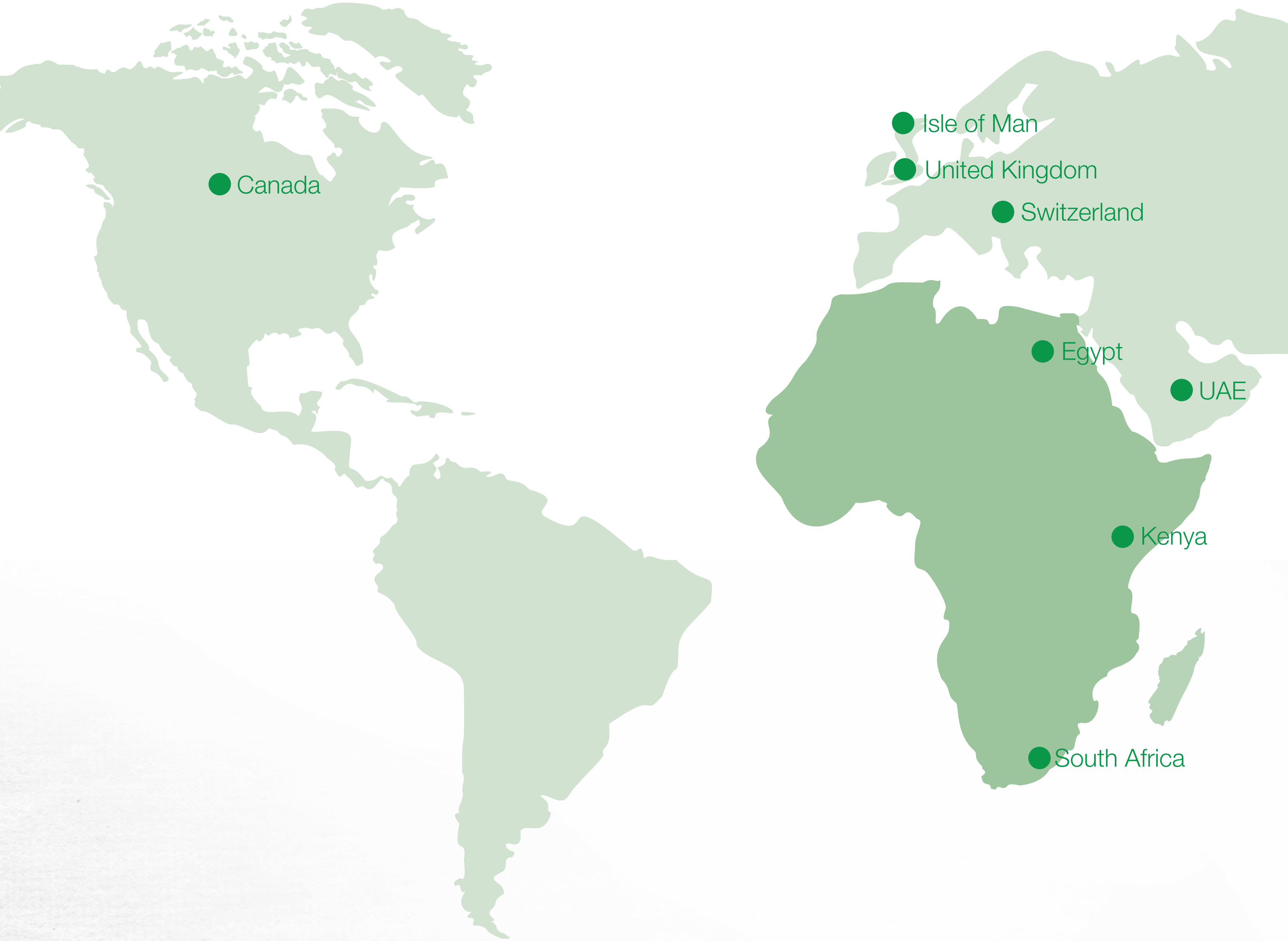
HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

Annual Report
2013



CELEBRATING **20 YEARS** OF FREEDOM
IN LOVING MEMORY OF **TATA MADIBA.**

"I learned that courage was not the absence of fear, but the triumph over it.
The brave man is not he who does not feel afraid, but he who conquers that fear."

- Nelson Mandela

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TEN YEAR REVIEW

For the year ended 31 December 2013

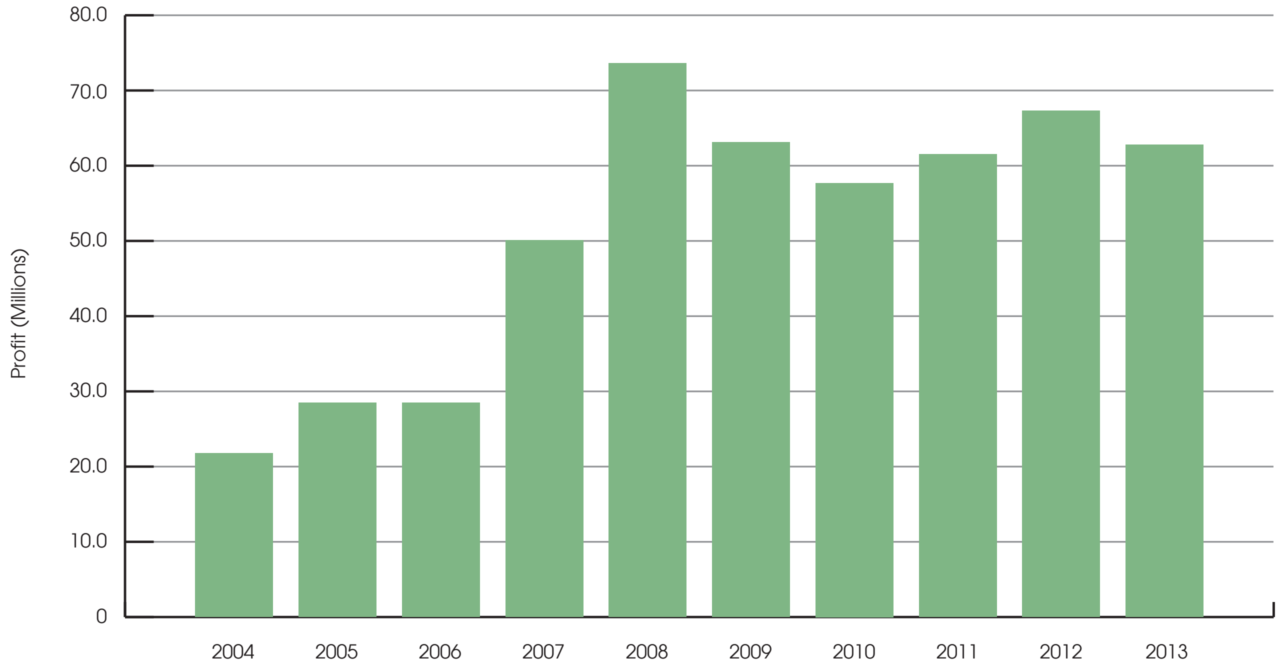
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
PROFITS (R MILLION)										
Profit before taxation	21.8	28.5	28.5	50.1	73.6	63.1	57.7	61.5	67.3	62.8
BALANCE SHEET (R MILLION)										
Advances	232.9	327.9	464.1	552.9	658.4	755.7	851.4	1 185.40	992.40	1 169.96
Advances growth %	24.0%	40.8%	41.5%	19.1%	19.1%	14.8%	29.3%	56.9%	(16.3%)	17.9%
Deposits	687.4	925.0	1 080.3	1 155.3	1 667.6	1 746.2	2 236.7	3 304.1	2 739.8	3 255.2
Deposits growth %	23.8%	34.6%	16.8%	6.9%	44.3%	4.7%	28.1%	47.7%	(17.1%)	18.8%
Total assets	794.1	1 025.6	1 201.5	1 323.5	1 856.0	1 957.8	2 474.9	3 536.9	3 005.2	3 573.4
Total assets growth %	22.1%	29.1%	17.2%	10.2%	40.2%	5.5%	26.4%	42.9%	(15.0%)	18.9%
PERSONNEL										
Number of employees	71	81	80	90	101	109	111	113	125	128
Net contribution per employee (R '000)	307	352	356	557	729	579	520	544	538	491

FREEDOM

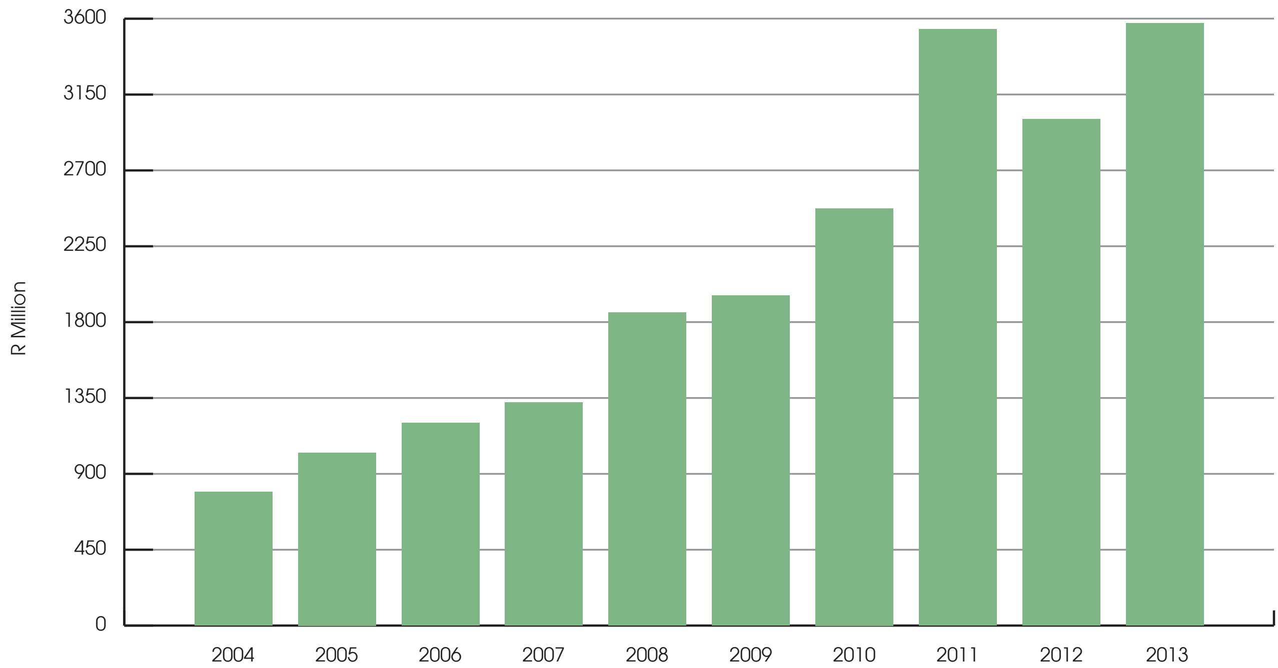
"For to be free is not merely to cast off one's chains, but to live in a way that respects and enhances the freedom of others."

- Nelson Mandela

PROFIT SUMMARY



TOTAL ASSETS



BOARD OF DIRECTORS AND BOARD COMMITTEES

NON EXECUTIVE DIRECTORS

Muhammad H Habib (55)# - Chairman
Bus. Admin (USA)
President, Habib Bank AG Zurich
Appointed to the Board in 1995

Ramsay L Daly (71) – Vice Chairman
B.A. LLB
Attorney
Appointed to the Board in 1995

M Yakoob Chowdhury (71)^
Chief Executive Vice President, Habib Bank AG Zurich
Appointed to the Board in 1995

Pierre J Neethling (69)
B.Sc & MBA
Ex-Managing Director, Smith & Nephew (Pty) Ltd
Appointed to the Board in 2004

Hendrik F Leenstra (65)
Institute of Bankers SA C.A.I.B. (SA)
Ex-Regional Executive – Nedcor Group, KZN
Appointed to the Board in 2005

Dheven Dharmalingam (48)
B. Acc, Dip Acc, CA(SA)
Ex-CFO of Mutual & Federal Limited
Appointed to the Board in 2011

Mohamedali R Habib (49)*
Bus. Mgmt - Finance (USA)
Joint President, Habib Bank AG Zurich
Appointed to the Board in 2012

Swiss   * **Canadian**   ^ **British**   * **By invitation**

EXECUTIVE DIRECTORS

Zafar Alam Khan (61) – CEO and
Chief Executive Vice President
B.A.
Appointed to the Board in 2005

Chris Harvey (57) – Head of Corporate Governance and Executive Vice President
B.Com, Dip Acc, Dip Corp Gov
Appointed to the Board in 1998

AUDIT COMMITTEE

Dheven Dharmalingam - Chairman
Ramsay L Daly
M Yakoob Chowdhury
Pierre J Neethling
Hendrik F Leenstra
Mohamedali R Habib
Naresh Bhoola* (KPMG Director)

DIRECTORS AFFAIRS COMMITTEE

Muhammad H Habib - Chairman
Ramsay L Daly
M Yakoob Chowdhury
Pierre J Neethling
Hendrik F Leenstra
Dheven Dharmalingam

RISK COMMITTEE

M Yakoob Chowdhury - Chairman
Zafar Alam Khan
Chris Harvey
Ramsay L Daly
Pierre J Neethling
Hendrik F Leenstra
Dheven Dharmalingam

REMUNERATIONS COMMITTEE

Muhammad H Habib - Chairman

M Yakoob Chowdhury

Pierre J Neethling

SOCIAL AND ETHICS COMMITTEE

Pierre J Neethling - Chairman

M Yakoob Chowdhury

Zafar Alam Khan

Chris Harvey

John McClelland

EXECUTIVE MANAGEMENT

Zafar Alam Khan (61)

Chief Executive Officer

Chris Harvey (57)

Head of Corporate Governance

Ronnie Meherjina (50)

Chief Operating Officer

Yusuf Dockrat (34)

Chief Financial Officer

Hassan Zia (61)

Head of Risk

Dudley Garner (48)

Head of Compliance

CORPORATE

Zaheera Karreem (35)

Head of Internal Audit

John MCG Rebelo (68)

Treasury Manager

Nusrat Zaidi (52)

IT Manager

Saleem Abdulla (55)

Operational Risk Manager

John McClelland (48)

Human Resources Manager

BRANCH NETWORK

KwaZulu-Natal Division:

S Babur H Zaidi (53) (Durban)

Vice President

M Mohsin Ahmed (47) (Islamic)

Senior Manager

A Bashir (46) (Pietermaritzburg)

Assistant Vice President

Gauteng Division:

M Ali Chaudhry (45) (Johannesburg)

Vice President

M Raashid Faiyaz (38) (Lenasia)

Manager

M Mahomed (39) (Laudium)

Officiating Manager

A Abba (33) (Boksburg)

Manager

REGISTERED OFFICE

135 Jan Hofmeyr Road

Westville

3629

REGISTRATION NUMBER

1995/006163/06

CHAIRMAN'S REVIEW

It is with great pleasure that I present the annual report of HBZ Bank Ltd for the year 2013. By the Grace of God, our operation in South Africa continues to produce satisfactory results.

INTERNATIONAL

Internationally, markets are generally driven by the economic situation in the US and Europe. In the US there has been increasing optimism since the beginning of 2013. Consumer spending has improved due to consistent job gains (unemployment is down to 7.3%), increasing home and equity prices, low inflation, increasing consumer confidence and low interest rates. Furthermore, fixed investment growth is currently boosted by demand for residential property.

The Eurozone exited a lengthy recession in 2Q 2013 and the rebound in economic activity was broad based. Whilst there is now a slow but positive growth in the region that is expected to gradually pickup during 2014, growth will be hampered by the austerity measures taken in 2012 and 2013. However as global growth gains momentum Eurozone exports will increase, in turn encouraging further structural reforms to ensure the economy becomes more competitive.

One of the major issues that remain in Europe is that high unemployment, combined with fairly severe austerity conditions in certain countries (Italy and Greece.) These issues will need to be addressed by the European Central Bank to ensure continued economic growth in the area.

DOMESTIC

2013 was a disappointing year for the South African economy. Household spending, fixed capital formation and government spending all recorded slower growth relative to 2012. Industrial action in the mining and governmental sectors, slowing household credit extension, power shortages, low business and consumer confidence and rising pressure on the government's finances contributed to the poor economic growth. Added to this, a weak global economy reduced the local markets' export performance.

As a result, the Consumer Price Index (CPI) or Inflation rate rose to a high in August 2013 of 6.4%, levels last experienced in mid-2009. This placed immense pressure on the South African Reserve Bank Monetary Policy Committee to increase the prime lending rate as this level was outside their benchmark high of 6.0%. Due to a slowdown in food, non-alcoholic beverages and petrol price, inflation in the latter half of 2013 improved the CPI to end the year at 5.4%. As a result the SARB kept the prime lending rate at 8.5% during 2013.

OPERATING PERFORMANCE

The market for new business remained challenging in 2013. However I am pleased to note that advances and deposits increased as budgeted in 2013. As a result total assets at the end of the year were 18.9% up on 2012 ending at R 3.57 billion. Advances were up 17.9% while deposits were up 18.8% on 2012. During 2013 the Bank continued the processes of increasing its resources in finance, compliance, internal audit and the centralised functions. This investment resulted in profit before tax of R 62.8 million being 6.8% down on 2012.

I am extremely pleased to note the very strong performance of the Boksburg branch which opened in late 2012.

OUTLOOK

Financial year 2014 will be an equally challenging year. There will be pressure on domestic expenditure as food inflation has bottomed with meat prices moving higher, while disappointing rainfall in the North West resulted in upward pressure on maize prices. Clothing, transport, hotel and petrol prices also increased in December, contributing to an increase in the CPI in early 2014 to 5.9%. The result was that the SARB moved swiftly to increase the prime lending rate by 0.5% on the 30 January 2014. I expect food and petrol prices to rise further in 2014 resulting in upward pressure being placed on the prime lending rate. I expect there will be a further increase towards the end of 2014.

However, an improving global economy will support export demand, which combined with a stable Rand and an improvement in business confidence will increase growth from 2% to 2.8% in 2014.

During 2014 elections will be held in the country after which the government will implement the National Development Plan (NDP) which was formally adopted in December 2013. At present many necessary structural challenges have been put on hold until after the elections and these will be addressed in the NDP. Both government and the private sector alike hail this as the way towards enabling faster growth in 2014.

During 2014 the Bank will continue its process of centralising core functions to its head office in Durban. This will allow branch staff more time to focus on marketing its business strongly and providing a better service to our clients. Our combination of skilled people, entrepreneurial spirit and a strong culture will, I am confident, enable the Bank to achieve its growth strategies for 2014. The Bank, nevertheless, continues to be driven by the keen desire to consider the customer first and provide a quality service. The Bank will continue to maintain its conservative lending policies in keeping with its philosophy of maintaining high liquidity.

APPRECIATION

Our staff are an asset to the Bank, and as always have shown commitment, dedication, integrity and hard work, all of which have helped the Bank achieve its goals and objectives. On behalf of the Board I thank them all for their valuable contribution.

I also thank all our clients and well wishers for their continued patronage, without which we would not have achieved these results.

I wish to extend my appreciation to the South African Reserve Bank for their guidance and support and my fellow Board members for their continued loyalty and wisdom.

On behalf of the Habib family and all at HBZ Bank I acknowledge with sadness the passing on the 5th of December 2013 of one of the world's greatest and most inspirational leaders, Mr Nelson Mandela.

Muhammad H. Habib

Chairman

LEADERSHIP

"A leader... is like a shepherd. He stays behind the flock, letting the most nimble go out ahead, whereupon the others follow, not realizing that all along they are being directed from behind."

- Nelson Mandela

RISK MANAGEMENT PHILOSOPHY

HBZ Bank recognises that effective risk management is fundamental to the sustainability of business: to generate sustainable profits, safeguard its reputation, create a competitive edge and achieve an optimal risk-reward profile.

The risk philosophy of the Bank is to keep risks to a minimum through a clear policy of broad diversification in terms of geography and product mix, and by spreading the Bank's credit and trade financing activities over a wide range of customers, with the emphasis on secured, short-term, self-liquidating lending.

The Bank defines risk as any factor, which could cause the Bank not to achieve its desired business objectives or result in adverse outcomes, including reputational damage. In fact all actions that the Bank takes have an element of risk. The Bank recognises that it is an unavoidable consequence of banking to take calculated business risks with the objective of creating attractive returns and thus HBZ Bank does not seek to avoid risk, but to manage it in a controlled manner and in the context of the reward that is being earned.

The Bank's risk management process is to ensure that all risks are identified and understood, evaluated and quantified, and then managed to achieve the desired returns by eliminating, reducing and controlling the impact of adverse occurrences on performance to within acceptable parameters. Risk mitigation is an integral part of this process.

Risk management at HBZ Bank is guided by the following important principles:

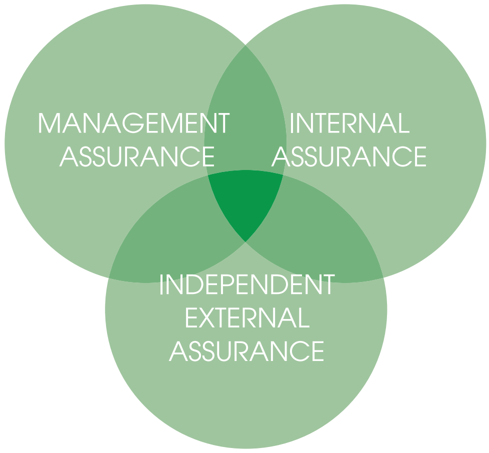
- A strongly defined risk management structure;
- Independent review and oversight of the risk process;
- Continuous evaluation of the risk appetite of the Bank through clearly defined limits; and
- Communication and coordination between the Committees, executive management and other role-players in the risk management framework, without compromising segregation of duties, controls or review.

The Board enforces a conservative culture with respect to its overall appetite for risk and fully endorses and supports efforts at the Bank to attain international best practice in risk management.

COMBINED ASSURANCE

The "three lines of defence" model forms the basis of the combined assurance approach required under the King Code. It aims to provide a coordinated approach to all assurance activities. We continue to make significant progress with the integration and alignment of assurance processes to optimise governance oversight, risk management and control. The 3 elements main elements of the Bank's Combined Assurance Model are:

1. Management assurance - including strategy implementation, performance measurements, control self-assessments and continual monitoring mechanisms and systems (finance, treasury, IT, HR.)
2. Internal assurance - risk management, regulatory compliance, internal audit, company secretary and health and safety departments.
3. Independent external assurance - external audit and other assurance providers.



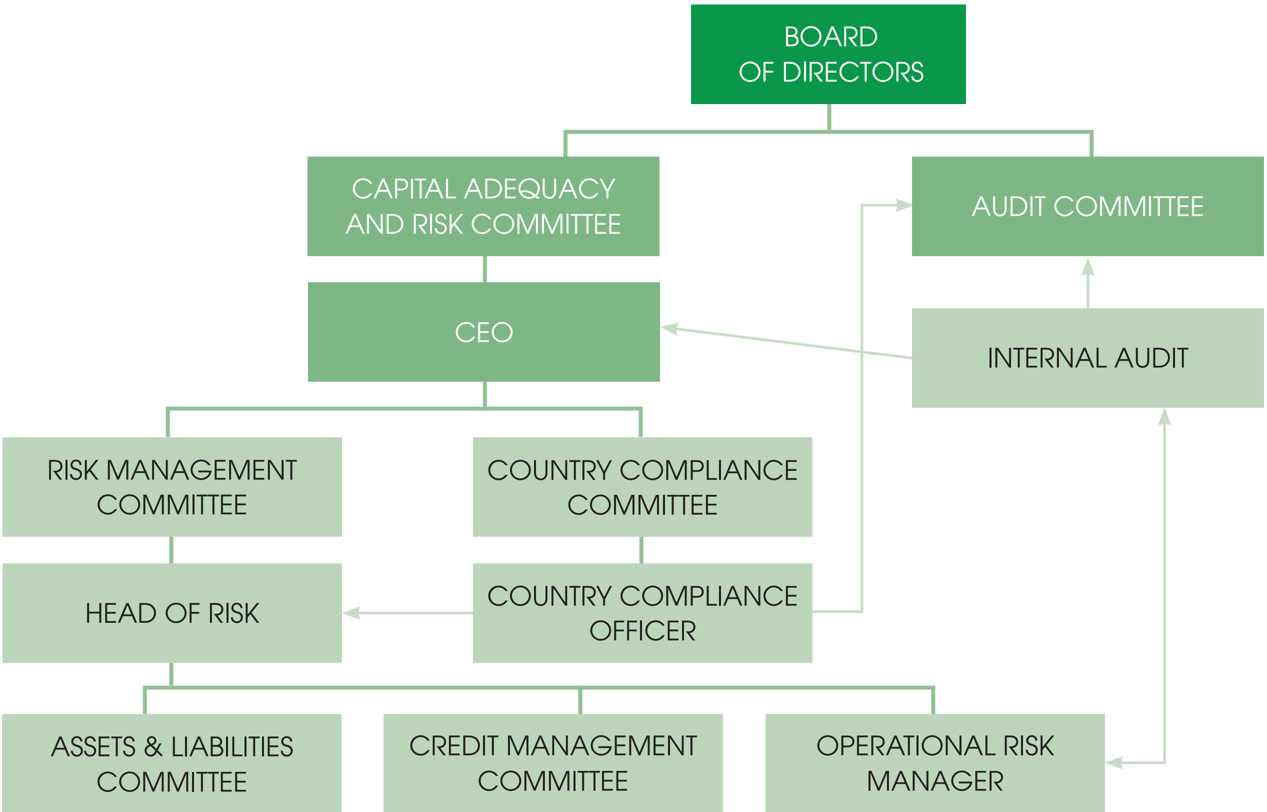
RISK MANAGEMENT FRAMEWORK

The Board is ultimately responsible for any financial loss or reduction in shareholder value suffered by the Bank. It is therefore responsible for the total process of risk management, recognising all the risks to which the Bank is exposed and ensuring that the proper mandates, policies, authority levels, risk frameworks, internal controls and systems are in place and functioning effectively.

The Bank's risk framework includes direct senior management and Board involvement to determine quantitative and qualitative risk measurement, policies and procedures, control structures, and compliance with regulations. The executive and non-executive Directors are widely represented on the various risk management Committees and processes. At every Board meeting, the Capital Adequacy and Risk Committee reports on the effectiveness of the Bank's risk management and control framework.

In line with international best practice, various Board Committees oversee policy formulation and implementation, and monitor the risk management processes and exposures. The main Committees are the Board itself, the Capital Adequacy and Risk Committee, the Risk Management Committee, the Assets and Liabilities Committee (ALCO) and various Credit Committees.

RISK MANAGEMENT FRAMEWORK



RISKS IMPACTING THE BANK AND THE MANAGEMENT THEREOF

RISK GROUPING	ALM RISKS			OTHER RISKS				CREDIT RISKS				OPERATIONAL RISKS		
Risk Type directly impacting the Bank	Capital Risk	Interest Rate Risk	Liquidity Risk	Compliance & Regulatory Risk	Strategic Risk	Reputational Risk	Systemic Risk	Concentration Risk	Counterparty Risk	Fx Settlement Risk	Credit Risk	Fraud Risk	Ops Risk (Including IT Risk)	Physical Security Risk
Overall Supervision and Responsibility	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC
Risk Owner	Alco	Alco	Alco	CCC	RMC	RMC	RMC	Alco	CMC	RMC	CMC	ORM	ORM	ORM
Risk Manager	FM	FM	FM	CCO	Exco	Exco	Exco	CRM	CRM	RM	CRM	COO	COO	COO
Independent Risk Control	CFO	CFO	CFO	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
Risk Assurance	Internal Audit			Internal Audit				Internal Audit				Internal Audit		

RMC – Risk Management Committee
CMC – Credit Management Committee
CRM – Credit Risk Manager
RM – Risk Manager

Alco – Assets & Liabilities Committee
FM – Financial Manager
COO – Chief Operating Officer
CCC – Country Compliance Committee

CCO – Country Compliance Officer
Exco – Executive Committee
CFO – Chief Financial Officer
ORM – Operational Risk Manager

CAPITAL ADEQUACY AND RISK COMMITTEE

The Committee comprises at least five members with a minimum of three being non-executive directors. The Chairman of the Committee is a non-executive director appointed by the Board. The Committee has the power to investigate any activity within the scope of its terms of reference. In the fulfilment of its duties, the Committee may call upon the Chairmen of the other Board Committees, any of the executive directors, officers or bank secretary to provide it with information, subject to following a Board approved process.

The Committee has reasonable access to the bank's records, facilities and any other resources necessary to discharge its duties and responsibilities. It has the right to obtain independent outside professional advice to assist with the execution of its duties, at bank's cost, subject to following a Board approved process.

The main responsibilities of the Capital Adequacy and Risk Committee are to:

- Annually assess the capital management strategy via the Internal Capital Adequacy Assessment.
- Assist the Board in the management of the Bank's capital requirements to ensure capital is maintained to meet future growth taking into account stress-testing scenarios.
- Assist the Board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied in the day-to-day management of its business;
- Assist the Board in developing a risk mitigation strategy to ensure that the bank manages the risks in an optimal manner;
- Assist the Board in ensuring that a formal risk assessment is undertaken at least annually;
- Assist the Board in identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level;
- Establish and implement a process of internal controls and reviews to ensure the integrity of the overall risk and capital management process;
- Ensure the establishment of an independent risk management function,;
- Introduce such measures as may serve to enhance the adequacy and efficiency of the risk management policies, procedures, practices and controls applied within that Bank.

Four meetings were held during 2013 with attendance in accordance with requirements. Minutes were kept and filed as per the charter.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee (RMC) has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed on an annual basis. The RMC reviews the Risk Management framework of HBZ Bank and oversees the control and enhancement of systems, policies, practices and procedures to ensure effectiveness of risk identification and compliance with internal guidelines and external requirements in support of the Bank's strategy. A typical meeting of the RMC will:

- Ensure risks are identified, measured, controlled, monitored & reported.
- Review the Bank's risk profile and appetite.
- Set and maintain policies, control standards, risk exposure limits or other control levers.
- Initiate stress tests & scenario plans & review their results.
- Review the credit risk regulations, policies, procedures & credit impairment provisions.
- Review all risks individually and anticipate any resulting risk issues.
- Review all issues raised by the Group and Bank's Internal and External Audit Departments.

In performing its duties, the RMC keeps an effective working relationship with the Capital Adequacy and Risk Committee and the ALCO.

The RMC is chaired by the Head of Risk Management and is made up of the CEO, COO, CFO and Head of Compliance, while the Head of Corporate Governance attends as an observer. A Branch or Area Manager is invited to attend as and when decided by the Committee. During 2013 the RMC met as per the requirements.

CREDIT MANAGEMENT COMMITTEE

The Committee is chaired by the CEO and comprises the Head of Risk, the COO and a senior branch manager. The Committee may request any other Senior Manager of the Bank to attend the meeting. The CMC is the credit decision making body within the Bank and approves all credit proposals, reviews and monitors all single credit risks which fall within their Board approved competency.

The Committee met as per requirements and minutes were kept in line with the Board approved charter.

ASSETS AND LIABILITIES COMMITTEE

An integral element in managing risk is the overall management of the assets and liabilities of the Bank. The ALCO was set up by Management with a written charter to oversee the arrangement of both sides of the Bank's statement of financial position, to maintain profitability, to minimise interest rate risk, to maintain adequate liquidity and manage the capital adequacy requirements of the Bank. The Committee presents a report at each Risk Management Committee meeting on the effectiveness of the management of the risks it monitors. The charter is reviewed on an annual basis.

The main responsibilities of this Committee are to:

- Review the liquidity and interest rate risk process.
- Consider the maturity of the statement of financial position
- Review and monitor capital risk and the capital adequacy process.
- Assess the various liquidity and interest-rate shock scenarios and their impact on earnings and capital.
- Allocate the assets and liabilities to reduce risk and increase profitability.
- Ensure a square position is maintained with currency risk.
- Review industry exposure to manage concentration risk.

The Committee is chaired by the CFO and is made up of the COO, CEO, Head of Corporate Governance, Head of Risk, Financial Manager and Treasury Manager. During 2013 the ALCO met as per the requirements.

COMPLIANCE COMMITTEE

The Committee is chaired by the Country Compliance Officer and comprises the CEO, COO, Senior Branch or Area Manager and the Head of Risk. The Committee has a written charter noting that it is responsible for overseeing the compliance function in HBZ Bank.

It has the authority to consider any matters relating to compliance and the combating of money laundering and terrorist financing risks that it deems necessary. In this regard the Committee has the authority to seek any information it requires from any officer or employee of the Bank, and such officers or employees shall respond to these enquires.

The main functions of this committee are to:

- Identify the money laundering and terrorist financing risks that are relevant to the Bank,
- Review the compliance monitoring process.
- Ensure that any recommendations above are incorporated into the Bank's procedures and monitoring infrastructure.
- Review the compliance and combating of money laundering and terrorist financing training requirements.
- Review the list of high risk countries. the list of high risk accounts, the list of frozen accounts , the list of accounts that are under investigation by any regulatory body (SARS, FIC, and SA Police),
- Review the account opening procedures to ensure they meet local regulatory requirements.
- Review a list of new Acts or Regulations promulgated since the last meeting, assess their impact on the Bank and ensure the Bank is in compliance with them if they do impact the Bank.

The Committee met as required in 2013 and minutes were kept and filed as per the charter.

CREDIT RISK

Credit risk is the risk of financial loss arising from the possibility that commitments by counterparties are not honoured either in part or totally.

The Board acknowledges that credit risk management is critical to the Bank and has appointed a Credit Risk manager to manage the Bank's credit risk process. This manager attends the holding company's annual risk conference.

In line with the requirements of the South African Reserve Bank (SARB), the Bank is using the Standardised Approach to calculate regulatory credit risk capital as stipulated in the Basel III Accord.

The fundamental principles that the Bank applies in the management of credit risk include:

- A clear definition and in-depth understanding of our niche client base;
- A centralised credit department to manage proposals and security;
- Appointment of a credit risk manager;
- Detailed credit granting procedures including rigorous assessment of the creditworthiness of all parties;
- Detailed and documented account opening procedures, know-your-customer and due diligence requirements;
- An emphasis on diversification of the Banks client base limiting single party exposure as well as exposures to certain industries;
- Formation of high level credit committees with clearly defined limits;
- Periodic and routine review of facilities against updated AFS received;
- Detailed credit inspection, quality review and prompt follow-up by high level management, the independent external and internal auditors;
- Executive & non-executive's involvement in decision making and review;
- Emphasis on security based lending and conservative security values;
- Strict adherence to the regular revaluation of collateral held as security;
- Continual monitoring of all large exposures at board level;
- Spread the interbank placements amongst the banks to avoid concentration;
- A detailed credit risk classification system of clients;
- Early detection of potentially bad loans through branch-wise monthly Watch-list reports;
- Structured procedure for recovery of non-performing accounts;
- A clear policy on the appropriate provisioning in respect of the estimated loss inherent in the advances book.

The Board approves and monitors all large exposures that are in excess of 10% of the Bank's capital. To augment the prudent assessment of advances and determination of appropriate provisioning, the Bank has a credit risk classification system.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is inherent in running a business. The major risks are internal and external fraud, error, incompetence, systems breakdown, losses from external events, legal risk and inadequate internal control procedures. Management have appointed an operational risk manager whose role is to develop and maintain the Operational Risk Management Policy of the Bank.

In line with the requirements of the SARB, the Bank uses the Basic Indicator Approach to calculate regulatory operational risk capital as stipulated in the Basel II Accord.

The Bank takes active measures to limit potential operational losses by:

- Instilling in employees a sound culture, work ethic and values ethos;
- Providing a healthy, safe and secure operating environment for staff, data and information;
- Regularly rotating and motivating staff;
- The preparation and continual upgrading of clear procedure manuals;
- Correct and meaningful staff training;
- Maintaining adequate and effective internal controls;
- Ensuring timeous and accurate processing of transactions and monitoring unauthorised ones;
- Ensuring appropriate investment in computer technology to support operations;
- Ensuring an adequate business continuity process in the event of disruption;
- Internal and external independent audit checks and internal control reviews;
- Ensuring as an additional counter to potential operational risk that the Bank has extensive insurance cover for any material losses.

The Bank has an internal operational loss reporting mechanism to identify and quantify operational losses. Significant loss events and incidences are reported to the Board immediately when they occur.

COMPLIANCE RISK

Compliance risk is the risk of financial loss due to the procedures implemented to ensure compliance with relevant statutory, regulatory and supervisory, industry codes of conduct and internal control requirements not being adhered to, or such controls are inefficient and ineffective.

Compliance risk includes Regulatory risk which arises when the Bank does not comply with applicable laws and regulations or supervisory requirements and Reputational risk which is the negative publicity the Bank will be exposed to if there is a contravention of applicable statutory, regulatory and supervisory requirements or providing a service that does not comply with proper industry standards.

As the number of statutory regulations and directives from Central Banks' increase there is a continual need to monitor the Bank's adherence to these laws. The Bank identifies compliance risk as a separate risk within its risk management framework.

The Bank has a Compliance department appointed to oversee the management of Compliance Risk. To make certain this department is effective in managing this risk the Bank has ensured that:

- The compliance department is headed by a senior executive who has the appropriate training and knowledge;
- An independent Compliance Committee, made up of senior management, has been set up, that meets quarterly with a detailed agenda addressing all major compliance and AML issues;
- The compliance function operates independently from internal audit and branch operations;
- The compliance function confirms that the bank complies with all relevant statutory, regulatory and supervisory requirements;
- The compliance department is adequately staffed;
- The compliance head presents a report at each board meeting on any non-compliance with laws and regulations or supervisory requirements.

When new acts, regulatory requirements and codes of conduct are introduced compliance addresses these by providing training and advice on these issues, developing policies and procedures affecting regulatory issues and regularly monitoring adherence to these policies and procedures. Education and practical workshops form an important part of this process.

The Head of Compliance attends the annual International Compliance Conference hosted by our holding company and is a member of the Compliance Institute of South Africa.

The Bank proactively manages reputational risk by:

- Having strong internal values that are regularly and proactively reinforced;
- Subscribing to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles;
- Ensuring our policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous performance assessment, internal audit and regulatory compliance review;
- Ensuring the bank has clearly defined risk management practices, to effectively self-police these risks;

- Having internal controls that are effective;
- Having an internal audit function that operates independently and effectively;
- Having a clear policy on privacy issues regarding the use of customer information.

CAPITAL RISK

Capital risk is the risk that the Bank will not have adequate capital to support all the risks in the business.

The Bank's capital management process is intended to develop and use effective risk management techniques in monitoring and managing its risks to ensure it has adequate capital to support all the risks. Clearly a relationship exists between the amount of capital held by the Bank against its risks and the strength and effectiveness of the Bank's risk management and internal control processes.

It is the Board's view that increasing capital should not be the only option for addressing increased risks confronting the Bank. Other means of addressing risk, such as strengthening risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls, must also be considered. Furthermore, capital should not be regarded as a substitute for addressing fundamentally inadequate controls or risk management processes.

The Board has developed an Internal Capital Adequacy Assessment Process (ICAAP) and set capital targets that are commensurate with the Bank's risk profile and control environment, to ensure the Bank has adequate capital to support its risks beyond the core minimum requirements. During 2013 the Board reviewed the capital management and capital adequacy processes and confirmed that it achieved the objectives specified.

CONCENTRATION RISK

Concentration risk is the risk of losses arising that are large enough to threaten the bank's existence due to a single exposure or group of exposures to a counterparty, industry, geographic area or with one type of security.

The fundamental principles that the Bank applies in the management of concentration risk include:

- Clearly defined rules for the grouping together of exposures to the same client;
- Clearly defined per party exposure limits;
- Continual monitoring of industry and geographic exposures at board level;
- Retaining capital where the cumulative per party exposures is above 25% of the capital of the bank not secured by cash deposited at the bank or guarantees from Habib Bank AG Zurich;
- Retaining capital at 10% of any exposure to an industry (both asset and liability) of more than 40% that is not secured by cash deposited at the bank or guarantees from Habib Bank AG Zurich;
- Reviewing concentration risk at each ALCO meeting.

COUNTERPARTY RISK

Counterparty risk is the risk that a counterparty (another bank) will not honour their commitment in a forward exchange contract or interbank placement; or a sovereign does not honour a commitment either in part or totally.

The Bank proactively manages this risk by:

- Having the Board approve bank limits for interbank placements and investments in sovereigns.
- Spread the interbank placements amongst the banks to avoid concentration.
- Limit the banks we purchase FEC's from to those approved by the Board.
- Spread the FEC deals amongst the approved banks to avoid concentration.
- Only deal with banks and sovereigns situated in countries that have a well regulated banking industry.

FRAUD RISK

Fraud risk is the risk that a 3rd party or employee commits a deceptive act to obtain a benefit for themselves to the detriment of the Bank – Internal and external fraud.

The Bank's Fundamental principles of managing fraud risk are to:

- Instil in employees a sound culture and an ethical and values driven ethos;
- Correct and meaningful staff training on fraud, including sharing best practices;
- The preparation and continual upgrading of Code of Conducts and Ethics manual;
- Ensure there is an effective Complaints and Whistle Blowers process installed, supported by well documented manuals:
- Regularly rotating and motivating staff;
- Ensuring immediate and effective action is taken against any persons implicated in fraudulent activities;
- Maintaining adequate and effective internal controls;
- Ensuring timeous and accurate processing of transactions;
- Reviewing of suspicious transactions including eliminating transactions with blacklisted companies and individuals;
- Ensuring appropriate investment in computer technology to support operations;
- Independent internal and external audit to check and review controls;
- Having an independent Risk Management Committee, made up of senior management, that meets quarterly with a detailed agenda including fraud risk issues;
- Ensuring that the Bank has extensive insurance cover for any material losses.

INTEREST RATE RISK

Interest rate risk arises when losses occur due to adverse variations in interest rates.

The Bank takes active measures to limit potential interest rate losses by:

- Ensuring that all assets and liabilities must match over time;
- Ensuring that the majority of the bank's borrowings and lending activities are at variable rates allowing for relatively stable interest rate margins;
- The Asset and Liability Committee (ALCO) reviewing and monitoring the interest rate matching at every meeting;
- Matching rate-sensitive assets and liabilities over various time horizons and various economic and environmental scenarios at every ALCO meeting;
- Review the interest rate matching process at each Capital Adequacy and Risk Committee meeting.

The focused range of products offered by the bank facilitates the management of interest rate risk.

LIQUIDITY RISK

Liquidity risk results from being unable to meet commitments, repayments and withdrawals timeously and cost effectively.

The Bank controls liquidity at source by having strong internal controls at that point, ensuring a wide deposit base, simplifying the product range and centralising the treasury function. The Bank is extremely conservative. They directly match all major deposits with inter-Bank placements and keep a large proportion of the funds short-term to buffer against unexpected cash flow requirements. This is enhanced through an ALCO and an ALM process which addresses liquidity risk proactively. The focused range of products offered by the Bank facilitates the management of this risk.

The liquidity management process includes a Contingency Funding Plan and Recovery Plan which takes into account various stress test scenarios and funding sources. The Bank does comprehensive stress test scenarios for cases where an intraday liquidity shortfall is predicted and where a sudden drain in funds occurs resulting from a run on the Bank or a single large Bank placement becoming unrecoverable.

The Bank has the following sources of funding in a stress situation:

- Use available interbank lines.
- Sell government stock.
- Approach Habib Bank AG Zurich to provide funding.
- Approach the market to raise funds.

The Bank successfully complies with Basel III principles relating to liquidity risk management, specifically the liquidity coverage ratio and the net stable funding ratio. As with interest rate risk the focused range of products offered by the bank facilitates the management of liquidity risk

PHYSICAL SECURITY RISK

Physical security risk is the financial loss from damage to the physical assets of the bank or the injury to staff or customers.

To manage this risk the Bank has ensured that:

- Branches have adequate fire and smoke alarms and access alarms linked directly to a response company;
- Each branch has an effective CCTV monitoring system with functioning back up and these systems are tested regularly;
- Each department or branch has a health and safety officer appointed who performs monthly inspections and produces reports to branch management and head office;
- There is extensive insurance cover for any material losses;
- There is adequate medical aid, life and disability cover for staff.

This risk is reviewed at each Capital Adequacy and Risk Committee meeting.

STRATEGIC RISK

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

The Bank proactively manages this risk by ensuring that:

- Strategic risks are determined by board decisions about the objectives and direction of the organisation;
- Board strategic planning and decision-making processes, is thorough;
- The board has sufficient information about how the business is performing, and about relevant aspects of the economic, commercial, and technological environments.
- The board is balanced in skills, knowledge, and experience to assess the variety of strategic risks the organisation faces;
- The bank has the ability to respond to abrupt changes or fast-moving conditions;
- The bank only accepts short-term strategic risks if it can reduce or eliminate those risks over a longer timeframe;
- Strategic risks are avoided or not accepted if the possible impacts are too great or where the probability of success is so low that the returns offered are insufficient to warrant taking the risk.

SYSTEMIC RISK

Systemic risk is the risk of collapse of an entire financial system or entire market, due to financial system instability caused or exacerbated by idiosyncratic events or conditions in financial intermediaries.

It refers to the risks imposed by interlinkages and interdependencies in a system, where the failure of a single entity or cluster of entities can cause a cascading failure, which could potentially bankrupt or bring down the entire system.

The fundamental principles of managing systemic risk are:

- To ensure exposure to other banks is diversified;
- To set limits for dealings with other banks approved by the Board;
- To monitor the macroeconomic situation.

FOREIGN EXCHANGE SETTLEMENT RISK

Foreign exchange settlement risk is the risk that a 3rd party bank may fail to settle or honour a FX trade with the Bank. The three main risks associated with FX transactions are principal risk, replacement cost risk and liquidity risk, which arise due to the possibility that a counterparty may fail to settle an FX trade.

The Bank proactively manages this risk by:

- Prohibiting staff from foreign exchange speculation and having uncovered forward positions.
- Allowing only short-term open positions on NOSTRO accounts within extremely conservative limits stipulated by the board for each currency.
- Monitoring positions on a daily basis to ensure all forward positions are covered.
- Monitoring on a daily basis the open position of the group to ensure it is within the limit stipulated by the board.
- Monitoring on a monthly basis the open position of the group to ensure it is within the limit stipulated by the SARB.
- Setting board approved counterparty exposure limits for FX trading and settlement.
- Having board approved policies and procedures that are comprehensive and consistent with relevant laws, regulations and supervisory guidance and provide an effective system of internal controls.
- Only dealing with correspondent banks that have been carefully selected by HBZ and approved by the board.
- Ensuring that all FX deals are settled via payment-versus-payment (PVP) settlement. PVP is a mechanism that ensures the final transfer of a payment in one currency if and only if, a final transfer of a payment in another currency occurs, thereby removing principal risk.
- Signing a legally enforceable collateral arrangement (ISDA credit support annexes) to mitigate its replacement cost risk.

DEDICATION

"Do not judge me by my successes, judge me by how many times I fell down and got back up again."

- Nelson Mandela

HBZ Bank recognises the need to provide support for various external social causes while balancing this with a focused internal staff development program.

EXTERNAL SOCIAL INVESTMENT

It is vital, to ensure lasting employment and self-enrichment, that people are properly educated and have a cultural heritage to provide substance to their lives. It is with this in mind that the Bank has over the years proudly invested in a wide range of welfare and self help initiatives. Principle amongst them has been projects and programmes that have provided educational, health and cultural development. Preschools, primary and high schools have all benefited from regular contributions, as have AIDS, Cancer, Drug & Alcohol abuse projects and the deaf and blind associations. Cultural events are also well supported by the Bank.

The Bank has continued to provide financial aid to many charitable organisations that provide assistance to the poor, homeless, orphaned and destitute people. The aim is to provide a regular contribution to allow these persons to become productive and self-sustaining persons within their communities.

INTERNAL SOCIAL INVESTMENT

It is paramount to the success of any business that internal empowerment programmes for staff are in place. The Bank is conscious of this fact and has implemented internal employment equity, training and skills development initiatives. These initiatives focus on providing all employees with an environment that is free from any form of discrimination while ensuring opportunities exist to obtain the necessary skills for career expansion.

SKILLS DEVELOPMENT

The Bank has a Skills Development Facilitator who is registered with the BANKSETA, the Banking Industries Training Authority. A Workplace Forum comprising of equal numbers of staff and management meets to monitor and enhance the Bank's Workplace Skills Plan.

The Plan monitored by the Forum commits the Bank and employees to various training projects that include:

- focused on-the-job training;
- external training; and
- providing access to tertiary, college and university education.
- All staff have access to this plan and are entitled to benefit from the plan.

EMPLOYMENT EQUITY

The Bank's Employment Equity Plan submitted to the Department of Labour is continually monitored and updated to ensure it meets the changing needs of the Bank and its employees.

As a member of an international banking group, the Bank is proactive and has, for a number of years had a sound employment equity process. The Bank is currently training and recruiting staff from previously disadvantaged groups to ensure employment equity at the Bank remains ahead of the plan.

WISDOM

"A good head and a good heart are always a formidable combination."

- Nelson Mandela

CORPORATE GOVERNANCE

In recognition of the need to conduct the affairs of the Bank according to the highest standards of Corporate Governance and in the interests of stakeholder protection, the Board endorsed the Code of Corporate Practices and Conduct recommended in the Report on Corporate Governance of 2002 ("King II") and 2010 ("King III"). The Directors are of the opinion that the Bank has, in all material aspects, observed and applied these Codes, where they are applicable to the Bank, during the year under review.

The Corporate Governance framework and Corporate Governance plan, both reviewed by the Board annually, ensures the strategic guidance of the Bank, the effective monitoring of management by the Board, and the Board's accountability to our shareholder.

The salient features of the Bank's Corporate Governance policy are built on the characteristics of:

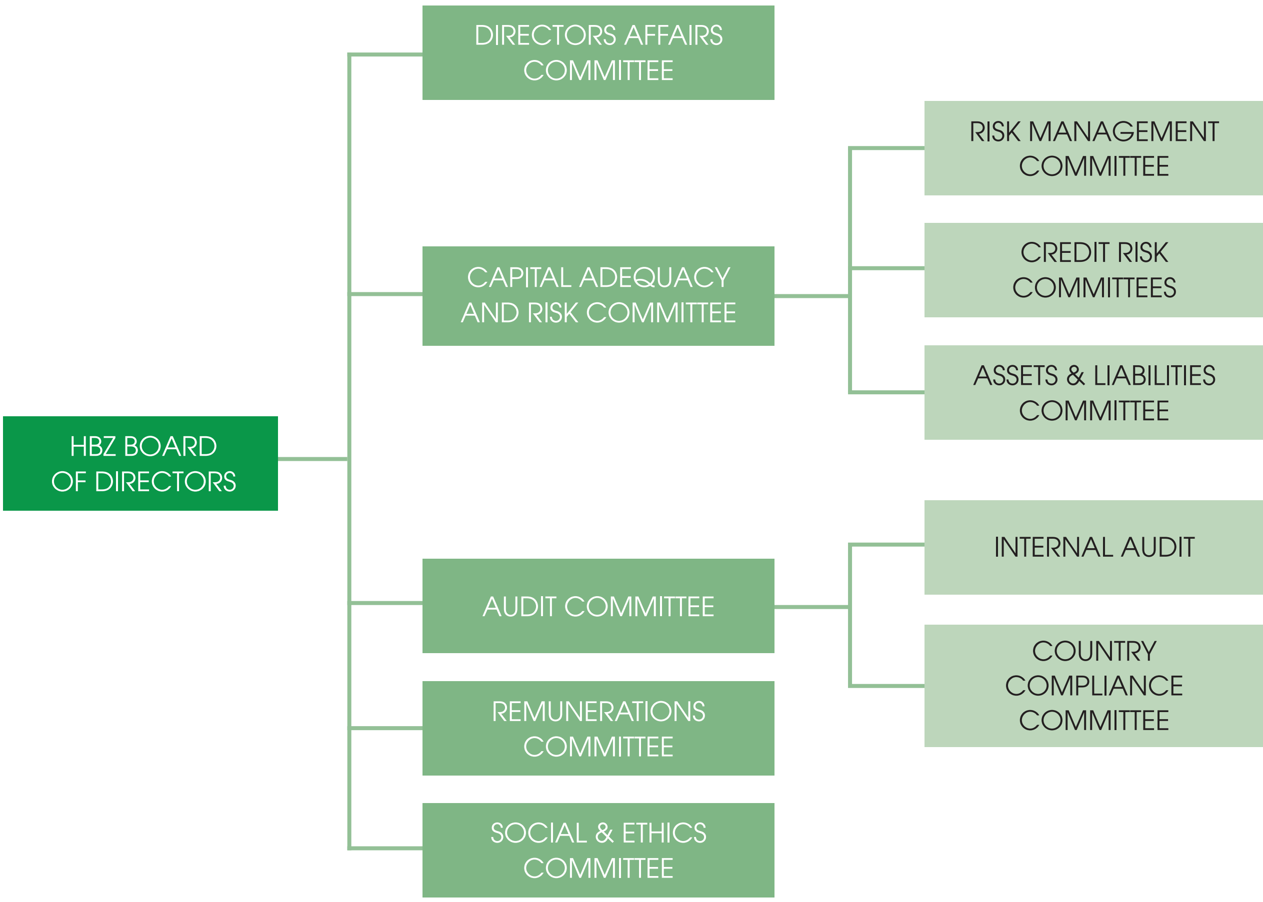
- Building and sustaining an ethical corporate culture in the Bank
- Enable discipline, independence, and transparency and social integrity
- Enable effectiveness, efficiency, responsibility and accountability
- Identifying and mitigating significant risks, including capital risk
- Promoting informed, fair and sound decision making
- Facilitating legal and regulatory compliance
- Ensuring sustainable business practices, including social and environmental activities
- Disclosing timely and accurate information to enable all stakeholders to make a meaningful analysis of the Banks performance, financial position, and governance.

BOARD OF DIRECTORS

Charter

The HBZ Board has a Board Charter that includes the directors' code of conduct. The Board is fully committed to infusing the standards of integrity, accountability and transparency required to achieve effective

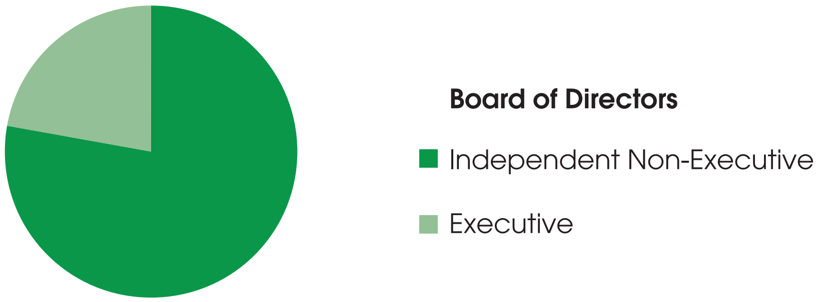
HBZ's governance framework is depicted as follows:



corporate governance. The Charter confirms the board's accountability, fiduciary duties, conflict of interest process, appointments and tenure. The Charter is reviewed by the board on an annual basis.

Structure and composition

During 2013 the Board comprised nine Directors, seven non-executive Directors and two executive Directors. Non-executive Directors comprise persons of high caliber with diverse international and local backgrounds and expertise that enable them to bring objectivity and independent judgement to the Board deliberations and decisions. Both the Chairman and Vice Chairman are non-executive members. The roles of the Chairman and the CEO are separate with responsibilities clearly defined. Details of the Directorate are listed on page 4 of this annual report.



Meetings and attendance

The Board met four times during 2013 with Director's attendance in accordance with requirements. Additional Board meetings, apart from those planned, are convened as circumstances dictate; none were convened during the year under review. Where Directors are unable to attend a meeting personally, teleconferencing is made available to include them in the proceedings and allow them to participate in the decisions and conclusions reached. The Board is supplied with full and timely information with a typical Board agenda including:

- A report from the CEO.
- A discussion on the financial results.
- Report from the Audit Committee.
- Report from the Capital Adequacy & Risk Committee.
- Report from the Directors Affairs Committee
- Report from the Social and Ethics Committee
- Report from the Remunerations Committee.
- Report from the Compliance officer.
- Report on large exposures.
- Report on industry concentrations.
- Report on IT issues.
- Report on significant regulatory issues.

Minutes are maintained of each meeting, signed by the Chairman and kept in a minute book by the Board Secretary. On a monthly basis all Directors receive management accounts that include a statement of comprehensive income and a statement of financial position by branch. The Board meets annually with management to debate and agree on the proposed strategy and to consider long-term issues facing the Bank, prior to formulation of the annual financial budgets. All Directors are regularly kept abreast of statutory, regulatory, accounting, non-financial and industry developments that may affect the Bank. Furthermore all Directors have full access to management, the Bank secretary and independent professionals as well as unrestricted access to all relevant documentation required to discharge their duties.

Appointments and Retirements

One-third of Directors retire by rotation annually. The Board does not believe that the length of service of any Director could materially interfere with the Director's ability to act in the best interests of the Bank. When reappointing Directors, the Board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics. All Directors are regarded as fit and proper.

Board evaluations

During the year the Board performed the annual Board self-assessment evaluation. The self-assessments were collated by the Chairman and the results tabled at a meeting. The self-assessments showed no weakness in the board structure, member's attendance at meetings or the expertise, knowledge and valued input of individual directors at the meetings. The Board did agree that there would be greater focus on implementing and monitoring progress of the strategic plan developed in the second half of 2013.

Committees

The Board is supported by various internal Committees and functions in executing its responsibilities. These are elaborated on below while the details of the Committees are listed on page 4 of this annual report.

AUDIT COMMITTEE

The Audit Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Committee consists of independent non-executive Directors. The Chairman is elected by the board and is present at the Annual General Meeting. The Bank's Audit Committee members are suitably skilled and experienced independent non-executive directors.

The compliance officer, internal and external auditors of the Bank and the banking supervision department of the South African Reserve Bank have unrestricted access to this Committee. In addition the Chairman has the right to call in any other employee who is able to assist the Committee on an ad hoc basis. Four meetings were held during 2013 with the CEO, CFO, compliance officer, internal and external auditors invited to attend when necessary. The Committee attendance at the meetings is in accordance with requirements.

The Committee's primary responsibilities for 2013 are detailed in the Audit Committee report.

CAPITAL ADEQUACY AND RISK COMMITTEE

The Board established the Capital Adequacy and Risk Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Board appointed the Chairman of the Committee. The Committee is made up of both non-executive and executive Directors with the Chairman a non-executive Director. Four meetings were held during 2013 with attendance in accordance with requirements.

A comprehensive Risk Management framework is in place that formalises the management of risk. This framework, including the role of the Assets and Liabilities Committee and Risk Management Committee and the application and reporting on risk, are detailed in the separate Risk Management section of this annual report.

DIRECTORS' AFFAIRS COMMITTEE

The Directors' Affairs Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Board appointed the Chairman of the Committee. The Committee consists of non-executive Directors. In terms of the charter two meetings were held during 2013, with the CEO invited to attend. Attendance at these meetings was in accordance with requirements.

The Committee's primary responsibilities are:

- To assist the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the Corporate Governance structure and practices of the Bank;
- To establish and maintain a Board Directorship continuity program including planning for succession, regularly reviewing the skills and experience of the Board, and an annual self-assessment of the Board as a whole and of the contribution of each individual Director;
- To assist the Board in the nomination of successors to key management positions and ensure that a management succession plan is in place;
- To assist the Board in determining whether the services of any Director should be terminated; and
- Assist the Board in ensuring that the Bank is at all times in compliance with all applicable laws, regulation and codes of conduct and practices.

SOCIAL AND ETHICS COMMITTEE

The Board of Directors established the Social and Ethics Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Board appointed the Chairman of the Committee who is an independent non-executive Director. The Committee is made up of Directors and management. In terms of the charter two meetings were held during 2013 with attendance in accordance with requirements.

The responsibilities and duties of the Social and Ethics Committee include the following:

- To monitor the Bank's activities, regarding relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:
  - social and economic development;
  - good corporate citizenship, including
  - the environment, health and public safety, including the impact of the Bank's activities;
  - consumer relationships, including the Bank's public relations and compliance with consumer protection laws; and
  - labour and employment;
- To monitor the Bank's activities with regard to ensuring the Banks ethics code is implemented effectively. This will include monitoring that:
  - the Bank's management demonstrates support for ethics though out the Bank;
  - ethical standards are articulated in a code;
  - structures, systems and processes are in place to ensure the board and employees are familiar with and adhere to the Bank's ethical standards;
  - ethics is imbedded in the corporate culture of the Bank.
- To draw matters within its mandate to the attention of the Board; and
- To report to the shareholders at the Bank's AGM on the matters within its mandate.

HBZ Bank has a strong culture of entrenched values that commit it to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. These values apply to all personnel at the Bank, with personnel expected at all times to observe their ethical obligation in such a way as to carry on business through fair commercial competitive practices.

REMUNERATION COMMITTEE

The Board of Directors established this Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Board appointed the Chairman of the Committee who is an independent non-executive Director. The Bank's Remuneration Committee comprises non-executive Directors. The Committee met once during 2013 to determine salary structures and staff policies that ensure the Directors, executive management and staff are rewarded fairly for their individual contributions to the Bank's overall performance.

The main responsibilities of the Remunerations Committee are:

- Overseeing the setting and administering of remuneration at all levels in the Bank;
- Overseeing the establishment of a remuneration policy;
- Exercising competent and independent judgment on compensation policies, processes and practices created for managing risk, capital and liquidity;
- Ensuring that an annual compensation review is conducted independently of management;
- Ensuring that all benefits, including retirement benefits and other financial arrangements, are justified;
- Ensuring that the remuneration of employees in the risk control and compliance functions is determined independently of all relevant business areas, and is adequate to attract qualified and experienced staff;
- Determining the remuneration of the CEO and other executive staff;
- Advising on the remuneration of non-executive Directors;
- Overseeing the preparation for submission to the Board of the remuneration report.

Remuneration is normally reviewed annually, in November, and market data is used to benchmark competitive pay levels. The Bank does not have an incentive scheme based on performance, nor does it offer share options or deferred bonus schemes.

BANK SECRETARY

The Bank secretary of HBZ is suitably qualified and experienced and was appointed by the Board in 1995. The Bank secretary is responsible for the duties as stipulated in Section 88(2)(e) of the Companies Act 71 of 2008 as amended. The Board recognises the pivotal role the secretary plays in the Corporate Governance process and is thus empowered by them to ensure these duties are properly fulfilled.

In addition to his statutory duties the Bank secretary is required to:

- Provide the Directors with guidance on how their responsibilities should be properly discharged in the best interests of the Bank.
- Induct new Directors appointed to the Board.
- Assist the Chairman and Vice Chairman in determining the annual Board plan.
- Ensure that the Directors are aware of legislation relevant to the Bank.

All Directors have access to the advice and services of the Bank secretary whose appointment is a matter for the

CHANGE

"Education is the most powerful weapon which you can use to change the world."

- Nelson Mandela

Board as a whole. The contact details of the Bank secretary are provided in the Director's report.

CREDIT COMMITTEES

Credit Committees comprising senior management as well as executive and non-executive Directors operate at various levels within the Bank. These Committees, operating within clearly defined exposure limits and rules stipulated by the Board, review and approve all exposures to clients and potential clients.

OTHER EXECUTIVE COMMITTEES

Other executive committees vital to the application of sound governance principles within HBZ Bank are:

- The Executive Committee (Exco); chaired by the CEO is made up of the CFO, COO, Head of Risk, Head of Compliance with the Head of Corporate Governances as an attendee.
- The Assets and Liabilities Committee (Alco); chaired by the CFO and made up of skilled persons who can add value to the Committee's affairs.
- The Risk Management Committee (RMC); chaired by the Head of Risk and made up of skilled persons who can add value to the Committee's affairs.
- The Country Compliance Committee; chaired by the Head of Compliance and made up of skilled persons who can add value to the Committee's affairs.
- The IT Steering Committee; chaired by the CEO and made up of skilled persons who can add value to the Committee's affairs.
- The Human Resources Committee; chaired by the CEO and made up of skilled persons who can add value to the Committee's affairs.
- Corporate Social Investment (CSI) Committee to plan and execute the Banks CSI investment.

All these Committees have charters that are reviewed annually. Each Committee meets at least quarterly with minutes kept of all meetings.

COMPLIANCE

The Bank has an independent compliance function responsible for assisting management to ensure the Bank complies with all statutes, regulations, supervisory requirements and industry codes of conduct, which apply to the Bank's businesses. The compliance department has implemented and developed effective processes to address compliance issues within the Bank and has unrestricted access to the Chairman of the Audit Committee and Chairman of the Board. The role of the compliance department is elaborated on in the Risk Management section of this annual report.

INTERNAL CONTROL

The Directors of the Bank are responsible for ensuring that the Bank maintains accounting records and implements effective systems of control. Management is responsible for the implementation and maintenance of these controls.

The Directors report that the Bank's internal controls are designed to provide assurance regarding the:

- integrity, accuracy and reliability of the accounting records,
- accountability for the safeguarding and verification of assets,
- detection and prevention of risks associated with fraud, potential liability, loss and material misstatement,
- effectiveness and efficiency of operations,
- compliance with applicable laws and regulations.

Processes are in place to monitor the effectiveness of internal controls, to identify material breakdowns and to ensure that corrective action is taken. These on-going processes were in place throughout the year under review.

INTERNAL AUDIT

The Bank's independent internal audit function exists to assist management in discharging their responsibility effectively. This department has senior suitably qualified and experienced staff whose functions comply with international standards.

Internal audit operates independently from Executive Management and has unrestricted access to the Chairman of the Audit Committee, all other staff and information needed by them in the execution of their duties.

REGULATION AND SUPERVISION

The Bank is subject to external regulation and supervision by various statutory bodies and regulators. The Bank strives to achieve open and active communication with these bodies, specifically the Supervision and Exchange Control Departments of the South African Reserve Bank, the National Credit Regulator, the Payments Association of South Africa and the Financial Intelligence Centre. Where appropriate the Bank participates in discussion groups with the various regulators to ensure that knowledge and insight is gained to maintain sound internal controls to operate within the regulatory framework.

PUBLIC DISCLOSURE OBLIGATIONS

The Bank has a disclosure policy in place to ensure the Bank complies with all relevant public disclosure obligations as required by regulation. Both quarterly and half yearly disclosures are published on the Banks website. In addition the annual report of the Bank and its holding Bank Habib Bank AG Zurich are published on the website.

EMPLOYEE PARTICIPATION AND SKILLS

The Bank recognises the importance of employee participation in the maintenance of standards and general well-being of the Bank, as ultimately our success depends on our employees working together in the interests of our clients.

REPORT OF THE AUDIT COMMITTEE

This report is provided by the Audit Committee, in respect of the 2013 financial year of HBZ Bank Limited, in compliance with section 94(7)(f) of the Companies Act 71 of 2008 and the Banks Act 94 of 1990, as amended.

Details on the composition of the Audit Committee are listed on page 4 of this annual report, while the Corporate Governance report on pages 17 to 18 provides further information on the workings of the Committee.

EXECUTION OF FUNCTIONS

The Audit Committee has executed its duties and responsibilities during the year in accordance with its terms of reference as they relate to the Bank's accounting, internal and external audit, internal control and financial reporting practices. The terms of reference were reviewed and approved during the year.

During 2013 the Audit Committee began the process of the integration and alignment of assurance processes to optimise governance oversight, risk management and control. The three lines of defence model or Combined Assurance Model forms the basis of the combined assurance approach required under the King Code, which aims to provide a coordinated approach to all assurance activities. While the Audit Committee's role is to ensure a Combined Assurance Model is implemented it is managed as part of the risk management process, refer to the risk management review for more details on this.

During the year under review the Committee, amongst other matters, considered the following:

1. In respect of the Combined Assurance Model:
   - the process of implementing a combined assurance model to provide a coordinated approach to all assurance activities.
2. In respect of the external auditors and the external audit:
   - approved the reappointment of KPMG Inc. as external auditors for the year ended 31 December 2013;
   - approved the external auditors' terms of engagement and audit fees;
   - held meetings with the external auditors;
   - reviewed the audit plan and evaluated the effectiveness of the audit;
   - reviewed significant issues raised in the external audit report and the adequacy of management's corrective action in response to such findings;
   - obtained assurance from the auditors that their independence was not impaired;
   - confirmed that no non-audit services had been provided by the external auditors during the year under review;
   - obtained assurances from the external auditors that adequate accounting records were maintained;
   - considered the external audit report section on the Bank's systems of internal control;
   - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act 26 of 2005.
3. In respect of internal controls and internal audit:
   - held meetings with the local and Group internal auditors and reviewed the audit plan;
   - considered reports of the internal auditors on the Bank's systems of internal control;
   - reviewed significant issues raised by internal audit and the adequacy of management's corrective action in response to such findings;
   - noted that there were no significant differences of opinion between the internal audit function and management and;
   - assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory;
   - received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof.

Based on the above, the Committee is of the opinion that at the date of this report there was no material breakdown in internal control that resulted in a material loss to the Bank.

4. In respect of the financial statements:
   - confirmed the going concern principle as the basis of preparation of the annual financial statements;
   - received assurance from the finance function that the internal financial controls are effective;
   - examined and reviewed the annual financial statements prior to submission and approval by the Board;
   - reviewed reports on the adequacy of the portfolio and specific bad debt impairments;
   - ensured that the annual financial statements fairly present the financial position of the Bank as at the end of the financial year;
   - considered the appropriateness of accounting treatments and the accounting policies adopted;
   - reviewed and discussed the external auditors' audit report;
   - considered and made recommendations to the Board on the dividend payment to shareholders;
   - noted that there were no material adverse reports or complaints received concerning accounting

practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters.

5. In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements:
   - reviewed with management matters that could have a material impact on the Bank;
   - monitored compliance with the Companies Act, Banks Act, all other applicable legislation and governance codes;

6. In respect of risk management and IT:
   - considered and reviewed reports from management on risk management, including IT risks as they pertain to financial reporting and the going-concern assessment;
   - the Chairman is a member of and attended the Risk and Capital Adequacy Committee and attended all meetings held during the year under review.

7. In respect of the finance function:
   - considered the expertise, resources and experience of the members of the finance function and concluded that these were appropriate;
   - considered the appropriateness of the experience and expertise of the chief financial officer and concluded that these were appropriate.

INDEPENDENCE OF THE EXTERNAL AUDITORS

The Audit Committee is satisfied that KPMG Inc. is independent of the Bank after taking into account the following factors:

- the representations made by KPMG Inc. to the Audit Committee;
- the auditors do not render non-audit services, receive any remuneration or other benefits from the Bank;
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

The Audit Committee recommended the annual report to the Board for approval.

On behalf of the Audit Committee

D Dharmalingam
Chairman

INSPIRATION

"People must learn to hate, and if they can learn to hate, they can be taught to love, for love comes more naturally to the human heart than its opposite... Man's goodness is a flame that can be hidden but never explained."

- Nelson Mandela

DIRECTORS APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the annual financial statements of HBZ Bank Limited, comprising the statement of financial position at 31 December 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The Directors are also responsible for such internal control as the Directors deem necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The Directors are of the opinion that:

- Appropriate accounting policies have been consistently applied;
- Adequate accounting records have been maintained;
- Internal control systems are adequate to the extent that no material breakdown in the operation of these systems occurred during the year under review; and
- The financial statements fairly present the financial position of HBZ Bank Limited at 31 December 2013 and its financial performance and cash flows for the year then ended.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

GOING CONCERN

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

FINANCIAL STATEMENTS

The financial statements of HBZ Bank Limited as identified in the first paragraph was approved by the Board of Directors on 27 March 2014 and are signed on its behalf by:

Muhammad H. Habib
Chairman

Ramsay L Daly
Vice-chairman

COMPANY SECRETARY CERTIFICATE

In terms of Section 88(2)(e) of the Companies Act 71 of 2008 as amended, I hereby certify to the best of my knowledge and belief, that the Bank has lodged with the Registrar of Companies all such returns as are required of the Bank in terms of the Act and that all such returns are true, correct and up to date.

Chris Harvey

Company Secretary

Durban

27 March 2014

NOTICE IN TERMS OF SECTION 29 OF THE COMPANIES ACT

These financial statements have been audited in compliance with the requirements of Section 30 of the Companies Act 71 of 2008 and have been prepared under the supervision of the Chief Financial Officer, Mr Yusuf Dockrat, who is a qualified Chartered Accountant.

HUMILITY

"There is a universal respect and even admiration for those who are humble and simple by nature, and who have absolute confidence in all human beings irrespective of their social status."

- Nelson Mandela

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of HBZ Bank Limited

We have audited the financial statements of HBZ Bank Limited, which comprise the statement of financial position at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 28 to 59.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 internal control relevant to the entity's preparation and fair presentation 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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, these financial statements presents fairly, in all material respects, the financial position of HBZ Bank Limited at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2013, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc

Registered Auditor

NBhoola

per **Naresh Bhoola**
Chartered Accountant (SA)
Registered Auditor
Director

7 April 2014

5 Arundel Close
KPMG House
Durban
4001

DIRECTORS' REPORT

The Board of Directors takes pleasure in presenting the Annual Financial Statements of the Bank for the year ended 31 December 2013.

HOLDING COMPANY

HBZ Bank Limited is a wholly owned subsidiary of Habib Bank AG Zurich, which is incorporated in Switzerland.

NATURE OF BUSINESS

HBZ Bank Limited is a registered Bank, which, in line with the business strategy of its holding company, Habib Bank AG Zurich, specialises in trade finance and retail banking.

AUTHORISED AND ISSUED SHARE CAPITAL

No additional shares were authorised or issued during the year.

DIVIDENDS AND GENERAL RESERVE

The following appropriations were proposed and paid:

FINANCIAL RESULTS

The results of the Bank are set out in the accompanying financial statements and notes. Profit for the year after tax is R44 597 385 (2012: R48 338 186).

	2013	2012
GENERAL RESERVE		
Transfer made	R 23,500,000	R 25,000,000
DIVIDEND		
Dividend distributed	R 25,000,000	R 18,000,000

POST BALANCE SHEET EVENTS

There were no material post balance sheet events.

DIRECTORS AND SECRETARY

Details of the directors are reflected on page 4 of this report.

In accordance with the Bank's articles of association, Section 85, Messrs MR Habib, M Habib and MY Chowdhury retire by rotation but, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. The Secretary of the Bank is Mr C Harvey whose business and postal address is 135 Jan Hofmeyr Road, Westville, 3630, P O Box 1536, Wandsbeck, 3631.

DIRECTORS' EMOLUMENTS

Emoluments in respect of the Bank's directors are disclosed in note 20 to the annual financial statements.

Muhammad H. Habib
Chairman

Ramsay L. Daly
Vice-chairman

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013	2012
		R	R
ASSETS			
Cash and cash equivalents	1	1 868 999 528	1 499 014 210
Investment securities	2	495 215 570	487 333 101
Other assets	3	11 804 505	6 428 742
Derivative assets held for risk management	4	11 072 306	2 555 768
Deferred taxation	5	801 898	729 944
Advances	6	1 169 959 183	992 375 145
Property and equipment	8	15 522 753	16 739 112
TOTAL ASSETS		3 573 375 743	3 005 176 022
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	9	10 000 000	10 000 000
Share premium	9	40 000 000	40 000 000
Regulatory reserve	10	7 935 066	7 253 063
General reserve	10	167 800 000	144 300 000
Retained earnings		44 139 820	48 724 438
Total Shareholder's Funds		269 874 886	250 277 501
LIABILITIES			
Deposits and borrowings	11	3 255 219 702	2 739 810 425
Provisions	12	3 295 000	2 805 000
Other liabilities	13	34 219 483	9 449 265
Derivative liabilities held for risk management	14	10 766 672	2 343 658
Taxation	15	-	490 173
TOTAL EQUITY AND LIABILITIES		3 573 375 743	3 005 176 022

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 R	2012 R
Interest received	16	182 416 442	181 499 938
Interest paid	17	(64 494 613)	(69 016 162)
Net interest income		117 921 829	112 483 776
Recovery/(Impairment) of advances	7.3	114 233	(122 331)
		118 036 062	112 361 445
Other operating income	18	50 379 116	49 890 192
		168 415 178	162 251 637
Operating expenses	19	(105 651 026)	(94 910 639)
Profit before taxation		62 764 152	67 340 998
Taxation	21.1	(18 166 767)	(19 002 812)
Profit for the year		44 597 385	48 338 186
Other comprehensive income		-	-
Total comprehensive income for the year		44 597 385	48 338 186
Dividends per share (cents)	22	250.00	180.00
Earnings per share (cents)	23	445.97	483.38
Diluted earnings per share (cents)	23	445.97	483.38

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Notes	Ordinary share capital	Share premium	Regulatory reserve	General reserve	Retained earnings	Total
		R	R	R	R	R	R
Balance at 31 December 2011		10 000 000	40 000 000	7 297 705	119 300 000	43 341 610	219 939 315
Profit for the year		-	-	-	-	48 338 186	48 338 186
Transfer from regulatory reserve		-	-	(44 642)	-	44 642	-
Ordinary dividends	22	-	-	-	-	(18 000 000)	(18 000 000)
Transfer to general reserve		-	-	-	25 000 000	(25 000 000)	-
Balance at 31 December 2012		10 000 000	40 000 000	7 253 063	144 300 000	48 724 438	250 277 501
Profit for the year		-	-	-	-	44 597 385	44 597 385
Transfer to regulatory reserve		-	-	682 003	-	(682 003)	-
Ordinary dividends	22	-	-	-	-	(25 000 000)	(25 000 000)
Transfer to general reserve		-	-	-	23 500 000	(23 500 000)	-
Balance at 31 December 2013		10 000 000	40 000 000	7 935 066	167 800 000	44 139 820	269 874 886

FORGIVENESS

"As I walked out the door toward the gate that would lead to my freedom,
I knew if I didn't leave my bitterness and hatred behind, I'd still be in prison."

- Nelson Mandela

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 R	2012 R
Cash flows from operating activities			
Cash receipts from customers	24.1	232 795 558	231 390 130
Cash paid to customers, employees and suppliers	24.2	(168 414 992)	(162 949 297)
Cash available from operating activities	24.3	64 380 566	68 440 833
Taxation paid	24.4	(19 027 113)	(19 277 348)
Dividends paid	22	(25 000 000)	(18 000 000)
Net cash inflow from operating activities		20 353 453	31 163 485
(Increase) / Decrease in income-earning funds and other assets	24.5	(198 809 713)	53 095 474
Increase / (Decrease) in deposits and other liabilities	24.6	549 092 509	(561 925 896)
Net Increase / (Decrease) in financing activities		350 282 796	(508 830 422)
Cash utilised in investing activities			
Capital expenditure on property and equipment		(1 290 001)	(4 901 523)
Proceeds on disposal of property and equipment		639 070	2 073 106
Cash utilised in investing activities		(650 931)	(2 828 417)
Increase / (Decrease) in cash and cash equivalents		369 985 318	(480 495 354)
Cash and cash equivalents at the beginning of year		1 499 014 210	1 979 509 564
Cash and cash equivalents at end of year		1 868 999 528	1 499 014 210

For the year ended 31 December 2011

1. REPORTING ENTITY

HBZ Bank Limited is a company domiciled in the Republic of South Africa and is wholly-owned by Habib Bank AG Zurich. The financial statements were authorised for issue by the Directors on 27 March 2014.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the Companies Act of 2008.

(b) Use of estimates and judgements

The preparation of financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Actual results will not differ materially from these estimates.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Estimates and assumptions predominantly relate to impairment of loans and advances and the determination of useful lives, residual values as well as depreciation methods for property and equipment. These estimates and assumptions are explained in the notes below.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value or amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank (South African Rands) at exchange rates on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognised in the statement of comprehensive income through profit and loss.

(b) Interest

Interest received and paid is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest received and paid, presented in the statement of comprehensive income include interest on financial assets and liabilities at amortised cost on an effective interest rate basis. Included in interest received is the profit received on Islamic Banking advances. Interest paid includes profit payable on Islamic Banking deposits.

(c) Other income

Other income comprises net fee and commission income, which is recognised as the related services are performed.

(d) Financial assets and liabilities

(i) Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition

- **Financial assets at fair value through profit or loss**
  A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.
  Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

- **Advances**
  Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method.
  Advances include Islamic advances in terms of Murabaha and Musharakah arrangements.
- **Held to maturity**
  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest method.
  Held-to-maturity comprises investment securities.
- **Available-for-sale**
  Available-for-sale financial investments are those non derivative financial assets that are designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.

(ii) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they originated. Regular purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs. Subsequent to initial recognition, financial liabilities (deposits and borrowings) are measured at their amortized cost using the effective interest method except where the Bank designates liabilities at fair value through profit or loss

(iii) Derecognition

The Bank derecognises a financial asset when:

- The contractual rights to the receipt of cash flows arising from the financial assets have expired or,
- It has transferred its rights to receive the contractual cash flows from the financial asset and has substantially transferred all the risks and rewards of ownership of the financial asset. Any interest retained in the financial assets is recognised separately.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The amortised cost for a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique where variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

(vii) Other receivables

Other receivables are measured at their cost less impairment losses.

(viii)Other payables

Other payables are measured at cost.

(ix) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets, not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter Bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Specific impairment

The Bank creates a specific impairment against advances when there is objective evidence that it will not be able to collect all amounts due. The amount of such impairment is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the effective interest rate at the inception of the advance.

Portfolio impairment

The Bank creates a portfolio impairment against advances where there is objective evidence that the advances portfolio contains probable losses at the reporting date, which will only be identified in the future, or where there is insufficient data to reliably determine whether such losses exist. The estimated probable losses are based on historical information and take into account historical patterns of losses and the current economic climate in which the borrowers operate.

(x) Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(xi) Derivative financial instruments

The Bank uses derivative financial instruments to hedge its exposure to foreign currency risk arising from operational activities.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the statement of comprehensive income through profit and loss.

(xii) Share capital

Ordinary shares

Costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central Banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

(f) Advances

Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in advances are Islamic Advances in terms of Murabaha and Musharakah arrangements.

(g) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for as held-to-maturity.

(h) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are measured at amortised cost using the effective interest rate method.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

(ii) Subsequent costs

The Bank recognises, in the carrying amount of an item of property and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated although is subject to impairment testing. The depreciation rates are as follows:

- Leasehold improvements: 20% per annum

- Furniture: 15% per annum
- Computer and office machines: 25% per annum
- Motor vehicles: 20% per annum

Depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually at the reporting date.

The Bank has estimated the residual value on buildings and found that it is greater than cost. Depreciation has therefore not been raised on these assets.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in profit or loss in the year in which they arise.

(j) Leased assets

The Bank classifies leases as operating leases where the lessor retains the risks and rewards of ownership. Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

(k) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses are recognised in respect of cash-generating units to reduce the carrying amount of other assets in the unit on a pro rata basis.

Reversals of impairment

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Deposits and borrowings

Deposits and borrowings are the Bank's sources of debt funding. Deposits and borrowings are measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in deposits are Islamic deposits in terms of Mudaraba agreements.

(m) Provisions

A provision is recognised if, as a result of a past event the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision for leave pay is raised for leave which has accrued to staff, and for which the Bank is liable.

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the bank to change its judgement regarding the adequacy of existing liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made

(q) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

(r) Contingencies and commitments

Transactions are classified as contingencies where the Bank's obligations depend on uncertain future events and principally consist of third party obligations underwritten by banking operations.

Items are classified as commitments where the Bank commits itself to future transactions or if the items will result in the acquisition of assets.

(s) Related party transactions

Related parties include the holding company of HBZ Bank Limited, Habib Bank AG Zurich, its fellow subsidiaries and associate companies and directors of HBZ Bank Ltd, as well as their close family members. All related party transactions have taken place in the ordinary course of business. Balances with related parties are included under note 30.

FAITH

"It always seems impossible until it's done."

- Nelson Mandela

For the year ended 31 December 2013

		2013	2012
		R	R
1.	CASH AND SHORT-TERM FUNDS		
	Balances with central bank other than the mandatory reserve deposits	34 972 751	15 086 478
	Balances with other banks	1 796 319 686	1 478 450 631
	Cash on hand	3 140 091	1 844 301
	Mandatory reserves with central banks	34 567 000	3 632 800
		1 868 999 528	1 499 014 210
	Maturity analysis		
	On demand to one month	1 638 365 528	1 384 239 210
	One month to six months	205 496 000	101 375 000
	Six months to one year	25 138 000	13 400 000
	Greater than one year	-	-
		1 868 999 528	1 499 014 210
2.	INVESTMENT SECURITIES		
	Interest bearing Government bonds	100 024 229	100 528 178
	Treasury bills	395 191 341	386 804 923
		495 215 570	487 333 101
	Maturity analysis		
	On demand to one month	74 707 320	-
	One month to six months	395 191 341	386 804 923
	Six months to one year	25 316 909	-
	Greater than one year	-	100 528 178
		495 215 570	487 333 101
3.	OTHER ASSETS		
	Prepayments	3 368 153	3 585 190
	Sundry Debtors	8 138 133	2 843 552
	Prepaid Taxes	298 219	-
		11 804 505	6 428 742
4.	DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
	Forward exchange contracts	11 072 306	2 555 768
		11 072 306	2 555 768

	2013	2012
	R	R
5. DEFERRED TAXATION		
Tax effect of timing differences between tax and book values of		
- provisions for doubtful advances	(41 529)	(41 513)
- other accruals and provisions	859 266	697 001
- fixed asset allowances	(15 839)	74 456
Deferred taxation asset	801 898	729 944
Deferred taxation reconciliation		
Balance at beginning of year	729 944	683 351
Current year temporary differences recognised in Statement of Comprehensive Income	71 954	46 593
- provision for doubtful debt advances	(16)	(26 967)
- other accruals and provisions	162 265	54 223
- fixed asset allowances	(90 295)	19 337
Balance at the end of the year	801 898	729 944

	2013	2012
6. ADVANCES		
Overdrafts	307 348 236	341 902 350
Loans	847 599 049	652 476 924
Staff loans	1 577 471	1 272 619
Commercial loans	810 548 428	632 055 306
Trust receipts	35 473 150	19 148 999
Bills receivable	1 404 706	-
Foreign bills purchased	15 360 445	-
	1 171 712 436	994 379 274
Specific impairment	(1 633 784)	(1 877 223)
Portfolio impairment	(119 469)	(126 906)
	1 169 959 183	992 375 145
Maturity analysis		
On demand to one month	636 453 183	523 880 145
One month to six months	103 310 000	110 142 000
Six months to one year	48 760 000	51 334 000
Greater than one year	381 436 000	307 019 000
	1 169 959 183	992 375 145

Interest rates charged on clients advances range between 6% and 12% during 2013. Islamic Banking advances are included in advances.

For the year ended 31 December 2013

		2013	2012
		R	R
7.	IMPAIRMENT OF ADVANCES		
7.1	Specific impairment		
	Balance at beginning of year	1 877 223	1 799 517
	Impairment raised (See note 7.3)	1 174 633	1 619 364
	Recoveries	(1 269 950)	(1 503 556)
	Write-offs against impairment	(148 122)	(38 102)
	Balance at end of year	1 633 784	1 877 223
7.2	Portfolio impairment		
	Balance at beginning of year	126 906	120 383
	Impairments (reversed)/raised (See note 7.3)	(7 437)	6 523
	Balance at end of year	119 469	126 906
7.3	Statement of Comprehensive Income movement		
	Impairment (reversed)/raised during the year		
	- Specific impairment	1 174 633	1 619 364
	- Portfolio impairment	(7 437)	6 523
		1 167 196	1 625 887
	Recoveries	(1 281 429)	(1 503 556)
		(114 233)	122 331

PERSISTANCE

”The greatest glory in living lies not in never falling,

but in rising every time we fall.”

- Nelson Mandela

8. PROPERTY AND EQUIPMENT

	Cost	Accumulated depreciation	Closing carrying value
	R	**R**	**R**
2013			
Land and buildings	9 679 947	-	9 679 947
Furniture & fittings	7 726 670	(5 698 245)	2 028 425
Office equipment	4 686 096	(3 737 527)	948 569
Motor vehicles	2 619 313	(1 343 284)	1 276 029
Computers	6 015 722	(4 425 939)	1 589 783
	30 727 748	(15 204 995)	15 522 753

	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
2012			
Land and buildings	9 666 165	-	9 666 165
Furniture & fittings	7 632 256	(4 800 354)	2 831 902
Office equipment	4 436 805	(3 232 056)	1 204 749
Motor vehicles	2 896 803	(1 134 463)	1 762 340
Computers	5 178 015	(3 904 059)	1 273 956
	29 810 044	(13 070 932)	16 739 112

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2013 movements					
Land and buildings	9 666 165	13 782	-	-	9 679 947
Furniture & fittings	2 831 902	156 966	(7 995)	(952 448)	2 028 425
Office equipment	1 204 749	261 231	-	(517 411)	948 569
Motor vehicles	1 762 340	-	-	(486 311)	1 276 029
Computers	1 273 956	858 022	-	(542 195)	1 589 783
	16 739 112	1 290 001	(7 995)	(2 498 365)	15 522 753

For the year ended 31 December 2013

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2012 movements					
Land and buildings	10 116 033	222 845	(672 713)	-	9 666 165
Furniture & fittings	2 401 353	1 434 168	(25 670)	(977 949)	2 831 902
Office equipment	876 931	864 451	(50 092)	(486 541)	1 204 749
Motor vehicles	830 190	1 401 710	(34 110)	(435 450)	1 762 340
Computers	701 794	978 349	(465)	(405 722)	1 273 956
	14 926 301	4 901 523	(783 050)	(2 305 662)	16 739 112

Land and buildings comprise the following:	Acquisition date:
1. Erf no. 1246, Jan Hofmeyr Road, Westville.	13 December 2004
2. 39 Rooikoppies, 23 Leander Crescent, Westville.	11 October 2004
3. Section numbers 15 and 28, Cedar Ridge, Jan Hofmeyr Road, Westville.	16 January 1996
4. Section 11, Arbor Glade, Musgrave, Durban	21 July 1997
5. Section 22, Berkley Close, Houghton, Johannesburg	14 March 2001

Details of the above land and buildings are available in the Bank's fixed asset register.

	2013	2012
	R	R
9. ORDINARY SHARE CAPITAL		
Authorised		
10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
Issued		
10 000 000 Ordinary shares at a par value of R1 each issued at R5 each		
- 10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
- Share premium on 10 000 000 Ordinary shares	40 000 000	40 000 000

	2013	2012
	R	R

10. NON-DISTRIBUTABLE RESERVES

	2013 R	2012 R
Regulatory reserve	7 935 066	7 253 063

Due to the requirements of Regulation 23 (22) of the Regulations issued under section 90 of the Banks Amendment Act of 2007, that specifies a general allowance for credit impairment be held, a Regulatory Reserve has been created, by re-allocating distributable reserves to non-distributable reserves.

	2013 R	2012 R
General reserve	167 800 000	144 300 000

The reserve has been created specifically for the retention of capital.

11. DEPOSITS AND OTHER ACCOUNTS

	2013 R	2012 R
Deposits and loans from banks	282 836 541	169 081 069
Demand deposits	1 183 908 993	1 147 049 169
Savings deposits	207 753 630	175 088 594
Fixed deposits	870 945 028	781 470 101
Notice deposits	709 775 510	467 121 492
	3 255 219 702	2 739 810 425
Maturity analysis		
On demand to one month	2 967 325 881	2 480 286 792
One month to six months	193 954 526	191 333 918
Six months to one year	93 939 295	68 189 715
Greater than one year	-	-
	3 255 219 702	2 739 810 425

Islamic Banking deposits are included in deposits and other accounts.

12. PROVISION

	2013 R	2012 R
Balance at beginning of year	2 805 000	2 600 000
Provisions made during the period	490 000	205 000
Balance at end of year	3 295 000	2 805 000

The provision is solely made up of the provision for leave pay. This provision is raised for leave which has accrued to employees and for which the Bank is liable.

13. OTHER LIABILITIES

	2013 R	2012 R
Creditors	9 152 480	7 169 234
Other payables	2 973 841	2 280 031
Management fees for services rendered	22 093 162	-
	34 219 483	9 449 265

For the year ended 31 December 2013

		2013	2012
		R	R
14.	DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
	Forward exchange contracts	10 766 672	2 343 658
		10 766 672	2 343 658
15.	TAXATION		
	Provision for normal taxation	-	490 173
		-	490 173
16.	INTEREST RECEIVED		
	Balances with other banks	71 941 282	66 757 780
	Advances	83 535 707	87 496 004
	Investment securities	26 939 453	27 246 154
		182 416 442	181 499 938
17.	INTEREST PAID		
	Deposits from banks	2 375 971	5 408 572
	Deposits from customers	62 118 642	63 607 590
		64 494 613	69 016 162
18.	OTHER OPERATING INCOME		
	Commissions and fees	36 682 314	33 815 484
	Foreign exchange income	13 065 727	14 784 652
	Profit on disposal of fixed assets	631 075	1 290 056
		50 379 116	49 890 192

		2013	2012
		R	R
19.	OPERATING EXPENSES		
	Operating expenses include :		
	Directors' remuneration (see note 20)	5 515 046	5 082 005
	Auditor's remuneration	1 271 028	1 179 872
	- audit	1 271 028	1 179 872
	Depreciation	2 498 365	2 305 662
	Management fee for services rendered	22 093 162	20 173 879
	Retirement benefit costs	4 294 245	3 697 543
	- key management personnel	279 768	256 356
	- other personnel	4 014 477	3 441 187
	Operating leases	4 103 385	3 588 328
	- premises	3 668 105	3 207 106
	- equipment	435 280	381 222
	Staff costs	36 942 031	25 610 811

The management fee is paid to Habib Bank AG Zurich, the Bank's holding company.

20.	DIRECTORS' REMUNERATION		
	For services as a director and other services		
	Non-executive directors	1 900 000	1 820 000
	- MH Habib (Chairman)	280 000	280 000
	- RL Daly (Vice Chairman)	280 000	280 000
	- MY Chowdhury	280 000	260 000
	- MR Habib	260 000	260 000
	- PJ Neethling	280 000	260 000
	- HF Leenstra	260 000	260 000
	- D Dharmalingham	260 000	220 000
	Executive directors	3 615 046	3 262 005
	- ZA Khan - Ceo	2 340 269	2 118 461
	- C Harvey - Head Of Corporate Governance	1 274 777	1 143 544
	Total directors' remuneration (see note 19)	5 515 046	5 082 005

HBZ Bank does not offer pension to directors. In terms of the Articles of Association of HBZ Bank Limited the appointment of a director is for a period of three years where-after each director is expected to retire on rotation. Directors are however eligible to offer themselves for reappointment and the board will consider reappointing them depending on current circumstances.

If there are circumstances necessitating the termination of the contract before the three year period referred to above has expired then each party will have the right to terminate the contract by giving the other party three months written notice of termination.

For the year ended 31 December 2013

	2013 R	2012 R
21. TAXATION		
21.1 South African normal taxation		
- current	18 238 721	19 049 405
- deferred	(71 954)	(46 593)
Total taxation	18 166 767	19 002 812

Other taxation in the prior year of R4 336 102 has been reclassified to operating expenses.

	2013	2012
21.2 Reconciliation of tax charge		
SA Normal taxation	28.00%	28.00%
Standard rate affected by :		
- permanent difference	0.94%	0.22%
Effective rate - total taxation	28.94%	28.22%

22. DIVIDENDS PER SHARE

	2013	2012
Final dividend of 250 cents per share (2012: 180 cents per share)	25 000 000	18 000 000

22. EARNINGS AND DILUTED EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on net income attributable to ordinary shareholders of R44 597 385 (2012: R48 338 186) and a weighted average of 10 000 000 (2012 : 10 000 000) ordinary shares issued.

The calculation of diluted earnings per ordinary share is based on net income attributable to ordinary shareholders of R44 597 385 (2012: R48 338 186) and a weighted average number of 10 000 000 (2012: 10 000 000) ordinary shares outstanding after any adjustments for the effects of all dilutive potential ordinary shares.

24. CASH FLOW INFORMATION

	2013	2012
24.1 Cash receipts from customers		
Interest income	182 416 442	181 499 938
Other income	50 379 116	49 890 192
	232 795 558	231 390 130
24.2 Cash paid to customers, employees and suppliers		
Interest expenses	(64 494 613)	(69 016 162)
Other payments	(103 920 379)	(93 933 135)
	(168 414 992)	(162 949 297)

		2013	2012
		R	R
24.3	Cash available from operating activities		
	Net income before tax	62 764 152	67 340 998
	Adjusted for non-cash items		
	- Specific debt provision	(243 439)	77 706
	- General debt provision	(7 437)	6 523
	- Depreciation	2 498 365	2 305 662
	- Profit on disposal of property and equipment	(631 075)	(1 290 056)
		64 380 566	68 440 833
24.4	Taxation paid		
	Amounts over / (unpaid) at beginning of year	(490 173)	(718 116)
	Charge to Statement of Comprehensive Income	(18 238 721)	(19 049 405)
	Amounts (over)/ unpaid at end of year	(298 219)	490 173
		(19 027 113)	(19 277 348)
24.5	(Increase)/Decrease in income-earning funds and other assets		
	Advances	(177 333 162)	192 988 369
	Investment securities	(7 882 469)	(138 451 072)
	Other assets and derivative assets	(13 594 082)	(1 441 823)
		(198 809 713)	53 095 474
24.6	Increase/(Decrease) in deposits and other liabilities		
	Deposits and borrowings	515 409 277	(564 239 580)
	Creditors and other liabilities	33 683 232	2 313 684
		549 092 509	(561 925 896)

25. LETTERS OF CREDIT AND GUARANTEE

	2013	2012
Letters of credit	154 636 316	106 198 558
Guarantees issued on behalf of customers	150 378 178	110 013 179
	305 014 494	216 211 737

Guarantees and letters of credit have fixed expiry dates. Since these commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

26. PRINCIPAL FOREIGN CURRENCY CONVERSION RATES

One South African Rand equals	2013	2012
- Swiss Franc	0.085	0.107
- United States Dollar	0.096	0.117
- Pound Sterling	0.058	0.073

For the year ended 31 December 2013

27. FINANCIAL INSTRUMENTS

27.1 Credit risk management

Exposure to credit risk

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2013	2012	2013	2012	2013	2012
On balance sheet	R	R	R	R	R	R
Individually impaired						
- Gross amount	2 543 171	5 400 846	-	-	-	-
- Impairment	(1 633 784)	(1 877 223)	-	-	-	-
- Carrying amount	909 387	3 523 623	-	-	-	-
Collectively impaired						
- Gross amount	1 169 169 265	988 978 428	-	-	-	-
- Impairment	(119 469)	(126 906)	-	-	-	-
- Carrying amount	1 169 049 796	988 851 522	-	-	-	-
Not impaired	-	-	1 868 999 528	1 499 014 210	495 215 570	487 333 101
Total carrying amount	1 169 959 183	992 375 145	1 868 999 528	1 499 014 210	495 215 570	487 333 101

	Letters of credit		Guarantees		Unutilised facilities	
	2013	2012	2013	2012	2013	2012
Off balance sheet	R	R	R	R	R	R
Not impaired	-	-	-	-	-	-
Gross amount	154 636 316	106 198 558	150 378 178	110 013 179	268 799 271	156 466 600

Collateral held as security

The Bank holds collateral against loans and advances to customers, letters of credit, letters of guarantee and unutilised facilities. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, however property values are updated at least every three years. Collateral is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2013 or 2012.

An estimate of the fair value of collateral held against loans and advances to customers, letters of credit, letters of guarantee and unutilised facilities is shown below:

	2013	2012
	R	R
Cash deposit	333 177 812	187 186 304
Bank guarantee	156 632 618	222 367 794
Property and other	1 255 715 771	957 503 513
Total	1 745 526 201	1 367 057 611

Concentration of credit risk

The Bank monitors concentrations of credit risk by industry and geographical location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2013	2012	2013	2012	2013	2012
	R	R	R	R	R	R
Concentration by location						
- Americas	-	-	7 388 291	12 654 590	-	-
- Europe	-	-	1 962 680	5 827 613	-	-
- Asia	-	-	313 434	135 015	-	-
- South Africa	1 169 959 183	992 375 145	1 859 335 123	1 480 396 992	495 215 570	487 333 101
	1 169 959 183	992 375 145	1 868 999 528	1 499 014 210	495 215 570	487 333 101

	Loans and advances - Gross		Doubtful debts - Gross		Specific Impairment	
	2013	2012	2013	2012	2013	2012
	R	R	R	R	R	R
Concentration by industry						
- Finance & insurance	16 406 000	19 283 000	-	-	-	-
- Manufacturing	282 268 000	228 028 000	1 123 044	-	951 636	-
- Transportation	40 561 000	49 856 000	-	-	-	-
- Commercial real estate	221 827 000	249 989 000	54 911	-	14 056	-
- Retailers & wholesalers	564 324 000	386 218 000	1 365 216	5 400 846	668 092	1 877 223
- Other	46 326 436	61 005 274	-	-	-	-
	1 171 712 436	994 379 274	2 543 171	5 400 846	1 633 784	1 877 223

The portfolio impairment is not split by industry as it is based on the credit portfolio as a whole and not to specific loans and advances.

For the year ended 31 December 2013

27.2 Currency risk management

The Bank did not have any significant foreign currency exposure at 31 December 2013.

27.3 Derivative instruments

	2013	2012
	R	R
Nominal value of forward exchange contracts sold to customers	115 698 911	97 054 132
Nominal value of forward exchange contracts sold to banks	228 046 349	3 783 103
	343 745 260	100 837 235
Nominal value of forward exchange contracts purchased from customers	(227 996 919)	(3 775 323)
Nominal value of forward exchange contracts purchased from banks	(115 442 707)	(96 853 655)
	(343 439 626)	(100 628 978)

27.4 Liquidity risk management

	On demand	1-6 months	6-12 months	< 12 months	Total
	R	R	R	R	R
2013					
Assets					
Investment securities	74 707 320	395 191 341	25 316 909	-	495 215 570
Advances	636 453 183	103 310 000	48 760 000	381 436 000	1 169 959 183
Other assets (incl. derivatives)	15 363 676	6 527 000	-	986 135	22 876 811
Cash and short term funds	1 638 365 528	205 496 000	25 138 000	-	1 868 999 528
	2 364 889 707	710 524 341	99 214 909	382 422 135	3 557 051 092
Liabilities					
Deposits and other accounts	(2 967 325 881)	(193 954 526)	(93 939 295)	-	(3 255 219 702)
Other liabilities (incl. derivatives)	(37 159 369)	(7 411 596)	-	(415 190)	(44 986 155)
Provisions	-	-	-	(3 295 000)	(3 295 000)
	(3 004 485 250)	(201 366 122)	(93 939 295)	(3 710 190)	(3 303 500 857)
Net liquidity gap	(639 595 543)	509 158 219	5 275 614	378 711 945	253 550 235
2012					
Assets					
Investment securities	-	386 804 923	-	100 528 178	487 333 101
Advances	523 880 145	110 142 000	51 334 000	307 019 000	992 375 145
Other assets (incl. derivatives)	6 924 573	1 873 000	-	186 937	8 984 510
Cash and short term funds	1 384 239 210	101 375 000	13 400 000	-	1 499 014 210
	1 915 043 928	600 194 923	64 734 000	407 734 115	2 987 706 966

	On demand	1-6 months	6-12 months	< 12 months	Total
	R	R	R	R	R
2012					
Liabilities					
Deposits and other accounts	(2 480 286 792)	(191 333 918)	(68 189 715)	-	(2 739 810 425)
Other liabilities (incl. derivatives)	(8 789 744)	(3 182 352)	-	(311 000)	(12 283 096)
Provisions	-	-	-	(2 805 000)	(2 805 000)
	(2 489 076 536)	(194 516 270)	(68 189 715)	(3 116 000)	(2 754 898 521)
Net liquidity gap	(574 032 608)	405 678 653	(3 455 715)	404 618 115	232 808 445

27.5 Interest rate risk management

The Bank is exposed to interest rate cash flow risk on its cash and short-term funds, investment securities, advances and deposits and other accounts. The Bank is exposed to floating and fixed rates as follows:

	Short-term	Medium-term		Long-term		
	0 - 31 days	**32 - 91 days**	**92 - 181 days**	**182 - 365 days**	**Other**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
2013						
Fixed rate items						
Assets	1 605 046	329 217	382 180	131 301	294	2 448 038
Liabilities	(973 249)	(50 307)	(43 394)	(15 802)	-	(1 082 752)
	631 797	278 910	338 786	115 499	294	1 365 286
Variable items						
Assets	944 767	-	-	-	-	944 767
Liabilities	(2 172 468)	-	-	-	-	(2 172 468)
	(1 227 701)	-	-	-	-	(1 227 701)
Net repricing gap	**(595 904)**	**278 910**	**338 786**	**115 499**	**294**	**137 585**
2012						
Fixed rate items						
Assets	1 151 681	332 054	300 866	75 521	100 712	1 960 834
Liabilities	(454 091)	(45 237)	(352 397)	(9 712)	-	(861 437)
	697 590	286 817	(51 531)	65 809	100 712	1 099 397
Variable items						
Assets	913 707	-	-	-	-	913 707
Liabilities	(1 878 373)	-	-	-	-	(1 878 373)
	(964 666)	-	-	-	-	(964 666)
Net repricing gap	**(267 076)**	**286 817**	**(51 531)**	**65 809**	**100 712**	**134 731**

For the year ended 31 December 2013

27.6 Sensitivity analysis

In managing interest rate risk the Bank aims to reduce the impact of short-term fluctuations on the Bank's earnings. Over the longer term however, permanent changes in interest rates would have an impact on earnings. It is estimated that as at 31 December 2013, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R663 000 (2012: R240 000) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R663 000. (2012: R240 000).

27.7 Financial assets and liabilities

	Non trading derivatives	Held-to -maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2013	R	R	R	R	R	R
Cash and short-term funds	-	-	1 868 999 528	-	1 868 999 528	1 868 999 528
Investment securities	-	495 215 570	-	-	495 215 570	495 640 896
Derivative assets held for risk management	11 072 306	-	-	-	11 072 306	11 072 306
Advances	-	-	1 169 959 183	-	1 169 959 183	1 169 959 183
	11 072 306	495 215 570	3 038 958 711	-	3 545 246 587	3 545 671 913
Deposits and loans from banks	-	-	-	(282 836 541)	(282 836 541)	(282 836 541)
Deposits from customers	-	-	-	(2 972 383 161)	(2 972 383 161)	(2 972 383 161)
Derivative liabilities held for risk management	(10 766 672)	-	-	-	(10 766 672)	(10 766 672)
	(10 766 672)	-	-	(3 255 219 702)	(3 265 986 374)	(3 265 986 374)
31 December 2012						
Cash and short-term funds	-	-	1 499 014 210	-	1 499 014 210	1 499 014 210
Investment securities	-	487 333 101	-	-	487 333 101	490 057 636
Derivative assets held for risk management	2 555 768	-	-	-	2 555 768	2 555 768
Advances	-	-	992 375 145	-	992 375 145	992 375 145
	2 555 768	487 333 101	2 491 389 355	-	2 981 278 224	2 984 002 759
Deposits and loans from banks	-	-	-	(169 081 069)	(169 081 069)	(169 081 069)
Deposits from customers	-	-	-	(2 570 729 356)	(2 570 729 356)	(2 570 729 356)
Derivative liabilities held for risk management	(2 343 658)	-	-	-	(2 343 658)	(2 343 658)
	(2 343 658)	-	-	(2 739 810 425)	(2 742 154 083)	(2 742 154 083)

The fair value of non trading derivatives is classed as a level 1 financial instrument in terms of the hierarchy requirements per IFRS 7. The fair value of advances and deposits cannot be reliably measured as they are unquoted. Effective interest rates on investment securities vary between 5.0% and 7.4%.

28. RETIREMENT BENEFIT COSTS

All full-time permanent employees are members of the Old Mutual Orion Provident Fund, which is a defined contribution fund, and is governed by the Pension Funds Act of 1956. Membership of this fund has been compulsory since the incorporation of the Bank in November 1995.

29. OPERATING LEASE COMMITMENTS

	Buildings	Equipment	Total
	R	R	R
2013			
Not later than 1 year	2 852 777	161 400	3 014 177
Between 2 and 5 years	3 578 212	262 275	3 840 487
	6 430 989	423 675	6 854 664
2012			
Not later than 1 year	3 064 150	82 350	3 146 500
Between 2 and 5 years	5 561 728	-	5 561 728
	8 625 878	82 350	8 708 228

The Bank leases office buildings and office equipment under operating leases. The leases on the various buildings run for a period of 3 to 5 years with an annual escalation of 8 to 10%. The leases on office equipment run for a period of 3 years with no escalation.

30. RELATED PARTIES

30.1 Identity of related parties

- The holding company of HBZ Bank Limited - Habib Bank AG Zurich
- Fellow subsidiaries - Habib European Bank Ltd, Habib Metropolitan Bank, Habib Canadian Bank, HBZ Finance Limited, Hong Kong.
- The directors listed in note 20.

	2 013	2 012
	R	R
30.2 Material related party transactions		
Material transactions with the company		
Dividends paid to the holding company - see note 22	25 000 000	18 000 000
Management fee paid to holding company	22 093 162	20 173 879
Directors' remuneration - see note 20	5 515 046	5 082 005
Loans to directors (balance outstanding)	703 864	2 000 000

The loans to directors are fully secured, with fixed terms of repayment and are included as part of total advances in note 6. No new loans to directors were made during the financial year.

For the year ended 31 December 2013

	2 013	2 012
	R	R
Material transactions with the group		
Receivables due from group companies:		
- Habib Bank AG Zurich, Zurich	71 990	31 240
- Habib Bank AG Zurich, London	907 174	2 335 209
- HBZ Finance Ltd, Hong Kong	-	2 072
- Habib Canadian Bank, Canada	8 711	7 583
- Habib Metropolitan Bank, Pakistan	44 787	3 116
	1 032 662	2 379 220

These receivables all relate to short-term receivables with no fixed terms of repayment and are included as part of total cash and short term funds in note 1.

	2 013	2 012
Payables due to group companies:		
- Habib Bank AG Zurich, Zurich	80 918 980	99 434 140
- Habib Bank AG Zurich, London	6 273 081	1 031 384
- Habib Bank AG Zurich, Nairobi	77 388	76 810
- Habib Bank AG Zurich, Deira Dubai	15 705 831	24 519 199
- Habib European Bank Ltd, Isle of Man	254	33 478
	102 975 534	125 095 011

These payables balances relate to short-term payables with no fixed terms of repayment and included as part of total deposits and other accounts in note 11. The time accounts attract an interest charge linked to the overnight libor rate and the nostro accounts attract an interest charge based on the daily call rate.

	2 013	2 012
The highest outstanding balance for these borrowings during the financial year were:		
- Habib Bank AG Zurich, Zurich	133 150 000	185 960 651
- Habib Bank AG Zurich, London	11 338 029	238 918 809
- Habib Bank AG Zurich, Nairobi	641 826	1 884 857
- Habib Bank AG Zurich, Deira Dubai	44 848 498	36 630 282
- Habib European Bank Ltd, Isle of Man	5 034 722	5 083 555

	2 013	2 012
Interest and related transaction charges paid to group companies:		
- Habib Bank AG Zurich, Zurich	1 166 919	2 998 851
- Habib Bank AG Zurich, London	46 154	670 998
- Habib Bank AG Zurich, Dubai	367 967	10 581
- Habib European Bank Ltd, Isle of Man	-	731
- HBZ Finance Ltd, Hong Kong	350	384
	1 581 390	3 681 545

31. STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of the financial statements of HBZ Bank Ltd for the year ended 31 December 2013, there are new or revised Accounting Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretiations that are applicable to the business of the entity and may have an impact on future financial statements:

Standard/Interpretation		Effective date
IAS 32	Offsetting Financial Assets and Financial Liabilities	Annual periods beginning on or after 1 January 2014
IFRS 9 (2009)	Financial Instruments	To be decided
IFRS 9 (2010)	Financial Instruments	To be decided
IAS 36	Recoverable amount disclosures for Non-Financial Assets	Annual periods beginning on or after 1 January 2014

All Standards and Interpretations will be adopted at their effective date.

DISCOVERY

"There is nothing like returning to a place that remains unchanged to find the ways in which you yourself have altered."

- Nelson Mandela

		2013 R'000	2012 R'000
32. CAPITAL ADEQUACY STATEMENT			
Credit risk exposure	(See note 32.1)	1 458 691	1 244 230
Operational risk exposure	(See note 32.2)	254 575	237 471
Market risk exposure	(See note 32.3)	2 100	1 819
Other risk exposure	(See note 32.4)	27 244	23 168
Aggregate risk weighted exposure		1 742 610	1 506 688
Regulatory capital requirement - 9.75%		169 904	146 902
Qualifying capital and reserve funds			
Tier I			
Ordinary share capital		10 000	10 000
Share premium		40 000	40 000
General reserve		167 800	144 300
Retained earnings from prior year		224	342
Less: Prescribed deductions against capital and reserve funds		(1 128)	-
Total Tier 1 Capital		216 896	194 642
Tier II			
General allowance for credit impairment per Regulation 23		7 055	6 362
Total qualifying capital and reserve funds		223 951	201 004
Capital Adequacy Ratio			
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure		12.9%	13.3%

32.1 CREDIT RISK EXPOSURE

The Bank uses the Standardised Approach to determine the regulatory capital requirement for its credit risk exposure.

Risk weightings	Assets	Off-balance items	Credit Risk Mitigation	Risk-weighted assets	Credit risk exposure	Credit risk exposure
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
0%	495 216	-	333 178	828 394	-	-
5%	-	-	-	-	-	-
10%	-	-	-	-	-	-
20%	1 611 945	157 651	156 633	1 926 229	385 246	334 918
50%	172 267	291 165	-	463 432	231 716	108 582
100%	1 199 687	131 853	(489 811)	841 729	841 729	800 730
	3 479 115	580 669	-	4 059 784	1 458 691	1 244 230

The asset items indicated in this statement are the average for the month ended 31 December 2013, as per Regulation 23 of the Regulations issued under Section 90 of the Banks Amendment Act of 2007.

CONFIDENCE

"Live life as though nobody is watching, and express yourself as though everyone is listening."

- Nelson Mandela

For the year ended 31 December 2013

		2013 R'000	2012 R'000
32.2	OPERATIONAL RISK EXPOSURE		
	The Bank uses the Basic Indicator Approach to determine the regulatory capital requirement for its operational risk exposure.		
	Gross income - 2010 / 2009	125 577	120 654
	Gross income - 2011 / 2010	133 723	125 577
	Gross income - 2012 / 2011	148 027	133 723
	Total gross income for preceding three years	407 327	379 954
	Average gross income for preceding three years	135 776	126 651
	Fixed percentage per Regulation 33	x 15%	x 15%
	Required capital and reserve funds for operational risk	20 366	18 998
	Risk weighting per Regulation 33	x 12.5	x 12.5
	Regulatory risk-weighted exposure	254 575	237 471
32.3	MARKET RISK EXPOSURE		
	The Bank uses the Standardised Approach to determine the regulatory capital requirement for its market risk exposure.		
	Net open foreign currency position	168	146
	Risk weighting per Regulation 28	x 12.5	x 12.5
	Regulatory risk-weighted exposure	2 100	1 819

32.4 OTHER RISK EXPOSURE

The Bank determines the regulatory capital requirement for its other risk exposure as specified in Regulation 23.

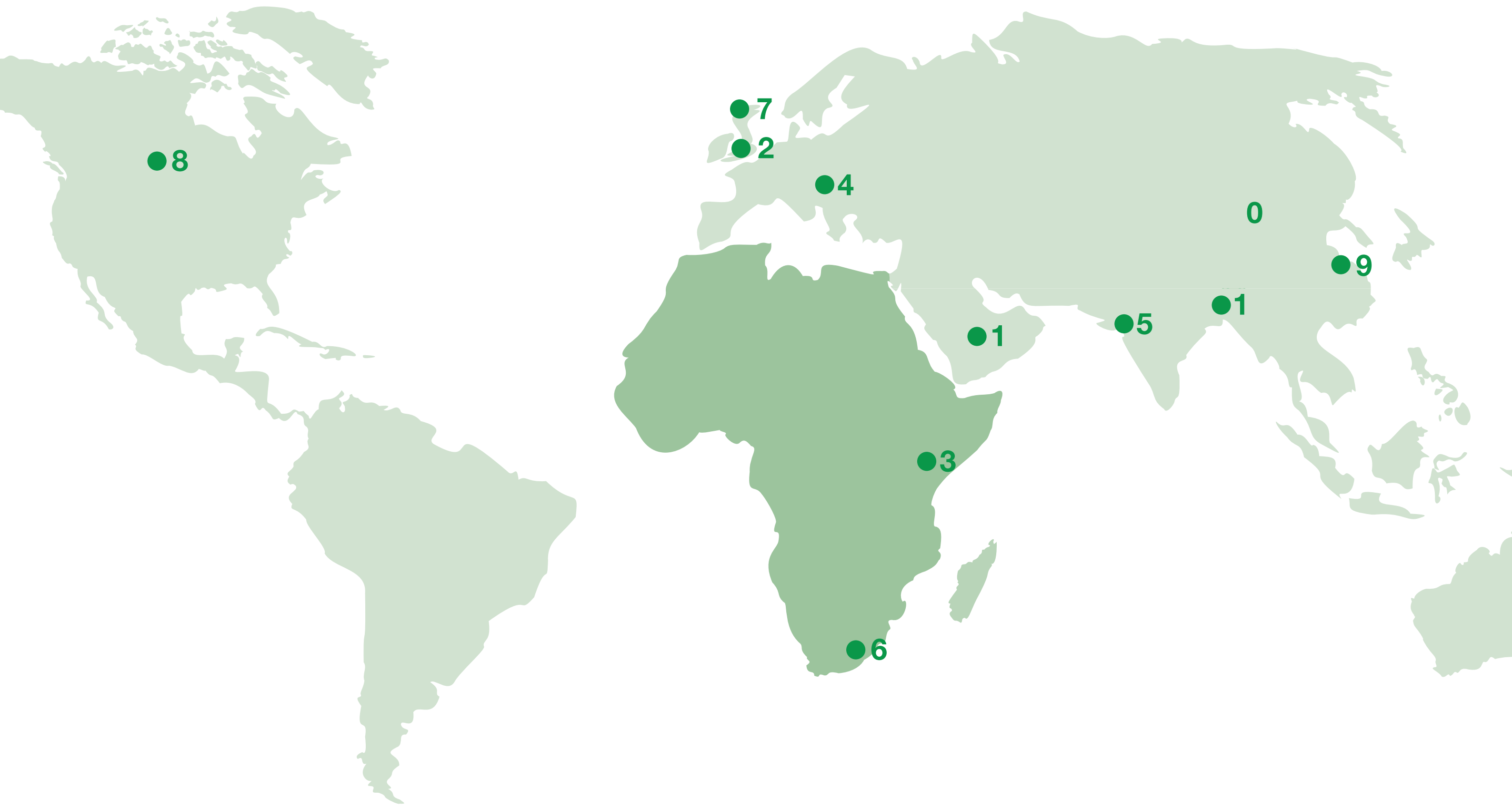
	Carrying amount	Specified risk weighting	Risk-weighted exposure	Risk-weighted exposure
	2013		**2013**	**2012**
	R'000		**R'000**	**R'000**
Cash and balances with the central bank	73 481	0%	-	-
Fixed assets	15 198	100%	15 198	16 739
Other assets	12 046	100%	12 046	6 429
			27 244	23 168

EXPRESSION

"Without language, one cannot talk to people and understand them; one cannot share their hopes and aspirations, grasp their history, appreciate their poetry, or savor their songs."

- Nelson Mandela

INTERNATIONAL NETWORK SUMMARY



1. UNITED ARAB EMIRATES	Habib Bank AG Zurich	8 Branches
2. UNITED KINGDOM	Habib Bank AG Zurich	12 Branches
3. KENYA	Habib Bank AG Zurich	4 Branches
4. SWITZERLAND	Habib Bank AG Zurich	2 Branches
5. PAKISTAN	Habib Metropolitan Bank	214 Branches
6. SOUTH AFRICA	HBZ Bank Ltd	7 Branches
7. ISLE OF MAN	Habib European Bank Ltd	1 Branch
8. CANADA	Habib Canadian Bank	2 Branches
9. HONG KONG	HBZ Finance Ltd	1 Branch
10. BANGLADESH	Habib Bank AG Zurich	Representative Office

LIST OF SERVICES

With the benefit of decades of experience in understanding and satisfying the varied financial needs of customers spread across the globe, the Group has developed a wide spectrum of quality products and services throughout its global network of branches, subsidiaries and affiliates.

THE RANGE OF SERVICES PRESENTLY AVAILABLE IN SOUTH AFRICA INCLUDE:

- Savings Accounts
- Current Accounts
- Term Deposit Accounts
- Overdrafts
- Commercial Loans
- Bill Discounting
- Letters of Guarantee
- Foreign Exchange
- Foreign Drafts
- Import and Export Letter of Credit
- Documentary Collections
- Trade Finance
- Travellers Cheques
- Internet Banking
- Islamic Financing
    - Murabaha
    - Diminishing Musharakah
    - Letters of Guarantee
- Islamic Deposits
    - Current accounts with Chequing Facilities
    - Profit and Loss Sharing Accounts
    - Islamic Certificates of Deposit
- Islamic Forward Exchange Contracts

OTHER SERVICES AVAILABLE THROUGH THE GLOBAL NETWORK INCLUDE:

Personal and Private Banking Services:

- International Portfolio Management
- Financial Advisory Management
- Trustee Services
- Credit Cards
- Travellers Cheques
- Safe Deposit Lockers and Custodial Services

Corporate Banking Services:

- Overdrafts
- Commercial Loans
- Trade Finance
- Import and Export Letter of Credit
- Bills Discounting
- Global Remittances
- Bullion and Silver Dealing
- Dealings in Securities, Bonds and Stocks
- Treasury Services

THANK YOU MADIBA

"We can change the world and make it a better place.

It is in our hands to make a difference."

- Nelson Mandela

July 18, 1918 - December 5, 2013