	**31'818**

13 Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership*

	Book value		Effective commitments	
in CHF 000's	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
Pledged / assigned assets				
Amounts due from banks	1'140	586	563	586
Financial investments	10'929	8'859		
Assets under reservation of ownership				
Total	**12'069**	**9'445**	**563**	**586**

* Excluding securities financing transactions

14 Disclosure of liabilities relating to own pension schemes

in CHF 000's	**31.12.18**	**31.12.17**
Payables to employee benefit plans	63	59

Commitments to own pension and welfare plans

The Group does not maintain its own pension funds. The occupational benefit plans in the countries are covered by insurance companies. All employees are insured in accordance with the law, the foundation document and the regulations of the benefit plan.

In accordance with the contractual and legal conditions of the benefit plans in the countries, there can be neither economic liabilities that exceed the contributions set by the regulations of the benefit plan, nor economic benefits for the Group. In addition, during both the reporting year and during the previous year, there were no non-committed plans, nor was there an employer-paid contribution reserve, such that the expenses shown in the income statement equal the actual expenses for pension and welfare plans for the reporting period.

15 Presentation of provisions, reserves for general banking risks and value adjustments for default and latent credit risks

in CHF 000's	Balance at 31.12.17	Use in conformity with designated purpose	Reclassifications
Provisions for deferred taxes	1'770		
Provisions for pension benefit obligations			
Provisions for latent credit risks	2'716		
Provisions for other business risks	1'454	-1'707	-37
Provisions for restructuring			
Other provisions			1'471
Total provisions	**5'940**	**-1'707**	**1'434**
Reserves for general banking risks	**540'877**		
Value adjustments for default and latent credit risks	**222'147**	**-19'074**	
- of which value adjustments for default risks in respect of impaired loans / receivables	213'840	-19'074	-8709
- of which value adjustments for default risks in respect of financial investments	750		
- of which value adjustments for latent credit risks	7'557		8'709

Other allocations to (withdrawals from) the reserves for general banking for minority sharehold-ings in shareholders' equity	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	**Balance at 31.12.18**
	-307			-434	1'029
	-564		199	-68	2'283
	-325		2'322	-36	1'671
					1'471
	-1'196		**2'521**	**-538**	**6'454**
17'973				**-111'387**	**447'463**
	-30'819	**6'936**	**98'873**	**-22'796**	**255'267**
	-31'141	6'936	32'378	-19'895	174'335
	15		1'709		2'474
	307		64'786	-2'901	78'458

16 Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
in CHF 000's	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
Holders of qualified participations			104'158	96'466
Linked companies				
Transactions with members of governing bodies	2'146	1'809	20'777	22'059
Other related parties				

17 Presentation of the maturity structure of financial instruments

in CHF 000's		Due: At sight	Cancel-able	Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity	Total
Asset / financial instruments									
Liquid assets		1'132'162							1'132'162
Amounts due from banks		178'145	36'655	1'015'803	445'154	35'199	4		1'710'960
Amounts due from securities financing transactions				29'482					29'482
Amounts due from customers		478'051	5	1'493'888	592'324	383'003	124'837		3'072'108
Mortgage loans		27'421		51'238	136'487	159'789	99'212		474'147
Positive replacement values of derivative financial instruments		30'825							30'825
Other financial instruments at fair value		2'148'703							2'148'703
Financial investments		212'441		77'856	144'364	749'603	200'781	3'495	1'388'540
Total	**31.12.18**	**4'207'748**	**36'660**	**2'668'267**	**1'318'329**	**1'327'594**	**424'834**	**3'495**	**9'986'927**
	31.12.17	5'507'528	78'668	3'008'313	1'144'575	1'259'251	415'004		11'413'339
Debt capital / financial instruments									
Amounts due to banks		162'774	2'114	228'857	40'965				434'710
Liabilities from securities financing transactions				94'181					94'181
Amounts due in respect of customer deposits		4'663'529	393'105	2'001'014	1'183'143	177'729	3'012		8'421'532
Negative replacement values of derivative financial instruments		26'510							26'510
Total	**31.12.18**	**4'852'813**	**395'219**	**2'324'052**	**1'224'108**	**177'729**	**3'012**		**8'976'933**
	31.12.17	5'266'898	526'877	2'835'942	1'434'824	173'756	2'316		10'240'614

18 Presentation of assets and liabilities by domestic and foreign origin in accordance with domicile principle

	Domestic	Foreign	Domestic	Foreign
in CHF 000's	**31.12.18**		**31.12.17**	
Assets				
Liquid assets	50'743	1'081'419	39'778	1'193'999
Amounts due from banks	133'482	1'577'478	123'554	1'818'284
Amounts due from securities financing transactions		29'482		3'074
Amounts due from customers	23'376	3'048'732	19'366	2'976'753
Mortgage loans		474'147		561'326
Positive replacement values of derivative financial instruments	408	30'417	171	29'197
Other financial instruments at fair value		2'148'703		3'166'719
Financial investments	159'376	1'229'164	150'757	1'330'361
Accrued income and prepaid expenses	4'331	146'206	10'898	139'089
Non-consolidated participations		77		88
Tangible fixed assets	10'527	75'940	10'975	75'722
Intangible assets		293		369
Other assets	832	80'323	1'831	78'799
Total	**383'075**	**9'922'381**	**357'330**	**11'373'780**
Liabilities				
Amounts due to banks	997	433'713	1'827	575'353
Liabilities from securities financing transactions	5'000	89'181		252'217
Amounts due in respect of customer deposits	173'245	8'248'287	169'086	9'223'609
Negative replacement values of derivative financial instruments	794	25'716	336	18'186
Accrued expenses and deferred income	4'054	142'082	3'370	152'832
Other liabilities	5'952	22'298	2'050	29'768
Provisions	175	6'281	115	5'825
Reserves for general banking risks	100'292	347'171	94'371	446'506
Bank's capital	150'000		150'000	
Retained earnings reserves	289'439		318'911	
Minority interest in equity		181'079		226'277
Group profit / loss	12'750	66'950	-15'504	75'975
Total	**742'698**	**9'562'758**	**724'562**	**11'006'548**

19 Breakdown of total assets by country or group of countries (domicile principle)

in CHF 000's	31.12.18		31.12.17	
Assets				
Europe	**1'472'161**	**14.3%**	**1'580'338**	**13.5%**
of which Switzerland	383'607	3.8%	349'857	3.0%
United Kingdom	746'636	7.2%	787'887	6.7%
Others	341'918	3.3%	442'594	3.8%
North America	**332'626**	**3.2%**	**378'463**	**3.2%**
Asia	**7'564'879**	**73.5%**	**8'868'111**	**75.6%**
of which United Arab Emirates	2'272'572	22.1%	2'515'269	21.4%
Pakistan	4'624'537	44.9%	5'784'846	49.3%
Others	667'770	6.5%	567'996	4.8%
Other countries	**935'790**	**9.0%**	**904'198**	**7.7%**
of which South Africa	374'769	3.6%	379'660	3.2%
Others	561'021	5.4%	524'538	4.5%
Total	**10'305'456**	**100.0%**	**11'731'110**	**100.0%**

20 Breakdown of total assets by credit rating of country groups (risk domicile view)

in CHF 000's	Net foreign exposures **at 31.12.18**		Net foreign exposures **at 31.12.17**	
AAA	564'252	5.7%	475'014	4.2%
AA+ to AA-	1'343'215	13.5%	1'448'333	12.7%
A+ to A-	2'410'288	24.2%	2'717'928	23.8%
BBB+ to BBB-	91'051	0.9%	86'616	0.8%
BB+ to B-	5'346'181	53.7%	6'504'216	57.0%
CCC		0.0%	3'080	0.0%
Unrated	196'285	2.0%	174'235	1.5%
Total	**9'951'272**	**100.0%**	**11'409'422**	**100.0%**

Rating category is based on the sovereign foreign currency long-term rating system from S&P.

21 Presentation of assets and liabilities broken down by the most significant currencies for the Group

in CHF 000's	CHF	USD	GBP	AED	PKR	Other	Total
Assets							
Liquid assets	50'598	206'515	86'290	568'916	207'106	12'737	1'132'162
Amounts due from banks	498	545'607	131'280	615'278	74'391	343'906	1'710'960
Amounts due from securities financing transactions					29'482		29'482
Amounts due from customers	13'552	378'758	496'056	595'603	1'449'521	138'618	3'072'108
Mortgage loans				266'495	17'855	189'797	474'147
Trading portfolio assets							
Positive replacement values for derivative financial instruments	408		209	24	29'634	550	30'825
Other financial instruments at fair value					2'148'703		2'148'703
Financial investments	321'777	459'499	105'016		259'138	243'110	1'388'540
Accrued income and prepaid expenses	4'263	582	1'457	28'954	110'830	4'451	150'537
Non-consolidated participations	77						77
Tangible fixed assets	10'527		7'228	21'913	28'739	18'060	86'467
Intangible assets					293		293
Other assets	3'043	2'425	2'304	13'065	58'261	2'057	81'155
Total assets shown in balance sheet	**404'743**	**1'593'386**	**829'840**	**2'110'248**	**4'413'953**	**953'286**	**10'305'456**
Delivery entitlements from spot exchange, forward forex and forex options transactions	14'538	1'035'502	112'006	88	571'792	113'519	1'847'445
Total assets 31.12.2018	**419'281**	**2'628'888**	**941'846**	**2'110'336**	**4'985'745**	**1'066'805**	**12'152'901**

in CHF 000's		CHF	USD	GBP	AED	PKR	Other	Total
Liabilities								
Amounts due to banks		1'624	53'269	10'584	22'009	331'092	16'132	434'710
Liabilities from securities financing transactions		5'000				89'181		94'181
Amounts due in respect of customer deposits		97'841	1'813'962	793'038	1'676'722	3'253'543	786'426	8'421'532
Negative replacement values of derivative financial instruments		794		171	11	25'004	530	26'510
Accrued expenses and deferred income		4'042	221	6'387	21'562	98'487	15'437	146'136
Other liabilities		2'283	1'002	1'677	12'476	9'860	954	28'252
Provisions			116	59	6	6'131	142	6'454
Reserves for general banking risks		78'285		262	368'916			447'463
Bank's capital		150'000						150'000
Retained earnings reserves		289'439						289'439
Minority interest in equity						146'993	34'086	181'079
Group profit / loss		12'750		3'637	-7'171	57'250	13'234	79'700
Total liabilities shown in balance sheet		**642'058**	**1'868'570**	**815'815**	**2'094'531**	**4'017'541**	**866'941**	**10'305'456**
Delivery obligations from spot exchange, forward forex and forex options transactions		92'250	739'163	42'843	873	870'801	101'515	1'847'445
Total liabilities	**31.12.2018**	**734'308**	**2'607'733**	**858'658**	**2'095'404**	**4'888'342**	**968'456**	**12'152'901**
Net position per currency	**31.12.2018**	**-315'027**	**21'155**	**83'188**	**14'932**	**97'403**	**98'349**	

22 Breakdown of contingent liabilities and contingent assets

in CHF 000's	31.12.18	31.12.17
Guarantees to secure credits and similar	520'790	538'243
Irrevocable commitments arising from documentary letters of credit	784'494	872'524
Total contingent liabilities	**1'305'284**	**1'410'767**
Contingent assets arising from tax losses carried forward	4'662	5'747
Total contingent assets	**4'662**	**5'747**

23 Breakdown of credit commitments

in CHF 000's	31.12.18	31.12.17
Commitments arising from acceptances	116'706	176'973
Other credit commitments	8'776	11'860
Total	**125'482**	**188'833**

24 Breakdown of fiduciary transactions

in CHF 000's	31.12.18	31.12.17
Fiduciary investments with third-party companies	252'780	221'802
Fiduciary loans	2'648	14'911
Total	**255'428**	**236'713**

25 Breakdown of the result from trading activities and the fair value option

in CHF 000's	2018	2017
Result from trading activities from		
Interest rate instruments (incl. funds)	-80'382	-22'518
Unrealised forex gains / losses on reserves held in foreign currencies	3'656	-20'721
Foreign currencies	24'354	22'941
Commodities / precious metals	7	7
Total	**-52'365**	**-20'291**
- of which from the fair value option on assets	-80'382	-22'518

26 Breakdown of personnel expenses

in CHF 000's	2018	2017
Salaries (meeting attendances fees, fixed compensation, salaries and benefits)	130'739	129'881
- of which, expenses relating to share-based compensation and alternative forms of variable compensation		
Social insurance obligations	9'629	9'729
Other personnel expenses	5'723	5'791
Total	**146'091**	**145'401**

27 Breakdown of general and administrative expenses

in CHF 000's	2018	2017
Office space expenses	21'778	21'947
Expenses for information and communications technology	11'288	13'035
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	6'234	5'523
Fees of audit firm(s)	2'205	1'807
- of which for financial and regulatory audits	1'862	1'601
- of which for other services	343	206
Other operating expenses	36'261	32'968
Total	**78'293**	**75'280**

28 Breakdown of extraordinary income and expenses

in CHF 000's	2018	2017
Extraordinary income		
Profit on sale of fixed assets	2'126	51
Recoveries and others	112	1'960
Total	**2'238**	**2'011**
Extraordinary expenses		
Other	-33	-131
Total	**-33**	**-131**

29 Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment

in CHF 000's	Domestic 2018	Foreign 2018	Domestic 2017	Foreign 2017
Net result from interest operations	15'445	195'036	8'622	253'668
Result from commission business and services	6'705	68'310	7'979	70'990
Result from trading activities and the fair value option	4'287	-56'652	-20'214	-77
Other result from other ordinary activities	30'440	-34'354	30'720	-27'631
Personnel expenses	24'828	121'263	23'735	121'666
General and administrative expenses	14'546	63'747	14'290	60'990
Value adjustments on participations, depreciation and amortisation on tangible fixed and intangible assets	-1'759	-12'307	-2'193	-12'932
Changes to provisions and other value adjustments, and losses	-144	-2'273		-2'349
Operating result	**15'600**	**-27'250**	**-13'111**	**99'013**
% Domestic / foreign origin	233.9%	-133.9%	-15.3%	115.3%
Taxes	**-2'924**	**-19'318**	**-2'408**	**-37'846**
% Domestic / foreign origin	13.1%	86.9%	6.0%	94.0%
Group profit / loss	**12'750**	**66'950**	**-15'504**	**75'975**
% Domestic / foreign origin	16.0%	84.0%	-25.6%	125.6%

30 Presentation of current taxes, deferred taxes and disclosure of the tax rate

in CHF 000's	2018	2017
Current tax expenses*	18'152	32'709
Deferred tax expenses	4'090	7'545
Taxes	**22'242**	**40'254**
Weighted average tax rate (on Group profit before taxes)	28.9%	29.8%

* The utilisation of tax losses carried forward led to CHF 0.7 million lower income taxes for the period.

Report of the Statutory Auditor

To the General Meeting of
Habib Bank AG Zurich
Zurich

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the consolidated financial statements of Habib Bank AG Zurich, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 18 to 57 of the annual report) for the year ended 31 December 2018.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the provisions governing the preparation of financial statements for Banks and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity’s preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2018 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the provisions governing the preparation of financial statements for Banks and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Ertugrul Tüfekçi
Licensed Audit Expert
Auditor in Charge

Mirko Liberto
Licensed Audit Expert

Zurich, 23 April 2019


Switzerland
Landwasser-Viadukt

Balance sheet
(before appropriation)

in CHF 000's	Note	**31.12.18**	**31.12.17**
Assets			
Liquid assets		704'322	767'112
Amounts due from banks		1'277'619	1'403'953
Amounts due from customers	2	838'471	840'002
Mortgage loans	2	267'265	359'014
Positive replacement values of derivative financial instruments	3	432	171
Financial investments	5	847'897	857'803
Accrued income and prepaid expenses		31'977	31'963
Participations		326'914	329'017
Tangible fixed assets		30'879	27'723
Other assets	7	19'044	19'592
Total assets		**4'344'820**	**4'636'350**
Total subordinated claims		**24'983**	**26'352**
- of which subject to mandatory conversion and/or debt waiver			

in CHF 000's	Note	31.12.18	31.12.17
Liabilities			
Amounts due to banks		66'848	105'674
Liabilities from securities financing transactions	1	5'000	
Amounts due in respect of customer deposits		3'280'119	3'510'206
Negative replacement values of derivative financial instruments	3	805	336
Accrued expenses and deferred income		28'274	25'229
Other liabilities	7	15'209	11'733
Provisions	9	180	115
Reserves for general banking risks	9	441'273	510'926
Bank's capital	10	150'000	150'000
Statutory retained earnings reserves		80'550	80'500
Voluntary retained earnings reserves		233'166	233'192
Profit carried forward / loss carried forward		89	10
Profit / loss (result for the period)		43'307	8'429
Total liabilities		**4'344'820**	**4'636'350**
Off balance sheet transactions			
Contingent liabilities		221'276	251'821
Irrevocable commitments		1'096	1'252
Credit commitments	14	19'155	25'032

Income statement

in CHF 000's	Note	2018	2017
Result from interest operations			
Interest and discount income		94'369	82'936
Interest and dividend income from financial investments		25'580	21'933
Interest expense		-17'752	-14'453
Gross result from interest operations		**102'197**	**90'416**
Changes in value adjustments for default risks and losses from interest operations		-71'913	-11'000
Subtotal net result from interest operations		**30'284**	**79'416**
Result from commission business and services			
Commission income from securities trading and investment activities		4'714	5'646
Commission income from lending activities		11'899	14'680
Commission income from other services		19'040	16'225
Commission expense		-1'978	-1'909
Subtotal result from commission business and services		**33'675**	**34'642**
Result from trading activities and the fair value option	16	**12'768**	**-12'248**
Other result from ordinary activities			
Result from the disposal of financial investments		-881	174
Income from participations		18'262	19'138
Result from real estate			
Other ordinary income		6'723	5'865
Other ordinary expenses		-4'352	-524
Subtotal other result from ordinary activities		**19'752**	**24'653**

in CHF 000's	Note	2018	2017
Operating expenses			
Personnel expenses	17	-56'226	-53'166
General and administrative expenses	18	-46'905	-44'422
Subtotal operating expenses		**-103'131**	**-97'588**
Value adjustments on participations, depreciation and amortisation on tangible fixed and intangible assets		-4'002	-5'604
Changes to provisions and other value adjustments and losses		-1'782	-790
Operating result		**-12'436**	**22'481**
Extraordinary income	19	133	66
Extraordinary expenses	19	-33	-41
Changes in reserves for general banking risks		69'653	-3'785
Taxes	20	-14'010	-10'292
Profit / loss (result for the period)		**43'307**	**8'429**

Statement of changes in equity

in CHF 000's	Bank's capital	Statutory retained earnings reserves	Reserves for general banking risks	Voluntary retained earnings and profit / loss carried forward	Bank profit or loss	Total
Equity at 01.01.18	**150'000**	**80'500**	**510'926**	**233'202**	**8'429**	**983'057**
Transfer of profits to retained earnings		50		300	-350	
Capital increase / decrease						
Currency translation differences				-326		-326
Dividends and other distributions				79	-8'079	-8'000
Other allocations to (transfers from) the reserves for general banking risks			-69'653			-69'653
Other allocations to (transfers from) other reserves						
Profit / loss (result for the period)					43'307	43'307
Equity at 31.12.18	**150'000**	**80'550**	**441'273**	**233'255**	**43'307**	**948'385**

Information on the financial statements

1 Structure of securities financing transactions (assets and liabilities)

in CHF 000's	31.12.18	31.12.17
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions*		
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions*	5'000	
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase transactions	5'000	
- of which those with an unrestricted right to resell or pledge		
Fair value of securities serving as collateral posted for securities lending or securities borrowed or securities received in connection with reverse repurchase transactions with an unrestricted right to resell or repledge them		
- of which repledged securities		
- of which resold securities		

* Before taking into consideration any netting agreements

2 Collateral for loans and off balance sheet transactions, as well as impaired loans / receivables

in CHF 000's		Type of collateral: Mortgage coverage	Secured by other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Due from customers		199'222	310'120	404'208	913'550
Mortgage loans		314'321			314'321
- Residential and commercial property		314'321			314'321
- Commercial premises					
Total loans (before netting with value adjustments)	**31.12.18**	**513'543**	**310'120**	**404'208**	**1'227'871**
	31.12.17	559'029	340'297	349'863	1'249'189
Total loans (after netting with value adjustments)	**31.12.18**	**462'971**	**285'531**	**357'234**	**1'105'736**
	31.12.17	550'955	321'060	327'001	1'199'016
Off balance sheet					
Contingent liabilities		5'871	115'088	100'317	221'276
Irrevocable commitments				1'096	1'096
Credit commitments		537	6'635	11'983	19'155
Total off balance sheet	**31.12.18**	**6'408**	**121'723**	**113'396**	**241'527**
	31.12.17	5'942	116'528	155'635	278'105

in CHF 000's		Gross debt amount	Estimated liquidation value of the collateral	Net debt amount	Specific value adjustments
Impaired loans / receivables					
	31.12.18	**109'374**	**51'292**	**58'082**	**60'920**
	31.12.17	97'758	51'596	46'162	44'197

United Arab Emirates
Water Canal bridge

3 Presentation of derivative financial instruments

in CHF 000's	Trading instruments: Positive replacement values	Trading instruments: Negative replacement values	Trading instruments: Contract volume
Interest rate instruments			
Forward contracts, including FRAs			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Foreign exchange / precious metals			
Forward contracts	432	805	286'661
Combined interest rates / currency swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			3'180
Equity interests / indices			
Forward contracts			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Credit derivatives			
Credit default swaps			
Total return swaps			
First-to default swaps			
Other credit derivatives			
Other			
Forward contracts			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Total before taking into consideration netting agreements			
Total at 31.12.18	**432**	**805**	**289'841**
- of which determined by using a valuation model			

in CHF 000's	Trading instruments: Positive replacement values	Negative replacement values	Contract volume
Total at 31.12.17	171	336	165'542
- of which determined by using a valuation model			

in CHF 000's		Positive replacement value (accumulated)	Negative replacement value (accumulated)
Total after taking into consideration netting agreements			
Total	**at 31.12.18**	**432**	**805**
	at 31.12.17	171	336

4 Breakdown by counterparties of derivative financial instruments

in CHF 000's		Central clearing parties	Banks and securities dealers	Other clients
Positive replacement values (after netting agreements)	**at 31.12.18**		**432**	
	at 31.12.17		171	

The Bank has no hedging instruments.

5 Breakdown of financial investments

	Book value		Fair value	
in CHF 000's	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
Debt instruments	**846'271**	**856'772**	**838'475**	**855'899**
- of which held until maturity	593'944	561'943	586'148	560'801
- of which not held until maturity	252'327	294'829	252'327	295'098
Equity interests	**321**	**319**	**321**	**319**
Precious metals	**1'305**		**1'305**	
Real estate		**712**		**712**
Total	**847'897**	**857'803**	**840'101**	**856'929**
- of which securities allowed for repo transactions in accordance with liquidity requirements	111'786	117'323		

6 Breakdown of the counterparty according to rating

in CHF 000's		AAA	AA	A	BBB	BB to B	Unrated
Debt securities							
Book values	**at 31.12.18**	**65'997**	**68'200**	**236'624**	**294'655**	**174'068**	**8'353**
	at 31.12.17	78'575	91'510	220'873	290'149	172'104	4'592

Rating category is based on the sovereign foreign currency long-term rating system from S&P.

7 Breakdown of other assets and other liabilities

	Other assets		Other liabilities	
in CHF 000's	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
Compensation account				
Deferred income taxes recognised as assets	12'944	10'932		
Others	6'100	8'660	15'209	11'733
Total	**19'044**	**19'592**	**15'209**	**11'733**

8 Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership*

	Book value	Book value	Effective commitments	Effective commitments
in CHF 000's	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
Assets pledged				
Amounts due from banks	563	560	563	560
Financial investments				
Assets put under ownership reservation				
Total	**563**	**560**	**563**	**560**

* Excluding securities financing transactions


United Kingdom
Ribbblehead bridge

9 Presentation of provisions, reserves for general banking risks and value adjustments for default and latent credit risks

in CHF 000's	Balance at 31.12.17
Provisions for deferred taxes	
Provisions for pension fund obligations	
Provisions for latent credit risks	
Provisions for other business risks	115
Provisions for restructuring	
Other provisions	
Total provisions	**115**
Reserves for general banking risks	**510'926**
Value adjustments for default and latent credit risks	**50'925**
- of which value adjustments for default risks in respect of impaired loans / receivables	44'199
- of which value adjustments for default risks in respect of financial investments	750
- of which value adjustments for latent credit risks	5'976

Use in conformity with designated purpose	Reclassifications	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	**Balance at 31.12.18**
-1'730		13		1'782		180
-1'730		**13**		**1'782**		**180**
				-69'653		**441'273**
-299		**1'007**	**4'103**	**78'139**	**-6'226**	**127'649**
-299		482	4'103	16'930	-4'495	60'920
		15		1'708		2'473
		510		59'501	-1'731	64'256

10 Presentation of the Bank's capital

	31.12.18			31.12.17		
in CHF 000's	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
Bank's capital	150'000	1'500'000	150'000	150'000	1'500'000	150'000
- of which paid up						
Total Bank's capital	**150'000**	**1'500'000**	**150'000**	**150'000**	**1'500'000**	**150'000**

11 Disclosure of holders of significant participations

	31.12.18		31.12.17	
in CHF 000's	Nominal	% of equity	Nominal	% of equity
Holders of significant participations and groups of holders of participations with pooled voting rights				
with voting rights				
Gefan Finanz AG, Zug	150'000	100%	150'000	100%
without voting rights				

Beneficial holdings:
Gefan Finanz AG is 100% owned by a trust structure, which represents in equal shares the four branches of the Mohamedali Habib Family. No individual has a beneficial interest of 10% or more in the shares of Habib Bank AG Zurich.

12 Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
in CHF 000's	**31.12.18**	**31.12.17**	**31.12.18**	**31.12.17**
Holders of qualified participations			104'157	96'464
Group companies	59'309	47'860	12'147	15'841
Linked companies				
Transactions with members of governing bodies	2'146	1'800	15'844	16'638

13 Breakdown of total assets by credit rating of regions (risk domicile principle)

in CHF 000's	Net foreign exposures **at 31.12.18**		Net foreign exposures **at 31.12.17**	
AAA	352'507	8.8%	265'159	6.1%
AA+ to AA-	603'432	15.1%	680'735	15.8%
A+ to A-	2'379'872	59.6%	2'684'442	62.2%
BBB+ to BBB-	81'771	2.1%	78'749	1.8%
BB+ to B-	530'157	13.3%	548'868	12.7%
CCC		0.0%	3'080	0.1%
Unrated	42'795	1.1%	52'207	1.2%
Total	**3'990'533**	**100.0%**	**4'313'240**	**100.0%**

Rating category is based on the sovereign foreign currency long-term rating system from S&P.

14 Breakdown of committed credits

in CHF 000's	**31.12.18**	**31.12.17**
Commitments arising from acceptances	12'013	20'705
Other credit commitments	7'142	4'327
Total	**19'155**	**25'032**

15 Breakdown of fiduciary transactions

in CHF 000's	31.12.18	31.12.17
Fiduciary investments with third-party companies	252'780	221'802
Fiduciary investments with Group companies and affiliated companies		
Fiduciary loans	2'648	14'911
Total	**255'428**	**236'713**

16 Breakdown of the result from trading activities and the fair value option

in CHF 000's	2018	2017
Result from trading activities		
Interest rate instruments (incl. funds)	7	6
Unrealised forex gains / losses on reserves held in foreign currencies	3'656	-20'721
Foreign exchange	9'105	8'467
Total	**12'768**	**-12'248**

17 Breakdown of personnel expenses

in CHF 000's	2018	2017
Salaries and additional allowances	48'578	45'654
- of which expenses related to share-based compensation and alternative forms of variable compensation		
Social insurance obligations	5'381	5'124
Other personnel expenses	2'267	2'388
Total	**56'226**	**53'166**

18 Breakdown of general and administrative expenses

in CHF 000's	2018	2017
Office space expenses	7'226	6'676
Expenses for information technology and telecommunications	5'930	7'333
Expenses for motor vehicles, machinery, furniture and other equipment and operating lease expenses	415	387
Audit fees	1'372	1'299
- of which for financial and regulatory audits	1'185	1'253
- of which for other services	186	46
Other operating expenses	31'664	28'727
Total	**46'905**	**44'422**

19 Analysis of extraordinary income and expenses

in CHF 000's	2018	2017
Extraordinary income		
Profit on sale of fixed assets	22	50
Recoveries and others	111	16
Total	**133**	**66**
Extraordinary expenses		
Other	-33	-41
Total	**-33**	**-41**

20 Presentation of current taxes, deferred taxes and disclosure of the tax rate

in CHF 000's	2018	2017
Current tax expenses	15'134	8'384
Deferred tax expenses	-1'124	1'908
Taxes	**14'010**	**10'292**
Weighted average tax rate (on profit before taxes)	26.0%	23.40%

Appropriation of profit / coverage of losses / other distributions

The Board of Directors will submit the following proposal to the General Meeting of Shareholders in respect of the distribution of profit.

in CHF 000's	**31.12.18**	**31.12.17**
Profit / loss (result for the period)	43'307	8'429
Profit carried forward / loss carried forward	89	10
Distributable profit	**43'396**	**8'439**
Appropriation of profit		
- Allocation to statutory retained earnings reserves	-1'300	-50
- Allocation to voluntary retained earnings reserves	-13'000	-300
- Distribution of dividend from distributable profit	-15'000	-8'000
Profit carried forward	**14'096**	**89**

Report of the Statutory Auditor

To the General Meeting of
Habib Bank AG Zurich
Zurich

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Habib Bank AG Zurich, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 60 to 78 of the annual report) for the year ended 31 December 2018.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with the provisions governing the preparation of financial statements for Banks, the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2018 give a true and fair view of the financial position and the results of operations in accordance with the provisions governing the preparation of financial statements for Banks and comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Ertugrul Tüfekçi
Licensed Audit Expert
Auditor in Charge

Mirko Liberto
Licensed Audit Expert

Zurich, 23 April 2019

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