HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

HBZ Bank Limited

Annual Report
2012

GLOBAL

“WE ARE A TRULY **INTERNATIONAL** COMPANY SPANNING **FOUR CONTINENTS.**”

CONTENTS

Our Mission

To provide a specialised range of banking services by understanding and fulfilling the needs of our niche market via knowledgeable, experienced and professional staff who offer personal, friendly, efficient and secure service.

TEN YEAR REVIEW

For the year ended 31 December 2012

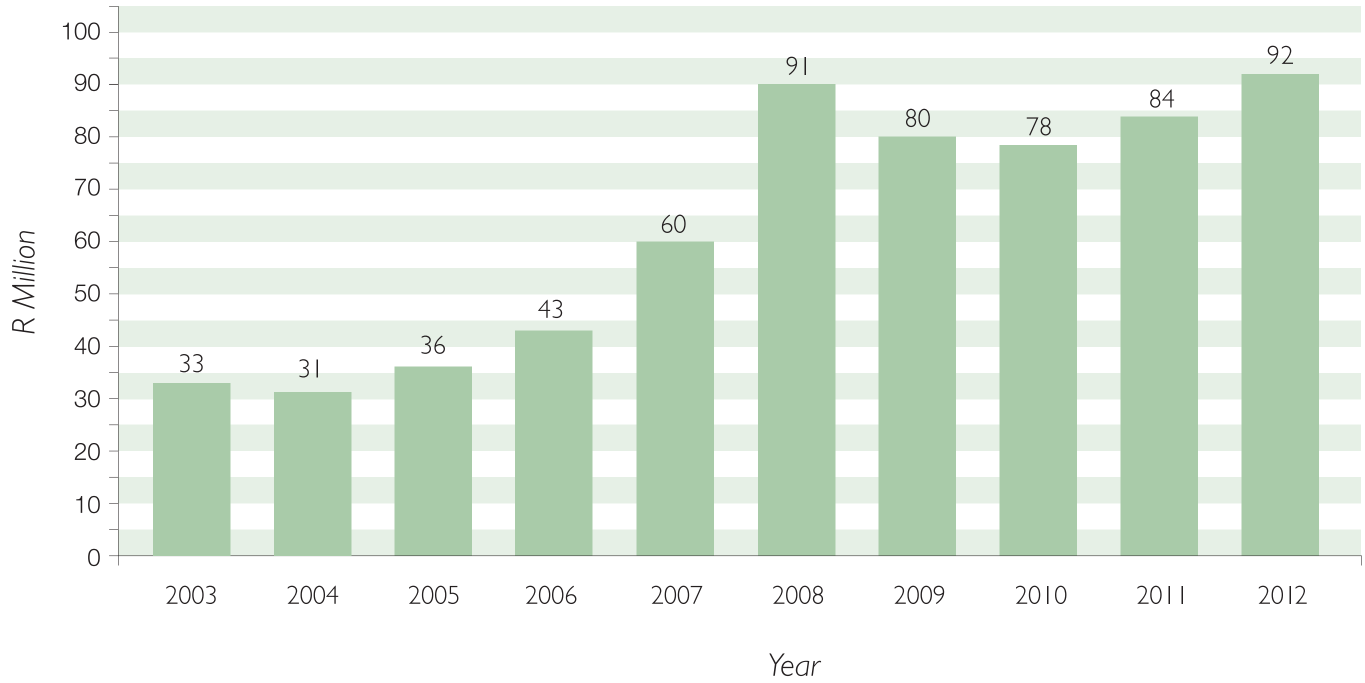
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
PROFITS (R MILLION)										
Profit before taxation and management fees	33.4	31.2	36.1	42.5	59.7	90.6	80.4	78.2	83.7	91.7
BALANCE SHEET (R MILLION)										
Advances	187.8	232.9	327.9	464.1	552.9	658.4	755.7	851.4	1 185.40	992.40
Advances growth %	19.5%	24.0%	40.8%	41.5%	19.1%	19.1%	14.8%	29.3%	56.9%	(16.3%)
Deposits	555.3	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
Deposits growth %	36.8%	23.8%	34.6%	16.8%	6.9%	44.3%	4.7%	28.1%	47.7%	(17.1%)
Total assets	650.4	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
Total assets growth %	32.6%	22.1%	29.1%	17.2%	10.2%	40.2%	5.5%	26.4%	42.9%	(15.0%)
PERSONNEL										
Number of employees	62	71	81	80	90	101	109	111	113	125
Net contribution per employee (R '000)	539	439	446	531	663	897	738	705	741	734

EFFICIENT

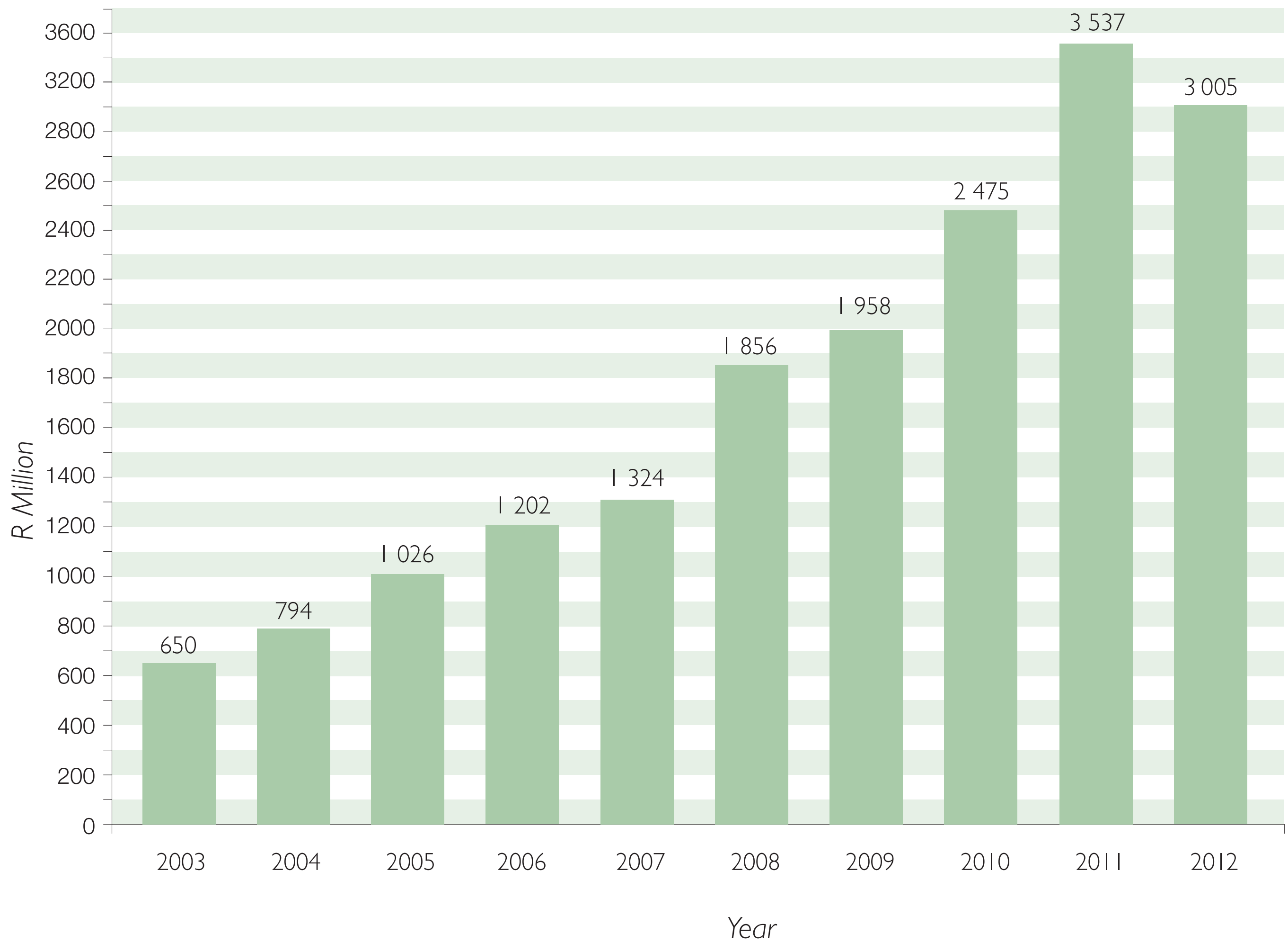
" WE OFFER EFFICIENT, TRUSTED SERVICE AND THOROUGH IMPLEMENTATION."

PROFIT SUMMARY

Before taxation and management fees



TOTAL ASSETS



BOARD OF DIRECTORS AND BOARD COMMITTEES

as at 31 December 2012

NON EXECUTIVE DIRECTORS

Muhammad H Habib (54)# – Chairman
Bus. Admin (USA)
President, Habib Bank AG Zurich
Appointed to the board in 1995

Ramsay L Daly (70) – Vice Chairman
B.A. LLB
Attorney
Appointed to the board in 1995

M Yakoob Chowdhury (70)^
Chief Executive Vice President, Habib Bank AG Zurich
Appointed to the board in 1995

Pierre J Neethling (68)
B.Sc & MBA
Ex-Managing Director, Smith & Nephew (Pty) Ltd,
now retired.
Appointed to the board in 2004

Hendrik F Leenstra (64)
Institute of Bankers SA C.A.I.B. (SA)
Ex-Regional Executive – Nedcor Group, KZN,
now retired
Appointed to the board in 2005

Dheven Dharmalingam (47)
B. Acc, Dip Acc, CA(SA)
CFO of Mutual & Federal Limited
Appointed to the board in 2011

Mohamedali R Habib (48)*
Bus. Mgmt - Finance (USA)
Joint President, Habib Bank AG Zurich
Appointed to the board in 2012

EXECUTIVE DIRECTORS

Zafar Alam Khan (60) – CEO and Chief Executive
Vice President, HBZ Bank Ltd
B.A.
Appointed to the board in 2005

Chris Harvey (56) – Head of Corporate Governance
and Executive Vice President, HBZ Bank Ltd
B.Com, Dip Acc
Appointed to the board in 1998

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

AUDIT COMMITTEE

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

* By invitation

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

M Yakoob Chowdhury - *Chairman*
Zafar Alam Khan
Chris Harvey
Jayleen Naidoo

EXECUTIVE MANAGEMENT

Zafar Alam Khan (60)
Chief Executive Officer

Chris Harvey (56)
Head of Corporate Governance

Ronnie Meherjina (49)
Chief Operating Officer

Yusuf Dockrat (33)
Chief Financial Officer

Hassan Zia (60)
Head of Risk

Dudley Garner (47)
Compliance Manager

CORPORATE

Zaheera Karreem (34)
Financial Controller

John MCG Rebelo (67)
Treasury Manager

Nusrat Zaidi (51)
IT Manager

Jayleen Naidoo (34)
Human Resources Manager

BRANCH NETWORK

Kwa-Zulu Natal Division:
S Babur H Zaidi (52) (Durban)
Vice President

Saleem Abdulla (54) (Islamic)
Manager

A Bashir (45) (Pietermaritzburg)
Assistant Vice President

Gauteng Division:
M Ali Chaudhry (44) (Johannesburg)
Vice President

M Raashid Faiyaz (37) (Lenasia)
Manager

CM Qadeer Khan (38) (Laudium)
Senior Manager

A Abba (31) (Boksburg)
Manager

REGISTERED OFFICE

135 Jan Hofmeyr Road
Westville
3629

REGISTRATION NUMBER

1995/006163/06

EXPERT

"OUR **KNOWLEDGEABLE** AND **DEDICATED PROFESSIONALS** OFFER DECADES OF **EXPERIENCE.**"

It is indeed with great pleasure that I present the annual report of HBZ Bank Ltd for the year 2012. By the Grace of God, our operation in South Africa continues to perform well.

INTERNATIONAL

The status quo remains. The year was marked by lots of anxiety focused on Europe, with the bailout packages and austerity measures implemented resulting in no real economic growth. The Southern European economies remain sluggish with no clear indication of when they will improve, seemingly waiting for hand-outs from Germany and France. On the positive side the fears of default by some of these Southern European countries on their Sovereign Debt have been unfounded as none have defaulted; but the policy announcements and packages used to avoid defaults have not dealt fully with the problems.

There remains a real risk of deflation in Europe as the banks there are providing less and less credit while they adjust to new risk criteria and capital requirements as they implement Basel III.

In the US the "fiscal cliff" and a lack of confidence held back economic growth. However the US has proved that stability in their markets and a positive, albeit small, economic growth has neutralized any negative impact from the Euro implosion.

In the rest of the world Chinese growth took a severe beating while the Middle East continued to be turbulent. However the reliance on the Middle East for oil is reducing in the West with Western supply being supplemented by the new method of oil extraction called fracking from countries outside of the traditional oil producing countries.

DOMESTIC

Locally there was some positivity as the concern about nationalisation toned down and more importantly, a different leadership mix took charge, bolstering hope for achieving the National Planning Commission Vision 2030 which aims to implement a long term vision and strategic plan for South Africa.

Market-wise, the year 2012 ended on a high note, with the JSE nearly touching 40 000 and the Rand staging a comeback to R8.50 to the US Dollar.

The downside was the economy, especially the manner in which portions of the labour force began unprecedented strikes in 2012, with civil servants giving intimations that they aren't above trying similar things again in 2013. The labour unrest led to severe mining output losses and incalculable loss of private business confidence resulting in capital expenditure postponement and unnecessarily slowing the economy and job growth to nearly 2%. The longer term impact is that some mines may become economically unsustainable and will close resulting in job losses and there would be an extremely negative impact on foreign investor confidence leading to some ratings agencies already downgrading South Africa.

SECURE

"WE OFFER AN **UNPARALLELED, SECURE** AND **EFFICIENT SERVICE.**"

OPERATING PERFORMANCE

The Bank continued to maintain its conservative lending policies in keeping with its philosophy of maintaining high liquidity. The market for new business was challenging in 2012 resulting in advances and deposits not increasing as expected. As a result total assets at the end of the year were 15.1% down on 2011 ending at R 3.01 billion. Taking cognisance of this it was extremely pleasing to note that the Bank achieved a profit growth resulting in a profit before tax of R 71.7 million.

During 2012 the Bank began preparing for the implementation of the Basel III Liquidity and Capital requirements as directed by the South African Reserve Bank. HBZ Bank will meet the reporting requirements beginning on the 1 January 2013 and the phased in Liquidity and Capital Ratio deadlines which start from 2013.

OUTLOOK

Reasonable income and spending growth is expected from households and government, though slower than in 2012. Capital expenditure will remain on-going; with government and public corporations spending on existing and new mega-infrastructure projects.

Unfortunately strike action and electricity cost increases will result in disappointing domestic output growth. Overseas export demand will also remain problematic with Europe in recession. However diversifying exports into Africa and Asia is showing good gains.

I suspect that GDP growth will be in the range of 2% - 2.5% for 2013. This may however be put under further pressure if the labour unrest continues or moves into other sectors as that could result in further output losses and place an even bigger strain on exports.

Internationally global growth should lift modestly, with global business becoming less reticent once beyond the US cliff, Chinese growth holding up, Europe not descending deeper into crisis and oil prices decreasing.

During 2013 the Bank intends to focus on marketing its business strongly. As part of its strategic plan, the Bank will open another branch in 2013. Our combination of skilled people, entrepreneurial spirit and a strong culture will, I am confident, enable the Bank to achieve its growth strategies. The Bank nevertheless continues to be driven by the keen desire to consider the customer first and provide a quality service.

APPRECIATION

Needless to say, our staff are an asset to the Bank, and as always have shown commitment, dedication, integrity and hard work, all of which helped the Bank to achieve its goals and objectives. On behalf of the Board I thank you all for your 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.

Muhammad H. Habib
Chairman

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. 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 and its management through clearly defined limits; and
- Communication and co-ordination 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.

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 Assets and Liabilities Committee (ALCO), the Operational Risk Committee and various Credit Committees.

RISK MANAGEMENT FRAMEWORK

BOARD

Capital Adequacy & Risk Committee

- Monitor all key risks and ensure there is a risk assessment performed
- Manage the capital adequacy process
- Evaluate the adequacy and efficiency of risk policies
- Develop a risk mitigation strategy

Large Exposures

- Approve credit exposures in excess of 10% of capital

Credit Committee

- Approve credit exposures in excess of sub-Committee mandates and limits
- Approve all credit policies and procedures

ASSETS & LIABILITIES COMMITTEE (ALCO)

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

OPERATIONAL RISK COMMITTEE

- Review reports of inspections by the South African Reserve Bank, External and Internal audit
- Review the Bank's Business Continuity and Disaster Recovery Plans
- Review the adequacy of the Bank's insurance policies
- Review reports from management on operational losses captured, staff turnover and outstanding annual leave
- Review the physical security and the security measures at the Bank including the physical security of IT hardware
- Ensure policies and procedure manuals approved by the Board are in place
- Review the appropriateness of the training programs at the Bank

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 the Board 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 Capital Adequacy and Risk Committee meeting on the effectiveness of the management of the risks it monitors.

The Committee is chaired by the CEO and is made up of the Chief Financial Officer, Chief Operating Officer, Head of Corporate Governance, Head of Risk, Financial Manager and Treasury Manager. During 2012 the ALCO met as per the requirements.

OPERATIONAL RISK COMMITTEE

The Operational Risk Committee has been formulated to manage the operational risk inherent in any banking business. The Committee is chaired by the Chief Operating Officer and is made up of the CEO, CFO, Head of Risk, Head of Corporate Governance and Financial Manager. During 2012 the Committee met as per the requirements.

The Committee reviews reports on:
- Inspections by the South African Reserve Bank, external audit and internal audit and determines management's progress in implementing any corrective action,
- The Bank's Business Continuity Plan and Disaster Recovery Plan,
- The insurance policies of the Bank,
- Operational losses captured by the Bank,
- Staff turnover and outstanding annual leave of staff,
- The physical security and the security measures at the Bank including the physical security of the IT hardware,
- The training programs at the Bank.

An integral element of managing operational risk is for this Committee to ensure that the Bank has policies and procedure manuals in place for each major business line and risk and determine if they have been approved by the Board of Directors.

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 II 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 Bank's 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 annual financial statements 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 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.

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;
- Correct and meaningful staff training;
- The preparation and continual upgrading of clear procedure manuals;
- Regularly rotating and motivating staff;
- 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.

Significant loss events and incidences are reported to the Board immediately when they occur.

COMPLIANCE RISK

Compliance risk is the risk that the Bank fails to comply with the letter and spirit of all statutes, regulations, supervisory requirements and industry codes of conduct, which apply to our businesses.

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 the 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 Compliance Conference hosted internationally by our holding company and is a member of the Compliance Institute of South Africa.

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 that is 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.

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. The Bank 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 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 lend funds.
- Approach the market to raise funds.

The Bank successfully complies with Basel II principles relating to liquidity risk management.

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:

- Having a policy 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.

As with liquidity risk the focused range of products offered by the Bank facilitates the management of interest rate risk.

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 better 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 that the Bank has adequate capital to support its risks beyond the core minimum requirements. During 2012 the Board reviewed the capital management and capital adequacy processes and confirmed that it successfully achieved the objectives specified.

REPUTATIONAL RISK

This is the risk of negative publicity arising should the Bank contravene applicable statutory, regulatory and supervisory requirements or by providing a service that does not comply with proper industry standards.

The Bank proactively manages this 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.

PHYSICAL SECURITY RISK

Physical security risk is the risk of 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 that 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.

SOCIAL INVESTMENT AND ETHICAL RESPONSIBILITY

ETHICAL RESPONSIBILITY

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.

In support of this the Board has appointed a Social and Ethics Committee to manage its social and ethical responsibilities.

SOCIAL INVESTMENT AND RESPONSIBILITY

Environmental plan

The plan approved by the Board requires that:

- All operations of HBZ be in full compliance with the Environmental Legislation or accepted Codes of Conduct that impact it,
- Management report at each Social and Ethics Committee meeting on specific actions taken to improve the Banks Environmental bottom line,
- All internal business practices be conducted in an environmentally friendly manner,
- The Bank's suppliers where applicable have their own environmental plans and costs are competitive,
- The Bank's advances processes includes confirming with clients that they adhere to any environmental legislation that impacts them.

Health and safety

To ensure a healthy office environment for staff and clients the Bank has implemented a Health and Safety Plan that includes:

- A detailed Health & Safety policy,
- The formation of a Health & Safety committee,
- The appointment in each branch / department of a Health & Safety representative and two first aiders – who have all received training,
- Each Health & Safety representative performing monthly inspections and producing reports thereon.

During 2012 the Bank has not been inspected by the Department of Labour nor were there any Health & Safety incidences reported.

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. During 2012 all the goals and objectives of the plan were achieved. To encourage continuity of the plan the Bank has set aside a separate budget to give full measure to the Workplace Skills 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.

External social investment

It is vital, to ensure lasting employment and self-enrichment, that people are properly educated, healthy 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 programs that have provided educational, health and cultural development. Pre-schools, 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 supported by the Bank.

In addition 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 within their communities.

CORPORATE GOVERNANCE

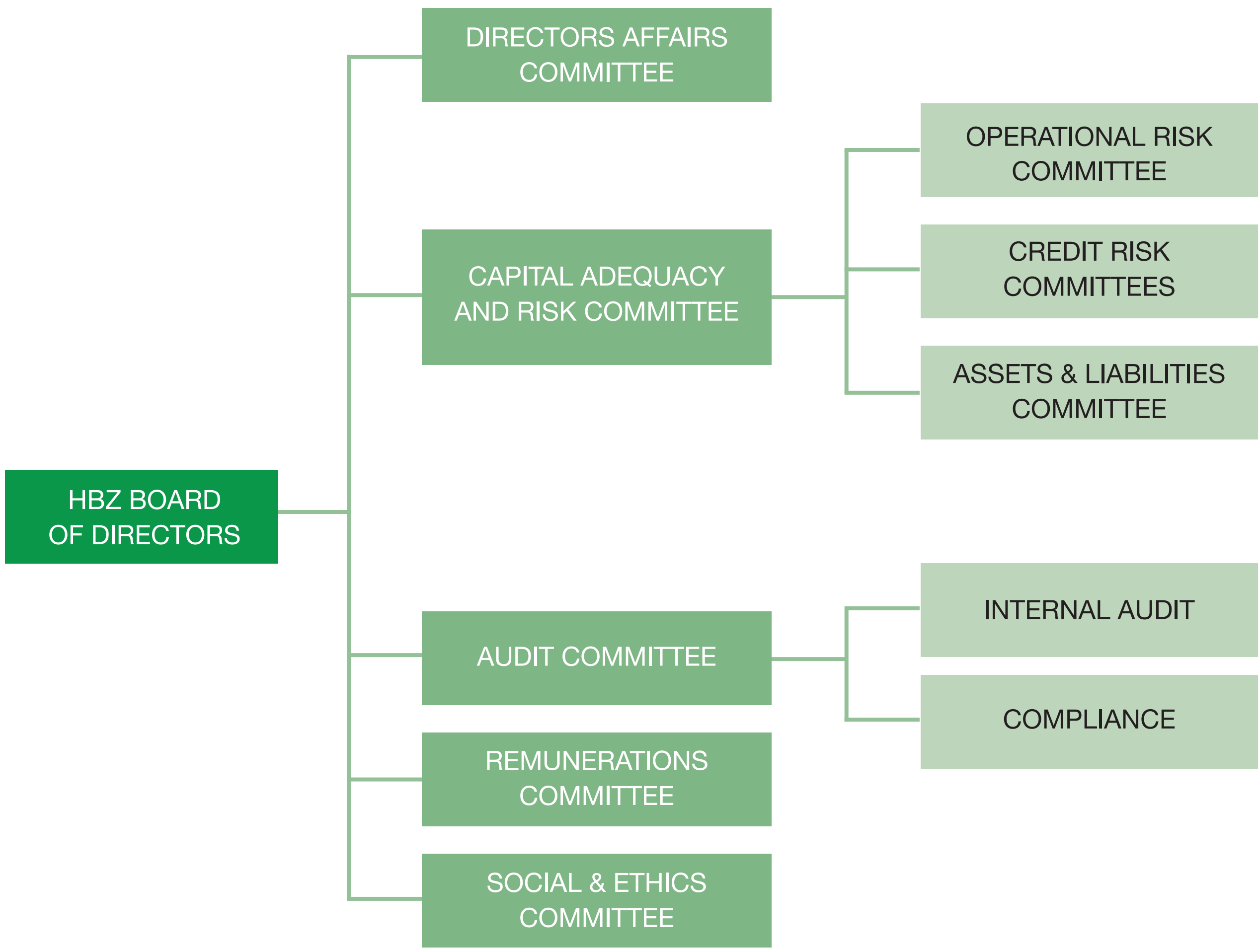
In recognition of the need to conduct the affairs of the Bank according to the highest standards of Corporate Governance and in the interests of stakeholder protection, the Board endorsed the Code of Corporate Practices and Conduct recommended in the Report on Corporate Governance of 2002 ("King II") 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, consistently 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 Bank's performance, financial position, and governance.

HBZ's governance framework is depicted as follows:



BOARD OF DIRECTORS

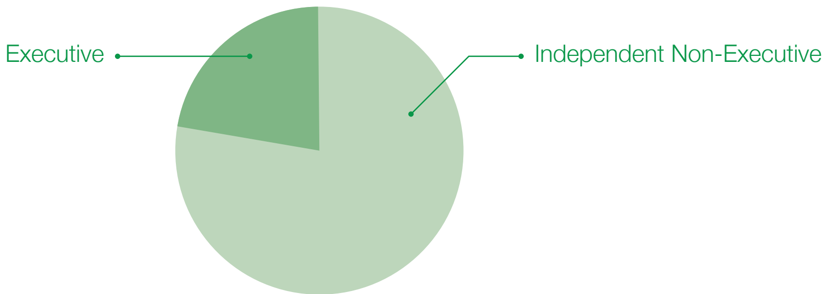
Charter

The HBZ Board has a Board Charter that includes the Directors' code of conduct. The Board is fully committed to maintaining the standards of integrity, accountability and transparency required to achieve effective corporate governance. The Charter confirms the Board's accountability, fiduciary duties, conflict of interest process, appointments and tenure.

Structure and composition

During 2012 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. During the year Mr Mohamedali Habib was officially appointed to the Board. He is a Certified Director from the Pakistan Institute of Corporate Governance, is Joint President of Habib Bank AG Zurich and a Director of Habib Metropolitan Bank. Mohamedali will bring diversified skills and experience that will enhance those of the Board. Details of the Directorate are listed on page 4 of this annual report.

Board of Directors



Meetings and attendance

The Board met four times during 2012 with Directors' 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 Management accounts.
- Reports from the Audit Committee.
- Reports from the Capital Adequacy & Risk Committee.
- Reports from the Directors' Affairs Committee
- Reports from the Social and Ethics Committee
- Reports from the Remunerations Committee.
- Reports from the Compliance officer.
- Reports on large exposures.
- Reports on industry concentrations.
- Reports on significant regulatory issues.

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 for a number of days 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. As noted above Mr. Mohamedali Habib was officially appointed to the Board in 2012.

Committees

The Board is supported by various internal Committees and functions in executing its responsibilities. These are elaborated on below.

AUDIT COMMITTEE

The Audit Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The Committee, including the Chairman, consists of 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 2012 with the CEO, CFO, compliance officer, internal and external auditors invited to attend when necessary. The Committee met four times during 2012 with attendance in accordance with requirements.

The Committee's primary responsibilities for 2012 are detailed in the separate Audit Committee report included elsewhere in this annual report.

Details of the Audit Committee are listed on page 4 of this annual 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 Committee is made up of both non-executive and executive Directors with the Chairman a non-executive Director. Four meetings were held during 2012 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 Operational Risk Committee and the application and reporting on risk, are detailed in the separate Risk Management section of this annual report. Details of the Risk Committee are listed on page 4 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 Committee, including the Chairman, consists of non-executive Directors. In terms of the charter two meetings were held during 2012, with the CEO and CFO 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 successors, 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.

Details of the Directors' Affairs Committee are listed on page 4 of this annual report.

SOCIAL AND ETHICS COMMITTEE

The Board of Directors established the Social and Ethics Committee made up of Directors and management. The Board appointed the Chairman of the Committee who is a non-executive Director. In terms of the charter two meetings were held during 2012 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 Bank's ethics code is implemented effectively. This will include monitoring that:
  - the Bank's management demonstrates support for ethics throughout 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.

SERVICE

"WE ARE **COMMITTED** TO BEING **ACCESSIBLE, RESPONSIVE, INFORMATIVE** AND **SERVICE ORIENTATED** AT ALL TIMES."

REMUNERATION COMMITTEE

The Bank's Remuneration Committee comprises non-executive Directors. The Committee met once during 2012 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 judgement 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.

COMPANY SECRETARY

The Company secretary of HBZ is suitably qualified and experienced and was appointed by the Board in 1995. The Company 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 Company 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 Board as a whole. The contact details of the Company secretary are provided in the Directors' 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.

COMPLIANCE

The Bank has an independent compliance function responsible for assisting management to ensure the Bank complies with the letter and spirit of 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.

During 2012 the Basel Committee introduced the Basel III reforms to strengthen global liquidity and capital requirements with the aim of promoting a more resilient banking sector. The objective of Basel III is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, reducing the risk of bank failures and the negative impact this would have on the economy. These reforms include extensive detailed reporting to the Regulator and new liquidity and capital reforms that will be phased in over the next 5 years. HBZ Bank meets all the implementation requirements of Basel III as indicated by the South African Reserve Bank, as at 31 December 2012.

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 Bank's 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 2012 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 16 to 21 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. During the year under review the Committee, amongst other matters, considered the following:

1. 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 2012;
   - approved the external auditor's terms of engagement and audit fees;
   - met with the external auditors;
   - reviewed the audit plan and evaluated the effectiveness of the audit;
   - reviewed significant issues raised by the external auditors 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 auditor's findings 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.

2. In respect of internal controls and internal audit:
   - 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.

Banking is highly regulated and becoming more so, while the compliance function within banks has become the focus of Regulators around the world. As a result the Committee agreed to enhance the regulatory and compliance functions of Internal Audit by appointing, after extensive due diligence, the audit firm of Grant Thornton to provide additional reassurance to management and the Audit Committee that all the local regulatory and compliance requirements are being met.

The overall responsibility for an effective internal auditing function and reporting will remain with the Bank's Internal Audit department. Accordingly, the Head of Internal Audit will supervise and approve Grant Thornton's audit plan.

3. In respect of the financial statements:
   - confirmed the going-concern principle as the basis of preparation of the annual financial statements;
   - 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 auditor's audit report;
   - considered and made recommendations to the Board on the dividend payment to shareholders;
   - noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters.

4. 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;

5. 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 meetings held during the year under review.

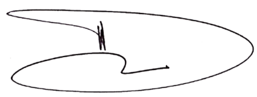
6. In respect of the finance function:
   - considered the expertise, resources and experience of the members of the finance function and concluded that these were appropriate;
   - considered the appropriateness of the experience and expertise of the chief financial officer and concluded that these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

DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the financial statements of HBZ Bank Limited, comprising the statement of financial position at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the 2012 year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the Directors are responsible for preparing the Directors' report.

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 2012 and its financial performance and cash flows for the year then ended.

The auditor is responsible for reporting on whether the 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

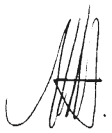
The financial statements of HBZ Bank Limited, as identified in the first paragraph, were approved by the Board of Directors on 05 April 2013 and are signed on its behalf by:

Muhammad H. Habib
Chairman

Ramsay L Daly
Vice-chairman

COMPANY SECRETARY'S 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

135 Jan Hofmeyr Road

Westville

3629

05 April 2013

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 by the Financial Controller of the Bank, Ms Zaheera Karreem, who is a qualified Chartered Accountant.

These financial statements have been reviewed by the Chief Financial Officer of the Bank, Mr Yusuf Dockrat.

RELIABLE

"WE MEASURE **OUR SUCCESS** TO ENSURE THAT **WE DELIVER MORE THAN WE PROMISE.**"

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of HBZ Bank Limited, which comprise the statement of financial position at 31 December 2012, 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 29 to 63.

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 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 present fairly, in all material respects, the financial position of HBZ Bank Limited at 31 December 2012, 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 2012, we have read the Directors' Report, the Audit Committee's Report, the Risk Management Review 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

per Naresh Bhoola
Chartered Accountant (SA)
Registered Auditor
Director

12 April 2013

5 Arundel Close
KPMG House
Kingsmead Office Park
Durban
4001

METICULOUS

"WE TAKE **THE TIME TO BE**
METICULOUS IN OUR **APPROACH** AND WE
REFUSE TO TAKE SHORTCUTS."

DIRECTORS' REPORT

The Board of Directors takes pleasure in presenting the Annual Financial Statements of the Bank for the year ended 31 December 2012.

HOLDING BANK

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.

FINANCIAL RESULTS

The results of the Bank are set out in the accompanying financial statements and notes. Profit for the year is R48 338 186 (2011: R42 483 691).

DIVIDENDS AND GENERAL RESERVE

The following appropriations were proposed and paid:

	2012	2011
GENERAL RESERVE		
Transfer made	R 25,000,000	R 16,300,000
DIVIDEND		
Dividend distributed	R 18,000,000	R 22,500,000
Dividend withholding tax / Secondary tax on companies	R 900,000	R 2,250,000

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 RL Daly, C Harvey and PJ Neethling retire by rotation but, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. In August 2011 Mr RS Habib passed away and on the 1st March 2012 Mr MR Habib was appointed to the Board. The Company Secretary 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 2012

	Notes	2012 R	2011 R
ASSETS			
Cash and short-term funds	1	1 499 014 210	1 979 509 564
Investment securities	2	487 333 101	348 882 029
Other assets	3	6 428 742	5 440 477
Derivative assets held for risk management	4	2 555 768	2 102 210
Deferred taxation	5	729 944	683 351
Advances	6	992 375 145	1 185 447 743
Property and equipment	8	16 739 112	14 926 301
Total Assets		3 005 176 022	3 536 991 675
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	10.1	7 253 063	7 297 705
General reserve	10.2	144 300 000	119 300 000
Retained earnings		48 724 438	43 341 610
Total shareholder's funds		250 277 501	219 939 315
LIABILITIES			
Deposits and other accounts	11	2 739 810 425	3 304 050 005
Provision for leave pay	12	2 805 000	2 600 000
Other liabilities	13	9 449 265	7 828 946
Derivative liabilities held for risk management	14	2 343 658	1 855 293
Taxation	15	490 173	718 116
Total Equity and Liabilities		3 005 176 022	3 536 991 675

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 R	2011 R
Interest received	16	181 499 938	170 773 644
Interest paid	17	(69 016 162)	(69 826 083)
Net interest income		112 483 776	100 947 561
Net Impairment of advances	7.3	(122 331)	(929 667)
		112 361 445	100 017 894
Other operating income	18	49 890 192	46 144 612
		162 251 637	146 162 506
Operating expenses	19	(90 574 537)	(80 595 763)
Profit before taxation		71 677 100	65 566 743
Taxation	21.1	(23 338 914)	(23 083 052)
Profit for the year		48 338 186	42 483 691
Other comprehensive income		-	-
Total comprehensive income for the year		48 338 186	42 483 691
Dividends per share (cents)	22	180.00	225.00
Earnings per share (cents)	23	483.38	424.84
Diluted earnings per share (cents)	23	483.38	424.84

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Notes	Ordinary share capital	Share premium	Regulatory reserve	General reserve	Retained earnings	Total
		R	R	R	R	R	R
Balance at 31 December 2010		10 000 000	40 000 000	8 111 540	103 000 000	38 844 084	199 955 624
Profit for the year		-	-	-	-	42 483 691	42 483 691
Transfer from regulatory reserve		-	-	(813 835)	-	813 835	-
Ordinary dividends	22	-	-	-	-	(22 500 000)	(22 500 000)
Transfer to general reserve		-	-	-	16 300 000	(16 300 000)	-
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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 R	2011 R
Cash flows from operating activities			
Cash receipts from customers	24.1	231 390 130	216 918 256
Cash paid to customers, employees and suppliers	24.2	(158 613 195)	(148 269 016)
Cash available from operating activities	24.3	72 776 935	68 649 240
Taxation paid	24.4	(23 613 450)	(23 271 057)
Dividends paid	22	(18 000 000)	(22 500 000)
Net cash inflow from operating activities		31 163 485	22 878 183
Decrease/(Increase) in income-earning funds and other assets	24.5	53 095 474	(419 049 981)
(Decrease)/Increase in deposits and other liabilities	24.6	(561 925 896)	1 042 346 649
Net (decrease)/increase in financing activities		(508 830 422)	623 296 668
Cash utilised in investing activities			
Capital expenditure on property and equipment		(4 901 523)	(2 367 367)
Proceeds on disposal of property and equipment		2 073 106	91 082
Cash utilised in investing activities		(2 828 417)	(2 276 285)
(Decrease)/Increase in cash and cash equivalents		(480 495 354)	643 898 566
Cash and short-term funds at the beginning of year		1 979 509 564	1 335 610 998
Cash and short-term funds at end of year		1 499 014 210	1 979 509 564

For the year ended 31 December 2012

SIGNIFICANT ACCOUNTING POLICIES

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 5 April 2013.

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 may differ 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 made predominantly relate to impairment of loans and advances, the determination of the leave pay provision 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 at 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 at that date. Foreign currency differences arising on translation are recognised in the statement of comprehensive income.

(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.

For the year ended 31 December 2012

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) 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on 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.

(vi) Other receivables
Other receivables are stated at their cost less impairment losses.

(vii) Other payables
Other payables are stated at cost.

(viii) Identification and measurement of impairment
At each statement of financial position 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 assets found not to be specifically impaired are then collectively assessed for any impairment that has 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 modelling. 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 loans and 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 statement of financial position 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.

(ix) 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.

(x) 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 stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the statement of comprehensive income.

(xi) Share capital

ORDINARY SHARES

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any taxation effects.

(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 carried at amortised cost in the statement of financial position.

(f) Loans and 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 Musharaka 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 carried at amortised cost using the effective interest rate method.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated 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. The depreciation rates are as follows:

- Leasehold improvements 20% per annum
- Furniture and fittings 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.

(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.

For the year ended 31 December 2012

(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.

Diluted EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares, adjusted for affects of potential 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.

FLEXIBLE

"WE ARE **FULLY EQUIPPED TO DEAL** WITH THE CONSTANTLY CHANGING DEMANDS OF **GLOBAL BANKING."**

	2012	2011
	R	R

1. CASH AND SHORT-TERM FUNDS

	2012 R	2011 R
Balances with other banks and cash on hand	1 499 014 210	1 979 509 564
Maturity analysis		
On demand to one month	1 384 239 210	1 754 959 564
One month to six months	101 375 000	191 000 000
Six months to one year	13 400 000	33 550 000
Greater than one year	-	-
	1 499 014 210	1 979 509 564

2. INVESTMENT SECURITIES

	2012 R	2011 R
Interest bearing Government bonds	100 528 178	101 033 509
Treasury bills	386 804 923	247 848 520
	487 333 101	348 882 029
Maturity analysis		
On demand to one month	-	-
One month to six months	386 804 923	247 848 520
Six months to one year	-	-
Greater than one year	100 528 178	101 033 509
	487 333 101	348 882 029

3. OTHER ASSETS

	2012 R	2011 R
Prepayments	3 585 190	3 367 988
Other assets	2 843 552	2 072 489
	6 428 742	5 440 477

4. DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT

	2012 R	2011 R
Forward exchange contracts	2 555 768	2 102 210
	2 555 768	2 102 210

For the year ended 31 December 2012

		2012	2011
		R	R
5.	DEFERRED TAXATION		
	Tax effect of timing differences between tax and book values of		
	- provisions for doubtful advances	(41 513)	(14 546)
	- other accruals and provisions	697 001	642 778
	- fixed asset allowances	74 456	55 119
	Deferred taxation asset	729 944	683 351
	Deferred taxation reconciliation		
	Balance at beginning of year	683 351	704 707
	Credited/(Charged) to Statement of Comprehensive Income	46 593	(21 356)
	Balance at end of year	729 944	683 351
6.	ADVANCES		
	Overdrafts	341 902 350	339 903 004
	Loans	652 476 924	838 032 872
	- Staff loans	1 272 619	1 355 713
	- Commercial loans	632 055 306	794 410 717
	- Trust receipts	19 148 999	42 266 442
	Bills receivable	-	300 000
	Foreign bills purchased	-	9 131 767
		994 379 274	1 187 367 643
	Specific impairment	(1 877 223)	(1 799 517)
	Portfolio impairment	(126 906)	(120 383)
		992 375 145	1 185 447 743
	Maturity analysis		
	On demand to one month	523 880 145	661 319 743
	One month to six months	110 142 000	101 680 000
	Six months to one year	51 334 000	46 498 000
	Greater than one year	307 019 000	375 950 000
		992 375 145	1 185 447 743

Interest rates charged on clients advances range between 6% and 12% during 2012. Islamic Banking advances are included in advances.

	2012	2011
	R	R

7. IMPAIRMENT OF ADVANCES

7.1 Specific impairment

	2012 R	2011 R
Balance at beginning of year	1 799 517	904 476
Impairment raised	1 619 364	1 580 277
Recoveries	(1 503 556)	(685 236)
Write-offs against Impairment	(38 102)	-
Balance at end of year	1 877 223	1 799 517

7.2 Portfolio impairment

	2012 R	2011 R
Balance at beginning of year	120 383	85 757
Impairment raised	6 523	34 626
Balance at end of year	126 906	120 383

7.3 Statement of Comprehensive Income Charge

	2012 R	2011 R
Impairment raised during the year		
- Specific impairment	1 619 364	1 580 277
- Portfolio impairment	6 523	34 626
	1 625 887	1 614 903
Recoveries	(1 503 556)	(685 236)
	122 331	929 667

For the year ended 31 December 2012

8. PROPERTY AND EQUIPMENT

	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

	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
2011			
Land and buildings	10 116 033	-	10 116 033
Furniture & fittings	6 763 385	(4 362 032)	2 401 353
Office equipment	4 054 975	(3 178 044)	876 931
Motor vehicles	2 157 750	(1 327 560)	830 190
Computers	4 350 231	(3 648 437)	701 794
	27 442 374	(12 516 073)	14 926 301

	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

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2011 movements					
Land and buildings	9 189 343	926 690	-	-	10 116 033
Furniture & Fittings	2 816 498	581 182	(17 128)	(979 199)	2 401 353
Office equipment	1 157 714	241 018	-	(521 801)	876 931
Motor vehicles	876 125	284 000	-	(329 935)	830 190
Computers	763 165	334 478	-	(395 849)	701 794
	14 802 845	2 367 368	(17 128)	(2 226 784)	14 926 301

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
6. Section 4, The Patio, Linden Road, Sandown.	31 December 2000

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

The Patio was sold during 2012.

9. ORDINARY SHARE CAPITAL

	2012	2011
	R	R
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 share	40 000 000	40 000 000

For the year ended 31 December 2012

	2012 R	2011 R
10. NON-DISTRIBUTABLE RESERVES		
10.1 Regulatory reserve	7 253 063	7 297 705

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.

10.2 General reserve	144 300 000	119 300 000

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

11. DEPOSITS AND OTHER ACCOUNTS

	2012 R	2011 R
Deposits and loans from banks	169 081 069	532 118 506
Demand deposits	1 147 049 169	1 023 443 097
Savings deposits	175 088 594	162 167 153
Fixed deposits	781 470 101	989 671 610
Notice deposits	467 121 492	596 649 639
	2 739 810 425	3 304 050 005
Maturity analysis		
On demand to one month	2 480 286 792	2 926 437 004
One month to six months	191 333 918	265 969 340
Six months to one year	68 189 715	111 643 661
Greater than one year	-	-
	2 739 810 425	3 304 050 005

Islamic Banking deposits are included in deposits and other accounts.

12. PROVISION FOR LEAVE PAY

	2012 R	2011 R
Balance at beginning of year	2 600 000	2 559 000
Provisions made during the period	205 000	41 000
Balance at end of year	2 805 000	2 600 000

This provision is raised for leave which has accrued to employees and for which the Bank is liable.

	2012 R	2011 R

13. OTHER LIABILITIES

Creditors	7 169 234	4 665 141
Other payables	2 280 031	3 163 805
	9 449 265	7 828 946

14. DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT

Forward exchange contracts	2 343 658	1 855 293
	2 343 658	1 855 293

15. TAXATION

Provision for normal taxation	490 173	718 116
	490 173	718 116

16. INTEREST RECEIVED

Balances with other banks	66 757 780	70 161 931
Advances	87 496 004	82 789 874
Investment securities	27 246 154	17 821 839
	181 499 938	170 773 644

17. INTEREST PAID

Deposits from banks	5 408 572	4 188 880
Deposits from customers	63 607 590	65 637 203
	69 016 162	69 826 083

18. OTHER OPERATING INCOME

Commissions and fees	35 105 540	30 637 291
Foreign exchange income	14 784 652	15 507 321
	49 890 192	46 144 612

For the year ended 31 December 2012

19. OPERATING EXPENSES

	2012 R	2011 R
Operating expenses include :		
Directors' remuneration (see note 20)	5 082 005	4 777 906
Auditor's remuneration	1 179 872	862 343
- audit	1 179 872	868 686
- for other services	-	-
- over-provision in prior year	-	(6 343)
Depreciation	2 305 662	2 226 784
Profit on disposal of fixed assets	1 290 056	73 954
- from insurance proceeds	225 765	-
- from other proceeds	1 064 291	73 954
Management fee for services rendered	20 173 879	18 138 554
Retirement benefit costs	3 697 543	2 880 934
- key management personnel	256 356	243 852
- other personnel	3 441 187	2 637 082
Operating leases	3 588 328	3 136 167
- premises	3 207 106	2 789 875
- equipment	381 222	346 292
Staff costs	25 610 811	23 553 381

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

20. DIRECTORS' REMUNERATION

	2012 R	2011 R
For services as a director and other services		
Non-executive directors	1 820 000	1 680 000
- MH Habib (Chairman)	280 000	260 000
- RL Daly (Vice Chairman)	280 000	260 000
- MY Chowdhury	260 000	240 000
- MR Habib	260 000	240 000
- PJ Neethling	260 000	240 000
- HF Leenstra	260 000	240 000
- D Dharmalingham	220 000	200 000
Executive directors	3 262 005	3 097 906
- ZA Khan - CEO	2 118 461	1 976 527
- C Harvey - Head of Corporate Governance	1 143 544	1 121 379
Total directors' remuneration (see note 19)	5 082 005	4 777 906

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.

21. TAXATION	2012 R	2011 R
21.1 South African normal taxation		
- Current	19 049 405	16 742 746
- Deferred	(46 593)	21 356
Secondary taxation on companies	-	2 250 000
	19 002 812	19 014 102
Other taxation		
- unclaimable value added tax	4 061 609	3 848 949
- skills development levy	274 493	220 001
- regional services council levy	-	-
	4 336 102	4 068 950
Total taxation	23 338 914	23 083 052
21.2 Reconciliation of tax charge		
SA Normal taxation	28.00%	28.00%
Standard rate affected by :		
- deductible expenses	(1.49%)	(2.43%)
- secondary taxation on companies	0.00%	3.43%
Effective rate - taxation on income	26.51%	29.00%
Effective rate - permanent difference	6.05%	6.21%
Effective rate - total taxation	32.56%	35.21%

22. DIVIDENDS PER SHARE

Final dividend of 180 cents per share (2011: 225 cents) was declared, totalling R18 000 000 (2011: R22 500 000).

23. EARNINGS AND DILUTED EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on net income attributable to ordinary shareholders of R48 338 186 (2011: R42 483 691) and a weighted average number of shares of 10 000 000 (2011: 10 000 000) ordinary shares issued. The calculation of diluted earnings per ordinary share is based on net income attributable to ordinary shareholders of R48 338 186 (2011: R42 483 691) and a weighted average number of shares of 10 000 000 (2011: 10 000 000) ordinary shares outstanding after any adjustments for the effects of all dilutive potential ordinary shares.

24. CASH FLOW INFORMATION

24.1 Cash receipts from customers	2012	2011
Interest income	181 499 938	170 773 644
Other income	49 890 192	46 144 612
	231 390 130	216 918 256

For the year ended 31 December 2012

		2012 R	2011 R
24.2	**Cash paid to customers, employees and suppliers**		
	Interest expenses	(69 016 162)	(69 826 083)
	Other payments	(89 597 033)	(78 442 933)
		(158 613 195)	(148 269 016)
24.3	**Cash available from operating activities**		
	Profit before taxation	71 677 100	65 566 743
	Adjusted for non-cash items		
	- Specific debt impairment	77 706	895 041
	- General debt impairment	6 523	34 626
	- Depreciation	2 305 662	2 226 784
	- Profit on disposal of property and equipment	(1 290 056)	(73 954)
		72 776 935	68 649 240
24.4	**Taxation paid**		
	Amounts unpaid at beginning of year	(718 116)	(927 477)
	Charge to Statement of Comprehensive Income	(23 385 507)	(23 061 696)
	Amounts unpaid at end of year	490 173	718 116
		(23 613 450)	(23 271 057)
24.5	**Decrease/(Increase) in income-earning funds and other assets**		
	Advances	192 988 369	(335 024 431)
	Investment securities	(138 451 072)	(97 723 021)
	Other assets	(1 441 823)	13 697 471
		53 095 474	(419 049 981)
24.6	**(Decrease)/Increase in deposits and other liabilities**		
	Deposits	(564 239 580)	1 067 321 296
	Creditors and other liabilities	2 313 684	(24 974 647)
		(561 925 896)	1 042 346 649

25. LETTERS OF CREDIT AND GUARANTEE

	2012 R	2011 R
Letters of credit	106 198 558	109 541 467
Guarantees issued on behalf of customers	110 013 179	99 635 598
	216 211 737	209 177 065

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	2012	2011
One South African rand equals		
- Swiss franc	0.107	0.116
- United States dollar	0.117	0.122
- Pound sterling	0.073	0.079

27. FINANCIAL INSTRUMENTS

27.1 Credit risk management

The Bank's detailed policy in terms of managing credit risk is included in the Risk Management Review Report on Page 8.

Exposure to credit risk

On balance sheet

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2012	2011	2012	2011	2012	2011
	R	R	R	R	R	R
Individually impaired						
- Gross amount	5 400 846	6 397 915	-	-	-	-
- Impairment	(1 877 223)	(1 799 517)	-	-	-	-
- Carrying amount	3 523 623	4 598 398	-	-	-	-
Collectively impaired						
- Gross amount	988 978 428	1 180 969 728	-	-	-	-
- Impairment	(126 906)	(120 383)	-	-	-	-
- Carrying amount	988 851 522	1 180 849 345	-	-	-	-
Not impaired	-	-	1 499 014 210	1 979 509 564	487 333 101	348 882 029
Total carrying amount	992 375 145	1 185 447 743	1 499 014 210	1 979 509 564	487 333 101	348 882 029

Off balance sheet

	Letters of credit		Guarantees		Unutilised facilities	
	2012	2011	2012	2011	2012	2011
	R	R	R	R	R	R
Not impaired	-	-	-	-	-	-
Gross amount	106 198 558	109 541 467	110 013 179	99 635 598	156 466 600	145 680 549

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 2012 or 2011.

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:

	2012	2011
	R	R
Cash deposit	187 186 304	307 828 727
Bank guarantee	222 367 794	297 006 696
Property and other	957 503 513	937 389 834
Total	1 367 057 611	1 542 225 257

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	
	2012	2011	2012	2011	2012	2011
	R	R	R	R	R	R
Concentration by location						
- America	-	-	12 654 590	6 628 263	-	-
- Europe	-	-	5 827 613	1 122 768	-	-
- Asia	-	-	135 015	148 084	-	-
- South Africa	992 375 145	1 185 447 743	1 480 396 992	1 971 610 449	487 333 101	348 882 029
	992 375 145	1 185 447 743	1 499 014 210	1 979 509 564	487 333 101	348 882 029

	Loans and advances - Gross		Doubtful debts - Gross		Specific Impairment	
	2012	2011	2012	2011	2012	2011
	R	R	R	R	R	R
Concentration by industry						
- Finance & insurance	19 283 000	17 042 000	-	-	-	-
- Manufacturing	228 028 000	383 262 000	-	-	-	-
- Transportation	49 856 000	29 357 000	-	-	-	-
- Commercial real estate	249 989 000	342 931 000	-	-	-	-
- Retailers & wholesalers	386 218 000	330 177 000	5 400 846	6 397 915	1 877 223	1 799 517
- Other	61 005 274	84 598 643	-	-	-	-
	994 379 274	1 187 367 643	5 400 846	6 397 915	1 877 223	1 799 517

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 in a particular industry.

27.2 Currency risk management

The Bank did not have any significant net open foreign currency positions at 31 December 2012.

27.3 Derivative instruments

	2012	2011
	R	R
Nominal value of forward exchange contracts sold to customers	97 054 132	57 621 328
Nominal value of forward exchange contracts sold to banks	3 783 103	2 017 248
	100 837 235	59 638 576
Nominal value of forward exchange contracts purchased from customers	(3 775 323)	(2 009 020)
Nominal value of forward exchange contracts purchased from banks	(96 853 655)	(57 382 639)
	(100 628 978)	(59 391 659)

27.4 Liquidity risk management

The Bank's detailed policy in terms of managing liquidity risk is included in the Risk Management Review Report on Page 8.

	On demand	1-6 months	6-12 months	> 12 months	Total
	R	R	R	R	R
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
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
2011					
Assets					
Investment securities	-	247 848 520	-	101 033 509	348 882 029
Advances	661 319 743	101 680 000	46 498 000	375 950 000	1 185 447 743
Other assets (incl. derivatives)	5 263 662	2 102 000	-	177 025	7 542 687
Cash and short term funds	1 754 959 564	191 000 000	33 550 000	-	1 979 509 564
	2 421 542 969	542 630 520	80 048 000	477 160 534	3 521 382 023
Liabilities					
Deposits and other accounts	(2 926 437 004)	(265 969 340)	(111 643 661)	-	(3 304 050 005)
Other liabilities (incl. derivatives)	(6 953 755)	(3 183 116)	-	(265 484)	(10 402 355)
Provisions	-	-	-	(2 600 000)	(2 600 000)
	(2 933 390 759)	(269 152 456)	(111 643 661)	(2 865 484)	(3 317 052 360)
Net liquidity gap	(511 847 790)	273 478 064	(31 595 661)	474 295 050	204 329 663

27.5 Interest rate risk management

The Bank's detailed policy in terms of managing interest rate risk is included in the Risk Management Review Report on page 8. 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
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**
2011						
Fixed rate items						
Assets	1 637 416	403 109	36 705	33 550	101 034	2 211 814
Liabilities	(820 849)	(367 187)	(9 237)	(217 337)	-	(1 414 610)
	816 567	35 922	27 468	(183 787)	101 034	797 204
Variable items						
Assets	1 276 743	-	-	-	-	1 276 743
Liabilities	(1 889 439)	-	-	-	-	(1 889 439)
	(612 696)	-	-	-	-	(612 696)
Net repricing gap	**203 871**	**35 922**	**27 468**	**(183 787)**	**101 034**	**184 508**

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 2012, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R240 000 (2011: R585 000) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R549 000 (2011: R861 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 2012	R	R	R	R	R	R
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)
31 December 2011						
Cash and short-term funds	-	-	1 979 509 564	-	1 979 509 564	1 979 509 564
Investment securities	-	348 882 029	-	-	348 882 029	351 486 003
Derivative assets held for risk management	2 102 210	-	-	-	2 102 210	2 102 210
Advances	-	-	1 185 447 743	-	1 185 447 743	1 185 447 743
	2 102 210	348 882 029	3 164 957 307	-	3 515 941 546	3 518 545 520
Deposits and loans from banks	-	-	-	(532 118 506)	(532 118 506)	(532 118 506)
Deposits from customers	-	-	-	(2 771 931 499)	(2 771 931 499)	(2 771 931 499)
Derivative liabilities held for risk management	(1 855 293)	-		-	(1 855 293)	(1 855 293)
	(1 855 293)	-	-	(3 304 050 005)	(3 305 905 298)	(3 305 905 298)

The fair value of non trading derivatives and investment securities are classed as a level 1 financial instrument in terms of the hierarchy requirements per IFRS 7. The fair value of advances, deposits and cash and short-term funds are classed as a level 3 financial instrument in terms of the hierarchy requirements per IFRS 7. 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 Alexander Forbes Retirement Fund, which is a defined contribution fund, and is governed by the Pension Funds Act of 1956. Membership to the fund has been compulsory since the incorporation of the Bank in November 1995.

29. OPERATING LEASE COMMITMENTS

	Buildings	Equipment	Total
	R	R	R
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
2011			
Not later than 1 year	2 413 559	131 760	2 545 319
Between 2 and 5 years	4 387 764	82 350	4 470 114
	6 801 323	214 110	7 015 433

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 and the various branches
- Fellow subsidiaries - Habib European Bank Ltd., Habib Metropolitan Bank and Habib Canadian Bank.
- Fellow associates - HBZ Finance Ltd.
- The directors listed in note 20, as well as their close family members.

		2012 R	2011 R
30.2 Material related party transactions			
Material transactions within the Bank			
Dividends paid to the holding company	(See note 22)	18 000 000	22 500 000
Management fee paid to holding company		20 173 879	18 138 554
Directors' remuneration	(See note 20)	5 082 005	4 777 906
Loans to directors		2 000 000	3 160 443

The loans to directors are granted on similar terms and conditions offered to third parties, fully secured, with fixed terms of repayment and are included as part of total advances in note 6.

Material transactions with the Habib Bank group

Receivables due from group companies:	2012 R	2011 R
- Habib Bank AG Zurich, Zurich branch	31 240	119 351
- Habib Bank AG Zurich, London branch	2 335 209	850 038
- HBZ Finance Ltd, Hong Kong	2 072	2 307
- Habib Canadian Bank, Canada	7 583	70 183
- Habib Metropolitan Bank, Pakistan	3 116	24 061
	2 379 220	1 065 940

These receivables 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.

Payables due to group companies:	2012 R	2011 R
- Habib Bank AG Zurich, Zurich branch	99 434 140	185 016 022
- Habib Bank AG Zurich, London branch	1 031 384	7 519 062
- Habib Bank AG Zurich, Nairobi branch	76 810	414 517
- Habib Bank AG Zurich, Deira Dubai branch	24 519 199	9 828 140
- Habib European Bank Ltd, Isle of Man	33 478	91 370
	125 095 011	202 869 111

These payables relate to time accounts and short-term payables with no fixed terms of repayment, which are 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.

The highest outstanding balance for these borrowings during the financial year were:	2012 R	2011 R
- Habib Bank AG Zurich, Zurich branch	185 960 651	187 715 166
- Habib Bank AG Zurich, London branch	238 918 809	73 276 304
- Habib Bank AG Zurich, Nairobi branch	1 884 857	613 862
- Habib Bank AG Zurich, Deira Dubai branch	36 630 282	13 099 919
- Habib European Bank Ltd, Isle of Man	5 083 555	105 460 063

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2012

	2012 R	2011 R
Interest and related transaction charges paid to group companies:		
- Habib Bank AG Zurich, Zurich branch	2 998 851	718 825
- Habib Bank AG Zurich, London branch	670 998	446 257
- Habib Bank AG Zurich, Dubai branch	10 581	-
- Habib European Bank Ltd, Isle of Man	731	3 054
- HBZ Finance Ltd, Hong Kong	384	350
	3 681 545	1 168 486

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31. STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are new or revised Accounting Standards and Interpretations in issue that are not yet effective. The following Standards and Interpretations that are applicable to the Bank may have an impact on future financial statements:

Standard/Interpretation		Effective date
IAS 1 amendment	Presentation of Financial Statements: Presentation of Items of other Comprehensive Income	Annual periods beginning on or after 1 January 2013
IFRS 7 amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities	Annual periods beginning on or after 1 January 2013
7 individual amendments to 5 standards	Improvements to International Financial Reporting Standards 2012	Annual periods beginning on or after 1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	Annual periods beginning on or after 1 January 2014
IFRS 9 (2009) IFRS 9 (2010)	Financial Instruments	Annual periods beginning on or after 1 January 2015
IFRS 13	Fair Value Measurement	Annual periods beginning on or after 1 January 2013

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

For the year ended 31 December 2012

		2012 R'000	2011 R'000
32. CAPITAL ADEQUACY STATEMENT			
Credit risk exposure	(See note 32.1)	1 244 230	1 202 161
Operational risk exposure	(See note 32.2)	237 471	236 397
Market risk exposure	(See note 32.3)	1 819	2 813
Other risk exposure	(See note 32.4)	23 168	20 366
Aggregate risk weighted exposure		1 506 688	1 461 737
Regulatory capital requirement - 9.75%		146 902	142 519
Qualifying capital and reserve funds			
Tier I			
Ordinary share capital		10 000	10 000
Share premium		40 000	40 000
General reserve		144 300	119 300
Retained earnings from prior year		342	44
Tier II			
General allowance for credit impairment per Regulation 23		6 362	6 811
		201 004	176 155
Capital Adequacy Ratio			
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure		13.3%	12.1%

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
	2012	2012	2012	2012	2012	2011
	R'000	R'000	R'000	R'000	R'000	R'000
0%	487 333	-	187 186	674 519	-	-
5%	-	-	-	-	-	-
10%	-	-	-	-	-	-
20%	1 342 878	109 344	222 368	1 674 590	334 918	432 864
50%	55 134	162 029	-	217 163	108 582	110 541
100%	1 100 273	110 011	(409 554)	800 730	800 730	658 756
	2 985 618	381 384	-	3 367 002	1 244 230	1 202 161

The asset items indicated in this statement are the average for the month ended 31 December 2012, as per Regulation 23 of the Regulations issued under section 90 of the Banks Amendment Act of 2007.

For the year ended 31 December 2012

	2012 R'000	2011 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 - 2009 / 2008	120 654	132 004
Gross income - 2010 / 2009	125 577	120 654
Gross income - 2011 / 2010	133 723	125 577
Total gross income for preceding three years	379 954	378 235
Average gross income for preceding three years	126,651	126 078
Fixed percentage per Regulation 33	x 15%	x 15%
Required capital and reserve funds for operational risk	18,998	18 912
Risk weighting per Regulation 33	x 12.5	x 12.5
Regulatory risk-weighted exposure	237 471	236 397

32.3 MARKET RISK EXPOSURE

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

	2012 R'000	2011 R'000
Net open foreign currency position	146	225
Risk weighting per Regulation 28	x 12.5	x 12.5
Regulatory risk-weighted exposure	1 819	2 813

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
	2012		2012	2011
	R'000		R'000	R'000
Cash and balances with the central bank	53 989	0%	-	-
Fixed assets	16 739	100%	16 739	14 926
Other assets	6 429	100%	6 429	5 440
			23 168	20 366

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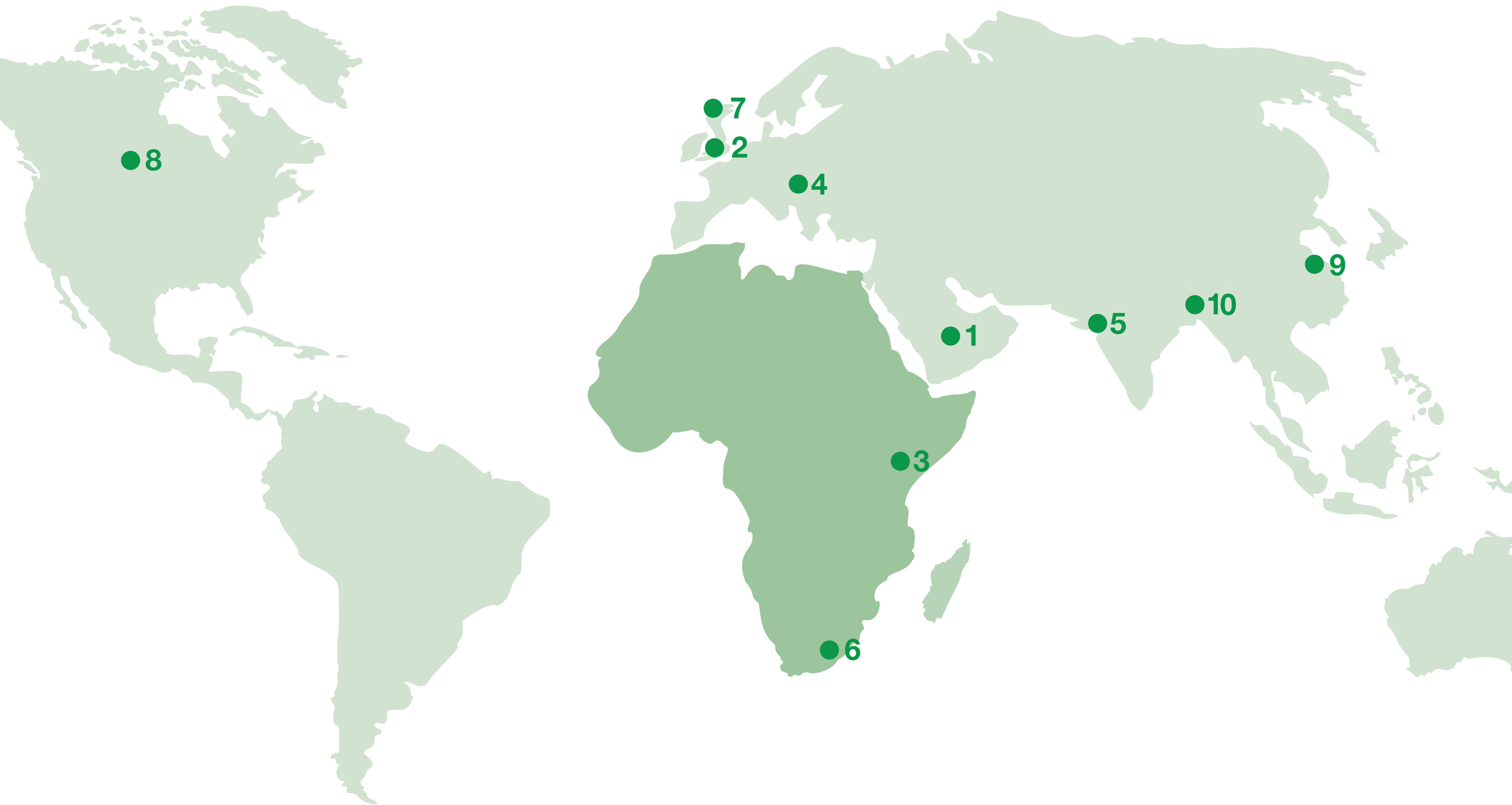
INTERNATIONAL NETWORK SUMMARY



1.	UNITED ARAB EMIRATES	Habib Bank AG Zurich	8 Branches
		HBZ Services FZ LLC	1 Office
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	273 Branches
		Habib Bank AG Zurich	Representative Office
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	5 Branches
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 with Chequing Facilities
- 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

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

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