Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

Habib Bank AG Zurich

Capital adequacy and liquidity disclosure requirements
Disclosure as of 31 December 2023

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

Capital adequacy and liquidity disclosure requirements (consolidated)

Habib Bank AG Zurich is providing this information as of 31 December 2023 in accordance with the provisions of the Capital Adequacy Ordinance (CAO) and the disclosure requirements set out in FINMA Circular 2016/1 "Disclosure – banks".

1. Scope of consolidation

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

Habib Bank AG Zurich	(hereafter referred to as "the Bank")
Habib Canadian Bank, Canada	(100% ownership)
HBZ Bank Ltd., South Africa	(100% ownership)
Habib Metropolitan Bank Ltd., Pakistan	(51% ownership)
Habib Bank Zurich (Hong Kong) Ltd., Hong Kong	(51% ownership)
Habib Bank Zurich Plc, United Kingdom	(100% ownership)
Habib Metropolitan Financial Services Ltd., Pakistan	(51% ownership)
Habib Metropolitan Modaraba Management Company (Private) Ltd., Pakistan	(51% ownership)
Habib Metro Exchange Services Ltd., Pakistan	(51% ownership)
First Habib Modaraba, Pakistan	(8% ownership)

Scope and method of consolidation according to FINMA Circular 2020/1 "Accounting – Banks"
The Group's method of capital consolidation follows the purchase method. The scope of consolidation according to FINMA Circular 2020/1 "Accounting – banks" additionally includes the subsidiary HBZ Services FZ-LLC, United Arab Emirates (100% ownership), Habib Europe Limited, Isle of Man (100%), HBZ Services (Private) Ltd., Pakistan (100%), HBZ Services (Asia) Limited, Hong Kong (100%) and HBZ Services AG, Switzerland (100%). HBZ Services FZ-LLC, HBZ Services AG, HBZ Services (Private) Ltd. and HBZ Services (Asia) Limited, Hong Kong act as service providers for the Group and do not operate in the financial sector (please refer to the Annual Report 2023, page 45). Habib Europe Limited (former Habib European Bank Ltd.) is in liquidation.

2. Group risk principles

Risk & Control Framework
The Group is exposed to a wide array of risks in pursuing its strategy and business objectives. These can impact its financial, business, regulatory and reputational status. Hence, the risk management function is an integral part of the Group business model and is intended to protect its franchise, reputation and capital.

The Group's Risk & Control Framework is the cornerstone of its risk management and control policies. It provides the basis for identifying, assessing and effectively managing 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 governance
The Board of Directors' responsibilities are:

- 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, and the design and effectiveness of internal controls regarding financial accounting and reporting. Additionally, the Audit Committee is responsible for

ensuring independence and monitoring the performance of Group Internal Audit and the external auditors.

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

The Group Chief Risk Officer (GCRO) function develops and monitors the Group-wide framework for risk identification and assessment, management, monitoring and reporting within the risk tolerance for the Group's various business activities. It accomplishes this mission as an independent function ensuring that the entities engaging in business activities are aware of the prevailing and potential risks. In addition, the GCRO oversees credit, market, liquidity, and operational risks.

Risk management principles
The following general principles are applied to maintain an appropriate balance between risk and return:

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

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

Credit risk
Credit risk is the probability of a financial loss resulting from an obligor's failure to repay a loan in line with contractual agreements. Essentially, credit risk is the risk that as a lender, the Group may not receive the principal and interest, as a result of which cash flows may be interrupted and the Group may incur increased costs for debt collection.

Within credit risk, the Group distinguishes 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 (GCMC) is responsible for credit risks in general and for individual credit decisions that exceed the approval authority of the respective Country Credit Management Committee. In general, the Group manages its credit risk in a conservative manner. Upon a rigorous process of evaluating the creditworthiness, appropriate credit limits are assigned to each obligor and where possible, risk is mitigated via collateral and third-party guarantees, as deemed necessary. For each collateral type, a minimum haircut is defined in order to account for the volatility in market value according to the nature and liquidity of the collateral.

The Group's credit risk appetite is defined and monitored through a comprehensive system of credit limits which are approved within policies, guidelines, and programs.

The Group has its own rating system for corporate clients. Each credit is assessed as to the borrower's creditworthiness, collateral coverage and collateral quality, as well as the underlying transaction rationale, business potential and any additional risk mitigations. Personal credits are usually only granted on a fully collateralised basis. Collateral coverage is monitored on a regular basis and according to the prevailing market conditions.

An adequate and clear segregation of duties is established among the various organisational units involved in the acquisition of credit business, the analysis and approval of a credit request, and the subsequent administration.

Bank counterparties, issuers and sovereigns are analysed according to their financial performance and their external rating. Roughly 75% of the credit exposure to financial institutions is of investment grade quality and the remaining 25% consists mainly of short-term trade finance exposure in emerging markets to which the Group has close links, and the portfolio is monitored with a set of country limits. the Group's risk exposure to Israel and Ukraine is insignificant.

Regarding non-performing loans, the Group is in a comfortable position. After considering collateral at market value and specific value adjustments for default risks, the net unsecured and unprovided position as at the end of December 2023 was nil.

The Group has adopted an ECL concept in accordance with IFRS 9 guidelines in six out of eight country operations. HMB (Pakistan) will adopt it fully during 2024 while already complying with the required value adjustments as of the end of 2023. Therefore, the concept of providing for latent credit risks is well established and will be further perfected during 2024. During 2023, CHF 3.5 million of latent credit risk provisions were built, reaching a total of CHF 68.3 million of ECL coverage, while the Group also holds some CHF 87.6 million of specific provisions for actual non-performing loans. The Group also undertook an extensive external validation of all existing credit models and has implemented revised models for the full-year 2023 ECL reporting (except for HBZ Canada). For the full year 2024, Canada and HMB will also report ECL on revised models. Thus, seven out of the Group's eight countries will have adopted IFRS 9.

Cross border country risks are monitored regularly and are either covered by guarantees obtained from multinational development banks or by the forward-looking element in the ECL models. Switzerland keeps separate country provisions if required.

Liquidity risk

Liquidity risk is the risk of not being able to cover short-term financing needs at all times (e.g. due to the impossibility of replacing or renewing deposits, outflows of funds due to loan commitments). Liquidity risk management ensures that the Group always has sufficient liquidity to meet its payment obligations, even under stress conditions. In addition, liquidity risk tolerance defines strategies and requirements for managing liquidity risk under stress conditions. This essentially includes measures to reduce risk, maintaining a liquidity buffer by using highly liquid assets, and an emergency plan to deal with any liquidity shortfalls. The Group Asset & Liability Management Committee regularly monitors liquidity and market risks.

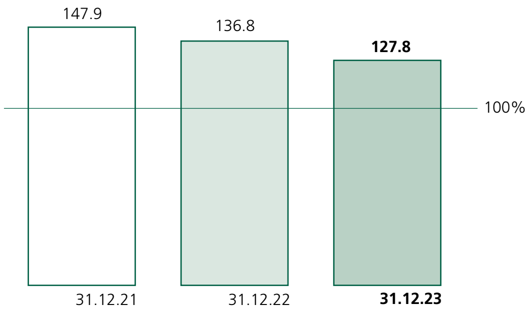
The Group applies a prudent approach to liquidity risk management. The Group grants advances and loans to clients largely on a short-term basis. Funding is primarily obtained through deposits, which are mainly at sight or short-term deposits. Wholesale funding is not significant and deposits are well diversified. No single client deposit accounts for more than 5% of the Group's total client deposits. Excess liquidity is held as bank placements or financial investments. The latter primarily consist of bond portfolios of sovereign issuers or other high-quality issuers.

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

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

The diversification of refinancing sources and repo market access ensure that cash and cash equivalents are secured and readily available when required. In addition, liquidity coverage ratio and net stable funding ratio targets have been defined for all operating Group companies. Funding and liquidity management are also performed on a decentralised basis. The short-term liquidity disposition and liquidity situation of individual countries are monitored by the respective country treasury functions. In addition, liquidity reserves are held both at the Group and at the country level, and contingency funding plans are in place for the Group as well as all branches and subsidiaries.

Liquidity Coverage Ratio (yearly weighted; in %)



Please find further information on page 9 under LIQA: Liquidity: management of liquidity risks.

Market risk
Market risk is the risk of potential losses that may result from changes in the valuation of the Group's assets due to changes in market prices, volatilities, correlations, and other valuation-relevant factors. The Group is mainly exposed to interest rate risk, foreign exchange risk, equity risk and – to a very limited extent – commodity risk.

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

The Group is exposed to interest rate risk due to interest periods set for advances made to clients which exceed the interest periods for client deposits taken. To limit interest rate repricing risk, most client advances are granted on a three- or six-month base rate plus a credit spread. In addition, branches and subsidiaries hold excess liquidity in bank placements or financial investments with tenors of usually up to five years. However, the interest-rate risk related to long-term fixed-income instruments held in the financial investment portfolio is largely offset by the stable portion of client deposits. Behavioural deposit analyses are performed for all branches and subsidiaries, showing that a significant portion of deposits remain with the Group, even when interest rates move. The Group's interest rate risk in the banking book is the current and prospective risk to the Group's capital and earnings that may arise from adverse movements in interest rates with an impact on balance sheet positions. The Interest Rate Risk in the Banking Book (IRRBB) approach considers both the value and the earnings perspective. For IRRBB the Economic Value of Equity (EVE) sensitivity limits have been defined by the Board of Directors. EVE sensitivity limits are in place for all countries and limit adherence is monitored by the Group Asset & Liability Management Committee.

Foreign exchange risk may arise from exposure to foreign exchange rate fluctuations against the reference currency. For foreign exchange transaction risks, the Group pursues a risk-averse approach and aims to keep the potential foreign exchange losses to a minimum. The Group does not engage in proprietary foreign exchange trading. For foreign exchange translation risks, such as profits earned in the Group's foreign branches, capital and reserves held at the branches are subject to exchange rate risk. These risks are monitored at the Head Office, and projected profits are hedged as deemed appropriate. The Group analyses and projects the foreign exchange translation exposure which arises from its investments in foreign subsidiaries. The exchange rate movements on the net asset exposure of the subsidiaries give rise to revaluation gains and losses, which are included in consolidated equity.

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

Operational risk
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. To manage these risks effectively, the Group employs a comprehensive operational risk management framework, consisting of six key processes. These include the use of key risk indicators, executing change risk assessments, conducting risk self-assessments, detailed scenario analyses, risk event management, and issue management with action tracking.

Operational risks are inherent in all of the Group's business activities and may arise in any business line. The Group's risk management process robustly identifies and assesses these risks, drawing insights from its internal risk events database and external events scanning. To mitigate these risks, diverse strategies are employed, adapting the business to evolving challenges and regulatory requirements.

The introduction of operational resilience requirements by regulators is integrated into the Group's risk management strategy. This is designed to identify critical services and ensure the Group's ability to withstand and rapidly recover from disruptive events, safeguarding client' interests, and maintaining market confidence. Central to the Group's operational resilience framework is the stringent management of third-party risks. The Group conducts extensive due diligence and continuously monitors its third parties, assessing their risk profiles and ensuring they adhere to the Group's high standards of operational security and reliability. The Group has also robust business continuity plans in place which are regularly tested for effectiveness and relevance, including technological recovery capabilities.

In response to the dynamic landscape of cyber threats, the Group has developed a proactive, risk-based cyber risk strategy. A team of cybersecurity experts define the Group's cyber strategy, which involves continuous monitoring and assessment of potential cyber threats. They conduct comprehensive risk assessments for all security and technology-related applications, perform vulnerability and penetration testing, and initiate information security campaigns to enhance the awareness of both employees and clients. ICT risks are proactively managed through state-of-the-art security measures and ongoing employee training, ensuring the safety of the Group's digital assets and client information. The Group monitors its ICT infrastructure to ensure availability and reliability.

The Group continually strengthens its Model Risk Management framework to ensure the integrity and reliability of its models. By validating and reviewing these models, the Group safeguards against inaccuracies and biases, thereby enhancing its decision-making and risk assessment processes.

Furthermore, the Group actively reviews and reinforces controls to mitigate potential risks, enhancing them as necessary. Other measures include risk avoidance, risk reduction, and risk transfer strategies. Through these comprehensive measures, the Group remains committed to maintaining the highest standards of operational risk management, ensuring Group-wide resilience and reliability.

3. Disclosure

KM1: Key metrics at consolidated Group level

	in CHF 1'000 (unless stated otherwise)	**31.12.23**	**31.12.22**
	Eligible Capital		
1	Common equity Tier 1 (CET1)	1'163'212	1'136'782
2	Tier 1 capital (T1)	1'163'212	1'136'782
3	Total capital	1'215'318	1'199'615
	Risk weighted assets (RWA)		
4	RWA	6'231'445	6'975'675
4a	Minimum capital requirements	498'517	558'054
	Risk-based capital ratio (in % of RWA)		
5	CET 1 ratio	18.7%	16.3%
6	Tier 1 capital ratio	18.7%	16.3%
7	Total capital ratio	19.5%	17.2%
	CET1 buffer requirements (in % of RWA)		
8	Capital conservation buffer requirement as per the Basel minimum standards (2.5% from 2019)	2.5%	2.5%
9	Countercyclical capital buffer (Art. 44a CAO) as per the Basel minimum standards	0.0%	0.0%
11	Total of the bank CET1 specific buffer requirements	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements	11.5%	9.2%
	Capital target ratio as per Annex 8 of the CAO (in % of RWA)		
12a	Capital conservation buffer according Annex 8 of the CAO	3.2%	3.2%
12b	Countercyclical capital buffer (Art. 44 and 44a CAO)	0.0%	0.0%
12c	CET1 total requirement according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	7.4%	7.4%
12d	T1 target ratio according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	9.0%	9.0%
12e	Total capital target ratio according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	11.2%	11.2%
	Basel III Leverage Ratio		
13	Total Basel III leverage ratio exposure measure	12'092'320	13'521'104
14	Basel III leverage ratio (Tier 1 capital in % of leverage ratio exposure measure)	9.6%	8.4%

		Quarter 4 2023	Quarter 3 2023	Quarter 2 2023	Quarter 1 2023	Quarter 4 2022
	in CHF 1’000	Weighted values	Weighted values	Weighted values	Weighted values	Weighted values
	Liquidity Coverage Ratio (LCR)					
15	LCR numerator: total high-quality liquid assets (HQLA)	1’986’907	2’063’824	2’232’676	2’557’626	3’566’116
16	LCR denominator: total net outflows of funds	–1’648’976	–1’825’666	–1’823’677	–1’864’306	–2’710’181
17	Liquidity coverage ratio (LCR) (in %)	120.5%	113.0%	122.4%	137.2%	131.6%

		31.12.23 Weighted Values	31.12.22 Weighted Values
	Net stable funding ratio (NSFR)		
18	Available stable refinancing	7’941’710	8’247’708
19	Required stable refinancing	4’257’940	4’434’195
20	Net stable funding ratio (NSFR) (in %)	186.5%	186.0%

Compared to previous year, “Total capital” increased by CHF 15.7 million while “Risk weighted assets” decreased by CHF 744.2 million driven by the devaluation of PKR. The “Total capital ratio” increased from 17.2% to 19.5%. Overall the Group has a CET1 buffer of 11.5% compared to 9.2% in the previous year.

KM1: Key metrics at Bank level

	in CHF 1'000 (unless stated otherwise)	31.12.23	31.12.22
	Eligible Capital		
1	Common equity Tier 1 (CET1)	1'014'955	978'798
2	Tier 1 capital (T1)	1'014'955	978'798
3	Total capital	1'040'239	1'009'422
	Risk weighted assets (RWA)		
4	RWA	4'019'481	4'184'272
4a	Minimum capital requirements	321'559	334'742
	Risk-based capital ratio (in % of RWA)		
5	CET 1 ratio	25.3%	23.4%
6	Tier 1 capital ratio	25.3%	23.4%
7	Total capital ratio	25.9%	24.1%
	CET1 buffer requirements (in % of RWA)		
8	Capital conservation buffer requirement as per the Basel minimum standards (2.5% from 2019)	2.5%	2.5%
9	Countercyclical capital buffer (Art. 44a CAO) as per the Basel minimum standards	0.0%	0.0%
11	Total of the bank CET1 specific buffer requirements	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements	17.9%	16.1%
	Capital target ratio as per Annex 8 of the CAO (in % of RWA)		
12a	Capital conservation buffer according Annex 8 of the CAO	3.2%	3.2%
12b	Countercyclical capital buffer (Art. 44 and 44a CAO)	0.0%	0.0%
12c	CET1 total requirement according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	7.4%	7.4%
12d	T1 target ratio according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	9.0%	9.0%
12e	Total capital target ratio according Annex 8 of the CAO plus the countercyclical capital buffer as per Art. 44 and 44a CAO	11.2%	11.2%
	Basel III Leverage Ratio		
13	Total Basel III leverage ratio exposure measure	4'937'328	5'269'046
14	Basel III leverage ratio (Tier 1 capital in % of leverage ratio exposure measure)	20.6%	18.6%

	in CHF 1'000	Quarter 4 2023 Weighted values	Quarter 3 2023 Weighted values	Quarter 2 2023 Weighted values	Quarter 1 2023 Weighted values	Quarter 4 2022 Weighted values
	Liquidity Coverage Ratio (LCR)					
15	LCR numerator: total high-quality liquid assets (HQLA)	576'734	544'658	466'316	415'594	382'886
16	LCR denominator: total net outflows of funds	–375'220	–408'790	–391'186	–330'651	–269'259
17	Liquidity coverage ratio (LCR) (in %)	153.7%	133.2%	119.2%	125.7%	142.2%

		31.12.23 Weighted Values	**31.12.22** Weighted Values
	Net stable funding ratio (NSFR)		
18	Available stable refinancing	3'806'003	3'954'291
19	Required stable refinancing	2'268'427	2'013'719
20	Net stable funding ratio (NSFR) (in %)	167.8%	196.4%

The "Total capital" increased by CHF 30.8 million, which is driven by Profit of CHF 58.1 million for the period and dividend payment of CHF 22 million from the profit 2022. The "Total capital ratio" increased from 24.1% to 25.9% during 2023. Total risk weighted assets decreased by 3.9%. Overall the Bank has a CET1 buffer of 17.9% compared to 16.1% in the previous year.

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

			a	b	c
			RWA	RWA	Minimum capital requirements
	in CHF 1'000		**31.12.23**	**31.12.22**	**31.12.23**
1	Credit risk	SA-BIZ approach	4'884'363	5'731'738	390'749
20	Market risk	Standardised approach	370'455	368'775	29'636
24	Operational risk	Basic indicator approach	904'213	797'600	72'337
25	Amounts below the thresholds for deduction (subject to 250% risk weight)		72'425	77'563	5'794
27	**Total (1 + 20 + 24 + 25)**		**6'231'445**	**6'975'675**	**498'516**

LIQA: Liquidity: management of liquidity risks

Please find detailed information regarding the management of liquidity in the section "Liquidity risk" on page 3 of this document. As indicated the Group maintains a strong liquidity position, which results in an average liquidity coverage ratio over the year 2023 of 127.8%. The devaluation of the foreign currencies, specially the PKR, affected the total "High quality liquid assets" (HQLA) as well as the "Total net outflow of funds" over the course of the year 2023.

The Group's total HQLA of CHF 2.0 billion in Quarter 4 2023 includes mainly balances with central banks in countries where the Group is active, investments in local government bonds in Pakistan and bond investments in Switzerland. Moreover, HQLA government bonds mainly in Pakistan are only be considered up to the net cash outflow of the entity, which is in line with the FINMA Circular 2015/2 "Liquidity risks - banks", margin no. 161.

CR1: Credit risk: credit quality of assets

		a	b	c	d
	31.12.23 in CHF 1'000	Gross carrying values of defaulted exposures	Gross carrying values of non-defaulted exposures	Value adjustments / impairments	Net values (a + b – c)
1	Loans (excluding dept securities)	134'308	3'318'916	87'609	3'365'615
2	Debt securities		5'085'847		5'085'847
3	Off-balance-sheet exposures		1'298'048	1'638	1'296'410
4	**Total**	**134'308**	**9'702'811**	**89'247**	**9'747'872**

Value adjustments for default and latent credit risks
Please refer for further information regarding "Value adjustments for default and latent credit risks" to the Annual Report 2023 page 31.

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

	31.12.23 in CHF 1'000	a
1	Defaulted loans and debt securities at end of the previous reporting period	175'201
2	Loans and dept securities that have defaultet since the last reporting period	13'780
3	Returned to non-defaulted status	4'008
4	Amounts written off	5'615
5	Other changes (+ / –)*	–45'054
6	**Defaulted loans and debt securities at end of the reporting period (1 + 2 – 3 – 4 + 5)**	**134'308**

* including net of foreign currency adjustments

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

31.12.23 in CHF 1’000	Carrying values
Breakdown of exposures by geographical area	
Switzerland	590’611
Rest of Europe	1’402’814
Americas	650’812
Asia and Oceania	7’628’097
Africa	762’759
Total exposures	**11’035’094**

31.12.23 in CHF 1’000	Carrying values
Breakdown of exposures by industry	
Agriculture	42’129
Manufacturing	1’111’160
Services	2’918’203
Individuals and others	6’963’602
Total exposures	**11’035’094**

31.12.23 in CHF 1’000	Carrying values
Breakdown of exposures by residual maturity	
Up to 3 months	4’783’398
Due between 3 and 12 months	2’492’316
Due between 1 and 5 years	1’768’096
After more than 5 years	1’300’445
No maturity	690’840
Total exposures	**11’035’094**

31.12.23 in CHF 1'000	Impaired exposures (gross dept)	Specific value adjustments
Breakdown of impaired exposures by geographical area		
Switzerland		
Rest of Europe	16'894	3'625
Noth america	2'048	402
Asia	107'606	79'157
Other countires	7'760	4'426
Total impaired exposures	**134'308**	**87'609**

31.12.23 in CHF 1'000	Impaired exposures (gross dept)	Specific value adjustments
Breakdown of impaired exposures by industry		
Agriculture		
Manufacturing	6'455	5'584
Services	47'506	33'571
Individuals and others	80'347	48'454
Total impaired exposures	**134'308**	**87'609**

Non-performing loans / receivables

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

- The Group considers that the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral (if held)

- The obligor is 90 days or more past due on any material credit obligation to the Group. Overdrafts will be considered as being past due once the client has breached an advised limit or been advised of a limit smaller than current outstandings.

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

31.12.23 in CHF 1'000	Past due exposures (gross dept)	Specific value adjustments
Ageing analysis of accounting past-due exposures		
Up to 3 months	103'999	68'573
Due between 3 and 12 months	5'566	2'752
Due between 1 and 5 years	15'209	6'707
After more than 5 years	6'587	6'309
No maturity		
Total past due exposures	**131'361**	**84'341**

Restructured credits

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

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

	Gross debt		
31.12.23 in CHF 1'000	Impaired	Not impaired	**Total**
Breakdown of restructured exposures			
Restructured exposures	14'457	26'403	**40'859**

CR3: Credit risk: overview of mitigation techniques

	a	b	c
31.12.23 in CHF 1'000	Unmitigated credit exposures	Exposures mitigated by collateral, of which: mitigated amount	Exposures mitigated by financial guarantees or credit derivatives, of which mitigated amount
Claims (including dept securities)	11'391'346	1'253'098	
Off-balance sheet transactions	1'292'724	478'091	
Total	**12'684'069**	**1'731'189**	
– of which defaulted	80'881		

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

		a	b	c	d	e	f	g	h	i	j
	31.12.23 in CHF 1'000	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post-CCF and post-CRM)
1	Central governments and central banks	3'638'172		733'141		13'917			95'038		**4'480'268**
2	Banks and securities firms			892'068		535'760		189'681	784'239		**2'401'747**
3	Non-central government public sector entities and multilateral development banks	6'845		73'624		41'607		17'276			**139'352**
4	Corporates	45		74'649	94'371	297'561	3'836	1'417'936	1'024'227		**2'912'626**
5	Retail				218'883	1'076	607'868	1'052'445	105'890		**1'986'162**
6	Equity							32'570	14'975		**47'546**
7	Other exposures	322'159		32'958		6'088		353'837	1'328		**716'368**
8	**Total**	**3'967'221**		**1'806'439**	**313'254**	**896'009**	**611'705**	**3'063'745**	**2'025'697**		**12'684'069**
9	– of which covered by mortgages						7'045	35'379			**42'424**
10	– of which past-due loans							35'673	251'234		**286'907**

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

a) **Description of how the bank defines IRRBB for the purpose of managing and measuring risk**
For Interest Rate Risk in the Banking Book (IRRBB) the Group considers all interest rate sensitive positions in the banking book. For interest rate risk management and control purposes, both value and earnings impact is determined. Thereby the focus is on two measures: Economic Value of Equity (EVE) as well as Net Interest Income (NII) sensitivity.
For further information see Habib Bank AG Zurich Annual Report sections "Risk & Control Framework", "Risk organisation" and "Risk management principles".

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

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

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

e)	**Differences between the model assumptions used in the bank's internal interest risk measurement system and the model assumptions prescribed to disclosure in Table IRRBB1** For internal IRRBB computations, other stress factors are applied for individual Emerging Markets currencies to better reflect recent developments and economic realities. For example, no 300 basis points stress is applied for the AED as the currency is pegged to the USD (for which a 200 basis points stress is prescribed by FINMA)		
f)	**Overall description of how the bank hedges its IRRBB and the associates accounting treatment** At present, the Group does not employ interest rate derivatives to hedge its IRRBB exposure. When deemed necessary, EVE sensitivity is reduced by changing the duration of the Group's fixed income portfolio through purchase and sale of securities as well as changing the composition of repurchase / reverse repurchase positions.		
g)	**Key modelling assumptions and calculation parameters used to calculate ΔEVE and ΔNII in Table IRRBB1 with refeence to the items and currencies shown in Table IRRBBA1**		

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

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

31.12.23	Amounts in CHF 1'000			Average time to resetting of interest rates (in years)	
	Total	– of which in CHF	– of which in other significant currencies*	***Total***	– of which in CHF
Defined resetting date of interest rates					
Due from banks	1'134'832	40'031	1'094'801	0.15	0.02
Due from customers	1'287'773	1'003	1'286'770	0.81	1.32
Fixed-term mortgages	507'112		507'112	3.26	
Financial investments	5'730'023	245'507	5'484'516	1.13	2.30
Other assets	30'747		30'747	0.03	
Receivables on derivatives	1'261'788		1'261'788	0.15	
Due to banks	–1'175'874	–100'494	–1'075'380	0.16	0.17
Due to customers	–2'644'019	–6'016	–2'638'003	0.41	0.04
Liabilities on derivatives	–1'266'026	–1'469	–1'264'557	0.15	0.13
Non-defined resetting date of interest rates					
Due from banks	311'173	340	310'833	0.00	0.00
Due from customers	1'625'083	12'461	1'612'622	0.22	0.32
Liabilities in personal and current accounts at sight	–4'712'714	–19'824	–4'692'890	1.67	1.48
Other liabilities at sight	–252'685	–2'011	–250'674	0.00	0.00
Liabilities from client deposits, callable but not transferable (savings)	–1'540'379	–31'946	–1'508'433	0.41	0.16
Total	**296'834**	**137'582**	**159'252**	**0.85**	**1.35**

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

* representing more than 10% of the balance sheet of total balance sheet

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

IRRBBB1: Interest rate risk: Quantitative information on the economic value of equity and net interest income

	ΔEVE (change in the economic value of equity)		ΔNII (change in net interest income)	
in CHF 1'000	**31.12.23**	**31.12.22**	**31.12.23**	**31.12.22**
Paralellel up	9'008	26'902	60'207	78'319
Paralellel down	–2'589	–20'040	–55'088	–68'907
Steepener (1)	9'866	7'838		
Flattener (2)	–6'001	–432		
Short rate up	–2'864	7'794		
Short rate down	4'855	–6'205		
Worst scenario	–6'001	–20'040	–55'088	–68'907
Tier 1 capital	1'164'800	1'136'782		

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

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

ORA: Operational risks: general duties

Please find detailed information regarding the management of operational risks in the section "operational risk" on page 4 in this document.

Habib Bank AG Zurich applies the basic indicator approach for operational risks.