Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

# Habib Bank AG Zurich

## Annual Report 2019

# *Table of contents*

# Group key figures

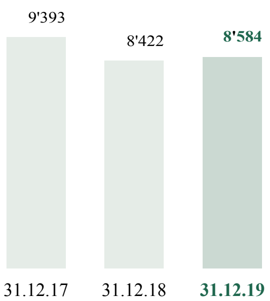
in CHF million

| Balance sheet | 31.12.17 | 31.12.18 | 31.12.19 | Change in % to 31.12.18 |
|---|---|---|---|---|
| Total assets | 11'731 | 10'305 | 11'163 | 8.3% |
| Equity | 1'297 | 1'148 | 1'196 | 4.2% |
| Advances customers | 3'557 | 3'546 | 3'545 | 0.0% |
| Customers deposits | 9'393 | 8'422 | 8'584 | 1.9% |
| | | | | |
| **Income statement** | **2017** | **2018** | **2019** | Change in % to 2018 |
| Total income [1] | 333.1 | 305.3 | 407.7 | 33.5% |
| Operating expenses | -220.7 | -224.4 | -227.0 | 1.2% |
| Operating result | 85.9 | -11.7 | 166.3 | |
| Group profit | 60.5 | 79.7 | 91.5 | 14.9% |
| | | | | |
| **Key figures and ratios** | **31.12.17** | **31.12.18** | **31.12.19** | Change in % to 31.12.18 |
| Number of offices | 360 | 393 | 432 | 9.9% |
| Number of employees | 5'211 | 5'426 | 5'698 | 5.0% |
| Return on equity (ROE) [2] | 4.7% | 6.5% | 7.8% | |
| Equity ratio | 11.1% | 11.1% | 10.7% | |
| Cost / income ratio | 66.3% | 73.5% | 55.7% | |
| Capital ratio | 19.4% | 19.5% | 19.7% | |
| Liquidity coverage ratio | 112.2% | 115.5% | 122.0% | |
| Leverage ratio | 9.4% | 9.7% | 9.4% | |

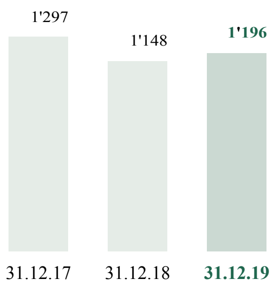
[1] Including "Gross result from interest operations", "Result from comission business and services", "Result from trading activities and the fair value option" and "Other result from ordinary activities"

[2] Group profit as percentage of equity of average at year end

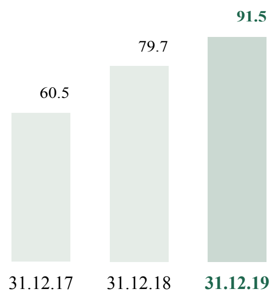
Customers deposits, in CHF million




Equity, in CHF million




Group profit, in CHF million




Purely for ease of reading, the masculine form used in this document is intended to refer to both genders.
This consolidated financial reporting 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.

Waterfall in Uri in the Alps, Switzerland

# *Letter to shareholders*

It is our pleasure to present you the 52nd Annual Report of Habib Bank AG Zurich, based on the accounting principles issued by the Swiss Financial Market Supervisory Authority.

2019 has been a period of changes in the industry involving increased competition, ongoing digital adoption and a shifting economic environment. During the course of the year, we remained focused on building the capabilities needed to successfully meet our customers' expectations and to compete and grow well into the future. We further honed our strategy and invested in new digital capabilities and in our network. We also improved how we run the Group by simplifying processes and strengthening our cybersecurity and platform resiliency. By the grace of God, Habib Bank AG Zurich's operations delivered good results for 2019 while maintaining a strong capital base and high liquidity.

Considering FINMA's guidance 02/2020 regarding prudent distribution policy, the Board of Directors has proposed that the following appropriations should be made out of the profit for the year ending 31 December 2019 and the profit carried forward from last year, adding up to a distributable amount of CHF 57'667'129:

| | | |
|---|---|---|
| - 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 | 28'367'129 |

We would like to thank our clients for their loyalty and trust in 2019. 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 | Mohamedali R. Habib |
| Chairman of the Board of Directors | President | Group CEO |

# *About us*

Habib Bank AG Zurich (hereinafter the "Bank" or "Parent 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 personalised 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 its Head Office in Zurich, the Bank has branch operations in Kenya and United Arab Emirates. The Bank has subsidiaries in Canada, Hong Kong, United Kingdom, United Arab Emirates, Pakistan, South Africa and Switzerland. The Group's operations are supported by its own service companies. As of 31 December 2019, headcount totaled 5'698 staff distributed among 432 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 Philipp 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 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.

## 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 a 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 a member of the Board at the Republic New York Corporate (New York) and a member of the Executive Committee of the Republic Bank of New York (Switzerland) from 1998 to 1999. Prior to that, 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 a 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 has served as an 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 that, he worked for 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 a 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 recognised as an audit expert by the Swiss Audit Oversight Authority (FAOA) and is a qualified 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 a legal counsel. Since 1992, she has served as a 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.

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 a 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 period from one ordinary Annual General Meeting to the next is considered to be 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.

## Organisational principles and structure

According to the Articles of Association and the Organisational 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.

## 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 organisation, 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 at Habib Bank AG Zurich in 1992. He was appointed President & Chief Executive Officer in February 2011.

Muhammad H. Habib's career in banking comprises close to four decades of experience. He began his career in 1981 in Dubai, where he went through extensive training in order to gain the expertise, nuanced understanding, and enhanced knowledge of managing a bank and navigating the financial industry. This was an enriching journey spanning 11 years. In 1992, he joined the General Management team. His responsibilities encompassed UAE, Africa, UK, North America, and Switzerland. Under his leadership, the Bank has expanded into several new territories, including South Africa (1995) and Canada (2001). In 1996, he was promoted to the position of Joint President, and subsequently became the President of the Bank. Muhammad H. Habib completed his studies at the College de Leman in Geneva, Switzerland, and earned his degree in Business Administration from Babson College in Wellesley, Massachusetts (USA).

### 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 he continued as non-executive director. Mohamedali R. Habib was appointed as a Director and Chairman of the Board of Habib Bank AG Hong Kong in November 2006. In 2016 he was 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, he 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.

## Rajat Garg

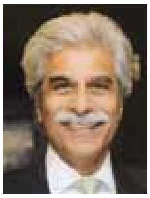
Singaporean, born 1963

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 geographical regions 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), where he built up and headed – as Partner – the financial service consultancy in Geneva. Walter Mathis started his professional career with Credit Suisse, working for five 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.

## 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 |
| Asim Basharullah | 1971 | Pakistani | 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 |

## Management of the representative offices

| Name | Born | Citizenship | Function | Country |
|---|---|---|---|---|
| Nazrul Huda | 1953 | Bangladeshi | Representative Office Manager | Bangladesh |
| Masud Abid | 1961 | Chinese | Representative Office Manager | Hong Kong |
| Syed Hassan Nasim Ahmed | 1968 | Pakistani | Representative Office Manager | Pakistan |
| Irene Wu Ying | 1973 | Chinese | Representative Office Manager | China |

## Group Business Functions

| Name | Born | Citizenship | Function |
|---|---|---|---|
| Sirajuddin Aziz | 1956 | Pakistani | CEO Group Financial Institutions |
| Arif Lakhani | 1945 | Pakistani | CEO Group Wealth Management |
| Adnan Fasih | 1967 | Pakistani | Head of Group Islamic Banking |

## Group Service and Control 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 |
| Umair Chaudhary | 1968 | British | Group Chief Operating Officer |
| Felix Gasser | 1959 | Swiss | Head of Group Risk Control |
| Dr. Sitwat Husain | 1964 | Pakistani | Head of Group Human Resources |
| 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 |

# *Management report*

## Economic environment

Global growth slowed further in 2019 as the monetary policy normalisation by the US Federal Reserve in 2018 and protectionist US trade policy started to impact real activity. When financial markets started to price in a US recession and a more pronounced slowdown elsewhere, the US Federal Reserve promptly reversed its policy stance. Over the course of 2019, the US Federal Reserve lowered its policy rate three times and other major central banks took similar accommodative steps. Fiscal policy was also eased in many countries. While growth eventually stabilised at lower levels, the US-China trade conflict continued to weigh on sentiment and activity. Towards year-end, both the US and China signalled their willingness to lower tensions and prepared the ground for a temporary agreement. While USD interest rates fell across the curve, USD strength persisted for most of the year. Many emerging market economies struggled due to the cooling of global trade and muted business confidence. In addition, policy errors and stretched public as well as external accounts aggravated the situation, most notably in Argentina and Turkey.

In Pakistan, the economic situation stabilised over the course of the year but not before the country had experienced another dose of economic pain. Consequently, growth fell to the lowest level since the financial crisis of 2008. The process of stabilisation was greatly aided by the re-engagement with the IMF, which approved a USD 6 billion multi-year program. The agreement lifted sentiment and removed near-term funding concerns. Although the IMF programme set tough targets, which required ongoing and painful structural adjustments, the external situation improved with a very noticeable reduction in the current account shortfall. Weak exports and more moderate growth of external remittances signalled that many obstacles for a sustained recovery had yet to be removed. The introduction of a more market-based exchange rate system did not result in the expected additional pressure on the currency, which over the past two years had lost 40% of its value. Inflation stabilised at high levels. These developments allowed the State Bank to end its hiking cycle in July after an astounding 325 basis points rate increases.

Economic activity in the UAE stayed lacklustre during 2019 due to multiple factors. Most notably, the real estate market remained sluggish, as sales and prices declined further and regional tensions weighed on sentiment and prevented a resolution of the ongoing conflict in the region. At the same time, lower interest rates due to the USD currency peg and higher, volatile prices for crude oil provided some support to the economy. In addition, the three-year fiscal stimulus plan adopted in 2018 remained in effect but growth nevertheless fell to its lowest level in the past eight years.

Even under the leadership of reform-minded President Ramaphosa, South Africa was unable to turnaround its protracted period of weak economic growth. Growth did however rebound from the severe contraction at the beginning of the year, thanks to a recovery in the mining sector and some positive contributions from finance, real estate and business services. The stabilisation of inflation allowed the South African Reserve Bank to cut its policy rate in July. In the May parliamentary elections, the ANC government retained a reduced but comfortable majority, which allowed it to pursue growth-supporting policies in order to tackle many of South Africa's long-standing structural issues, including the poor financial condition of the state-owned utility Eskom. Towards end of March 2020, Moody's has downgraded South Africa's rating from Baa3 to Ba1 whilst maintaining a negative outlook.

The UK economy was dominated for another year by uncertainty over Brexit. At the December general election, the Conservative Party, under Boris Johnson (a staunch Brexiteer who had succeeded Theresa May in July 2019) achieved a decisive victory. This result gave visibility for businesses and investors. The currency somewhat recovered but has remained significantly undervalued. Overall, economic performance was better than expected, as it continued to exhibit remarkable resilience despite depressed corporate spending and a soft property market. Low unemployment and robust consumer demand, paired with an unchanged highly accommodative monetary policy by the Bank of England, delivered a growth rate similar to 2018.

Following a boom-like expansion in 2018, Swiss economic growth settled in at a much more moderate pace in 2019, mainly due to the country's exposure to the weakening Eurozone and the slowing global manufacturing cycle. Swiss Franc appreciated moderately during the period. Domestic demand was subdued due to a moderation in the construction sector. The October general elections saw a strong showing of environmentally-minded parties but did not change the status-quo.

Kenya maintained a steady and robust rate of growth thanks to its fairly diversified economy and strong business confidence. The removal of the much-criticised interest rate cap helped to restore some stability in the credit market. Lower inflation also allowed the Central Bank of Kenya to cut its policy rate, thereby providing additional stimulus to the economy. The country was unable to conclude a new stand-by agreement with the IMF, largely because the IMF views the government's ambitious infrastructure investment programme with scepticism. Nevertheless, external accounts remained stable and manageable due to strong capital inflows and a stable currency.

The political protests which erupted in March severely affected Hong Kong's economic performance in 2019. In fact, the territory's economy contracted for the first time since 2009. The domestic tensions (the government had announced new measures to address long-standing social problems, including housing and social support, that had fuelled protests) were compounded by external headwinds such as lower mainland growth and US-China trade tensions. The political unrest has resulted in long-term risks for Hong Kong's standing within the Greater Chinese economy.

In 2019, the Canadian economy continued to expand at a decent pace although the softer global environment did impact the external sector. The overall good economic performance allowed the Bank of Canada to keep its policy unchanged compared with the global trend for lower interest rates. The federal elections handed victory to the incumbent Liberal Party, which had to, however, form a minority government.

## Banking sector

Once again, slower global growth represented a major challenge for the banking industry worldwide. Growth of top-line revenues and volumes slowed and profitability stagnated. Lower USD interest rates contributed to lower net interest margins in USD-based business activities and in countries whose currencies are pegged to the USD. Although credit growth remained muted, overall levels of indebtedness remained high. Pakistan was an outlier among the Group's core markets with an increase of 20% compared with 2018. Globally, credit impairments re-mained low in general.

The easing of global financial conditions over the course of the year created attractive refinancing conditions for entities with access to capital markets or bank funding. Generally lower credit costs, as measured by credit spreads, also contained contagion risks from stressed issuers in the rest of the market.

The banking sector faced continued pressures emanating from trends towards tightening regulatory frameworks, be it in terms of capital adequacy or business conduct, as well as digital disruptions of established business models (Fintech, Blockchain, digital platform companies). Responding to these requirements and challenges required the industry to maintain a high level of spending, often contributing to rising cost-income ratios.

## Operational performance and outlook

### Income statement

2019 was a successful year for the Group. Overall the Group achieved a profit of CHF 91.5 million, which was CHF 11.8 million or 14.9% above the previous year (2018: CHF 79.7 million). This mainly due to lower "Value adjustments for default risks and losses" from interest operations of CHF 0.1 million (2018: CHF -76.1 million) as well as a positive "Result from trading activities and the fair value option" of CHF 44.8 million (2018: CHF -52.4 million).

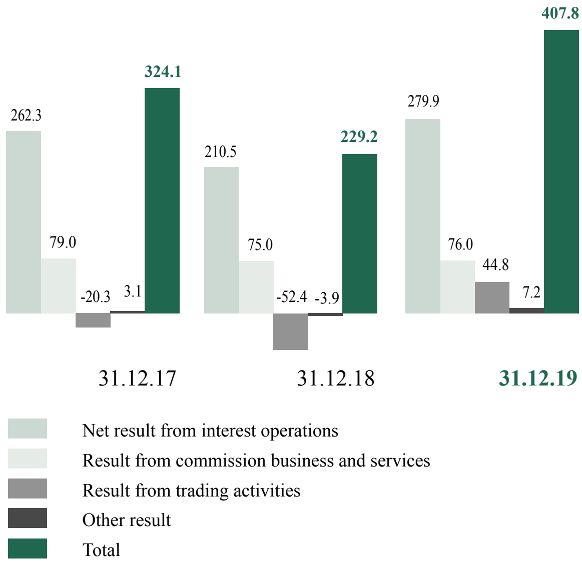
Interest income increased significantly by 27.7% or CHF 149.0 million to CHF 687.7 million. However, "Interest expense" rose as well by 61.8% or CHF 155.8 million. Therefore, the "Gross results from interest operations" decreased by 2.4%. In 2018, a one-time impact of CHF 71.3 million was booked due to the introduction of the expected credit loss methodology (ECL, in accordance with IFRS 9). Without this one-time impact, the net result for interest operations 2018 would be CHF 281.8 million, which would be at the same level as of 2019.

"Results from commissions business and services" of CHF 76.0 million increased by 1.3% or CHF 1.0 million compared with the previous year (2018: CHF 75.0 million). This mainly due to a higher "Commission income from other services".

The "Result from trading activities and the fair value option" was CHF 44.8 million and was mainly driven by an increased foreign exchange rate volatility, which led to higher transaction volumes. In the previous year, a revaluation loss of CHF 80.4 million was booked and therefore a negative result of CHF 52.4 million occurred for 2018. Excluding this revaluation loss, the increase in 2019 would be CHF 16.7 million or 59.7%.

"Operating income" for 2019 was CHF 407.8 million which is an increase of CHF 178.6 million or 77.9%.

Operating income, in CHF million




"Operating expenses" increased slightly by 1.2% to CHF 227.0 million (2018: CHF 224.4 million). Expenses for information and communication technology increased by CHF 3.4 million compared with the previous year. This mainly due to the implementation of the new banking software for the Swiss operations in the fourth quarter 2019.

Due to higher operating results of CHF 166.3 million, tax expenses increased to CHF 57.6 million compared with CHF 22.2 million in the previous year.

In 2019 CHF 17.9 million had been charged to "Changes in reserves for general banking risks", while in 2018 CHF 111.4 million had been released due to the introduction of the expected credit loss methodology.

The "Cost / income ratio" of 55.7% for 2019 was the lowest in the last three years. This is the result of increasing gross income and relatively stable operating expenses.

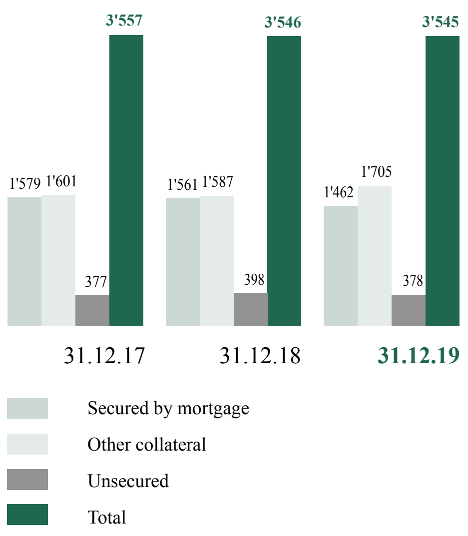
## Balance sheet

The balance sheet total increased by CHF 857.6 million or 8.3%, driven by organic growth of business and increased volumes of security financing transactions of our Pakistan subsidiary.

"Liquid assets" increased by CHF 307.7 million or 27.2%, amounting to CHF 1’439.9 million as of 31 December 2019. This increase was related to higher central bank balances in the operating countries.

"Total loans (after netting with value adjustments)" with customers decreased by CHF 0.8 million compared with 2018 (see note 2 for further details). While "Amounts due from customers" increased by CHF 112.3 million, "Mortgage loans" decreased by CHF 113.1 million.

Advances customers, in CHF million




"Other financial instruments at fair value" and "Financial investments" increased by CHF 478.7 million or 13.5% to CHF 4’015.9 million. The increase was a result of increased security financing transactions in Pakistan and overall net purchases of financial investments in our various operations.

In 2019 "Liabilities from securities financing transactions" increased by CHF 484.5 million due to increased volumes of security financing transactions of our Pakistan subsidiary.

"Amounts due in respect of customer deposits" increased by CHF 162.3 million or 1.9% year-on-year. The majority of the operating countries were able to increase their volumes of customer deposits. A significant portion of the deposits is invested in debt instruments, mainly with sovereign counterparties in countries where the Group is active.

During 2019 additional "Reserves for general banking risks" of CHF 9.1 million were booked.

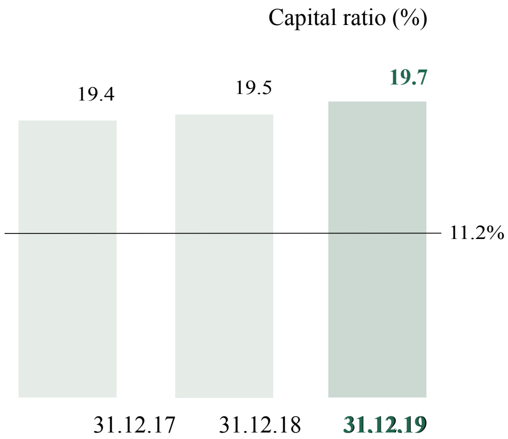
Total equity stood at CHF 1’196.1 million at the end of 2019 compared with CHF 1’147.7 million at the end of the previous year. This is an increase of 4.2%. The return on equity for 2019 was 7.8% compared with 6.5% in 2018 and 4.7% in 2017.

## Capital and liquidity

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

The "Capital ratio" of the Group is 19.7%. The Group is considered as a Category 4 Bank by the Swiss Financial Market Supervisory Authority (FINMA) and must maintain a regulatory target capital ratio of a minimum of 11.2%. The Group’s "Capital ratio" is 8.6 basis points greater than the minimum capital requirement and clearly has a strong capital base. Accordingly, we were ranked in the top range of Swiss banks, well above the average of other European financial institutions.

The "Liquidity coverage ratio" increased to 122.0% at Group level, which was clearly above the minimum requirement of 100% for the Group (for further details, please see the capital adequacy and liquidity disclosure requirements as of 31 December 2019 at our homepage (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 2019.

## Operations

Global uncertainty, protectionist US trade policy, considerable economic pain in Pakistan, economic activity slowdown in United Arab Emirates, United Kingdom economy dominated by Brexit uncertainty, long-standing structural issues in South Africa and political protests in Hong Kong, shifted the economic environment in countries where the Group is active. Despite these challenges, the Group made progress in implementing its strategic plan. Next to the roll-out of its mobile banking application, the Group also enhanced its digital service offering with contactless cards, and eWallets such as Samsung Pay, and Android Pay. The United Kingdom has introduced electronic switch services, whereby customers can seamlessly shift accounts between banks, and Canada started its Student Direct Stream programme in partnership with the Government of Canada. In late 2019, the wealth management business Switzerland successfully migrated to a state of the art IT platform which will improve client services like online banking and will ensure adaptivity to frequent changes in regulation. In addition, during the course of the year, numerous software enhancements were rolled-out, contributing towards process improvements, regulatory requirements and strategic initiatives across the Group. The Group's data centre obtained PCI DSS (Payment Card Industry Data Security Standard) recertification for the third consecutive year. A red teaming exercise was conducted to test the organisation's infrastructure defences. The results of these tests were satisfactory. The SWIFT Customer Security Program assessment was conducted by KPMG and all requirements were complied with.

Group Internal Audit was evaluated by PwC and achieved "General Conformance" to the IIA Standards, which is the highest achievable rating under IIA Standards.

Diversity remained a key focus as we enhanced both our gender and nationality representation across all our geographies. Succession planning has also received much attention during the past year and remains a frequently discussed topic at the management level. We also increased our online learning capacity by increasing content and bringing in new training modules. Further, developed and renewed the Group Human Resource governance documents (Group HR Directives).

## Outlook

The Coronavirus (COVID-19) outbreak will have a serious impact on the global economy. Global financial markets have seen a sharp downturn in the first quarter of 2020, experiencing a free-fall in equities and a flight towards safe haven assets such as Gold. Global manufacturing, trade and air-travel are likely to be the worst hit because of the spread of Coronavirus, while the lockdown observed in the industrial heartland of China has badly impacted the global supply chain, which has and will continue to create supply shocks across various markets and industries. The Group initiated and implemented extensive crisis management, along with business continuity plans, with a set of various measures that leverages a number of components, some of which include communication plans, employee wellness initiatives, telecommuting and business processes, localised to each operating environment. Ongoing geopolitical tensions and global uncertainty will continue to suppress economic growth and continue to cause a deterioration in economic sentiment across all regions. However, the Group - with its strong brand, customer loyalty and robust compliance and control functions - remains well-positioned from a capital and liquidity prespective to assist our clients and is well placed to further implement its strategy. We continue to focus on specialised staffing to leverage our strategic initiatives around Financial Institutions, Wealth Management and Sharia-compliant products.

In the beginning of this year, we have opened our new representative office in Shanghai, China. This initiative is in accordance with the Group's vision to expand its global representation particularly in the second largest economy of the World to capture increased trade flows.

The UK's Financial Conduct Authority has stated that it would not be mandatorily seeking for London Interbank Offered Rate (LIBOR) quotes from banks beyond the end of 2021. This affects all contracts that are linked to LIBOR. Transition from LIBOR to alternative risk-free rates (RFR) or prime rates is a major challenge for the financial industry.

The journey towards digital transformation will continue in 2020 by extending the eWallets offering, implementing Apple Pay and providing biometric login access to accounts, further enhancing the user experience across all of our digital channels. In addition, cyber security will be strengthened by social media monitoring initiatives, which will give us visibility in cyberspace in order to eliminate threats and to strengthen external-facing cyber security. To further strengthen the Group's information security practices, the Management continues to remain focused on the same.

In 2020 we will roll-out of our Talent Management Programme which will not only enhance our employee engagement but will also help build a pipeline of robust future talents.

# Consolidated financial statements of the Group

# *Balance sheet* *(consolidated)*

| in CHF 1'000 | Note | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|---|
| **Assets** | | | | |
| Liquid assets | | 1'439'875 | 1'132'162 | 27.2% |
| Amounts due from banks | | 1'816'013 | 1'710'960 | 6.1% |
| Amounts due from securities financing transactions | 1 | | 29'482 | -100.0% |
| Amounts due from customers | 2 | 3'184'384 | 3'072'108 | 3.7% |
| Mortgage loans | 2 | 361'048 | 474'147 | -23.9% |
| Positive replacement values of derivative financial instruments | 4 | 29'728 | 30'825 | -3.6% |
| Other financial instruments at fair value | 3 | 2'545'727 | 2'148'703 | 18.5% |
| Financial investments | 5 | 1'470'218 | 1'388'540 | 5.9% |
| Accrued income and prepaid expenses | | 147'604 | 150'537 | -1.9% |
| Non-consolidated participations | 7 | 77 | 77 | 0.0% |
| Tangible fixed assets | 8 | 83'705 | 86'467 | -3.2% |
| Intangible assets | 9 | 113 | 293 | -61.6% |
| Other assets | 10 | 84'609 | 81'155 | 4.3% |
| **Total assets** | | **11'163'100** | **10'305'456** | **8.3%** |
| Total subordinated claims | | 5'015 | | |
| - of which subject to conversion and / or debt waiver | | | | |

| | | | | |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Amounts due to banks | | 560'168 | 434'710 | 28.9% |
| Liabilities from securities financing transactions | 1 | 578'646 | 94'181 | 514.4% |
| Amounts due in respect of customer deposits | | 8'583'781 | 8'421'532 | 1.9% |
| Negative replacement values of derivative financial instruments | 4 | 51'074 | 26'510 | 92.7% |
| Accrued expenses and deferred income | | 153'894 | 146'136 | 5.3% |
| Other liabilities | 10 | 33'658 | 28'252 | 19.1% |
| Provisions | 13 | 5'783 | 6'454 | -10.4% |
| Reserves for general banking risks | 13 | 456'556 | 447'463 | 2.0% |
| Bank's capital | | 150'000 | 150'000 | 0.0% |
| Retained earnings reserves | | 317'555 | 289'439 | 9.7% |
| Minority interest in equity | | 180'437 | 181'079 | -0.4% |
| Group profit | | 91'547 | 79'700 | 14.9% |
| - of which minority interests in group profit | | 25'307 | 20'218 | 25.2% |
| **Total liabilities** | | **11'163'100** | **10'305'456** | **8.3%** |
| Total subordinated liabilities | | | | |
| - of which subject to conversion and / or debt waiver | | | | |

# *Off-balance sheet transactions* *(consolidated)*

| in CHF 1'000 | Note | **31.12.19** | **31.12.18** | **+/- %** |
|---|---|---|---|---|
| **Off-balance sheet transactions** | | | | |
| Contingent liabilities | 2, 20 | 1'531'301 | 1'305'284 | 17.3% |
| Irrevocable commitments | 2 | 1'060 | 1'096 | -3.3% |
| Credit commitments | 2, 21 | 173'299 | 125'482 | 38.1% |

# *Income statement (consolidated)*

| in CHF 1'000 | Note | 2019 | 2018 | +/- % |
|---|---|---|---|---|
| **Result from interest operations** | | | | |
| Interest and discount income | | 369'859 | 273'414 | 35.3% |
| Interest and dividend income from trading portfolios | | 5'034 | | |
| Interest and dividend income from financial investments | | 312'764 | 265'232 | 17.9% |
| Interest expense | | -407'863 | -252'088 | 61.8% |
| **Gross result from interest operations** | | **279'794** | **286'558** | **-2.4%** |
| | | | | |
| Changes in value adjustments for default risks and losses from interest operations | | 102 | -76'077 | -100.1% |
| **Subtotal net result from interest operations** | | **279'896** | **210'481** | **33.0%** |
| | | | | |
| **Result from commission business and services** | | | | |
| Commission income from securities trading and investment activities | | 4'901 | 5'035 | -2.7% |
| Commission income from lending activities | | 25'535 | 25'690 | -0.6% |
| Commission income from other services | | 52'634 | 51'113 | 3.0% |
| Commission expense | | -7'088 | -6'823 | 3.9% |
| **Subtotal result from commission business and services** | | **75'982** | **75'015** | **1.3%** |
| | | | | |
| **Result from trading activities and the fair value option** | 23 | **44'770** | **-52'365** | **-185.5%** |
| | | | | |
| **Other result from ordinary activities** | | | | |
| Result from the disposal of financial investments | | 615 | -881 | -169.8% |
| Result from real estate | | 524 | 500 | 4.8% |
| Other ordinary income | | 6'024 | 817 | 637.4% |
| Other ordinary expenses | | | -4'350 | -100.0% |
| **Subtotal other result from ordinary activities** | | **7'163** | **-3'914** | **-283.0%** |
| | | | | |
| **Operating income** | | **407'811** | **229'217** | **77.9%** |

| in CHF 1'000 | Note | **2019** | **2018** | **+/- %** |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Personnel expenses | 24 | -146'076 | -146'091 | 0.0% |
| General and administrative expenses | 25 | -80'903 | -78'293 | 3.3% |
| **Subtotal operating expenses** | | **-226'980** | **-224'384** | **1.2%** |
| | | | | |
| Value adjustments on participations, depreciation and amortisation on tangible fixed assets and intangible assets | | -14'005 | -14'066 | -0.4% |
| Changes to provisions and other value adjustments and losses | | -575 | -2'417 | -76.2% |
| | | | | |
| **Operating result** | | **166'251** | **-11'650** | |
| | | | | |
| Extraordinary income | 26 | 817 | 2'238 | -63.5% |
| Extraordinary expenses | 26 | -3 | -33 | -90.4% |
| Changes in reserves for general banking risks | | -17'942 | 111'387 | -116.1% |
| Taxes | 28 | -57'576 | -22'242 | 158.9% |
| | | | | |
| **Group profit** | | **91'547** | **79'700** | **14.9%** |
| - of which minority interests in group profit | | 25'307 | 20'218 | 25.2% |

# *Cash flow statement (consolidated)*

| | 2019 | | 2018 | |
|---|---|---|---|---|
| in CHF 1'000 | Cash inflow | Cash outflow | Cash inflow | Cash outflow |
| **Cash flow from operating activities** | | | | |
| Group profit | 91'547 | | 79'700 | |
| Change in reserves for general banking risks | 17'942 | | | 111'387 |
| Value adjustments on participation, depreciation and amortisation on tangible fixed assets and intangible assets | 14'005 | | 14'066 | |
| Provisions and other value adjustments | 1'063 | 1'733 | 3'955 | 3'441 |
| Changes in value adjustments for default risks and losses | 20'105 | 32'086 | 105'809 | 72'689 |
| Currency translation reserves | | 37'908 | | 95'100 |
| Accrued income and prepaid expenses | 2'933 | | | 550 |
| Accrued expenses and deferred income | 7'758 | | | 10'066 |
| Previous year's dividend | | 23'167 | | 22'068 |
| **Total** | **155'353** | **94'894** | **203'530** | **315'301** |
| | | | | |
| **Cash flow from shareholders' equity transactions** | | | | |
| Bank's capital | | | | |
| Recognised in reserves | | | | |
| **Total** | | | | |
| | | | | |
| **Cash flow from transactions in respect of non-consolidated participations, tangible fixed assets and intangible assets** | | | | |
| Non-consolidated participations | | | 11 | |
| Real estate | 3'007 | 11'022 | 3'442 | 12'628 |
| Other tangible fixed assets | 293 | 3'521 | 2'578 | 7'047 |
| Intangible assets | 24 | | 76 | |
| **Total** | **3'324** | **14'544** | **6'107** | **19'675** |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| in CHF 1'000 | Cash inflow | Cash outflow | Cash inflow | Cash outflow |
| **Cash flow from banking operations** | | | | |
| **Medium- to long-term business (> 1 year)** | | | | |
| Amounts due to banks | | | | |
| Amounts due in respect of customer deposits | | 26'795 | 4'669 | |
| Other liabilities | 5'406 | | | 3'566 |
| Amounts due from banks | 12'277 | | | 35'107 |
| Amounts due from customers | 47'339 | | 61'738 | |
| Mortgage loans | 35'050 | | 140'703 | |
| Other financial instruments at fair value | | | | |
| Financial investments | | 56'450 | | 249'002 |
| Other assets | | 3'454 | | 525 |
| **Short-term business** | | | | |
| Amounts due to banks | 125'458 | | | 142'470 |
| Liabilities from securities financing transactions | 484'465 | | | 158'036 |
| Amounts due in respect of customer deposits | 189'044 | | | 975'832 |
| Negative replacement values for derivative financial instruments | 24'564 | | 7'988 | |
| Amounts due from banks | | 117'874 | 265'985 | 3'125 |
| Amounts due from securities financing transactions | 29'482 | | | 26'408 |
| Amounts due from customers | | 153'407 | 13'701 | 137'727 |
| Mortgages loans | 86'612 | | | 94'970 |
| Trading portfolio assets | | | | |
| Positive replacement values for derivative financial instruments | 1'097 | | | 1'457 |
| Other financial instruments at fair value | | 397'024 | 1'018'016 | |
| Financial investments | | 28'227 | 341'580 | 2'251 |
| Currency differences | 907 | | | 180 |
| | | | | |
| **Liquidity** | | **307'713** | **101'615** | |
| Liquid assets | | 307'713 | 101'615 | |
| **Total** | **1'200'380** | **1'200'380** | **2'165'632** | **2'165'632** |

# *Statement of changes in equity* *(consolidated)*

| in CHF 1'000 | Bank's capital | Retained earnings reserves | Reserves for general banking risks | Minority interests in equity | Group profit | Total |
|---|---|---|---|---|---|---|
| **At 1.1.18** | **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) reserves for general banking risks | | | -93'414 | -17'973 | | -111'387 |
| Other allocations to / (transfers from) other reserves | | | | | | |
| Group profit | | | | | 79'700 | 79'700 |
| **At 31.12.18** | **150'000** | **289'439** | **447'463** | **181'079** | **79'700** | **1'147'681** |

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

| | | | | | | |
|---|---|---|---|---|---|---|
| **At 1.1.19** | **150'000** | **289'439** | **447'463** | **181'079** | **79'700** | **1'147'681** |
| Transfer of profits to retained earnings | | 59'482 | | 20'218 | -79'700 | |
| Currency translation differences | | -16'366 | | -21'542 | | -37'908 |
| Dividends and other distributions | | -15'000 | | -8'167 | | -23'167 |
| Other allocations to / (transfers from) reserves for general banking risks | | | 9'093 | 8'849 | | 17'942 |
| Other allocations to / (transfers from) other reserves | | | | | | |
| Group profit | | | | | 91'547 | 91'547 |
| **At 31.12.19** | **150'000** | **317'555** | **456'556** | **180'437** | **91'547** | **1'196'095** |

Retained earnings reserve includes currency translation reserves of CHF -103.4 million, which increased during 2019 by CHF 16.4 million.

Sajikot Waterfall,
Pakistan

# Notes to the consolidated financial statements

## Accounting and valuation principles

### General

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 in which the Bank has a participation of more than 50 percent of the voting capital or which it controls in another way. Refer to note 6 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:

| | **31.12.19** | **31.12.18** |
|---|---|---|
| 1 USD | 0.968 | 0.985 |
| 1 GBP | 1.270 | 1.249 |
| 100 AED | 26.349 | 26.814 |
| 100 PKR | 0.625 | 0.705 |
| 100 ZAR | 6.875 | 6.849 |

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

| | **31.12.19** | **31.12.18** |
|---|---|---|
| 1 USD | 0.992 | 0.976 |
| 1 GBP | 1.267 | 1.300 |
| 100 AED | 27.008 | 26.583 |
| 100 PKR | 0.663 | 0.807 |
| 100 ZAR | 6.859 | 7.462 |

### Valuation and accounting principles

The Group and the Bank apply the same valuation and accounting principles.

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 and measured on the day they occur (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

Liquid assets consist of cash in hand, postal cheque balances, giro and sight deposits at the Swiss National Bank and foreign central banks. These items, including interest due but not paid, are recognized at nominal value.

### Amounts due from and due to banks

Amounts due from and due to banks, including interest due but not paid, are recognized at nominal value. Appropriate allowances are created for default risks on existing positions and directly deducted from assets.

### 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, mortgage loans and amounts due in respect of customer deposits

These items, including interest due but not paid, are recognized 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 realising 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 regulations allow for 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 and liabilities

These items consist mainly of debt instruments. They are valued at fair value as of the balance sheet date. Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing and independent parties. This corresponds to the price set on a price-efficient and liquid market or determined based on a valuation model. Where, as an exception, fair value is indeterminate, it is measured and recognized at the lower of cost or market value.

### Positive and negative replacement values of derivative financial instruments

Derivative financial instruments are valued at fair value. In general, replacement values of derivative financial instruments from client transactions resulting from contracts traded over-the-counter (OTC) as well as exchange-traded contracts are accounted for. Replacement values from trading activities are accounted for under “Positive replacement values of derivative financial instruments” on the asset side or item “Negative replacement values of derivative financial instruments” on the liability side. Valuation gains are recognized through income in the item “Results from trading activities and the fair value option”.

### 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

Other intangible assets include management rights and used for more than one accounting period and which exceed the thresholds defined by the Group are capitalized, 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. The reserves for general banking risks are subject to tax. 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 recognised 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".

### Amounts due from / to related parties

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 14.

## *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 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 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;
- Thereby a Group risk assessment is performed, which encompasses all risk classes and subsequently allows Management to focus on significant risk exposures;
- Ensure management accountability, whereby business line management owns all risks assumed

and is responsible for the active management of all risk exposures to ensure that risk and return are balanced;
- Set up independent risk control functions or units, which monitor the effectiveness of risk management and oversee risk-taking activities;
- Disclose risks to the Board of Directors, regulators and other stakeholders in a comprehensive and transparent manner.

## Internal controls

Internal controls are processes and instruments used to monitor and control operational and other business risks. In order to continuously enhance the Group's internal control system and the effectiveness of controls, 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 fulfil 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 41% of the Group's credit exposure is secured by property and only 11% is unsecured.

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

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

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

Bank counterparties, issuers and sovereigns are analysed according to their financial performance and their external rating. Over 65% of the credit exposure to financial institutions is of investment grade quality and the remaining 35% 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 2019 was only CHF 0.2 million.

The Group has adopted IFRS 9 in six out of eight country operations and the remaining two will also be integrated over time. Therefore, the concept of providing for latent credit risks is now established and will be perfected in 2020 and 2021. During 2019

CHF 5 million of latent credit risk provisions were added, reaching a total of CHF 128 million of ECL coverage. The Group has also undertaken an extensive external validation of all the existing models and will address all findings during 2020.

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.

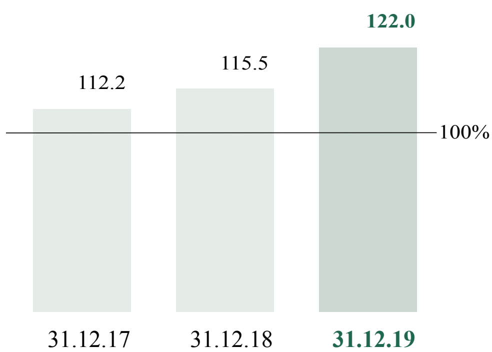
The Group grants advances and loans to clients both on a short-term basis and with tenors generally up to five years. Funding is primarily obtained through deposits, which are mainly at sight or short term deposits. Wholesale funding is not significant and deposits are well diversified. No single depositor 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 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, in %




### 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 three or six month base rate plus a credit spread.

In addition, branches and subsidiaries have placed excess liquidity in bank placements or in financial investments with tenors usually up to three to five years. The long-term fixed income instruments included in the financial investment portfolio create interest rate risk exposure given the absence of long-term wholesale financing.

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

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

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

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

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

### Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

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

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

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

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 minimising 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 behaviour 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 behaviour.

### 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, 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 regulations. 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. For information's regarding COVID-19, please refer to page 17 in the section Outlook.

**Horseshoe Falls as viewed from Table Rock in Queen Victoria Park at Niagara Falls, Ontario, Canada**

## Information on the balance sheet *(consolidated)*

### 1 Breakdown of securities financing transactions

| in CHF 1'000 | **31.12.19** | **31.12.18** | **+/- %** |
|---|---|---|---|
| Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions* | | 29'482 | -100.0% |
| Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions* | 578'646 | 94'181 | 514.4% |
| 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 | 578'646 | 94'181 | 514.4% |
| - of which 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 Overview of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans / receivables

| in CHF 1'000 | | Type of collateral: Secured by mortgage | Other collateral | Unsecured | Total |
|---|---|---|---|---|---|
| **Loans (before netting with value adjustments)** | | | | | |
| Amounts due from customers | | 1'162'892 | 1'791'015 | 425'572 | 3'379'479 |
| Mortgage loans | | 400'229 | 94 | | 400'323 |
| - Residential and commercial property | | 346'519 | 94 | | 346'613 |
| - Commercial and industrial premises | | 53'710 | | | 53'710 |
| **Total loans (before netting with value adjustments)** | **31.12.19** | **1'563'121** | **1'791'108** | **425'572** | **3'779'801** |
| | 31.12.18 | 1'677'618 | 1'668'379 | 449'399 | 3'795'396 |
| | | | | | |
| **Total loans (after netting with value adjustments)** | **31.12.19** | **1'462'138** | **1'705'361** | **377'933** | **3'545'432** |
| | 31.12.18 | 1'561'149 | 1'587'251 | 397'855 | 3'546'255 |
| | | | | | |
| **Off-balance sheet** | | | | | |
| Contingent liabilities | | 119'742 | 1'263'374 | 148'185 | 1'531'301 |
| Irrevocable commitments | | | | 1'060 | 1'060 |
| Credit commitments | | 25'778 | 119'151 | 28'370 | 173'299 |
| **Total off-balance sheet** | **31.12.19** | **145'519** | **1'382'525** | **177'616** | **1'705'660** |
| | 31.12.18 | 114'234 | 1'177'779 | 139'849 | 1'431'862 |

| in CHF 1'000 | | Gross debt amount | Estimated liquidation value of collateral | Net debt amount | Specific value adjustments |
|---|---|---|---|---|---|
| **Impaired loans / receivables** | | | | | |
| **Total impaired loans / receivables** | **31.12.19** | **270'651** | **101'554** | **169'097** | **165'719** |
| | 31.12.18 | 291'891 | 118'673 | 173'218 | 174'335 |

## 3 Trading portfolios and other financial instruments at fair value

| in CHF 1'000 | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|
| **Assets** | | | |
| **Trading portfolio assets** | | | |
| Debt securities, money market securities / transactions | | | |
| - of which listed | | | |
| Equity securities | | | |
| Precious metals and commodities | | | |
| Other trading portfolio assets | | | |
| **Total trading portfolio assets** | | | |
| | | | |
| **Other financial instruments at fair value** | | | |
| Debt securities | 2'538'097 | 2'140'682 | 18.6% |
| Structured products | | | |
| Other | 7'630 | 8'021 | -4.9% |
| **Total other financial instruments at fair value** | **2'545'727** | **2'148'703** | **18.5%** |
| | | | |
| **Total assets** | **2'545'727** | **2'148'703** | **18.5%** |
| - 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.

## 4 Presentation of derivative financial instruments (assets and liabilities)

| | Trading instruments | | |
|---|---|---|---|
| in CHF 1'000 | Positive replacement values | Negative replacement values | Contract volume |
| **Interest rate instruments** | | | |
| | | | |
| **Foreign exchange / precious metals** | | | |
| Forward contracts | 29'728 | 51'074 | 7'085'679 |
| | | | |
| **Equity securities / indices** | | | |
| | | | |
| **Credit derivatives** | | | |
| | | | |
| **Total before netting agreements** | | | |
| **Total at 31.12.19** | **29'728** | **51'074** | **7'085'679** |
| - of which determined using a valuation model | | | |
| Total at 31.12.18 | 30'825 | 26'510 | 3'698'070 |
| - of which determined using a valuation model | | | |

| in CHF 1'000 | | Positive replacement values (cumulative) | Negative replacement values (cumulative) |
|---|---|---|---|
| **After netting agreements** | | | |
| **Total** | **at 31.12.19** | **29'728** | **51'074** |
| | at 31.12.18 | 30'825 | 26'510 |

### Breakdown by counterparty

| in CHF 1'000 | | Central clearing houses | Banks and securities dealers | Other customers |
|---|---|---|---|---|
| **Positive replacement values (after netting agreements)** | | | | |
| **Total** | **at 31.12.19** | | **25'115** | **4'612** |
| | at 31.12.18 | 7'827 | 14'884 | 8'114 |

The Group has no hedging instruments.

## 5 Financial investments

| | Book value | | Fair value | |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | **31.12.18** | **31.12.19** | **31.12.18** |
| **Debt securities** | **1'465'619** | **1'383'222** | **1'466'202** | **1'374'876** |
| - of which intended to be held until maturity | 1'156'358 | 1'130'896 | 1'144'826 | 1'122'549 |
| - of which not intended to be held until maturity (available for sale) | 309'261 | 252'326 | 321'376 | 252'327 |
| **Equity securities** | **490** | **518** | **507** | **518** |
| - of which qualified participations | | | | |
| **Precious metals** | **1'335** | **1'305** | **1'481** | **1'305** |
| **Real estate** | **2'774** | **3'495** | **4'355** | **5'583** |
| **Total** | **1'470'218** | **1'388'540** | **1'472'545** | **1'382'282** |
| - of which securities eligible for repo transactions in accordance with liquidity requirements | 100'822 | 155'292 | | |

### Counterparties by rating

| in CHF 1'000 | | AAA | AA | A | BBB | BB to B | Unrated |
|---|---|---|---|---|---|---|---|
| **Debt securities** | | | | | | | |
| **Book values** | **at 31.12.19** | **105'064** | **92'303** | **429'321** | **641'458** | **194'417** | **7'655** |
| | at 31.12.18 | 138'885 | 87'312 | 390'895 | 582'356 | 176'029 | 13'063 |

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

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

| Company name and domicile | Business activity | Company capital (in 000's) | Share of capital (in %) | Share of votes (in %) | Held directly | Held indirectly |
|---|---|---|---|---|---|---|
| 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, United Arab Emirates | Service centre | 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, United Kingdom | Bank | GBP 60'000 | 100% | 100% | x | |
| HBZ Services AG, Zug, Switzerland | Service centre | CHF 500 | 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 centre | PKR 100 | 100% | 100% | | x |

## 7 Presentation of non-consolidated participations

| in CHF 1'000 | Acquisition cost | Accumulated value adjustments and changes in book value (equity method) |
|---|---|---|
| **Other non-consolidated participation without market value** | | |
| - S.W.I.F.T. SCRL, Belgium | 77 | |
| **Total** | **77** | |

## 8 Presentation of tangible fixed assets

| in CHF 1'000 | Acquisition cost | Accumulated depreciation |
|---|---|---|
| Bank buildings and residential apartments | 106'797 | -42'137 |
| Other real estate | 23'505 | -16'901 |
| Proprietary or separately acquired software | 4'507 | -2'936 |
| Other tangible fixed assets | 50'824 | -37'193 |
| Tangible assets acquired under finance leases | | |
| - of which bank buildings | | |
| - of which other real estate | | |
| - of which other tangible fixed assets | | |
| **Total** | **185'633** | **-99'166** |

* Including net of foreign currency adjustments

| | Reporting year | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Book value at 31.12.18** | Reclassifications | Additions | Disposals | Value adjustments | **Book value at 31.12.19** | **Market value at 31.12.19** |
| | | | | | | | |
| | 77 | | | | | 77 | |
| | **77** | | | | | **77** | |

| | Reporting year | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Book value at 31.12.18** | Reclassifications | Additions | Disposals* | Depreciation | Reversals | **Book value at 31.12.19** |
| | 64'660 | 98 | 8'800 | -2'395 | -8'257 | | 62'906 |
| | 6'605 | | 2'222 | -612 | -1'064 | | 7'150 |
| | 1'571 | | 250 | -65 | -972 | | 784 |
| | 13'631 | -98 | 3'271 | -227 | -3'713 | | 12'865 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | **86'467** | **0** | **14'544** | **-3'300** | **-14'005** | | **83'705** |

## 9 Intangible assets

| in CHF 1'000 | Cost value | Accumu-lated amorti-sations | **Book value at 31.12.18** | Reporting year Additions | Disposals* | Amorti-sation | **Book value at 31.12.19** |
|---|---|---|---|---|---|---|---|
| Goodwill | | | | | | | |
| Patents | | | | | | | |
| Licenses | | | | | | | |
| Other intangible assets | 293 | | 293 | | -24 | -156 | 113 |
| **Total** | **293** | | **293** | | **-24** | **-156** | **113** |

* Including net of foreign currency adjustments

## 10 Other assets and other liabilities

| | Other assets | | Other liabilities | |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | **31.12.18** | **31.12.19** | **31.12.18** |
| Compensation account | | | | |
| Deferred income tax recognised as assets | 28'691 | 35'076 | | |
| Others | 55'918 | 46'079 | 33'658 | 28'252 |
| **Total** | **84'609** | **81'155** | **33'658** | **28'252** |

## 11 Assets pledged or assigned to secure own commitments and assets under reservation of ownership*

| | Book value | | Effective commitments | |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | **31.12.18** | **31.12.19** | **31.12.18** |
| Amounts due from banks | 762 | 1'140 | 271 | 563 |
| Financial investments | 10'666 | 10'929 | | |
| **Total pledged / assigned assets** | **11'428** | **12'069** | **271** | **563** |
| | | | | |
| Assets under reservation of ownership | 70 | | 70 | |

* Excluding securities financing transactions

## 12 Liabilities relating to own pension schemes

| in CHF 1'000 | **31.12.19** | **31.12.18** |
|---|---|---|
| Payables to employee benefit plans | 88 | 63 |

### 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.

## 13 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

| in CHF 1'000 | **Balance at 31.12.18** | Use in conformity with designated purpose | Reclassifications |
|---|---|---|---|
| Provisions for deferred taxes | 1'029 | | |
| Provisions for pension benefit obligations | | | |
| Provisions for latent credit risks | 2'283 | -50 | |
| Provisions for other business risks | 1'671 | -64 | |
| Provisions for restructuring | | | |
| Other provisions | 1'471 | | |
| **Total provisions** | **6'454** | **-113** | |
| | | | |
| **Reserves for general banking risks** | **447'463** | | |
| | | | |
| **Value adjustments for default and latent credit risks** | **255'267** | **-4'158** | |
| - of which value adjustments for default risks in respect of impaired loans / receivables | 174'335 | -4'219 | 155 |
| - of which value adjustments for default risks in respect of financial investments | 2'474 | | |
| - of which value adjustments for latent credit risks | 78'458 | 62 | -155 |

| | 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 31.12.19** |
|---|---|---|---|---|---|---|
| | | -90 | | | -462 | 477 |
| | | | | | | |
| | | -221 | | 52 | -481 | 1'584 |
| | | -185 | | 865 | -7 | 2'280 |
| | | | | | | |
| | | -175 | | 146 | | 1'442 |
| | | **-670** | | **1'063** | **-950** | **5'783** |
| | | | | | | |
| | -8'849 | | | 17'942 | | **456'556** |
| | | | | | | |
| | | **-15'204** | **7'483** | **12'622** | **-12'724** | **243'286** |
| | | -13'025 | 7'483 | 5'548 | -4'558 | 165'719 |
| | | -95 | | 2'649 | -750 | 4'279 |
| | | -2'084 | | 4'425 | -7'417 | 73'289 |

## 14 Amounts due from and due to related parties

| | Amounts due from | | Amounts due to | |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | **31.12.18** | **31.12.19** | **31.12.18** |
| Holders of qualified participations | | | 108'500 | 104'158 |
| Linked companies | | | | |
| Transactions with members of governing bodies | 1'632 | 2'146 | 12'624 | 20'777 |
| Other related parties | | | | |
| **Total** | **1'632** | **2'146** | **121'124** | **124'935** |

## 15 Maturity structure of financial instruments

| in CHF 1'000 | | At sight | Cancel-lable | Due: within 3 months | Due: within 3 to 12 months | Due: within 12 months to 5 years | Due: after 5 years | No maturity | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Asset / financial instruments** | | | | | | | | | |
| Liquid assets | | 1'439'875 | | | | | | | 1'439'875 |
| Amounts due from banks | | 338'418 | 15'046 | 1'192'226 | 247'941 | 22'383 | | | 1'816'013 |
| Amounts due from securities financing transactions | | | | | | | | | |
| Amounts due from customers | | 516'825 | 3'831 | 1'326'989 | 870'030 | 353'273 | 113'436 | | 3'184'384 |
| Mortgage loans | | 18'919 | | 83'184 | 34'994 | 117'860 | 106'091 | | 361'048 |
| Positive replacement values of derivative financial instruments | | 29'728 | | | | | | | 29'728 |
| Other financial instruments at fair value | | 2'545'727 | | | | | | | 2'545'727 |
| Financial investments | | 180'123 | | 158'881 | 123'884 | 809'065 | 198'265 | | 1'470'218 |
| **Total** | **at 31.12.19** | **5'069'614** | **18'877** | **2'761'280** | **1'276'849** | **1'302'581** | **417'792** | | **10'846'992** |
| | at 31.12.18 | 4'207'748 | 36'660 | 2'668'267 | 1'318'329 | 1'327'594 | 424'834 | 3'495 | 9'986'927 |
| | | | | | | | | | |
| **Debt capital / financial instruments** | | | | | | | | | |
| Amounts due to banks | | 219'183 | | 269'752 | 71'233 | | | | 560'168 |
| Liabilities from securities financing transactions | | 558'646 | | 20'000 | | | | | 578'646 |
| Amounts due in respect of customer deposits | | 4'923'220 | 505'275 | 1'846'029 | 1'155'310 | 152'126 | 1'820 | | 8'583'781 |
| Negative replacement values of derivative financial instruments | | 51'074 | | | | | | | 51'074 |
| **Total** | **at 31.12.19** | **5'752'124** | **505'275** | **2'135'781** | **1'226'543** | **152'126** | **1'820** | | **9'773'669** |
| | at 31.12.18 | 4'852'813 | 395'219 | 2'324'052 | 1'224'108 | 177'729 | 3'012 | | 8'976'933 |

## 16 Assets and liabilities by domestic and foreign origin in accordance with domicile principle

| | Domestic | Foreign | Domestic | Foreign |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | | **31.12.18** | |
| **Assets** | | | | |
| Liquid assets | 4'137 | 1'435'738 | 50'743 | 1'081'419 |
| Amounts due from banks | 124'400 | 1'691'614 | 133'482 | 1'577'478 |
| Amounts due from securities financing transactions | | | | 29'482 |
| Amounts due from customers | 18'596 | 3'165'788 | 23'376 | 3'048'732 |
| Mortgage loans | 244 | 360'804 | | 474'147 |
| Positive replacement values of derivative financial instruments | 33 | 29'695 | 408 | 30'417 |
| Other financial instruments at fair value | | 2'545'727 | | 2'148'703 |
| Financial investments | 171'541 | 1'298'677 | 159'376 | 1'229'164 |
| Accrued income and prepaid expenses | 5'563 | 142'041 | 4'331 | 146'206 |
| Non-consolidated participations | | 77 | | 77 |
| Tangible fixed assets | 9'424 | 74'281 | 10'527 | 75'940 |
| Intangible assets | | 113 | | 293 |
| Other assets | 767 | 83'842 | 832 | 80'323 |
| **Total assets** | **334'704** | **10'828'396** | **383'075** | **9'922'381** |
| | | | | |
| **Liabilities** | | | | |
| Amounts due to banks | 181 | 559'987 | 997 | 433'713 |
| Liabilities from securities financing transactions | 20'000 | 558'646 | 5'000 | 89'181 |
| Amounts due in respect of customer deposits | 155'899 | 8'427'881 | 173'245 | 8'248'287 |
| Negative replacement values of derivative financial instruments | 1'125 | 49'949 | 794 | 25'716 |
| Accrued expenses and deferred income | 3'018 | 150'875 | 4'054 | 142'082 |
| Other liabilities | 4'153 | 29'505 | 5'952 | 22'298 |
| Provisions | 114 | 5'670 | 175 | 6'281 |
| Reserves for general banking risks | 85'142 | 371'414 | 100'292 | 347'171 |
| Bank's capital | 150'000 | | 150'000 | |
| Retained earnings reserves | 317'555 | | 289'439 | |
| Minority interest in equity | | 180'437 | | 181'079 |
| Group profit | -6'863 | 98'410 | 12'750 | 66'950 |
| **Total liabilities** | **730'326** | **10'432'774** | **742'698** | **9'562'758** |

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

| | 31.12.19 | | 31.12.18 | |
|---|---|---|---|---|
| | in CHF 1'000 | Shares as % | in CHF 1'000 | Shares as % |
| **Assets** | | | | |
| | | | | |
| **Europe** | **1'547'588** | **13.9%** | **1'472'161** | **14.3%** |
| - of which Switzerland | 334'704 | 3.0% | 383'075 | 3.7% |
| United Kingdom | 875'725 | 7.8% | 746'636 | 7.2% |
| Others | 337'159 | 3.0% | 342'450 | 3.3% |
| | | | | |
| **North America** | **407'376** | **3.6%** | **332'626** | **3.2%** |
| | | | | |
| **Asia** | **8'282'712** | **74.2%** | **7'564'879** | **73.5%** |
| - of which United Arab Emirates | 2'323'387 | 20.8% | 2'272'572 | 22.1% |
| Pakistan | 5'244'297 | 47.0% | 4'624'537 | 44.9% |
| Others | 715'028 | 6.4% | 667'770 | 6.5% |
| | | | | |
| **Other countries** | **925'424** | **8.3%** | **935'790** | **9.0%** |
| - of which South Africa | 388'625 | 3.5% | 374'769 | 3.6% |
| Others | 536'799 | 4.8% | 561'021 | 5.4% |
| | | | | |
| **Total assets** | **11'163'100** | **100.0%** | **10'305'456** | **100.0%** |

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

| | Net foreign exposures **31.12.19** | | Net foreign exposures **31.12.18** | |
|---|---|---|---|---|
| **Standard & Poor's rating** | in CHF 1'000 | Shares as % | in CHF 1'000 | Shares as % |
| AAA | 460'631 | 4.3% | 564'252 | 5.7% |
| AA+ to AA- | 1'524'391 | 14.1% | 1'343'215 | 13.5% |
| A+ to A- | 2'490'574 | 23.1% | 2'410'288 | 24.2% |
| BBB+ to BBB- | 94'439 | 0.9% | 91'051 | 0.9% |
| BB+ to B- | 6'099'532 | 56.5% | 5'346'181 | 53.7% |
| CCC | | | | 0.0% |
| Unrated | 120'399 | 1.1% | 196'285 | 2.0% |
| **Total** | **10'789'965** | **100.0%** | **9'951'272** | **100.0%** |

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

## 19 Balance sheet by currencies

| in CHF 1'000 | CHF | USD | GBP | AED | PKR | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Liquid assets | 50'862 | 227'620 | 76'602 | 773'446 | 295'883 | 15'462 | 1'439'875 |
| Amounts due from banks | 3'229 | 621'782 | 167'153 | 571'324 | 188'690 | 263'836 | 1'816'013 |
| Amounts due from customers | 20'969 | 405'857 | 555'075 | 541'415 | 1'425'086 | 235'983 | 3'184'384 |
| Mortgage loans | | | | 224'149 | 18'022 | 118'877 | 361'048 |
| Trading portfolio assets | | | | | | | |
| Positive replacement values for derivative financial instruments | 33 | | 453 | | 27'863 | 1'379 | 29'728 |
| Other financial instruments at fair value | | | | | 2'545'727 | | 2'545'727 |
| Financial investments | 317'123 | 499'701 | 91'530 | | 228'474 | 333'389 | 1'470'218 |
| Accrued income and prepaid expenses | 3'617 | 2'198 | 1'652 | 27'128 | 107'379 | 5'630 | 147'604 |
| Non-consolidated participations | 77 | | | | | | 77 |
| Tangible fixed assets | 9'424 | 127 | 7'239 | 20'413 | 28'605 | 17'897 | 83'705 |
| Intangible assets | | | | | 113 | | 113 |
| Other assets | 2'138 | 1'716 | 4'464 | 13'305 | 59'578 | 3'408 | 84'609 |
| **Total assets shown in balance sheet** | **407'472** | **1'759'001** | **904'167** | **2'171'179** | **4'925'419** | **995'862** | **11'163'100** |
| Delivery entitlements from spot exchange, forward forex and forex options transactions | 1'076 | 1'908'091 | 76'130 | | 1'410'868 | 146'673 | 3'542'839 |
| **Total assets** | **408'549** | **3'667'092** | **980'297** | **2'171'179** | **6'336'287** | **1'142'535** | **14'705'939** |

| in CHF 1'000 | CHF | USD | GBP | AED | PKR | Other | Total |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Amounts due to banks | 1'918 | 100'507 | 7'150 | 22'186 | 417'577 | 10'830 | 560'168 |
| Liabilities from securities financing transactions | 20'000 | | | | 558'646 | | 578'646 |
| Amounts due in respect of customer deposits | 67'452 | 1'958'406 | 831'465 | 1'693'009 | 3'191'077 | 842'371 | 8'583'781 |
| Negative replacement values of derivative financial instruments | 1'125 | | 396 | | 48'222 | 1'331 | 51'074 |
| Accrued expenses and deferred income | 3'018 | 70 | 6'215 | 21'142 | 110'488 | 12'961 | 153'894 |
| Other liabilities | 1'077 | 585 | 2'583 | 11'584 | 16'230 | 1'599 | 33'658 |
| Provisions | | 114 | 1 | 843 | 4'763 | 63 | 5'783 |
| Reserves for general banking risks | 116'397 | | 499 | 331'488 | 8'172 | | 456'556 |
| Bank's capital | 150'000 | | | | | | 150'000 |
| Retained earnings reserves | 317'555 | | | | | | 317'555 |
| Minority interest in equity | | | | | 147'622 | 32'816 | 180'437 |
| Group profit | -6'863 | | 3'756 | 45'227 | 45'171 | 4'256 | 91'547 |
| **Total liabilities shown in balance sheet** | **671'680** | **2'059'681** | **852'064** | **2'125'478** | **4'547'969** | **906'227** | **11'163'100** |
| Delivery obligations from spot exchange, forward forex and forex options transactions | 88'503 | 1'575'249 | 40'276 | 674 | 1'699'669 | 138'468 | 3'542'839 |
| **Total liabilities** | **760'183** | **3'634'930** | **892'340** | **2'126'152** | **6'247'637** | **1'044'696** | **14'705'939** |
| | | | | | | | |
| **Net position per currency at 31.12.19** | **-351'634** | **32'162** | **87'957** | **45'027** | **88'650** | **97'840** | |
| at 31.12.18 | -315'027 | 21'155 | 83'188 | 14'932 | 97'403 | 98'349 | |

## Information on the off-balance sheet transactions *(consolidated)*

### 20 Breakdown of contingent liabilities and contingent assets

| in CHF 1'000 | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|
| Guarantees to secure credits and similar | 643'264 | 520'790 | 23.5% |
| Irrevocable commitments arising from documentary letters of credit | 888'038 | 784'494 | 13.2% |
| **Total contingent liabilities** | **1'531'301** | **1'305'284** | **17.3%** |
| | | | |
| Contingent assets arising from tax losses carried forward | 4'177 | 4'662 | -10.4% |
| **Total contingent assets** | **4'177** | **4'662** | **-10.4%** |

### 21 Breakdown of credit commitments

| in CHF 1'000 | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|
| Commitments arising from acceptances | 156'812 | 116'706 | 34.4% |
| Other credit commitments | 16'487 | 8'776 | 87.9% |
| **Total credit commitments** | **173'299** | **125'482** | **38.1%** |

### 22 Breakdown of fiduciary transactions

| in CHF 1'000 | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|
| Fiduciary investments with third-party companies | 308'693 | 252'780 | 22.1% |
| Fiduciary loans | 2'498 | 2'648 | -5.7% |
| **Total fiduciary transactions** | **311'192** | **255'428** | **21.8%** |

## Information on the income statement *(consolidated)*

## 23 Breakdown of the result from trading activities and the fair value option

| in CHF 1'000 | **2019** | **2018** | **+/- %** |
|---|---|---|---|
| Result from trading activities from | | | |
| Interest rate instruments (incl. funds) | 18'970 | -80'382 | -123.6% |
| Unrealised forex gains / (losses) on reserves held in foreign currencies | -7'070 | 3'656 | -293.4% |
| Foreign currencies | 32'841 | 24'354 | 34.8% |
| Commodities / precious metals | 29 | 7 | 308.8% |
| **Total result from trading activities** | **44'770** | **-52'365** | **-185.5%** |
| - of which from the fair value option on assets | 18'970 | -80'382 | -123.6% |

## 24 Breakdown of personnel expenses

| in CHF 1'000 | **2019** | **2018** | **+/- %** |
|---|---|---|---|
| Salaries (meeting attendances fees, fixed compensation, salaries and benefits) | -129'653 | -130'739 | -0.8% |
| - of which, expenses relating to share-based compensation and alternative forms of variable compensation | | | |
| Social insurance obligations | -10'101 | -9'629 | 4.9% |
| Other personnel expenses | -6'323 | -5'723 | 10.5% |
| **Total personnel expenses** | **-146'076** | **-146'091** | **0.0%** |

## 25 Breakdown of general and administrative expenses

| in CHF 1'000 | 2019 | 2018 | +/- % |
|---|---|---|---|
| Office space expenses | -21'252 | -21'778 | -2.4% |
| Expenses for information and communications technology | -14'689 | -11'288 | 30.1% |
| Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses | -5'315 | -6'234 | -14.7% |
| Fees of audit firm(s) | -2'188 | -2'205 | -0.7% |
| - of which for financial and regulatory audits | -1'528 | -1'862 | -18.0% |
| - of which for other services | -661 | -343 | 92.7% |
| Other operating expenses | -37'459 | -36'788 | 1.8% |
| **Total general and administrative expenses** | **-80'903** | **-78'293** | **3.3%** |

## 26 Breakdown of extraordinary income and expenses

| in CHF 1'000 | 2019 | 2018 | +/- % |
|---|---|---|---|
| **Extraordinary income** | | | |
| Release of provisions no longer required | | | |
| Profit on sale of fixed assets | 216 | 2'126 | -89.8% |
| Recoveries and others | 600 | 112 | 436.1% |
| **Total extraordinary income** | **817** | **2'238** | **-63.5%** |
| | | | |
| **Extraordinary expenses** | | | |
| Other | -3 | -33 | -90.4% |
| **Total extraordinary expenses** | **-3** | **-33** | **-90.4%** |

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

| in CHF 1'000 | Domestic 2019 | Foreign 2019 | Domestic 2018 | Foreign 2018 |
|---|---|---|---|---|
| Net result from interest operations | 15'472 | 264'424 | 15'445 | 195'036 |
| Result from commission business and services | 6'175 | 69'807 | 6'705 | 68'310 |
| Result from trading activities and the fair value option | -6'626 | 51'396 | 4'287 | -56'652 |
| Other result from other ordinary activities | 24'345 | -17'182 | 30'440 | -34'354 |
| Personnel expenses | -25'430 | -120'647 | -24'828 | -121'263 |
| General and administrative expenses | -17'364 | -63'540 | -14'546 | -63'747 |
| Value adjustments on participations, depreciation and amortisation on tangible fixed and intangible assets | -1'610 | -12'395 | -1'759 | -12'307 |
| Changes to provisions and other value adjustments, and losses | -20 | -555 | -144 | -2'273 |
| **Operating result** | **-5'057** | **171'309** | **15'600** | **-27'250** |
| Taxes | -2'136 | -55'441 | -2'924 | -19'318 |
| **Group profit** | **-6'863** | **98'410** | **12'750** | **66'950** |

## 28 Presentation of current taxes, deferred taxes and disclosure of the tax rate

| in CHF 1'000 | 2019 | 2018 | +/- % |
|---|---|---|---|
| Current tax expenses* | -54'192 | -18'152 | 198.5% |
| Deferred tax expenses | -3'384 | -4'090 | -17.3% |
| **Total taxes** | **-57'576** | **-22'242** | **158.9%** |
| | | | |
| Weighted average tax rate (on Group profit before taxes) | 28.7% | 28.9% | |

* The impact of changes in losses carried forward on income taxes (e.g. occurrence, use, reassessment, expiry) resulted in 0.2% higher 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 20 to 59 of the annual report) for the year ended 31 December 2019.

*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 2019 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 | Mirko Liberto |
| *Licensed Audit Expert* | *Licensed Audit Expert* |
| *Auditor in Charge* | |

Zurich, 29 April 2020

# Financial statements of the Parent Bank

# Balance sheet

| in CHF 1'000 | Note | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|---|
| **Assets** | | | | |
| Liquid assets | | 916'186 | 704'322 | 30.1% |
| Amounts due from banks | | 1'188'120 | 1'277'619 | -7.0% |
| Amounts due from customers | 2 | 772'107 | 838'471 | -7.9% |
| Mortgage loans | 2 | 225'049 | 267'265 | -15.8% |
| Positive replacement values of derivative financial instruments | 3 | 33 | 432 | -92.5% |
| Financial investments | 4 | 922'633 | 847'897 | 8.8% |
| Accrued income and prepaid expenses | | 34'668 | 31'977 | 8.4% |
| Participations | | 327'225 | 326'914 | 0.1% |
| Tangible fixed assets | | 28'417 | 30'879 | -8.0% |
| Other assets | 5 | 18'179 | 19'044 | -4.5% |
| **Total assets** | | **4'432'616** | **4'344'820** | **2.0%** |
| Total subordinated claims | | 30'419 | 24'983 | 21.8% |
| - of which subject to conversion and / or debt waiver | | | | |

| | | | | |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Amounts due to banks | | 93'144 | 66'848 | 39.3% |
| Liabilities from securities financing transactions | 1 | 20'000 | 5'000 | 300.0% |
| Amounts due in respect of customer deposits | | 3'297'574 | 3'280'119 | 0.5% |
| Negative replacement values of derivative financial instruments | 3 | 1'125 | 805 | 39.8% |
| Accrued expenses and deferred income | | 28'281 | 28'274 | 0.0% |
| Other liabilities | 5 | 14'410 | 15'209 | -5.3% |
| Provisions | 7 | 957 | 180 | 431.5% |
| Reserves for general banking risks | 7 | 441'158 | 441'273 | 0.0% |
| Bank's capital | 8 | 150'000 | 150'000 | 0.0% |
| Statutory retained earnings reserves | | 81'850 | 80'550 | 1.6% |
| Voluntary retained earnings reserves | | 246'449 | 233'166 | 5.7% |
| Profit carried forward | | 14'096 | 89 | |
| Profit | | 43'571 | 43'307 | 0.6% |
| **Total liabilities** | | **4'432'616** | **4'344'820** | **2.0%** |
| Total subordinated liabilities | | | | |
| - of which subject to conversion and / or debt waiver | | | | |

## *Off-balance sheet transactions*

| in CHF 1'000 | Note | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|---|
| **Off-balance sheet transactions** | | | | |
| Contingent liabilities | | 216'407 | 221'276 | -2.2% |
| Irrevocable commitments | | 1'060 | 1'096 | -3.3% |
| Credit commitments | 13 | 33'379 | 19'155 | 74.3% |

## *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 1'000 | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|
| Profit (result for the period) | 43'571 | 43'307 | 0.6% |
| Profit carried forward | 14'096 | 89 | |
| **Distributable profit** | **57'667** | **43'396** | **32.9%** |
| | | | |
| Appropriation of profit | | | |
| - Allocation to statutory retained earnings reserves | -1'300 | -1'300 | 0.0% |
| - Allocation to voluntary retained earnings reserves | -13'000 | -13'000 | 0.0% |
| - Distribution of dividend from distributable profit | -15'000 | -15'000 | 0.0% |
| **Profit carried forward** | **28'367** | **14'096** | **101.2%** |

# *Income statement*

| in CHF 1'000 | Note | 2019 | 2018 | +/- % |
|---|---|---|---|---|
| **Result from interest operations** | | | | |
| Interest and discount income | | 100'379 | 94'369 | 6.4% |
| Interest and dividend income from financial investments | | 27'842 | 25'580 | 8.8% |
| Interest expense | | -21'124 | -17'752 | 19.0% |
| **Gross result from interest operations** | | **107'097** | **102'197** | **4.8%** |
| | | | | |
| Changes in value adjustments for default risks and losses from interest operations | | 2'352 | -71'913 | -103.3% |
| **Subtotal net result from interest operations** | | **109'450** | **30'284** | **261.4%** |
| | | | | |
| **Result from commission business and services** | | | | |
| Commission income from securities trading and investment activities | | 4'655 | 4'714 | -1.3% |
| Commission income from lending activities | | 12'283 | 11'899 | 3.2% |
| Commission income from other services | | 18'118 | 19'040 | -4.8% |
| Commission expense | | -2'823 | -1'978 | 42.7% |
| **Subtotal result from commission business and services** | | **32'232** | **33'675** | **-4.3%** |
| | | | | |
| **Result from trading activities and the fair value option** | 15 | **2'091** | **12'768** | **-83.6%** |
| | | | | |
| **Other result from ordinary activities** | | | | |
| Result from the disposal of financial investments | | 225 | -881 | -125.5% |
| Income from participations | | 12'748 | 18'262 | -30.2% |
| Result from real estate | | | | |
| Other ordinary income | | 12'442 | 6'723 | 85.1% |
| Other ordinary expenses | | | -4'352 | -100.0% |
| **Subtotal other result from ordinary activities** | | **25'414** | **19'752** | **28.7%** |
| | | | | |
| **Operating income** | | **169'187** | **96'479** | **75.4%** |

| in CHF 1'000 | Note | 2019 | 2018 | +/- % |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Personnel expenses | 16 | -65'167 | -56'226 | 15.9% |
| General and administrative expenses | 17 | -42'793 | -46'905 | -8.8% |
| **Subtotal operating expenses** | | **-107'960** | **-103'131** | **4.7%** |
| | | | | |
| Value adjustments on participations, depreciation and amortisation on tangible fixed assets and intangible assets | | -4'470 | -4'002 | 11.7% |
| Changes to provisions and other value adjustments and losses | | -838 | -1'782 | -53.0% |
| | | | | |
| **Operating result** | | **55'919** | **-12'436** | **-549.7%** |
| | | | | |
| Extraordinary income | 18 | 475 | 133 | 257.1% |
| Extraordinary expenses | 18 | -4 | -33 | -88.4% |
| Changes in reserves for general banking risks | | 116 | 69'653 | -99.8% |
| Taxes | 19 | -12'935 | -14'010 | -7.7% |
| | | | | |
| **Profit** | | **43'571** | **43'307** | **0.6%** |

# *Statement of changes in equity*

| in CHF 1'000 | Bank's capital | Statutory retained earnings reserves | Reserves for general banking risks | Voluntary retained earnings and profit carried forward | Profit | Total |
|---|---|---|---|---|---|---|
| **At 1.1.18** | **150'000** | **80'500** | **510'926** | **233'202** | **8'429** | **983'057** |
| Transfer of profits to retained earnings | | 50 | | 300 | -350 | |
| 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 | | | | | 43'307 | 43'307 |
| **At 31.12.18** | **150'000** | **80'550** | **441'273** | **233'255** | **43'307** | **948'385** |
| **At 1.1.19** | **150'000** | **80'550** | **441'273** | **233'255** | **43'307** | **948'385** |
| Transfer of profits to retained earnings | | 1'300 | | 13'000 | -14'300 | |
| Currency translation differences | | | | 282 | | 282 |
| Dividends and other distributions | | | | 14'007 | -29'007 | -15'000 |
| Other allocations to / (transfers from) the reserves for general banking risks | | | -116 | | | -116 |
| Other allocations to / (transfers from) other reserves | | | | | | |
| Profit | | | | | 43'571 | 43'571 |
| **At 31.12.19** | **150'000** | **81'850** | **441'158** | **260'544** | **43'571** | **977'123** |

# *Notes to the parent bank financial statements*

Under Art. 36 of the Swiss Ordinance on Banks and Savings Banks, institutions that publish consolidated financial statements are exempt from disclosing certain information in the parent bank financial statements. The information relating to the portrait, the accounting and valuation principles, the explanations of risk management as well as the events after the balance sheet date disclosed in the consolidated financial statements apply to the financial statements of the parent bank.

The accounting and valuation principles of the parent bank are generally based on those from the Group.

## Information on the balance sheet

### 1 Breakdown of securities financing transactions

| in CHF 1'000 | **31.12.19** | **31.12.18** | **+/- %** |
|---|---|---|---|
| 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* | 20'000 | 5'000 | 300.0% |
| 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 | 20'000 | 5'000 | 300.0% |
| - of which with 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 Overview of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans / receivables

| | | Type of collateral | | | |
|---|---|---|---|---|---|
| in CHF 1'000 | | Secured by mortgage | Other collateral | Unsecured | Total |
| **Loans (before netting with value adjustments)** | | | | | |
| Due from customers | | 150'922 | 337'246 | 363'646 | 851'815 |
| Mortgage loans | | 264'143 | | | 264'143 |
| - Residential and commercial property | | 264'143 | | | 264'143 |
| - Commercial premises | | | | | |
| **Total loans (before netting with value adjustments)** | **31.12.19** | **415'066** | **337'246** | **363'646** | **1'115'958** |
| | 31.12.18 | 513'543 | 310'120 | 404'208 | 1'227'871 |
| | | | | | |
| **Total loans (after netting with value adjustments)** | **31.12.19** | **371'271** | **303'901** | **321'983** | **997'156** |
| | 31.12.18 | 462'971 | 285'531 | 357'234 | 1'105'736 |
| | | | | | |
| **Off-balance sheet** | | | | | |
| Contingent liabilities | | 5'010 | 100'910 | 110'486 | 216'407 |
| Irrevocable commitments | | | | 1'060 | 1'060 |
| Credit commitments | | 391 | 8'510 | 24'478 | 33'379 |
| **Total off-balance sheet** | **31.12.19** | **5'401** | **109'420** | **136'024** | **250'847** |
| | 31.12.18 | 6'408 | 121'723 | 113'396 | 241'527 |

| in CHF 1'000 | | Gross debt amount | Estimated liquidation value of the collateral | Net debt amount | Specific value adjustments |
|---|---|---|---|---|---|
| **Impaired loans / receivables** | | | | | |
| **Total impaired loans / receivables** | **31.12.19** | **106'417** | **42'864** | **63'553** | **64'545** |
| | 31.12.18 | 109'374 | 51'292 | 58'082 | 60'920 |

The Bourke's Luck Potholes, South Africa

## 3 Presentation of derivative financial instruments

| | Trading instruments | | |
|---|---|---|---|
| in CHF 1'000 | Positive replacement values | Negative replacement values | Contract volume |
| **Interest rate instruments** | | | |
| | | | |
| **Foreign exchange / precious metals** | | | |
| Forward contracts | 33 | 1'125 | 185'248 |
| | | | |
| **Equity interests / indices** | | | |
| | | | |
| **Credit derivatives** | | | |
| | | | |
| **Total before taking into consideration netting agreements** | | | |
| **Total at 31.12.19** | **33** | **1'125** | **185'248** |
| - of which determined by using a valuation model | | | |
| Total at 31.12.18 | 432 | 805 | 289'841 |
| - of which determined by using a valuation model | | | |

| in CHF 1'000 | | Positive replacement value (accumulated) | Negative replacement value (accumulated) |
|---|---|---|---|
| **After netting agreements** | | | |
| **Total** | **at 31.12.19** | **33** | **1'125** |
| | at 31.12.18 | 432 | 805 |

## Breakdown by counterparty

| in CHF 1'000 | | Central clearing parties | Banks and securities dealers | Other clients |
|---|---|---|---|---|
| **Positive replacement values (after netting agreements)** | | | | |
| **Total** | **at 31.12.19** | | **33** | |
| | at 31.12.18 | | 432 | |

The Parent Bank has no hedging instruments.

## 4 Financial investments

| | Book value | | Fair value | |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | **31.12.18** | **31.12.19** | **31.12.18** |
| **Debt instruments** | **920'983** | **846'271** | **932'069** | **838'475** |
| - of which intended to be held until maturity | 611'722 | 593'944 | 610'693 | 586'148 |
| - of which not intended to be held until maturity (available for sale) | 309'261 | 252'327 | 321'376 | 252'327 |
| **Equity interests** | **315** | **321** | **315** | **321** |
| **Precious metals** | **1'335** | **1'305** | **1'481** | **1'305** |
| **Real estate** | | | | |
| **Total** | **922'633** | **847'897** | **933'865** | **840'101** |
| - of which securities allowed for repo transactions in accordance with liquidity requirements | 100'822 | 111'786 | | |

### Counterparties by rating

| in CHF 1'000 | | AAA | AA | A | BBB | BB to B | Unrated |
|---|---|---|---|---|---|---|---|
| **Debt securities** | | | | | | | |
| **Book values** | **at 31.12.19** | **55'610** | **77'395** | **215'328** | **397'959** | **168'714** | **7'627** |
| | at 31.12.18 | 65'997 | 68'200 | 236'624 | 294'655 | 174'068 | 8'353 |

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

## 5 Other assets and other liabilities

| | Other assets | | Other liabilities | |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | **31.12.18** | **31.12.19** | **31.12.18** |
| Compensation account | | | | |
| Deferred income taxes recognised as assets | 13'598 | 12'944 | | |
| Others | 4'581 | 6'100 | 14'410 | 15'209 |
| **Total** | **18'179** | **19'044** | **14'410** | **15'209** |

## 6 Assets pledged or assigned to secure own commitments and assets under reservation of ownership*

| | Book value | | Effective commitments | |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | **31.12.18** | **31.12.19** | **31.12.18** |
| Amounts due from banks | 271 | 563 | 271 | 563 |
| Financial investments | | | | |
| **Total pledged / assigned assets** | **271** | **563** | **271** | **563** |
| | | | | |
| Assets under reservation of ownership | 70 | | 70 | |

* Excluding securities financing transactions

## 7 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

| in CHF 1'000 | **Balance at 31.12.18** | Use in conformity with designated purpose |
|---|---|---|
| Provisions for deferred taxes | | |
| Provisions for pension fund obligations | | |
| Provisions for latent credit risks | | |
| Provisions for other business risks | 180 | -42 |
| Provisions for restructuring | | |
| Other provisions | | |
| **Total provisions** | **180** | **-42** |
| | | |
| **Reserves for general banking risks** | **441'273** | |
| | | |
| **Value adjustments for default and latent credit risks** | **127'649** | **-1'740** |
| - of which value adjustments for default risks in respect of impaired loans / receivables | 60'920 | -1'740 |
| - of which value adjustments for default risks in respect of financial investments | 2'473 | |
| - of which value adjustments for latent credit risks | 64'256 | |

| | Reclassifications | Currency differences | Past-due interest, recoveries | New creations charged to income | Releases to income | **Balance at 31.12.19** |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | -20 | | 845 | -7 | 957 |
| | | | | | | |
| | | | | | | |
| | | **-20** | | **845** | **-7** | **957** |
| | | | | | | |
| | | | | | -116 | **441'158** |
| | | | | | | |
| | | **-2'210** | **5'142** | **6'835** | **-9'188** | **126'489** |
| | 155 | -1'129 | 5'142 | 4'186 | -2'989 | 64'545 |
| | | -95 | | 2'649 | -750 | 4'278 |
| | -155 | -987 | | | -5'448 | 57'666 |

## 8 Presentation of the Bank's capital

| | 31.12.19 | | | 31.12.18 | | |
|---|---|---|---|---|---|---|
| in CHF 1'000 | 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** |

## 9 Disclosure of holders of significant participations

| | 31.12.19 | | 31.12.18 | |
|---|---|---|---|---|
| in CHF 1'000 | 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.

## 10 Disclosure of own shares and composition of equity capital

| in CHF 1'000 | 31.12.19 | 31.12.18 | +/- % |
|---|---|---|---|
| Reserves for general banking risks | 441'158 | 441'273 | 0.0% |
| Bank's capital | 150'000 | 150'000 | 0.0% |
| Statutory retained earnings reserve | 81'850 | 80'550 | 1.6% |
| Voluntary retained earnings reserve | 246'449 | 233'166 | 5.7% |
| Profit carried forward | 14'096 | 89 | |
| Profit | 43'571 | 43'307 | 0.6% |
| **Total equity** | **977'123** | **948'385** | **3.0%** |

The Parent Bank does not hold any of its own shares.
The statutory retained earnings reserve cannot be distributed.

## 11 Amounts due from / to related parties

| | Amounts due from | | Amounts due to | |
|---|---|---|---|---|
| in CHF 1'000 | **31.12.19** | **31.12.18** | **31.12.19** | **31.12.18** |
| Holders of qualified participations | | | 108'500 | 104'157 |
| Group companies | 40'073 | 59'309 | 11'599 | 12'147 |
| Linked companies | | | | |
| Transactions with members of governing bodies | 1'632 | 2'146 | 7'938 | 15'844 |
| **Total** | **41'705** | **61'455** | **128'036** | **132'148** |

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

| | Net foreign exposures **31.12.19** | | Net foreign exposures **31.12.18** | |
|---|---|---|---|---|
| **Standard & Poor's rating** | in CHF 1'000 | Shares as % | in CHF 1'000 | Shares as % |
| AAA | 252'343 | 6.2% | 352'507 | 8.8% |
| AA+ to AA- | 636'957 | 15.7% | 603'432 | 15.1% |
| A+ to A- | 2'461'202 | 60.5% | 2'379'872 | 59.6% |
| BBB+ to BBB- | 73'842 | 1.8% | 81'771 | 2.1% |
| BB+ to B- | 607'512 | 14.9% | 530'157 | 13.3% |
| CCC | | | | |
| Unrated | 34'896 | 0.9% | 42'795 | 1.1% |
| **Total** | **4'066'752** | **100.0%** | **3'990'533** | **100.0%** |

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

## Information on the off-balance sheet transactions

### 13 Breakdown of credit commitments

| in CHF 1'000 | **31.12.19** | **31.12.18** | **+/- %** |
|---|---|---|---|
| Commitments arising from acceptances | 20'507 | 12'013 | 70.7% |
| Other credit commitments | 12'872 | 7'142 | 80.2% |
| **Total credit commitments** | **33'379** | **19'155** | **74.3%** |

### 14 Breakdown of fiduciary transactions

| in CHF 1'000 | **31.12.19** | **31.12.18** | **+/- %** |
|---|---|---|---|
| Fiduciary investments with third-party companies | 317'241 | 252'780 | 25.5% |
| Fiduciary investments with Group companies and affiliated companies | | | |
| Fiduciary loans | 2'498 | 2'648 | -5.7% |
| **Total fiduciary transactions** | **319'740** | **255'428** | **25.2%** |

## Information on the income statement

### 15 Breakdown of the result from trading activities and the fair value option

| in CHF 1'000 | 2019 | 2018 | +/- % |
|---|---|---|---|
| Result from trading activities from | | | |
| Interest rate instruments (incl. funds) | 29 | 7 | 308.8% |
| Unrealised forex gains / (losses) on reserves held in foreign currencies | -7'070 | 3'656 | -293.4% |
| Foreign exchange | 9'132 | 9'105 | 0.3% |
| **Total result from trading activities** | **2'091** | **12'768** | **-83.6%** |
| - of which from the fair value option on assets | 29 | 7 | 308.8% |

### 16 Breakdown of personnel expenses

| in CHF 1'000 | 2019 | 2018 | +/- % |
|---|---|---|---|
| Salaries and additional allowances | -56'046 | -48'578 | 15.4% |
| - of which expenses related to share-based compensation and alternative forms of variable compensation | | | |
| Social insurance obligations | -6'067 | -5'381 | 12.8% |
| Other personnel expenses | -3'054 | -2'267 | 34.7% |
| **Total personnel expenses** | **-65'167** | **-56'226** | **15.9%** |

### 17 Breakdown of general and administrative expenses

| in CHF 1'000 | 2019 | 2018 | +/- % |
|---|---|---|---|
| Office space expenses | -7'388 | -7'226 | 2.2% |
| Expenses for information technology and telecommunications | -8'829 | -5'930 | 48.9% |
| Expenses for motor vehicles, machinery, furniture and other equipment and operating lease expenses | -519 | -415 | 25.0% |
| Fees of audit firm(s) | -1'161 | -1'372 | -15.4% |
| - of which for financial and regulatory audits | -833 | -1'185 | -29.7% |
| - of which for other services | -328 | -186 | 75.8% |
| Other operating expenses | -24'896 | -31'962 | -22.1% |
| **Total general and administrative expenses** | **-42'793** | **-46'905** | **-8.8%** |

## 18 Analysis of extraordinary income and expenses

| in CHF 1'000 | 2019 | 2018 | +/- % |
|---|---|---|---|
| **Extraordinary income** | | | |
| Profit on sale of fixed assets | 8 | 22 | -65.8% |
| Recoveries and others | 467 | 111 | 321.1% |
| **Total extraordinary income** | **475** | **133** | **257.1%** |
| | | | |
| **Extraordinary expenses** | | | |
| Other | -4 | -33 | -88.4% |
| **Total extraordinary expenses** | **-4** | **-33** | **-88.4%** |

## 19 Presentation of current taxes, deferred taxes and disclosure of the tax rate

| in CHF 1'000 | 2019 | 2018 | +/- % |
|---|---|---|---|
| Current tax expenses * | -13'812 | -15'134 | -8.7% |
| Deferred tax expenses | 877 | 1'124 | -22.0% |
| **Total taxes** | **-12'935** | **-14'010** | **-7.7%** |
| | | | |
| Weighted average tax rate (on profit before taxes) | 21.3% | 26.0% | |

* The impact of changes in losses carried forward on income taxes (e.g. occurrence, use, reassessment, expiry) resulted in 2.5% higher income taxes for the period.

Waterfall Kilt Rock,
Isle of Skye, Scotland,
UK

# 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 62 to 80 of the annual report) for the year ended 31 December 2019.

*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 2019 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, 29 April 2020

# *Addresses*

## Head Office and operation

| | | |
|---|---|---|
| | | Habib Bank AG Zurich |
| | | Weinbergstrasse 59, PO Box 225 |
| | | 8042 Zurich / Switzerland |
| | Telephone: | (+4144) 269 45 00 |
| | Email: | infoch@habibbank.com |

## Branches

| | | |
|---|---|---|
| **United Arab Emirates** | | Habib Bank AG Zurich |
| | | Umm Al Sheif |
| | | Sheikh Zayed Road |
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| | | Dubai / UAE |
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