Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

50 YEARS

BUILDING TOGETHER

Habib Bank AG Zurich

SINCE 1967

Habib Bank AG Zurich

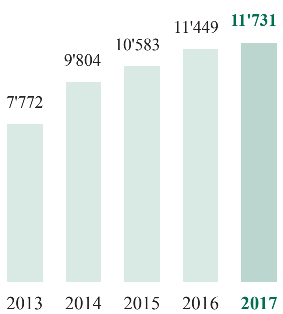
Annual Report 2017

Table of contents

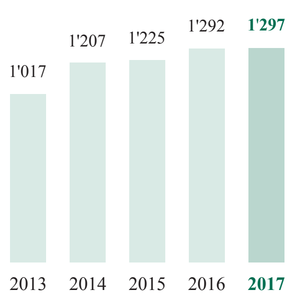
*Group key figures**

in CHF million	31.12.13	31.12.14	31.12.15	31.12.16	31.12.17
Balance sheet					
Total assets	7'772	9'804	10'583	11'449	11'731
Equity	1'017	1'207	1'225	1'292	1'297
Advances customers	2'871	3'408	3'195	3'319	3'557
Deposits customers	6'398	8'018	8'696	9'314	9'393
Income statement					
Total income[1]	253.9	418.9	397.2	374.3	333.1
Operating expenses	175.1	178.3	194.0	204.5	220.7
Operating result	55.1	207.8	148.2	123.1	85.9
Group profit / loss	28.6	77.6	88.2	92.4	60.5

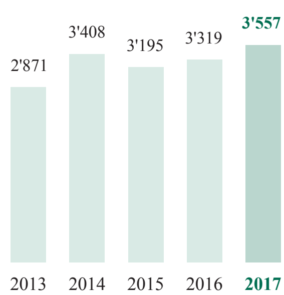
Total assets, in CHF million



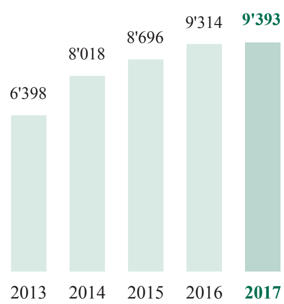
Equity, in CHF million



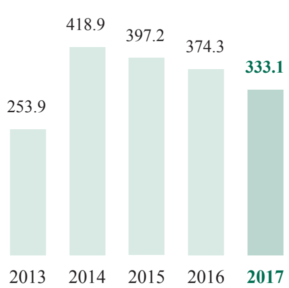
Advances customers, in CHF million



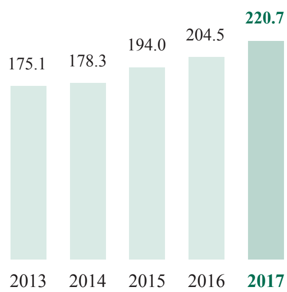
Deposits customers, in CHF million



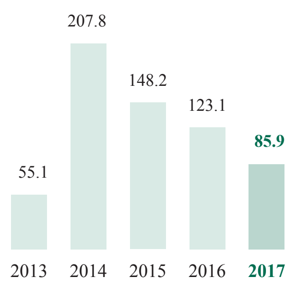
Total income[2], in CHF million



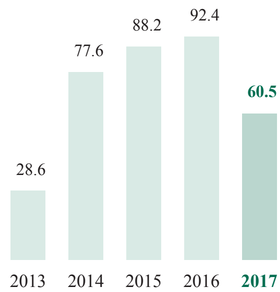
Operating expenses, in CHF million



Operating result, in CHF million



Group profit / loss, in CHF million

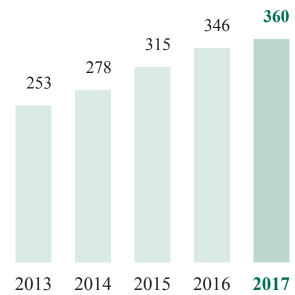


* Effective 1 January 2013, the Group adopted the new accounting principles in accordance of FINMA Circular 2015/1 "Accounting - Banks"

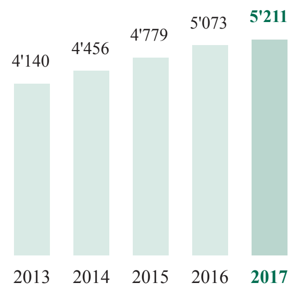
[1] Including "Gross result from interest operations", "Result from comission business and services", "Result from trading activities and the fair value option" and "Other result from ordinary activities"

	31.12.13	31.12.14	31.12.15	31.12.16	31.12.17
Key figures and ratios					
Number of offices	253	278	315	346	360
Number of employees	4'140	4'456	4'779	5'073	5'211
Return on equity (ROE) (%)[1]	2.8%	7.0%	7.3%	7.3%	4.7%
Equity ratio (%)	13.1%	12.3%	11.6%	11.3%	11.1%
Cost / income ratio (%)	69.0%	42.6%	48.8%	54.6%	66.3%
Capital ratio (%)[2]	21.0%	19.5%	19.9%	19.7%	19.4%

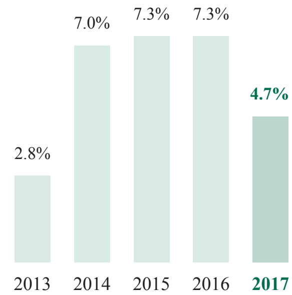
Number of offices



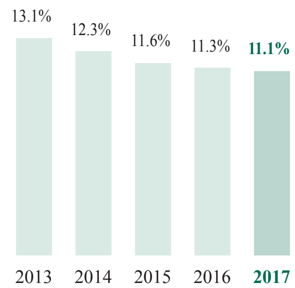
Number of employees



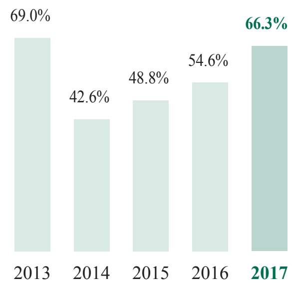
Return on equity (ROE) (%)[1]



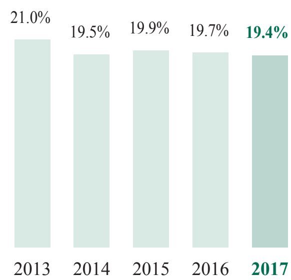
Equity ratio (%)



Cost / income ratio (%)



Capital ratio (%)[2]



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

[2] Since 1 January 2013, capital adequacy has been determined in accordance with the standards in the "Basel III Accord"

Joint-letter from the Chairman and the President

It is our pleasure to present you with the 50th Annual Report of Habib Bank AG Zurich, based on the accounting principles issued by the Swiss Financial Market Supervisory Authority.

2017 was a particularly exciting year as it saw the Group celebrate its golden jubilee in four countries: Switzerland (Zurich), United Kingdom (London), South Africa (Johannesburg & Durban) and United Arab Emirates (Dubai). The year was unfortunately also marked by the passing of one of our members of the Board of Directors, Ray Barnes. We are grateful for his professional, competent and valuable contribution over the last few years.

2017 was also a challenging business year. While interest rates increased slightly in many countries, the USD depreciated significantly against the CHF, which negatively impacted Group profitability. The Group also invested substantial resources in enhancing its technology infrastructure and implementing risk-mitigating solutions. The Group maintained its conservative lending policy by exerting a high degree of discipline. This policy was characterized by a large proportion of fully secured and relatively short-term loans. As a result, advances to clients increased to 38% of deposits from clients. The remaining liquidity was placed on the interbank market or invested in investment grade bonds in order to maintain a high liquidity ratio. The Group continues to operate its business with a capital ratio of 19.4%, a very strong capital base.

The Board of Directors has proposed that out of the profit for the year ending 31 December 2017 and carry-over profit from last year adding up to a distributable amount of CHF 8'439'443, the following appropriations should be made:

- Allocation to statutory retained earnings reserves	CHF	50'000
- Allocation to voluntary retained earnings reserves	CHF	300'000
- Distribution of dividend from distributable profit	CHF	8'000'000
- Profit and loss carried forward	CHF	89'443

We would like to thank our clients for their loyalty to Habib Bank AG Zurich and for the trust they placed in us in 2017. We also owe our gratitude to all our employees for their ongoing commitment and contribution to the success of Habib Bank AG Zurich.

Dr. Andreas Länzlinger
Chairman of the Board of Directors

Muhammad H. Habib
President

Habib Bank AG Zurich

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

The Bank has its Head Office and operation in Zurich and branches in the United Arab Emirates and Kenya. The Bank controls five wholly owned subsidiaries: Habib Bank Zurich Plc, United Kingdom, Habib Canadian Bank, Canada, HBZ Bank Limited, South Africa, HBZ Services FZ-LLC, United Arab Emirates and HBZ Services AG, Switzerland. The Bank has a 51% ownership interest in Habib Metropolitan Bank Ltd., Pakistan and Habib Bank Zurich (Hong Kong) Ltd., Hong Kong (collectively the "Group").

The Bank and the 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 core values of the Group are: trust, integrity, commitment, respect, responsibility and teamwork.

The Group places a strong emphasis on personalized service. Its branches and subsidiaries span eight countries over four continents. As of the end of 2017, headcount totaled 5'211 staff distributed among 360 offices, strategically situated to provide exceptional service to our local and international clientele. 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
Dr. Marco Duss	Member	Chairman	
Ursula Suter	Member		Chairwoman
Dr. Stephan Thaler	Member	Member	

In November 2017, our well-respected Board Member, Ray Barnes, sadly passed away.

Dr. Andreas Länzlinger
Swiss, born 1959

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

Professional history and education

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

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

Corporate Governance

Urs W. Seiler
Swiss, born 1949

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

Professional history and education

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

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

Dr. Marco Duss
Swiss, born 1943

Member of the Board of Directors
Chairman of the Audit Committee

Professional history and education

Marco Duss was elected to the Board of Directors of Habib Bank AG Zurich at the 1994 Annual General Meeting and has been Chairman of the Audit Committee since its inception in 2008.

Marco Duss joined ADB Altorfer Duss & Beilstein AG (formerly Trust Company Dr. Krauer & Dr. Altdorfer) in 1973 and became Partner in 1975, where he worked in all areas of corporate tax law, including restructurings, takeovers and financing concepts (i.e. syndicated loans, asset securitisation). His areas of expertise include tax aspects of trust structures, collective investments and employee stock option plans. He has published numerous articles on Swiss and international tax law and has held lectures in this field. He started his professional career in 1969 in the legal department of EY (formerly ATAG EY) in Zurich. Marco Duss completed his studies in Law from the University of Zurich in 1969 and graduated with a Doctorate in Law (Dr. iur.) in 1972. He is a Swiss Certified Tax Expert (VSB) and member of EXPERTsuisse since 1979.

Ursula Suter
Swiss, born 1954

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

Professional history and education

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

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

Corporate Governance

Dr. Stephan Philipp Thaler
Swiss, born 1962

Member of the Board of Directors
Member of the Audit Committee

Professional history and education

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

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

Elections and terms of office

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

Organizational principles and structure

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

Corporate Governance

General Management

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

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

Members of General Management

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

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

Muhammad H. Habib
Swiss, born 1959

President

Professional history and education

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

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

Mohamedali R. Habib
Canadian, born 1964

Group CEO

Professional history and education

Mohamedali R. Habib became a member of the 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.

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

Corporate Governance

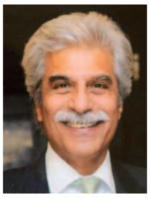
Rajat Garg
Singaporean, born 1963

Member of General Management and Head of Developed Markets

Professional history and education

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

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



Anjum Iqbal
British, born 1952

Member of General Management and Head of Emerging Markets

Professional history and education

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

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

Walter Mathis
Swiss, born 1961

Member of General Management and Head of Shared Services

Professional history and education

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

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

Corporate Governance

Management of the branch network

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

Management of the subsidiaries

Name	Born	Citizenship	Function	Country
Muslim Hassan	1955	Canadian	Chief Executive Officer	Canada
Zafar Khan	1952	South African	Chief Executive Officer	South Africa
Sirajuddin Aziz	1956	Pakistani	Chief Executive Officer	Pakistan
Ikram Quraishi	1948	USA	Chief Executive Officer	Hong Kong
Satyajeet Roy	1967	British	Chief Executive Officer	United Kingdom

Group Support Functions

Name	Born	Citizenship	Function
Haja Alavudeen	1966	Indian	Head of Group Information & Technology Risk
Rizwan Arain	1969	Pakistani	Head of Group Information & Technology Risk
Umair Chaudhary	1968	British	Group Chief Operating Officer
Adnan Fasih	1967	Pakistani	Head of Group Islamic Banking
Felix Gasser	1959	Swiss	Head of Group Risk Control
Dr. Sitwat Husain	1964	Pakistani	Head of Group Human Resources
Arif Lakhani	1945	Pakistani	Head of Group Wealth Management
Dr. Pascal Mang	1964	Swiss	Head of Group Legal & Compliance
Alfred Merz	1962	Swiss	Head of Group Financial Control
Atif Mufti	1973	Pakistani	Head of Group Operations
Uzma Murshed	1970	Pakistani	Head of Group Operational Risk
Syam Pillai	1962	Indian	Head of Group Information Technology
Sibel Sanus	1954	Turkish	Head of Group Financial Institutions
Ralph Schneider	1964	Swiss	Head of Group Credit

Group Internal Audit

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

Directors' report

Economic environment

In 2017 the world economy recorded the strongest rate of growth seen in more than five years as the expansion took hold in all major economic regions. Having bottomed out in late 2016, global trade growth also accelerated, propped up by the sustained upturn of the manufacturing cycle and strong consumer demand in advanced economies. Inflationary pressures remained moderate, although the sustained uptick in commodity prices started to lift headline rates in many economies. In a context of strong growth and modest inflation, several G10 central banks joined the US Fed in removing some monetary stimulus. Nevertheless, overall monetary conditions remained highly accommodative. Having reached a new multi-year high on a trade-weighted basis in late 2016, the USD reversed course during the year. Better economic prospects in the eurozone and receding fears about Brexit buoyed the EUR and GBP, in particular. However, the strong global growth outlook pushed the USD lower against many emerging market currencies.

Pakistan again reported the highest level of growth among the Group's largest markets. This result was achieved in spite of the widespread paralysis inflicted on the political process as a result of the investigations into the business dealings of its former Prime Minister, which resulted in his disqualification. The current government has been mainly concerned with preparing the ground for the general elections in 2018. While the domestic economy continued to benefit from investments within the context of CPEC (China-Pakistan Economic Corridor) and strong consumer demand, the trading sector continues to suffer from an overvalued currency. As a result, external imbalances deteriorated futher, while imports soared. Only late into the year did the government agree to a devaluation of 5 percent against the USD. The State Bank of Pakistan left its key policy rate unchanged, but yields on the government bond market started to rise from July 2017 onward in anticipation of higher inflation and further currency depreciation.

The rebound in oil prices helped stabilize the economy of the United Arab Emirates in 2017 despite the continued weakness in the real estate market (a mainstay of the non-oil sector). However, overall economic growth slowed further compared with the previous year, hitting its lowest level since the global recession in 2009. The government kept up its efforts to consolidate public finances, and a value added tax was announced to take effect in 2018. Meanwhile, interest rates rose in line with higher USD rates due to the currency peg.

South Africa started the year with the economy in recession, and activity recovered only sluggishly thereafter. The economy remained hamstrung by numerous structural and governance issues. In particular, the dismissal of the Minister of Finance in March raised widespread concerns about the country's longer-term financial stability. Inflation hovered at levels which did not allow the Reserve Bank to cut its policy rate more than once, which proved insufficient to provide a significant boost to the domestic economy. However, external balances improved substantially, as exports soared and the current account deficit narrowed to its lowest level in five years.Toward the end of year, signs began to emerge that business activity was reviving. The ZAR rallied when Cyril Ramaphosa was chosen to lead the ANC as its leader, opening the way to a more reform-friendly government.

Despite the uncertainty created by the decision to leave the EU, the UK economy performed surprisingly well, with growth only marginally below last year. Inflation picked up following the sharp depreciation of the GBP after the Brexit vote, prompting the Bank of England (BoE) to reverse the rate cut implemented in the wake of the EU referendum and to raise the base rate for the first time in ten years. The Conservative Party lost its majority in the June general elections, weakening the position of Prime Minister Theresa May, who was only able to form a minority government thanks to the support of the Democratic Union Party. The election outcome complicated Brexit negotiations with the EU, but in December the EU and UK agreed on some basic principles, including a transition period until the end of 2020 to start at the end of British membership in March 2019.

The Swiss economy continued to expand around its long-term potential despite a weak performance in the first half of 2017. The upswing in the eurozone as well as the weaker CHF against EUR propped up manufacturing and added to growing exports. Inflation remained subdued and well below the Swiss National Bank’s measure of price stability, leaving monetary policy unchanged. The stronger EUR reduced the need for the Swiss National Bank to intervene in the currency markets.

Events surrounding the presidential elections dominated developments in Kenya in 2017. Following a Supreme Court ruling alleging multiple irregularities in the first vote, the election was repeated and subsequently confirmed the victory of incumbent President Kenyatta. In an environment of heightened uncertainty, economic activity suffered and growth slowed to just 5% despite a notable recovery in tourism. With inflation returning only slowly to its target range, the Central Bank left the policy rate unchanged throughout the year.

Economic activity in Hong Kong was positive due to an increase in private consumption, strong domestic demand and a rebound in tourism. The property sector activity troughed in late 2017. Foreign trade received a boost from a better global trading environment, as growth in mainland China remained robust and the USD weakness translated into a competitive HKD.

Canada's economy grew at close to 3% in 2017, the fastest pace in over five years, fueled by robust domestic and export demand. In response to an economy operating close to capacity, the Bank of Canada hiked its policy rate twice in quick succession during the summer months. Higher commodity prices and the weaker USD lifted the CAD, notwithstanding the uncertain outlook for the renegotiations of the NAFTA.

Banking sector

The strong global backdrop supported banking sector activity across the globe, and generally higher short-term rates combined with greater volumes led to improved interest margins and overall performance. The USD 3-month LIBOR rate rose to the highest level since the financial crisis of 2008, as the front-end of the yield curve moved up in response to further tightening by the US Federal Reserve. The banking industry also continued to be faced by a number of challenges, such as the ongoing implementation of far-reaching regulatory demands (i.e. the Common Reporting Standards under the OECD agreement on the Automatic Exchange of Information and the IFRS9 accounting rules).

The dynamics of lending activities varied greatly across the Group’s markets. In Pakistan, credit expansion continued in the low double digits at a rate well above nominal GDP growth, whereas in the UAE the rate slowed to a mere 2 percent. In the UK, credit demand eased over the course of the year, as macro-prudential measures taken by the BoE impacted the mortgage market and Brexit-related uncertainty affected lending to the business sector.

Operational performance and outlook

Income statement

The principal goals of the Group’s strategy in 2017 has been to address evolving client expectations, make on-going investments in new technologies and to expand our branch network. While the Group's strategy progressed well, the Group posted a profit of CHF 60.5 million in 2017, which represents a CHF 32 million decrease from 2016. Costs related to the strategy implementation as well as losses from the translation of financial statements of branches in the consolidated accounts (CHF 21 million) adversely impacted profitability.

"Gross result from interest operations" increased by CHF 31.7 million (13.2%) compared to 2016. The positive development of the gross result was supported by the reduction in interest expenses for customer deposits, which fell by 6.3%. By contrast, increasing interest rates in Pakistan impacted the "Result from trading activities and the fair value option", leading the Group to report a loss of CHF 20.3 million. This result includes revaluation losses on "Other financial instruments at fair value" of CHF 22.5 million.

As a result of improving macroeconomic conditions in countries where the Group is active, "Changes in value adjustments for default risks and losses from interest operations" dropped significantly by CHF 31.5 million to CHF 9 million. The "Gross debt amount for impaired loans / receivables" of CHF 357.1 million decreased by 10%. Of this amount, 98.3% was covered either by collaterals (at estimated liquidation value) or by individual value adjustments, totaling CHF 213.8 million in 2017 (see page 35). This is testament to the Group's prudent provision policy for impaired loans.

"Operating expenses" of CHF 220.7 million were CHF 16.2 million (7.9%) higher than in 2016. The main reasons for this increase were:

- "Personnel expenses" of CHF 145.4 million increased by CHF 7.9 million compared to 2016, reflecting salary increments for existing employees and the growth of the average number of employees in 2017. The average number of employees in 2017 was 5'142, compared to 4'926 in 2016.

- The increased costs for "General and administrative expenses", up by CHF 8.3 million or 12.4%, are attributable to the Group's commitment to investing in systems, technology infrastructure enhancements and risk-mitigating solutions, combined with the expansion of its branch network. The largest single increase of CHF 2.6 million (25%) is related to improvements in the Group's "Expenses for information and communication technology", while CHF 2.5 million (13%) is related to increases in "Office space expenses" (see page 56).

In 2017 the Group released reserves of CHF 12.9 million under "Changes in reserves for general banking risks". This release was to partially offset the creation of respective reserves created in 2014 totalling CHF 76.6 million, of which CHF 46.6 million were related to revaluation reserves on fair value investments.

The decrease of "Taxes" from CHF 52.9 million in 2016 to CHF 40.2 million in 2017 was a result of the lower level of Group profit, representing a 46.9% (previous year: 43%) average tax rate compared to the "Operating result" of CHF 85.9 million (previous year: CHF 123.1 million). The substantial swing in the average tax rate compared to last year is attributable mainly to the above-mentioned profits or losses for the translation of financial statements of branches in the consolidated accounts, which are reflected in the "Operating result" but have no impact on "Taxes".

Balance sheet

The balance sheet totaled CHF 11'731 million, which represents an increase of CHF 282 million or 2.5% compared to 2016. Excluding FX exchange developments against CHF, the increase in the balance sheet would have been 9%.

"Liquid assets" decreased by CHF 67 million (5%), amounting to CHF 1'233 million in 2017. The decrease was mainly related to lower balances with central banks in countries where the Group is active.

"Total loans" with customers increased by CHF 238.6 million (7.2%) compared to 2016 (see note 2). Within this development, loans with "Mortgage coverage" increased by CHF 205.4 million (14.1%) in various countries.

"Other financial instruments at fair value" and "Financial investments" increased by CHF 549 million (13.4%) to CHF 4'648 million. About 99.5% of this total is invested in debt instruments, mainly with sovereign counterparties of countries where the Group is active.

"Amount due in respect of customer deposits" increased by CHF 78.4 million (0.8%) year-on-year, based on increases in most markets.

Capital and liquidity

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

The capital adequacy ratio at Bank level is 27.1%, while at Group level it is 19.4%. The liquidity coverage ratio decreased to 116% at Bank level and 112% at Group level (for further details, please see the annual Basel III Year 2017 Disclosure, www.habibbank.com/Group Financials).

Risk assessment

The Board of Directors conducted a risk assessment of major risk exposures of the Bank and the Group in 2017.

Operations

2017 was a very exciting year as it saw the Group celebrate its golden jubilee in four countries: Switzerland (Zurich), United Kingdom (London), South Africa (Johannesburg & Durban) and the United Arab Emirates (Dubai). The photographes in this Annual Report provide an overview of some of the events held to mark our 50th anniversary. Moreover, in 2017 the Group was able to further implement the goals of its Strategic Plan 2013-2020, with a focus on addressing and providing new products for evolving client demands and further expanding the branch network.

Following the outstanding success of Sharia-compliant banking brand SIRAT, its global launch was held in the United Arab Emirates in March 2017 at a prominent ceremony in Dubai. In addition, the Habib Metropolitan Bank Ltd. has acquired the management rights and 10 percent of the certificates of "First Habib Modaraba (FHM)". FHM is a perpetual, multi-purpose modaraba company engaged in the business of Islamic financing, with its registered office in Karachi. During 2017 the Group also expanded its network with 14 new branches, taking it to a total of 360 worldwide.

Habib Bank Zurich Plc in London is now a direct and settlement participant in the cheque image clearing service in the UK that went live in October 2017. Habib Bank Zurich Plc is now a member, along with 15 banks with full capabilities of inward and outward cheque clearing. Habib Bank AG Zurich in Switzerland also became a market leader in 2017 for trade finance services to Swiss companies for their exports to South Asia.

The Group has additionally stepped up efforts in terms of IT security and cyber crime by investing in systems, technology infrastructure enhancements and risk-mitigating solutions. In 2017 the Group implemented technological upgrades in SWIFT and other operating systems. A major milestone in this area was the migration of the central datacenter to new premises. Another area of focus was information security risk management, which saw the implementation of new solutions for security information and event management, vulnerability management and penetration testing, supported by third party application risk assessments.

Outlook

The Group forecasts another challenging year in 2018, with higher interest rates and a further acceleration in global growth. Consequently, the Group expects to reap benefits from this growth, propelled by its international presence, strong reputation and client loyalty. Habib Bank AG Zurich will continue to host 50th anniversary celebrations in 2018 in its remaining countries (Hong Kong, Pakistan, Kenya and Canada).

In line with its strategic plan, the Group plans to roll out Shariah-compliant banking products through the SIRAT platform in other key markets of its operations, and to bundle activities in the aim of building and consolidating global relationships with other financial banking industry participants. Another key priority is the personalized secure relationship with our clients in wealth planning, advisory services and products, where the evolving needs and more exacting expectations on the part of clients will be supported by continuous investments in existing and new technologies. Notwithstanding the technological landscape, personal communication shall endure as the foundation for the Group's relationships with its valued clientele.

The Group consolidated its international presence in eight countries across four continents, supported by a total workforce exceeding 5'200 employees. The Group also continues to promote a diverse and inclusive culture through its 31 different nationalities, all of whom share and uphold our core values of trust, integrity, commitment, respect, responsibility and teamwork. Our employees are continuously encouraged to exhibit these values in their business processes as well as in their relationships.

In order to build and sustain our future leadership pipeline, both succession planning as well as talent development were given due emphasis and consideration. The latter was augmented through both internal and external training, as well as through further investments in our e-learning platform.

The Group continues to be committed not only to its legal and statutory obligations, but also to the positive promotion of equal opportunity in all aspects of employment.

United Arab Emirates

Balance sheet
(before appropriation)

in CHF 000's	Note	31.12.17	31.12.16
Assets			
Liquid assets		1'233'777	1'300'845
Amounts due from banks		1'941'838	2'350'594
Amounts due from securities financing transactions	1	3'074	6'238
Amounts due from customers	2	2'996'119	2'736'903
Mortgage loans	2	561'326	581'972
Trading portfolio assets	3		143
Positive replacement values of derivative financial instruments	4	29'368	10'340
Other financial instruments at fair value	3	3'166'719	2'781'867
Financial investments	6/7	1'481'118	1'316'772
Accrued income and prepaid expenses		149'987	196'107
Non-consolidated participations	9	88	88
Tangible fixed assets	10	86'697	87'975
Intangible assets	11	369	1'713
Other assets	12	80'630	77'672
Total assets		**11'731'110**	**11'449'229**

in CHF 000's	Note	**31.12.17**	**31.12.16**
Liabilities			
Amounts due to banks		577'180	427'581
Liabilities from securities financing transactions	1	252'217	132'764
Amounts due in respect of customer deposits		9'392'695	9'314'314
Negative replacement values of derivative financial instruments	4	18'522	10'918
Accrued expenses and deferred income		156'202	231'346
Other liabilities	12	31'818	33'388
Provisions	15	5'940	6'815
Reserves for general banking risks	15	540'877	545'708
Bank's capital		150'000	150'000
Retained earnings reserves		353'171	286'015
Currency translation reserves		-34'260	2'038
Minority interest in equity		226'277	215'909
Group profit / loss		60'471	92'433
- of which minority interests in group profit / loss		29'161	29'224
Total liabilities		**11'731'110**	**11'449'229**
Off balance sheet transactions			
Contingent liabilities	2, 22	1'410'767	1'382'463
Irrevocable commitments	2	1'252	1'380
Credit commitments	2, 23	188'833	175'762

Income statement

in CHF 000's	Note	2017	2016
Result from interest operations			
Interest and discount income		236'965	227'877
Interest and dividend income from financial investments		253'854	246'020
Interest expense		-219'515	-234'320
Gross result from interest operations		**271'304**	**239'577**
Changes in value adjustments for default risks and losses from interest operations		-9'013	-40'579
Subtotal net result from interest operations		**262'291**	**198'998**
Result from commission business and services			
Commission income from securities trading and investment activities		6'246	5'893
Commission income from lending activities		28'542	28'469
Commission income from other services		50'315	47'505
Commission expense		-6'135	-5'542
Subtotal result from commission business and services		**78'968**	**76'325**
Result from trading activities and the fair value option	25	**-20'291**	**57'259**
Other result from ordinary activities			
Result from the disposal of financial investments		247	33
Result from real estate		560	690
Other ordinary income		9	
Other ordinary expenses		2'272	446
Subtotal other result from ordinary activities		**3'088**	**1'169**

in CHF 000's	Note	2017	2016
Operating expenses			
Personnel expenses	26	-145'401	-137'523
General and administrative expenses	27	-75'280	-66'960
Subtotal operating expenses		**-220'681**	**-204'483**
Value adjustments on participations, depreciation and amortisation on tangible fixed and intangible assets		-15'125	-13'946
Changes to provisions and other value adjustments, and losses		-2'349	7'761
Operating result		**85'901**	**123'083**
Extraordinary income	28	2'011	1'574
Extraordinary expenses	28	-131	
Changes in reserves for general banking risks		12'944	20'643
Taxes	30	-40'254	-52'867
Group profit / loss		**60'471**	**92'433**
- of which minority interests in group profit / loss		29'161	29'224

Cash flow statement

in CHF 000's	2017 Source of funds	2017 Use of funds	2016 Source of funds	2016 Use of funds
Cash flow from operating activities	**152'579**	**207'092**	**279'072**	**167'024**
Group profit for the period	60'471		92'433	
Change in reserves for general banking risks		12'944		20'643
Value adjustments on participation depreciations and amortisation on tangible fixed assets and intangible assets	15'125		13'946	
Provisions and other value adjustments	2'561	3'436	514	11'690
Changes in value adjustments for default risks and losses	28'302	74'157	57'935	33'752
Currency translation reserves		3'858	25'843	
Accrued income and prepaid expenses	46'120			72'484
Accrued expenses and deferred income		75'144	88'401	
Previous year's dividend		37'553		28'455
Cash flow from shareholders' equity transaction				
Bank's capital				
Recognised in reserves				
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets	**8'012**	**22'170**	**2'439**	**14'816**
Change in scope of consolidation		1'958		
Non-consolidated participations				
Real estate	6'545	5'850	2'346	3'810
Other tangible fixed assets	1'467	13'993	93	11'006
Intangible assets		369		

in CHF 000's	2017 Source of funds	2017 Use of funds	2016 Source of funds	2016 Use of funds
Cash flow from the banking operations				
Medium to long-term business (> 1 year)	**205'973**	**155'706**	**36'080**	**629'542**
Amounts due to banks				
Amounts due in respect of customer deposits		46'740		705
Other liabilities		1'570		1'945
Amounts due from banks		79		17
Amounts due from customers	50'558	38'958		117'088
Mortgage loans		65'401	36'080	
Other financial instruments at fair value				
Financial investments	155'415			506'897
Other assets		2'958		2'889
Short-term business	**899'966**	**948'630**	**1'304'667**	**552'746**
Amounts due to banks	149'599		45'633	
Liabilities from securities financing transactions	119'453		59'818	
Amounts due in respect of customer deposits	125'121		619'265	
Negative replacement values for derivative financial instruments	7'604			
Amounts due from banks	408'835		119'803	
Amounts due from securities financing transactions	3'164			6'238
Amounts due from customers		220'258	130'846	
Mortgages loans	86'047	4'731		197'528
Trading portfolio assets	143			45
Positive replacement values for derivative financial instruments		19'028		2'248
Other financial instruments at fair value		384'852		343'910
Financial investments		319'761	329'302	
Currency differences				2'777
Liquidity	**67'068**			**258'130**
Liquid assets	67'068			258'130
Total	**1'333'598**	**1'333'598**	**1'622'258**	**1'622'258**

Statement of changes in equity

in CHF 000's	Bank's capital	Retained earnings reserves	Reserves for general banking risks	Currency translation reserves	Minority interest in equity	Group profit or loss	Total
Equity at 01.01.17	**150'000**	**286'015**	**545'708**	**2'038**	**215'909**	**92'433**	**1'292'103**
Transfer of profits to retained earnings		63'209			29'224	-92'433	
Change in scope of consolidation					26'264		26'264
Currency translation differences		21'947		-36'298	-17'454		-31'805
Dividends and other distributions		-18'000			-19'553		-37'553
Other allocations to (transfers from) the reserves for general banking risks			-4'831		-8'113		-12'944
Other allocations to (transfers from) other reserves							
Group profit / loss						60'471	60'471
Equity at 31.12.17	**150'000**	**353'171**	**540'877**	**-34'260**	**226'277**	**60'471**	**1'296'536**

United Kingdom

Notes to the consolidated financial statements

Accounting and valuation principles

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

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

Consolidation principles

Scope of the consolidation

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

Method of consolidation

The Group's capital consolidation follows the purchase method.

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

Consolidation period

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

Foreign currency translation

In the financial statements of individual Group companies and branches, income and expenditure in foreign currencies are translated at the exchange rate ruling as at 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 at 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 the 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:

	31.12.17	**31.12.16**
1 USD	0.98	1.03
1 GBP	1.32	1.26
100 AED	26.62	27.93
100 PKR	0.88	0.98
100 ZAR	7.90	7.46

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

	31.12.17	**31.12.16**
1 USD	0.99	0.99
1 GBP	1.27	1.34
100 AED	26.85	26.94
100 PKR	0.94	0.94
100 ZAR	7.42	6.74

Valuation and accounting principles

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

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

Recording of transactions

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

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

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

Amounts due from and liabilities from securities financing transactions

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

Amounts due from customers and mortgage loans

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

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

Value adjustments for default risks

Receivables where it is considered unlikely that the debtor will fulfill his obligations are considered at risk. In particular, receivables where 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 value adjustment against the capital amount, from the respective asset. Should the collection of interest in respect of "Amounts due from customers" and "Mortgage loans" be uncertain, interest is not calculated.

For consumer loans, specific value adjustments according to time-based criteria are built where interest is overdue for more than 60 days.

Value adjustments for country risk are assessed in accordance with the guidelines on the management of country risk from the Swiss Bankers Association. Furthermore, country-specific value adjustments for latent default risk are maintained based on the differentiated risk profiles recognised for individual sectors of the loan portfolios, or where uncertainty is reflected by additional value adjustments. Value adjustments for country risk, as well as country specific value adjustments for latent default risk, are deducted from "Amounts due from customers".

Trading portfolio assets

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

Other financial instruments at fair value

"Other financial instruments at fair value" which are traded on an active market, which meet the conditions for an assessment at fair values 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, and which 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 at 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 re-assessed whenever circumstances suggest that their value may have fallen below their book value.

Intangible assets: Goodwill

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

Provisions

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

Reserves for general banking risks

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

Off balance sheet transactions

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

Fiduciary transactions are converted into CHF at the rates prevailing at 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 sheet and their corresponding tax values are recongnised as deferred tax assets or deferred tax liabilities. Deferred tax assets are capitalised if there is likely to be enough taxable profit to offset these differences in the future.

Pension fund commitments

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

Receivables and payables from related parties and governing bodies

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

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

Explanations of risk management

Risk & Control Framework

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

Risk organisation

The Board of Directors' responsibilities are the following:
- The Board of Directors is responsible for the strategic direction, supervision and control of the Group, and for defining our 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; and
- 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-line of defence model whereby business and revenue generation, risk management oversight and risk control are performed by functions independent of one another.

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

Risk management principles

The following general principles are applied to maintain an appropriate balance between risk and return to:
- Assure the financial strength of the Group by monitoring our risk exposures and avoiding potential risk concentrations at individual exposure levels, at specific portfolio levels and at an aggregate Group-wide level across all risk types;
- Protect our reputation through a sound risk culture characterised by a holistic and integrated view of risk, performance and reward, and through full compliance with our standards and principles;
- Systematically identify, classify and measure risks applying best practice;
- Ensure management accountability, whereby Business Line Management owns all risks assumed and is responsible for the active management of all risk exposures to ensure that risk and return are balanced;
- Set up independent risk control functions or units, which monitor effectiveness of risk management and oversee risk-taking activities;
- Disclose risks to the Board of Directors, regulators and other stakeholders in a comprehensive and transparent manner.

Internal controls

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

Credit risk

Credit risk arises from the possibility that a counterparty, i.e. private and corporate clients, financial institutions as well as issuers or sovereigns, does not fulfill contractual obligations or the credit quality deteriorates. In order to manage potential default risk and other prevailing credit risks most effectively, 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 43% 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 credit worthiness, collateral coverage and collateral quality, as well as the underlying transaction rationale, business potential and any additional risk mitigations. Personal credits are usually only granted on a fully collateralized basis. Collateral coverage is monitored on a regular basis and according to the prevailing market conditions.

Adequate and clear segregation of duties are 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 individual value adjustments into account, the net unsecured and un-provided position at the end of December 2017 was only CHF 6.0 million.

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

Liquidity Risk

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

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

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

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

The Group maintains a strong liquidity position, which is further supported by established repo functionalities. In addition, liquidity coverage ratio targets have been defined for all operating Group companies.

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 on Group and on country level and contingency funding plans are in place for the Group, all branches and subsidiaries.

Market risk

The Group is exposed to interest rate risk, foreign exchange risk and, to a very limited extent, to equities and commodities 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 equities risks based on prevailing risk exposures.

The Group is exposed to interest rate risk due to interest periods set for advances made to clients exceeding the interest periods for client deposits taken. To limit interest rate risk most client advances are agreed on a 3- or 6-month base rate plus a credit spread.

In addition, branches and subsidiaries have placed excess liquidity in bank placements or in financial investments with tenors usually up to 3-5 years. While the volume of financial investments is kept limited, the average duration of the fixed income portfolios creates interest rate risk exposure given the absence of long-term wholesale financing.

For foreign exchange risks the Group pursues a risk-adverse approach and aims at keeping potential foreign exchange losses low. 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 in the Head Office, and profits hedged as felt appropriate. Capital and reserves held in the branches are also subject to foreign exchange risk insofar as they are held in local currencies. Any foreign exchange translation gain or loss on these capital and reserves is taken to the income statement in the year in which it occurs.

Operational risk

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

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

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

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

The Group 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 a failure to meet legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.

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

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

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

Reputation risk

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

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

Systemic risk

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

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

Events after the balance sheet date

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

Information on the financial statements

1 Structure of securities financing transactions (assets and liabilities)

in CHF 000's	31.12.17	31.12.16
Book value of receivables from cash collateral delivered in connection securities borrowing and reverse repurchase transactions*	3'074	6'238
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions*	252'217	132'764
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	252'217	132'764
- with unrestricted right to resell or pledge		
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge		
- of which repledged securities		
- of which resold securities		

* Before taking into consideration any netting agreements

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

in CHF 000's		Type of collateral: Secured by mortgage	Type of collateral: Other collateral	Type of collateral: Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers		1'099'225	1'707'171	404'727	3'211'123
Mortgage loans		567'647	71		567'718
- Residential and commercial property		447'353	71		447'424
- Commercial and industrial premises		120'294			120'294
Total loans (before netting with value adjustments)	**31.12.17**	**1'666'872**	**1'707'242**	**404'727**	**3'778'841**
	31.12.16	1'461'439	1'580'837	543'820	3'586'096
Total loans (after netting with value adjustments)	**31.12.17**	**1'579'463**	**1'600'851**	**377'131**	**3'557'445**
	31.12.16	1'379'569	1'432'786	506'520	3'318'875
Off balance sheet					
Contingent liabilities		95'601	1'145'794	169'372	1'410'767
Irrevocable commitments				1'252	1'252
Credit commitments		32'701	125'680	30'452	188'833
Total off balance sheet	**31.12.17**	**128'302**	**1'271'474**	**201'076**	**1'600'852**
	31.12.16	138'140	1'132'925	288'540	1'559'605

in CHF 000's		Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Impaired loans / receivables					
	31.12.17	**357'067**	**137'190**	**219'877**	**213'838**
	31.12.16	396'101	127'178	268'923	258'760

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

in CHF 000's	31.12.17	31.12.16
Assets		
Trading portfolio assets		**143**
Debt securities, money market securities / transactions		143
- of which listed		143
Equity securities		
Precious metals and commodities		
Other trading portfolio assets		
Other financial instruments at fair value	**3'166'719**	**2'781'867**
Debt securities	3'147'725	2'736'075
Structured products		
Other	18'994	45'792
Total assets	**3'166'719**	**2'782'010**
- of which determined using a valuation model		
- of which securities eligible for repo transactions in accordance with liquidity requirements		

The Group has no trading portfolio liabilities.

Pakistan

Hongkong

4 Presentation of derivative financial instruments (assets and liabilities)

	Trading instruments		
in CHF 000's	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments			
Forward contracts, including FRAs			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Foreign exchange / precious metals			
Forward contracts	29'368	18'522	2'672'971
Combined interest rates / currency swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Equity securities / indices			
Forward contracts			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			4'221
Credit derivatives			
Credit default swaps			
Total return swaps			
First-to-default swaps			
Other credit derivatives			
Other			
Forward contracts			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Total before netting agreements			
Total at 31.12.17	**29'368**	**18'522**	**2'677'192**
- of which determined using a valuation model			

	Trading instruments		
in CHF 000's	Positive replacement values	Negative replacement values	Contract volume
Total at 31.12.16	10'340	10'918	3'246'948
- of which determined using a valuation model			

in CHF 000's		Positive replacement values (cumulative)	Negative replacement values (cumulative)
Total after netting agreements			
Total	**at 31.12.17**	**29'368**	**18'522**
	at 31.12.16	10'340	10'918

5 Breakdown by counterparty

in CHF 000's		Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	**at 31.12.17**	**605**	**20'655**	**8'108**
Positive replacement values (after netting agreements)	at 31.12.16	1'638	5'020	3'682

The Group has no hedging instruments.

6 Breakdown of financial investments

	Book value		Fair value	
in CHF 000's	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Debt securities	**1'470'883**	**1'303'628**	**1'470'417**	**1'313'490**
- of which intended to be held until maturity	1'176'054	1'124'400	1'175'319	1'133'893
- of which not intended to be held until maturity (available for sale)	294'829	179'228	295'098	179'597
Equity securities	**568**	**846**	**568**	**870**
- of which qualified participations				
Precious metals				
Real estate	**9'667**	**12'298**	**10'597**	**16'642**
Total	**1'481'118**	**1'316'772**	**1'481'582**	**1'331'002**
- of which securities eligible for repo transactions in accordance with liquidity requirements	152'240	159'815		

7 Breakdown of counterparties by rating

in CHF 000's		AAA	AA	A	BBB	BB to B	Unrated
Debt securities							
Book values	**at 31.12.17**	**166'142**	**98'105**	**361'822**	**653'380**	**178'520**	**23'149**
	at 31.12.16	194'838	148'652	259'433	515'624	179'298	18'927

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

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

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

During 2017 "HBZ Services AG", "Habib Metropolitan Modaraba Management Company Ltd.", "First Habib Modarab Ltd." and "Habib Metro Modaraba" have been added to the list of consolidated group companies.

9 Presentation of non-consolidated participations

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

10 Presentation of tangible fixed assets

in CHF 000's	Acquisition cost	Accumulated depreciation
Bank buildings and residential apartments	96'197	-34'309
Other real estate	25'182	-16'934
Proprietary or separately acquired software	2'752	-766
Other tangible fixed assets	59'985	-44'132
Tangible assets acquired under finance leases		
- of which bank buildings		
- of which other real estate		
- of which other tangible fixed assets		
Total	**184'116**	**-96'142**

* including net of foreign currency adjustments

	Reporting year					
Book value at **31.12.16**	Reclassifications	Additions	Disposals	Value adjustments	Book value at **31.12.17**	Market value
88					88	
88					**88**	

	Reporting year					
Book value at **31.12.16**	Reclassifications	Additions	Disposals*	Depreciation	Reversals	Book value at **31.12.17**
61'888		408	-3'302	-3'061		55'933
8'248		2'555	-595	-2'845		7'364
1'986		2'381	-121	-1'241		3'005
15'853		12'148	-1'310	-6'265	-29	20'396
87'975		**17'490**	**-5'327**	**-13'412**	**-29**	**86'697**

11 Intangible assets

in CHF 000's	Cost value	Accumulated amortisations	**Book value at 31.12.16**	Reporting year Additions	Disposals	Amortisation	**Book value at 31.12.17**
Goodwill	8'567	-6'854	1'713			-1'713	
Patents							
Licenses							
Other intangible assets				369			369
Total	**8'567**	**-6'854**	**1'713**	**369**		**-1'713**	**369**

12 Breakdown of other assets and other liabilities

	Other assets		Other liabilities	
in CHF 000's	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Compensation account				
Deferred income tax recognised as assets	44'329	55'910		
Others	36'301	21'762	31'818	33'388
Total	**80'630**	**77'672**	**31'818**	**33'388**

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

	Book value		Effective commitments	
in CHF 000's	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Pledged / assigned assets				
Amounts due from banks	586	924	586	580
Financial investments	8'859	9'022		
Assets under reservation of ownership				
Total	**9'445**	**9'946**	**586**	**580**

* Excluding securities financing transactions

14 Disclosure of liabilities relating to own pension schemes

in CHF 000's	**31.12.17**	**31.12.16**
Payables to employee benefit plans	59	54

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

15 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the reporting year

in CHF 000's	Balance at 31.12.16	Use in conformity with designated purpose	Reclassifications
Provisions for deferred taxes	3'129		-436
Provisions for pension benefit obligations			
Provisions for default risks	2'753		436
Provisions for other business risks	857	-1'847	
Provisions for restructuring	76	-76	
Other provisions			
Total provisions	**6'815**	**-1'923**	
Reserves for general banking risks	**545'708**		
Value adjustments for default risks and country risks	**267'971**	**-43'042**	
- of which value adjustments for default risks in respect of impaired loans / receivables	258'760	-43'042	
- of which value adjustments for default risks in respect of financial investments	750		
- of which value adjustments for latent credit risks	8'461		

	Other allocations to (withdrawals from) the reserves for general banking for Minority sharehol-dings in shareholders' equity	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	**Balance at 31.12.17**
		-261			-662	1'770
		-261			-212	2'716
		-117		2'561		1'454
		-639		**2'561**	**-874**	**5'940**
	8'113				**-12'944**	**540'877**
		-18'347	**6'552**	**21'781**	**-12'768**	**222'147**
		-18'419	6'552	21'781	-11'792	213'840
						750
		72			-976	7'557

16 Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
in CHF 000's	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Holders of qualified participations			96'466	81'740
Linked companies				
Transactions with members of governing bodies	1'809	1'691	22'059	17'930
Other related parties				

17 Presentation of the maturity structure of financial instruments

		Due							
in CHF 000's		At sight	Cance-lable	Within 3 months	Within 3 to 12 month	Within 12 months to 5 years	After 5 years	No maturity	Total
Asset / financial instruments									
Liquid assets		1'233'777							1'233'777
Amounts due from banks		129'286	78'668	1'338'209	395'579		96		1'941'838
Amounts due from securities financing transactions				3'074					3'074
Amounts due from customers		352'778		1'530'792	542'971	446'512	123'066		2'996'119
Mortgage loans		69'724		60'875	31'023	308'243	91'461		561'326
Trading portfolio assets									
Positive replacement values of derivative financial instruments		29'368							29'368
Other financial instruments at fair value		3'166'719							3'166'719
Financial investments		525'876		75'363	175'002	504'496	200'381		1'481'118
Total	**31.12.17**	**5'507'528**	**78'668**	**3'008'313**	**1'144'575**	**1'259'251**	**415'004**		**11'413'339**
	31.12.16	4'975'438	78'895	3'342'881	963'228	1'321'255	403'977		11'085'674
Debt capital / financial instruments									
Amounts due to banks		224'378	8'861	280'347	63'594				577'180
Liabilities from securities financing transactions				252'217					252'217
Amounts due in respect of customer deposits		5'023'998	518'016	2'303'378	1'371'231	173'756	2'316		9'392'695
Negative replacement values of derivative financial instruments		18'522							18'522
Total	**31.12.17**	**5'266'898**	**526'877**	**2'835'942**	**1'434'824**	**173'756**	**2'316**		**10'240'614**
	31.12.16	5'514'554	428'655	2'278'466	1'441'089	220'450	2'362		9'885'577

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

	Domestic	Foreign	Domestic	Foreign
in CHF 000's	31.12.17		31.12.16	
Assets				
Liquid assets	39'778	1'193'999	65'371	1'235'474
Amounts due from banks	123'554	1'818'284	288'459	2'062'135
Amounts due from securities financing transactions		3'074		6'238
Amounts due from customers	19'366	2'976'753	31'927	2'704'976
Mortgage loans		561'326		581'972
Trading portfolio assets				143
Positive replacement values of derivative financial instruments	171	29'197	970	9'370
Other financial instruments at fair value		3'166'719		2'781'867
Financial investments	150'757	1'330'361	141'918	1'174'854
Accrued income and prepaid expenses	10'898	139'089	6'369	189'739
Non-consolidated participations		88		88
Tangible fixed assets	10'975	75'722	9'527	78'448
Intangible assets		369	1'713	
Other assets	1'831	78'799	1'087	76'583
Total	**357'330**	**11'373'780**	**547'341**	**10'901'887**
Liabilities				
Amounts due to banks	1'827	575'353	22'399	405'182
Liabilities from securities financing transactions		252'217	15'000	117'764
Amounts due in respect of customer deposits	169'086	9'223'609	171'223	9'143'091
Negative replacement values of derivative financial instruments	336	18'186	210	10'708
Accrued expenses and deferred income	3'370	152'832	528	230'817
Other liabilities	2'050	29'768	11'243	22'146
Provisions	115	5'825	137	6'678
Reserves for general banking risks	94'371	446'506	107'171	438'537
Bank's capital	150'000		150'000	
Retained earnings reserves	353'171		286'015	
Currency translation reserves	-34'260		2'038	
Minority interest in equity		226'277		215'909
Group profit / loss	-15'504	75'975	14'357	78'076
Total	**724'562**	**11'006'548**	**780'321**	**10'668'908**

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

in CHF 000's	31.12.17		31.12.16	
Assets				
Europe	**1'580'338**	**13.5%**	**1'780'525**	**15.6%**
of which Switzerland	349'857	3.0%	547'341	4.8%
United Kingdom	787'887	6.7%	732'658	6.4%
Others	442'594	3.8%	500'526	4.4%
North America	**378'463**	**3.2%**	**332'758**	**2.9%**
Asia	**8'868'111**	**75.6%**	**8'461'106**	**73.9%**
of which United Arab Emirates	2'515'269	21.4%	2'596'664	22.7%
Pakistan	5'784'846	49.3%	5'207'732	45.5%
Others	567'996	4.8%	656'710	5.7%
Other countries	**904'198**	**7.7%**	**874'840**	**7.6%**
of which South Africa	379'660	3.2%	316'400	2.8%
Others	524'538	4.5%	558'440	4.8%
Total	**11'731'110**	**100.0%**	**11'449'229**	**100.0%**

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

in CHF 000's	Net foreign exposures **at 31.12.17**		Net foreign exposures **at 31.12.16**	
AAA	475'014	4.2%	815'075	7.5%
AA+ to AA-	1'448'333	12.7%	1'176'894	10.8%
A+ to A-	2'717'928	23.8%	2'688'372	24.7%
BBB+ to BBB-	86'616	0.8%	387'076	3.6%
BB+ to B-	6'504'216	57.0%	5'629'164	51.6%
CCC	3'080	0.0%	3'085	0.0%
Unrated	174'235	1.5%	202'222	1.8%
Total	**11'409'422**	**100.0%**	**10'901'888**	**100.0%**

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

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

in CHF 000's	CHF	USD	GBP	AED	PKR	Other	Total
Asset							
Liquid assets	39'569	237'665	90'376	620'658	225'711	19'798	1'233'777
Amounts due from banks	1'950	648'092	166'757	658'607	120'524	345'908	1'941'838
Amounts due from securities financing transactions					3'074		3'074
Amounts due from customers	11'827	419'177	501'487	598'430	1'331'608	133'590	2'996'119
Mortgage loans				358'622	21'705	180'999	561'326
Trading portfolio assets							
Positive replacement values for derivative financial instruments	171		368		25'332	3'497	29'368
Other financial instruments at fair value					3'166'719		3'166'719
Financial investments	297'663	523'684	86'632	48	344'689	228'402	1'481'118
Accrued income and prepaid expenses	5'127	697	1'536	22'328	116'456	3'843	149'987
Non-consolidated participations	88						88
Tangible fixed assets	10'975		7'913	20'150	29'879	17'780	86'697
Intangible assets					369		369
Other assets	2'461		2'950	11'355	59'559	4'305	80'630
Total assets shown in balance sheet	**369'831**	**1'829'315**	**858'019**	**2'290'198**	**5'445'625**	**938'122**	**11'731'110**
Delivery entitlements from spot exchange, forward forex and forex options transactions	297	779'158	91'675	5'329	306'509	100'587	1'283'555
Total assets	**370'128**	**2'608'473**	**949'694**	**2'295'527**	**5'752'134**	**1'038'709**	**13'014'665**

in CHF 000's	CHF	USD	GBP	AED	PKR	Other	Total
Liabilities							
Amounts due to banks	1'179	84'225	15'122	41'182	407'830	27'642	577'180
Liabilities from securities financing transactions					252'217		252'217
Amounts due in respect of customer deposits	84'554	2'042'250	796'910	1'811'647	3'913'455	743'879	9'392'695
Negative replacement values of derivative financial instruments	336		297		14'466	3'423	18'522
Accrued expenses and deferred income	3'369	10	5'801	10'562	126'973	9'487	156'202
Other liabilities	1'344	5'038	1'890	5'069	14'346	4'131	31'818
Provisions		114			5'826		5'940
Reserves for general banking risks	105'984		6'624	363'086	16'588	48'595	540'877
Bank's capital	150'000						150'000
Retained earnings reserves	353'171						353'171
Currency translation reserves	-34'260						-34'260
Minority interest in equity					191'446	34'831	226'277
Group profit / loss	-15'504		5'661	22'091	54'855	-6'632	60'471
Total liabilities shown in balance sheet	**650'173**	**2'131'637**	**832'305**	**2'253'637**	**4'998'002**	**865'356**	**11'731'110**
Delivery obligations from spot exchange, forward forex and forex options transactions	68'422	436'633	38'256	453	612'048	127'744	1'283'555
Total liabilities	**718'595**	**2'568'270**	**870'561**	**2'254'090**	**5'610'050**	**993'100**	**13'014'665**
Net position per currency	**-348'467**	**40'203**	**79'133**	**41'437**	**142'084**	**45'609**	

22 Breakdown of contingent liabilities and contingent assets

in CHF 000's	31.12.17	31.12.16
Guarantees to secure credits and similar	538'243	546'777
Irrevocable commitments arising from documentary letters of credit	872'524	835'686
Total contingent liabilities	**1'410'767**	**1'382'463**
Contingent assets arising from tax losses carried forward	5'747	5'765
Other contingent assets		
Total contingent assets	**5'747**	**5'765**

23 Breakdown of credit commitments

in CHF 000's	31.12.17	31.12.16
Commitments arising from acceptances	176'973	139'509
Other credit commitments	11'860	36'253
Total	**188'833**	**175'762**

24 Breakdown of fiduciary transactions

in CHF 000's	31.12.17	31.12.16
Fiduciary investments with third-party companies	221'802	78'818
Fiduciary loans	14'911	18'046
Fiduciary transactions arising from securities lending and borrowing, which the Group conducts in its own name for the account of customers		
Total	**236'713**	**96'864**

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

in CHF 000's	2017	2016
Result from trading activities from		
Interest rate instruments (incl. funds)	-22'518	21'096
Unrealised forex gains / losses on reserves held in foreign currencies	-20'721	14'261
Foreign currencies	22'941	21'838
Commodities / precious metals	7	64
Total	**-20'291**	**57'259**
- of which from the fair value option on assets	-22'518	21'096

26 Breakdown of personnel expenses

in CHF 000's	2017	2016
Salaries (meeting attendances fees, fixed compensation, salaries and benefits)	129'881	123'189
- of which, expenses relating to share-based compensation and alternative forms of variable compensation		
Social insurance obligations	9'729	8'717
Other personnel expenses	5'791	5'617
Total	**145'401**	**137'523**

27 Breakdown of general and administrative expenses

in CHF 000's	2017	2016
Office space expenses	21'947	19'427
Expenses for information and communications technology	13'035	10'443
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	5'523	4'095
Fees of audit firm(s)	1'807	2'054
- of which for financial and regulatory audits	1'601	1'653
- of which for other services	206	400
Other operating expenses	32'968	30'941
Total	**75'280**	**66'960**

28 Breakdown of extraordinary income and expenses

in CHF 000's	2017	2016
Extraordinary income		
Release of provisions no longer required		25
Profit on sale of fixed assets	51	217
Recoveries and others	1'960	1'332
Total	**2'011**	**1'574**
Extraordinary expenses		
Other	-131	
Total	**-131**	

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

in CHF 000's	Domestic 2017	Foreign origin 2017	Domestic 2016	Foreign origin 2016
Net result from interest operations	8'622	253'668	6'453	192'545
Result from commission business and services	7'979	70'990	7'504	68'820
Result from trading activities and the fair value option	-20'214	-77	14'922	42'337
Other result from other ordinary activities	30'720	-27'631	24'018	-22'850
Personnel expenses	23'735	121'666	22'433	115'090
General and administrative expenses	14'290	60'990	13'554	53'406
Value adjustments on participations, depreciation and amortisation on tangible fixed and intangible assets	-2'193	-12'932	-1'894	-12'051
Changes to provisions and other value adjustments, and losses		-2'349	-2	7'763
Operating result	**-13'111**	**99'013**	**15'014**	**108'068**
% Domestic / foreign origin	-15.3%	115.3%	12.2%	87.8%
Taxes	**-2'408**	**-37'846**	**-1'980**	**-50'887**
% Domestic / foreign origin	6.0%	94.0%	3.7%	96.3%
Group profit / loss	**-15'504**	**75'975**	**14'357**	**78'076**
% Domestic / foreign origin	-25.6%	125.6%	15.5%	84.5%

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

in CHF 000's	2017	2016
Current tax expenses*	32'709	57'822
Deferred tax expenses	7'545	-4'955
Taxes	**40'254**	**52'867**
Weighted average tax rate	46.9%	43.0%

* The utilisation of tax losses carried forward led to CHF 1.3 million lower income taxes for the period.

Report of the Statutory Auditor

To the General Meeting of
Habib Bank AG Zurich
Zurich

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the consolidated financial statements of Habib Bank AG Zurich, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 18 to 57 of the annual report) for the year ended 31 December 2017.

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 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the provisions governing the preparation of financial statements for Banks and comply with Swiss law.

Report on Other Legal Requirements

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

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

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

KPMG AG

Ertugrul Tüfekçi
Licensed Audit Expert
Auditor in Charge

Mirko Liberto
Licensed Audit Expert

Zurich, 30 April 2018

Pakistan

Balance sheet
(before appropriation)

in CHF 000's	Note	31.12.17	31.12.16
Assets			
Liquid assets		767'112	832'479
Amounts due from banks		1'403'953	1'792'927
Amounts due from customers	2	840'002	817'677
Mortgage loans	2	359'014	406'318
Trading portfolio assets	3		143
Positive replacement values of derivative financial instruments	4	171	970
Financial investments	6	857'803	751'427
Accrued income and prepaid expenses		31'963	29'568
Participations		329'017	329'994
Tangible fixed assets		27'723	25'946
Intangible assets			1'713
Other assets	8	19'592	22'102
Total assets		**4'636'350**	**5'011'264**
Total subordinated claims		26'352	25'158
- of which subject to mandatory conversion and/or debt waiver			

in CHF 000's	Note	31.12.17	31.12.16
Liabilities			
Amounts due to banks		105'674	85'619
Liabilities from securities financing transactions	1		15'000
Amounts due in respect of customer deposits		3'510'206	3'879'815
Negative replacement values of derivative financial instruments	4	336	210
Accrued expenses and deferred income		25'229	27'447
Other liabilities	8	11'733	15'273
Provisions	10	115	631
Reserves for general banking risks	10	510'926	507'141
Bank's capital	11	150'000	150'000
Statutory retained earnings reserves		80'500	78'800
Voluntary retained earnings reserves		233'192	214'117
Profit carried forward / loss carried forward		10	73
Profit / loss (result of the period)		8'429	37'138
Total liabilities		**4'636'350**	**5'011'264**
Off balance sheet transactions			
Contingent liabilities		251'821	327'005
Irrevocable commitments		1'252	1'380
Credit commitments	15	25'032	47'723

Income statement

in CHF 000's	Note	2017	2016
Result from interest operations			
Interest and discount income		82'936	80'989
Interest and dividend income from financial investments		21'933	22'535
Interest expense		-14'453	-14'842
Gross result from interest operations		**90'416**	**88'682**
Changes in value adjustments for default risks and losses from interest operations		-11'000	-28'387
Subtotal net result from interest operations		**79'416**	**60'295**
Result from commission business and services			
Commission income from securities trading and investment activities		5'646	5'381
Commission income from lending activities		14'680	14'884
Commission income from other services		16'225	17'329
Commission expense		-1'909	-1'936
Subtotal result from commission business and services		**34'642**	**35'658**
Result from trading activities and the fair value option	17	**-12'248**	**22'746**
Other result from ordinary activities			
Result from the disposal of financial investments		174	37
Income from participations		19'138	12'523
Result from real estate			
Other ordinary income		5'865	5'687
Other ordinary expenses		-524	-1'194
Subtotal other result from ordinary activities		**24'653**	**17'053**

in CHF 000's	Note	2017	2016
Operating expenses			
Personnel expenses	18	-53'166	-48'323
General and administrative expenses	19	-44'422	-40'485
Subtotal operating expenses		**-97'588**	**-88'808**
Value adjustments on participations and depreciation and amortisation on tangible fixed and intangible assets		-5'604	-5'112
Changes to provisions and other value adjustments and losses		-790	6'808
Operating result		**22'481**	**48'640**
Extraordinary income	20	66	1'377
Extraordinary expenses	20	-41	
Changes in reserves for general banking risks		-3'785	-2'452
Taxes	21	-10'292	-10'427
Profit / loss (result for the period)		**8'429**	**37'138**

Statement of changes in equity

in CHF 000's	Bank's capital	Statutory retained earnings reserves	Reserves for general banking risks	Voluntary retained earnings and profit / loss carried forward	Bank profit or loss	Total
Equity at 01.01.17	**150'000**	**78'800**	**507'141**	**214'189**	**37'138**	**987'268**
Transfer of profits to retained earnings		1'700		17'500	-19'200	
Capital increase / decrease						
Currency translation differences				1'575		1'575
Dividends and other distributions				-62	-17'938	-18'000
Other allocations to (transfers from) the reserves for general banking risks			3'785			3'785
Other allocations to (transfers from) other reserves						
Profit / loss (result of the period)					8'429	8'429
Equity at 31.12.17	**150'000**	**80'500**	**510'926**	**233'202**	**8'429**	**983'057**

Information on the financial statements

1 Structure of securities financing transactions (assets and liabilities)

in CHF 000's	31.12.17	31.12.16
Book value of receivables from cash collateral related to securities borrowing and reverse repurchase transactions*		
Book value of payables from cash collateral posted for securities lending and repurchase transactions*		15'000
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase transactions		15'000
- of which those with an unrestricted right to resell or pledge		
Fair value of securities serving as collateral posted for securities lending or securities borrowed or securities received in connection with reverse-repurchase transactions with an unrestricted right to resell or repledge them		
- of which repledged securities		
- of which resold securities		

* Before taking into consideration any netting agreements

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

in CHF 000's		Type of collateral: Mortgage coverage	Secured by other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Due from customers		194'269	340'297	349'863	884'429
Mortgage loans		364'760			364'760
- Residential and commercial property		364'760			364'760
- Commercial premises					
Total loans (before netting with value adjustments)	**31.12.17**	**559'029**	**340'297**	**349'863**	**1'249'189**
	31.12.16	480'759	344'709	465'906	1'291'374
Total loans (after netting with value adjustments)	**31.12.17**	**550'955**	**321'060**	**327'001**	**1'199'016**
	31.12.16	479'179	310'713	434'102	1'223'994
Off balance sheet					
Contingent liabilities		3'957	109'236	138'628	251'821
Irrevocable commitments				1'252	1'252
Credit commitments		1'985	7'292	15'755	25'032
Total off balance sheet	**31.12.17**	**5'942**	**116'528**	**155'635**	**278'105**
	31.12.16	3'724	133'483	238'902	376'109

in CHF 000's		Gross debt amount	Estimated liquidation value of the collateral	Net debt amount	Individual value adjustments
Impaired loans / receivables					
	31.12.17	**97'758**	**51'596**	**46'162**	**44'197**
	31.12.16	86'117	24'720	61'397	60'428

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

in CHF 000's	31.12.17	31.12.16
Assets		
Trading portfolios		**143**
Debt instruments, money-market instruments, money-market transactions		143
- of which listed		143
Equity interests		
Precious metals and commodities		
Other trading assets		
Other financial instruments at fair value		
Debt instruments		
Structured products		
Others		
Total Assets		**143**
- of which determined by valuation model		
- of which securities allowed for repo transactions in accordance with liquidity requirements		

4 Presentation of derivative financial instruments

in CHF 000's	Trading instruments Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments			
Forward contracts, including FRAs			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Foreign exchange / precious metals			
Forward contracts	171	336	161'321
Combined interest rates / currency swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Equity interests / indices			
Forward contracts			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			4'221
Credit derivatives			
Credit default swaps			
Total return swaps			
First-to default swaps			
Other credit derivatives			
Other			
Forward contracts			
Swaps			
Futures			
Options (OTC)			
Options (exchange-traded)			
Total before taking into consideration netting agreements			
Total at 31.12.17	**171**	**336**	**165'542**
- of which determined by using a valuation model			

in CHF 000's	Trading instruments: Positive replacement values	Negative replacement values	Contract volume
Total at 31.12.16	970	210	215'029
- of which determined by using a valuation model			

in CHF 000's		Positive replacement value (accumulated)	Negative replacement value (accumulated)
Total after taking into consideration netting agreements			
Total	**at 31.12.17**	**171**	**336**
	at 31.12.16	970	210

5 Breakdown by counterparties of derivative financial instruments

in CHF 000's		Central clearing parties	Banks and securities dealers	Other clients
Positive replacement values (after netting agreements)	**at 31.12.17**		171	
	at 31.12.16		**970**	

The Bank has no hedging instruments.

6 Breakdown of financial investments

	Book value		Fair value	
in CHF 000's	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Debt instruments	**856'772**	**751'068**	**855'899**	**759'110**
- of which held until maturity	561'943	571'840	560'801	579'513
- of which not held until maturity	294'829	179'228	295'098	179'597
Equity interests	**319**	**359**	**319**	**358**
Real estate	**712**		**712**	
Total	**857'803**	**751'427**	**856'929**	**759'468**
- of which securities allowed for repo transactions in accordance with liquidity requirements	117'323	137'173		

7 Breakdown of the counterparty according to rating

in CHF 000's		AAA	AA	A	BBB	BB to B	Unrated
Debt securities							
Book values	**at 31.12.17**	**78'575**	**91'510**	**220'873**	**290'149**	**172'104**	**4'592**
	at 31.12.16	89'802	120'635	162'151	201'420	171'339	6'080

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

8 Breakdown of other assets and other liabilities

	Other assets		Other liabilities	
in CHF 000's	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Compensation account				
Deferred income taxes recognised as assets	10'932	13'455		
Others	8'660	8'647	11'733	15'273
Total	**19'592**	**22'102**	**11'733**	**15'273**

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

	Book value	Book value	Effective commitments	Effective commitments
in CHF 000's	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Assets pledged				
Amounts due from banks	560	580	560	580
Financial investments				
Assets put under ownership reservation				
Total	**560**	**580**	**560**	**580**

* Excluding securities financing transactions

South Africa

United Arab Emirates

10 Value adjustments and provisions and reserves for general banking risks

in CHF 000's	Balance at 31.12.16
Provisions for deferred taxes	
Provisions for pension fund obligations	
Provisions for default risks	
Provisions for other business risks	631
Provisions for restructuring	
Other provisions	
Total provisions	**631**
Reserves for general banking risks	**507'141**
Value adjustments for default risks and country risks	**68'130**
- of which value adjustments for default risks in respect of impaired loans	60'428
- of which value adjustments for default risks in respect of financial investments	750
- of which value adjustments for latent risks	6'952

Use in conformity with designated purpose	Reclassifications	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	**Balance at 31.12.17**
-1'254		-52		790		115
-1'254		**-52**		**790**		**115**
				3'785		**510'926**
-27'470		**-2'780**	**2'044**	**13'034**	**-2'034**	**50'925**
-27'470		-2'780	2'044	13'034	-1'058	44'199
						750
					-976	5'976

11 Presentation of the Bank's capital

	31.12.17			31.12.16		
in CHF 000's	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
Bank's capital	150'000	1'500'000	150'000	150'000	1'500'000	150'000
- of which paid up						
Total Bank's capital	**150'000**	**1'500'000**	**150'000**	**150'000**	**1'500'000**	**150'000**
Total Bank's capital						
Authorised capital						
- thereof executed capital increases						

12 Disclosure of holders of significant participations

	31.12.17		31.12.16	
in CHF 000's	Nominal	% of equity	Nominal	% of equity
Holders of significant participations and groups of holders of participations with pooled voting rights				
with voting rights				
Gefan Finanz AG, Zug	150'000	100%	150'000	100%
without voting rights				

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

13 Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
in CHF 000's	**31.12.17**	**31.12.16**	**31.12.17**	**31.12.16**
Holders of qualified participations			96'464	81'740
Group companies	47'860	61'295	15'841	9'445
Linked companies				
Transactions with members of governing bodies	1'800	1'691	16'638	13'366

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

in CHF 000's	Net foreign exposures **at 31.12.17**		Net foreign exposures **at 31.12.16**	
AAA	265'159	6.1%	488'146	10.8%
AA+ to AA-	680'735	15.8%	613'934	13.6%
A+ to A-	2'684'442	62.2%	2'655'488	58.8%
BBB+ to BBB-	78'749	1.8%	80'439	1.8%
BB+ to B-	548'868	12.7%	619'634	13.7%
CCC	3'080	0.1%	3'086	0.1%
Unrated	52'207	1.2%	51'789	1.2%
Total	**4'313'240**	**100.0%**	**4'512'516**	**100.0%**

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

15 Breakdown of committed credits

in CHF 000's	**31.12.17**	**31.12.16**
Commitments arising from acceptances	20'705	19'057
Other credit commitments	4'327	28'666
Total	**25'032**	**47'723**

16 Breakdown of fiduciary transactions

in CHF 000's	31.12.17	31.12.16
Fiduciary investments with third-party companies	221'802	78'818
Fiduciary investments with group companies and affiliated companies		
Fiduciary loans	14'911	18'046
Fiduciary transactions from securities lending and borrowing which are carried out by the Bank acting under its own name but on behalf of clients		
Total	**236'713**	**96'864**

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

in CHF 000's	2017	2016
Result from trading activities		
Interest rate instruments (incl. funds)	6	64
Unrealised forex gains / losses on reserves held in foreign currencies	-20'721	14'261
Foreign exchange	8'467	8'421
Commodities / precious metals		
Total	**-12'248**	**22'746**

18 Breakdown of personnel expenses

in CHF 000's	2017	2016
Salaries and additional allowances	45'654	41'782
- of which expenses related to share-based compensation and alternative forms of variable compensation		
Social insurance obligations	5'124	4'266
Value adjustments for economic benefits or obligations arising from pension funds		
Other personnel expenses	2'388	2'275
Total	**53'166**	**48'323**

19 Breakdown of general and administrative expenses

in CHF 000's	2017	2016
Office space expenses	6'676	5'314
Expenses for information technology and telecommunications	7'333	5'136
Expenses for motor vehicles, machinery, furniture and other equipment and operating lease expenses	387	472
Audit fees	1'299	1'310
- of which for financial and regulatory audits	1'253	1'192
- of which for other services	46	118
Other operating expenses	28'727	28'253
Total	**44'422**	**40'485**

20 Analysis of extraordinary income and expenses

in CHF 000's	2017	2016
Extraordinary income		
Release of provisions no longer required		25
Profit on sale of fixed assets	50	13
Recoveries and others	16	1'339
Total	**66**	**1'377**
Extraordinary expenses		
Other	-41	
Total	**-41**	

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

in CHF 000's	2017	2016
Current tax expenses	8'384	13'213
Deferred tax expenses	1'908	-2'786
Taxes	**10'292**	**10'427**
Average tax rate	45.8%	21.5%

Appropriation of profit / coverage of losses / other distributions

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

in CHF 000's	**31.12.17**	**31.12.16**
Profit / loss (result for the period)	8'429	37'138
Profit carried forward / loss carried forward	10	72
Distributable profit	**8'439**	**37'210**
Appropriation of profit		
- Allocation to statutory retained earnings reserves	-50	-1'700
- Allocation to voluntary retained earnings reserves	-300	-17'500
- Distribution of dividend from distributable profit	-8'000	-18'000
Profit carried forward	**89**	**10**

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 financial statements of Habib Bank AG Zurich, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 60 to 78 of the annual report) for the year ended 31 December 2017.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements 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 2017 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 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, 30 April 2018

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Layout and production
Theiler Werbefabrik GmbH

50 YEARS

BUILDING TOGETHER

Habib Bank AG Zurich

SINCE 1967