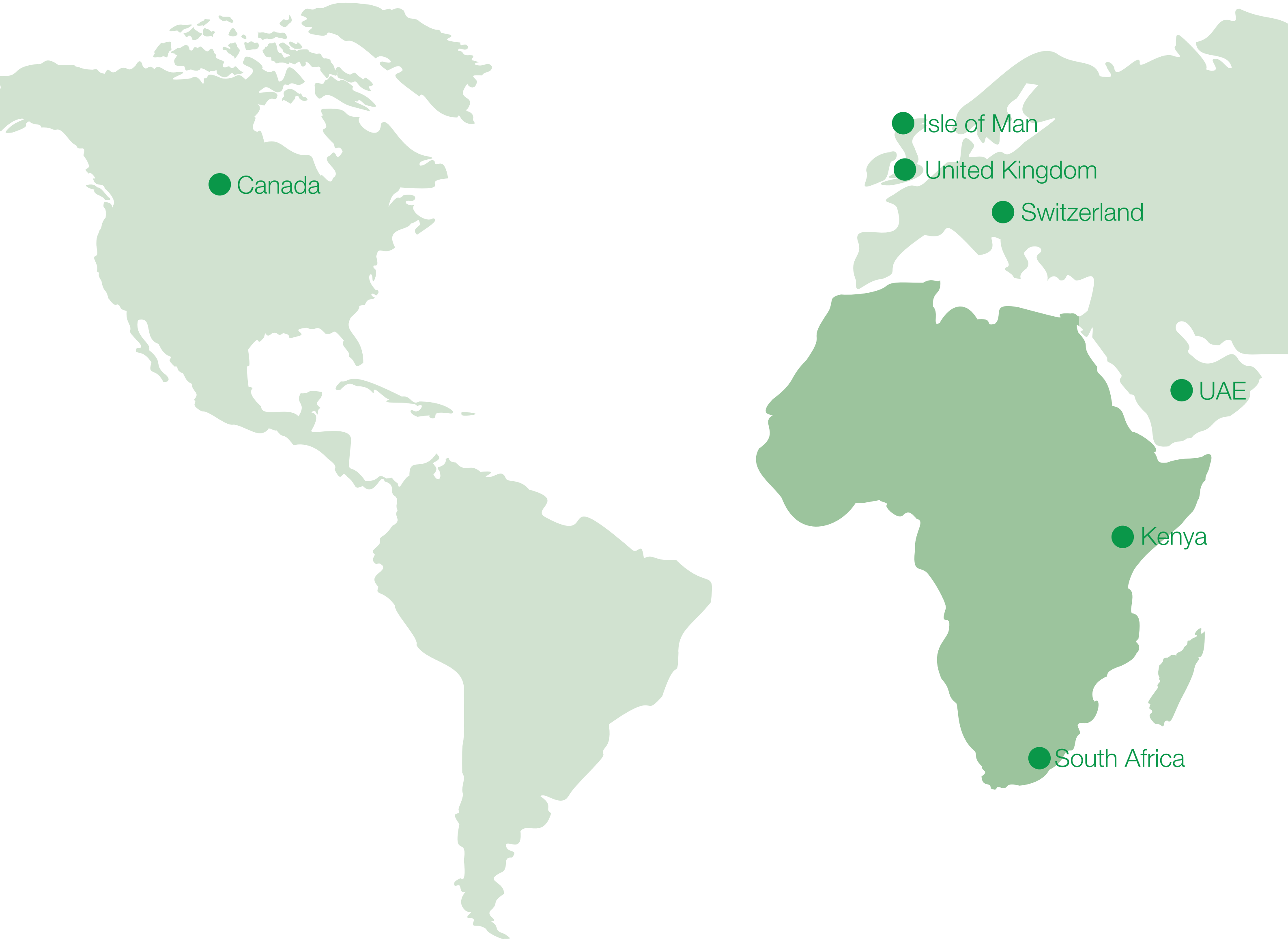
HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

HBZ Bank Limited

Annual Report
2011



SOUTH AFRICA

DURBAN BEACH FRONT

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 2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
PROFITS (R MILLION)										
Profit before taxation and management fee	24.9	33.4	31.2	36.1	42.5	59.7	90.6	80.4	78.2	83.7
BALANCE SHEET (R MILLION)										
Advances	157.1	187.8	232.9	327.9	464.1	552.9	658.4	755.7	851.4	1,185.40
Advances growth %	37.7%	19.5%	24.0%	40.8%	41.5%	19.1%	19.1%	14.8%	29.3%	56.9%
Deposits	405.8	555.3	687.4	925.0	1,080.3	1 155.3	1 667.6	1 746.2	2 236.7	3 304.1
Deposits growth %	35.0%	36.8%	23.8%	34.6%	16.8%	6.9%	44.3%	4.7%	28.1%	47.7%
Total assets	490.4	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
Total assets growth %	31.8%	32.6%	22.1%	29.1%	17.2%	10.2%	40.2%	5.5%	26.4%	42.9%
PERSONNEL										
Number of employees	56	62	71	81	80	90	101	109	111	113
Net contribution per employee (R '000)	445	539	439	446	531	663	897	738	705	741

SOUTH AFRICA

TABLE MOUNTAIN

PROFIT SUMMARY

TOTAL ASSETS

BOARD OF DIRECTORS AND BOARD COMMITTEES

NON EXECUTIVE DIRECTORS

Muhammad H Habib (53)# - Chairman
Bus. Admin (USA)
President, Habib Bank AG Zurich
Appointed to the board in 1995

Ramsay L Daly (68) – Vice Chairman
B.A. LLB
Attorney
Appointed to the board in 1995

M Yakoob Chowdhury (69)^
Chief Executive Vice President, Habib Bank AG Zurich
Appointed to the board in 1995

Pierre J Neethling (67)
B.Sc & MBA
Ex-Managing Director, Smith & Nephew (Pty) Ltd,
now retired.
Appointed to the board in 2004

Hendrik F Leenstra (63)
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 (46)
B. Acc, Dip Acc, CA(SA)
CFO of Mutual & Federal Limited
Appointed to the board in 2011

Mohamedali R Habib (47)*
Bus. Mgmt - Finance (USA)
Joint President, Habib Bank AG Zurich
Appointed to the board in 2012

EXECUTIVE DIRECTORS

Zafar Alam Khan (59) – CEO and Chief Executive
Vice President
B.A.
Appointed to the board in 2005

Chris Harvey (55) – Compliance & Strategic Planning
and Executive Vice President
B.Com, Dip Acc
Appointed to the board in 1998

AUDIT COMMITTEE

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

* By invitation

DIRECTORS AFFAIRS COMMITTEE

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

CAPITAL ADEQUACY AND 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

 # Swiss   * Canadian   ^ British   * By invitation

EXECUTIVE MANAGEMENT

Zafar Alam Khan (59)
Chief Executive Officer

Chris Harvey (55)
Compliance & Strategic Planning

CORPORATE

Zaheera Karreem (33)
Financial Controller

John MCG Rebelo (66)
Treasury Manager

Nusrat Zaidi (50)
IT Manager

Hassan Zia (59)
Risk Manager

Jayleen Naidoo (33)
Human Resources Manager

BRANCH NETWORK

Kwa-Zulu Natal Division:
Ronnie Meherjina (48) (Durban)
Senior Vice President

Saleem Abdulla (53) (Islamic Banking branch)
Manager

CM Qadeer Khan (37) (Pietermaritzburg)
Chief Manager

Gauteng Division:
M Ali Chaudhry (43) (Johannesburg)
Vice President

M Raashid Faiyaz (36) (Lenasia)
Manager

S Babur H Zaidi (51) (Laudium)
Vice President

REGISTERED OFFICE

135 Jan Hofmeyr Road
Westville
3629

REGISTRATION NUMBER

1995/006163/06

CHAIRMAN'S REVIEW

It is with great pleasure that I present HBZ Bank Ltd's annual report for the year 2011. By the Grace of God, our operation in South Africa continues to perform well.

INTERNATIONAL

What started in 2008 as a banking crisis related to the US housing market has now in 2011 become a sovereign debt crisis, where a lack of strong unified and credible leadership, has led to a loss of confidence and trust in this leadership and potentially in the system as a whole. As sovereign debt became the focus of the world's economic woes it became clear that any immediate economic recovery would be much slower than expected. Fears of default by some European countries abound and to intensify the problem, policy announcements and packages have not been completely followed through nor have they dealt fully with the problem. Countries like Greece, Ireland, Portugal and Italy have been or will be forced into austerity measures that are either politically unsustainable, or if implemented will reduce government spending resulting in declines in real growth rates. However the recent bailout package and austerity measures implemented in Greece, gives some light at the end of a very dark period in Euro Zone economic history.

The problems in Europe had a small contagion effect on recovery in the US. However GDP growth in the US is now up and unemployment down from a year ago indicating that the US economy is to some extent autonomous from Europe and has turned the corner.

I do not see the problems experienced in the 2011 global economy being resolved easily, in fact I see them continuing into 2012 with the focus on Greece to see if the measures implemented are effective and result in an increase in economic confidence across the Euro Zone.

DOMESTIC

The South African economy has not been immune to these developments as South Africa, a major exporter to Europe and the US will be severely affected if a prolonged slowdown in these regions occurs. The local economy has made a fragile and uneven recovery from the recession and future growth prospects will be affected significantly by these global developments.

Favourable growth outcomes were achieved in the final quarter of 2010 and the first quarter of 2011, when annualised growth rates of 4,5% and 4,8% respectively was recorded. However the performance for the rest of the year was slow with second and third quarter growth at 1.3% and the fourth quarter growth at 2.9%. Both the manufacturing and mining sectors contracted with household consumption expenditure, previously the main driver of growth, reducing due to high levels of consumer indebtedness, low levels of bank credit extension and the negative wealth effects from the weak housing market.

Rising food, oil and electricity prices plus a weaker Rand and high wage increases has placed further pressure on household spending and are now pushing inflation up to breach the 6% target ceiling of the South African Reserve Bank. At December 2011 the inflation rate ended on 6.1%.

OPERATING PERFORMANCE

By the Grace of God, the international and local economic concerns did not impact HBZ Bank Ltd as we had another encouraging year with a very pleasing growth in the balance sheet. The assets of the Bank grew by 42.6%, to end the year at R3.54 billion. Advances improved by 39.7%, mainly as a result of a large increase in Customer Foreign Currency loans as the Rand weakened over year end. Deposits grew by 26.2%.

Overall the Bank continued to maintain its conservative lending policies in keeping with its philosophy of maintaining high liquidity. Although the growth in activity in customers' accounts was low it was pleasing to note that all branches of the Bank performed well resulting in a profit before tax of R 65.6million.

From May 2011 the new Companies Act No 71 of 2008 and the related Companies Act Regulations became effective. HBZ Bank successfully implemented the changes required by the Act.

OUTLOOK

The slower than expected growth in the European and US economies compounded by the continued threat of sovereign debt defaults in some European countries will result in a very difficult 2012. This will continue to impact growth in South Africa during 2012.

Tensions in the Middle East will continue to put pressure on the price of crude oil. The current high price of crude will have a severe impact on local petrol prices, in turn placing tremendous pressure on inflation. I expect the price of crude oil to remain high.

This and further increases in food and electricity prices during 2012 may result in inflation remaining just over 6%. However the Rand remains volatile and in the first quarter of 2012 has strengthened to trade at around the R7.50 level. Should the Rand remain strong it will negate these effects and bring inflation below 6%. The South African Reserve Bank has indicated that they will not intervene to control inflation by adjusting interest rates, unless a severe downturn in the economy occurs. The outlook as such remains uncertain.

During 2012 the Bank intends to focus on its core business and maintain a conservative approach to lending. As part of its strategic plan, the Bank is planning two branches in 2012. 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

In August 2011 Mr Reza Habib, my cousin and dear friend, who sat on the HBZ Board with me and was Joint President with me at Habib Bank AG Zurich passed away suddenly. His contribution to the Habib family, the Bank and Habib Bank AG Zurich was immense and will be sorely missed. On behalf of the Board I pray to Almighty for his mercy and to give strength to his family to bear this irreplaceable loss.

On behalf of the Board I welcome Mr Dheven Dharmalingam and Mr Mohamedali Habib, to the board. Dheven is a Chartered Account while Mohamedali 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. Both will bring diversified skills and experience that will enhance those of the Board of Directors and Board Committees.
Needless to say, our staff is 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

SWITZERLAND

CHILLON CASTLE

RISK MANAGEMENT REVIEW

RISK MANAGEMENT PHILOSOPHY

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

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 and the Bank recognises that it is an unavoidable consequence of banking to take calculated business risks with the objective of creating attractive returns from these ventures. 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 importance of 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 coordination between the Committees, executive management and other role-players in the risk management framework, without compromising segregation of duties, controls or review.

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

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 nature and size of HBZ Bank's operations allows for a centralised in-depth co-ordinated risk framework that 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.

ASSETS AND LIABILITIES COMMITTEE

An integral element in managing risk is the overall management of the assets and liabilities of the Bank. The Board set up the ALCO, made up of suitably competent persons, to oversee the arrangement of both sides of the Bank's statement of financial position to maintain profitability, to minimise interest rate risk and to maintain adequate liquidity. This 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, chaired by the CEO, is made up of the Head of Compliance, Financial Manager, Treasury Manager, Credit Manager, an Operations Manager and the various individual risk managers. During 2011 the ALCO met as per the requirements.

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

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 credit 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;
- 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 exposures to certain industries, to reduce the Concentration Risk at the Bank;
- credit risk mitigation by obtaining adequate security / collateral that is valued on a timely basis as clearly documented in the credit granting procedures;
- formation of various high level Credit Committees all with clearly defined limits;
- detailed credit inspection, quality review and prompt follow-up by high level management and the independent external and internal auditors;
- the prudent assessment of advances into categories that are in line with standard international practice;
- a high level of executive and non-executive involvement in decision making and review;
- A clear policy on the appropriate provisioning in respect of the estimated loss inherent in the advances book.

The Board has taken upon themselves to approve and monitor 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.

MARKET RISK

Market risk represents the danger of losses occurring due to adverse changes in the value of financial instruments caused by fluctuations in interest and foreign currency rates. The major market risk areas that affect the Bank are elaborated below.

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

Interest rate risk is the sensitivity of profit to adverse variations in interest rates. The Bank manages within laid down parameters the difference between rate-sensitive assets less rate-sensitive liabilities by effectively utilising capital and continually matching rate-sensitive assets and liabilities over various time horizons and various economic and environmental scenarios. The focused range of products offered by the Bank facilitates the management of this risk. Interest rate risk management is enhanced through the ALCO and an ALM process.

Currency risk arises from movements in rates of exchange between currencies. The Bank has very little exposure to this type of risk as it has a very conservative policy of prohibiting foreign exchange speculation and never having any uncovered forward positions. No long term open positions may be maintained, while short term open positions are only maintained on NOSTRO accounts within extremely conservative limits stipulated by the Board for each currency.

LIQUIDITY RISK

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

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

The liquidty management process includes a Contingency Funding Plan which takes to 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.

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.

In recognition of the importance of the management of Operational Risk, an Operational Risk Committee has been formed. It met for the first time in January 2012 where a Charter and make-up of the Committee was approved. The Committee is chaired by the CEO with the balance made up of the Senior Operations Manager, Head of Compliance, the Financial Controller, the Risk Manager and the Head of Projects.

The general authority of the Committee is:

- The responsibility for managing the operational risk inherent within the Bank.
- To consider any matters relating to operational risk issues that it deems necessary.
- To seek any information it requires from any officer or employee of the Bank, and such officers or employees shall respond to these enquires.

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 the Bank has adequate capital to support its risks beyond the core minimum requirements. During 2011 the Board reviewed the capital management and capital adequacy processes and confirmed that it successfully achieved the objectives specified.

COUNTRY RISK

Country risk relates to the danger that the cross-border movement of capital and/or interest could be restricted or completely blocked by a country due to political or economic reasons.

The Bank has very little exposure to this risk. However as a proactive Bank, the Bank has a strategy to minimise this risk should this type of risk become of concern. A central Committee decides on the risk profiles of each country; continually revises these profiles and determines their provision ratings. In deciding risk profiles of the countries the ratings of international credit rating agencies and others and the opinions of local Banks are sought.

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. Compliance risk consists of two risk areas:

Regulatory risk arises when the Bank does not comply with applicable laws and regulations or supervisory requirements.

Reputational risk is the negative publicity the Bank would be exposed to if there were a contravention of applicable statutory, regulatory and supervisory requirements or providing a service that does not comply with proper industry standards.

The Bank has a Compliance department appointed to oversee this function. The mandate of the compliance department includes the following:

- Co-ordinating the compliance process at the Bank.
- Monitoring and reviewing this process.
- Providing a central point for advice, consultation and non-compliance reporting.
- Facilitating compliance education and awareness workshops and seminars to entrench a culture of compliance at the Bank.
- Keeping management and the Board informed on the Bank's level of compliance with the laws, regulations, internal controls and supervisory requirements impacting the Bank.
- Resolving issues of non-compliance efficiently and effectively.
- Providing specific focus on regulatory and reputational risk as defined above by ensuring the Bank's compliance function is kept fully up-to-date with:
  - the Bank's internal control requirements,
  - the SARB's regulations and supervisory requirements,
  - other relevant local and international legislation;

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. With the continued local and international focus on anti money laundering, compliance at the Bank continues with its extensive training program for all employees to ensure that they were aware of their regulatory obligations. As part of the continued training within the compliance department the Bank's compliance officer attends the annual Compliance Conference hosted internationally by our holding company.

The Compliance Officer is a member of the Compliance Institute of South Africa.

SOCIAL INVESTMENT

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

EXTERNAL SOCIAL INVESTMENT

It is vital, to ensure lasting employment and self-enrichment, that people are properly educated and have a cultural heritage to provide substance to their lives. It is with this in mind that the Bank has over the years proudly invested in a wide range of welfare and self help initiatives. Principle amongst them has been projects and programmes that have provided educational, health and cultural development. 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 well supported by the Bank.

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

INTERNAL SOCIAL INVESTMENT

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

SKILLS DEVELOPMENT

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

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

- focused on-the-job training;
- external training; and
- providing access to tertiary, college and university education.

All staff have access to this plan and are entitled to benefit from the plan. During 2011 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.

CORPORATE GOVERNANCE

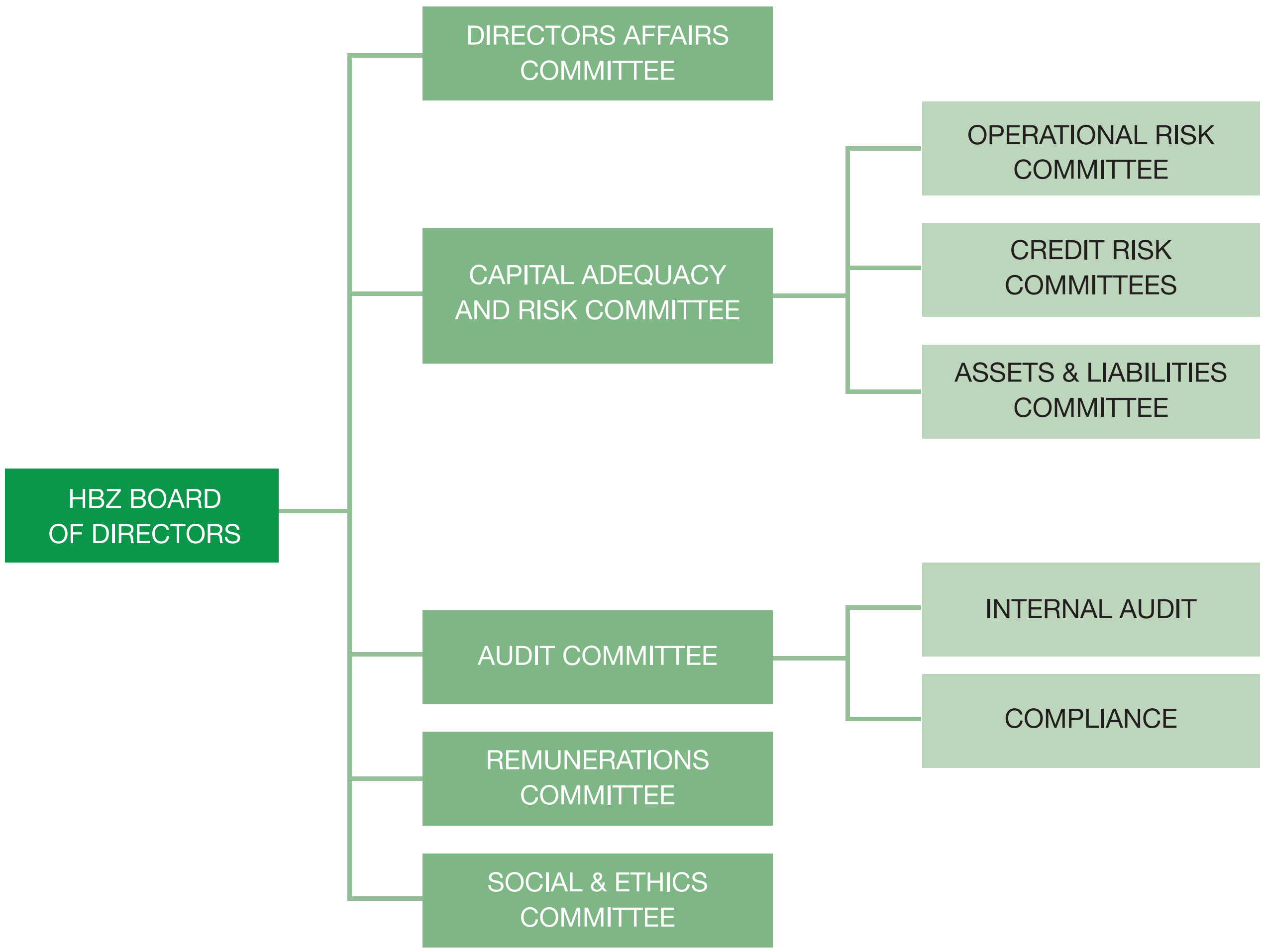
In recognition of the need to conduct the affairs of the Bank according to the highest standards of Corporate Governance and in the interests of stakeholder protection, the Board endorsed the Code of Corporate Practices and Conduct recommended in the Report on Corporate Governance of 2002 ("King II")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

HBZ's governance framework is depicted as follows:



BOARD OF DIRECTORS

During 2011 the HBZ Board comprised nine Directors, seven of whom are non-executive Directors and two executive Directors. Non-executive Directors comprise individuals 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. On the 1 January 2011 Mr Dheven Dharmalingam, a Chartered Account was appointed to the Board of the Bank. His diversified skills and experience will enhance those of the Board of Directors and Board Committees.

The Board met four times during 2011 with Director's attendance in accordance with requirements. Additional Board meetings, apart from those planned, are convened as circumstances dictate; none were convened during the year under review. Where Directors are unable to attend a meeting personally, teleconferencing is made available to include them in the proceedings and allow them to participate in the decisions and conclusions reached. The Board is supplied with full and timely information with a typical Board agenda including:

- A report from the CEO.
- A discussion on the 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.

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.

The Board is supported by various internal Committees and functions in executing its responsibilities. These are elaborated on below. Details of the Directorate 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 2011, with the CEO and CFO invited to attend.

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.

BANK SECRETARY

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

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

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

All Directors have access to the advice and services of the Bank secretary whose appointment is a matter for the Board as a whole. The contact details of the Bank secretary are provided in the Director's 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 always a non-executive Director. Four meetings were held during 2011.

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 5 of this annual report.

AUDIT COMMITTEE

The Audit Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The 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 2011 with the CEO, CFO, compliance officer, internal and external auditors invited to attend when necessary.

The Committee's primary responsibilities for 2011 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.

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.

REMUNERATION COMMITTEE

The Bank's Remuneration Committee comprises non-executive Directors. The Committee met once during 2011 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.

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. During 2011 the Committee met once as it was formed in the October 2011. The Charter requires that the Committee meets at least twice per annum.

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 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.

UNITED KINGDOM

BIG BEN

COMPLIANCE

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. The Bank has an independent compliance function responsible for assisting management in this regard. 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.

CODE OF ETHICS

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.

REGULATION AND SUPERVISION

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

PUBLIC DISCLOSURE OBLIGATIONS

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

EMPLOYEE PARTICIPATION AND SKILLS

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

REPORT OF THE AUDIT COMMITTEE

This report is provided by the Audit Committee, in respect of the 2011 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 14 to 18 provides further information on the workings of the Committee.

EXECUTION OF FUNCTIONS

The Audit Committee has executed its duties and responsibilities during the year in accordance with its terms of reference as they relate to the Bank's accounting, internal and external audit, internal control and financial reporting practices. 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 2011;
    - approved the external auditors' terms of engagement and budgeted audit fees;
    - met with the external auditors;
    - reviewed the audit plan and evaluated the effectiveness of the audit;
    - reviewed significant issues raised in the external audit report and the adequacy of management's corrective action in response to such findings;
    - obtained assurance from the auditors that their independence was not impaired;
    - confirmed that no non-audit services had been provided by the external auditors during the year under review;
    - obtained assurances from the external auditors that adequate accounting records were maintained;
    - considered the external audit report section on the Bank's systems of internal control;
    - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act 26 of 2005.

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;
    - reviewed significant differences of opinion between the internal audit function and management and noted that there were none;
    - 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 controls that resulted in any material loss to the Bank.

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 auditors' 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 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 auditors' independence was not impaired by any consultancy, advisory or other work undertaken by them;
- 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

Ramsay L Daly
Vice-chairman

SOUTH AFRICA

KRUGER NATIONAL PARK

DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the annual financial statements of HBZ Bank Limited, comprising the statement of financial position at 31 December 2011, the statements of comprehensive income, changes in equity and cash flows for the 2011 year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The Directors are also responsible for such internal control as the Directors determine is 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 2011 and its financial performance and cash flows for the year then ended.

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

GOING CONCERN

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

FINANCIAL STATEMENTS

The annual financial statements of HBZ Bank Limited and the Directors' report appearing on pages 24 to 57 were approved by the Board of Directors on the 20 April 2012 and are signed on its behalf by:

Muhammad H. Habib
Chairman

Ramsay L Daly
Vice-chairman

COMPANY SECRETARY CERTIFICATE

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

Chris Harvey

Company Secretary

Durban

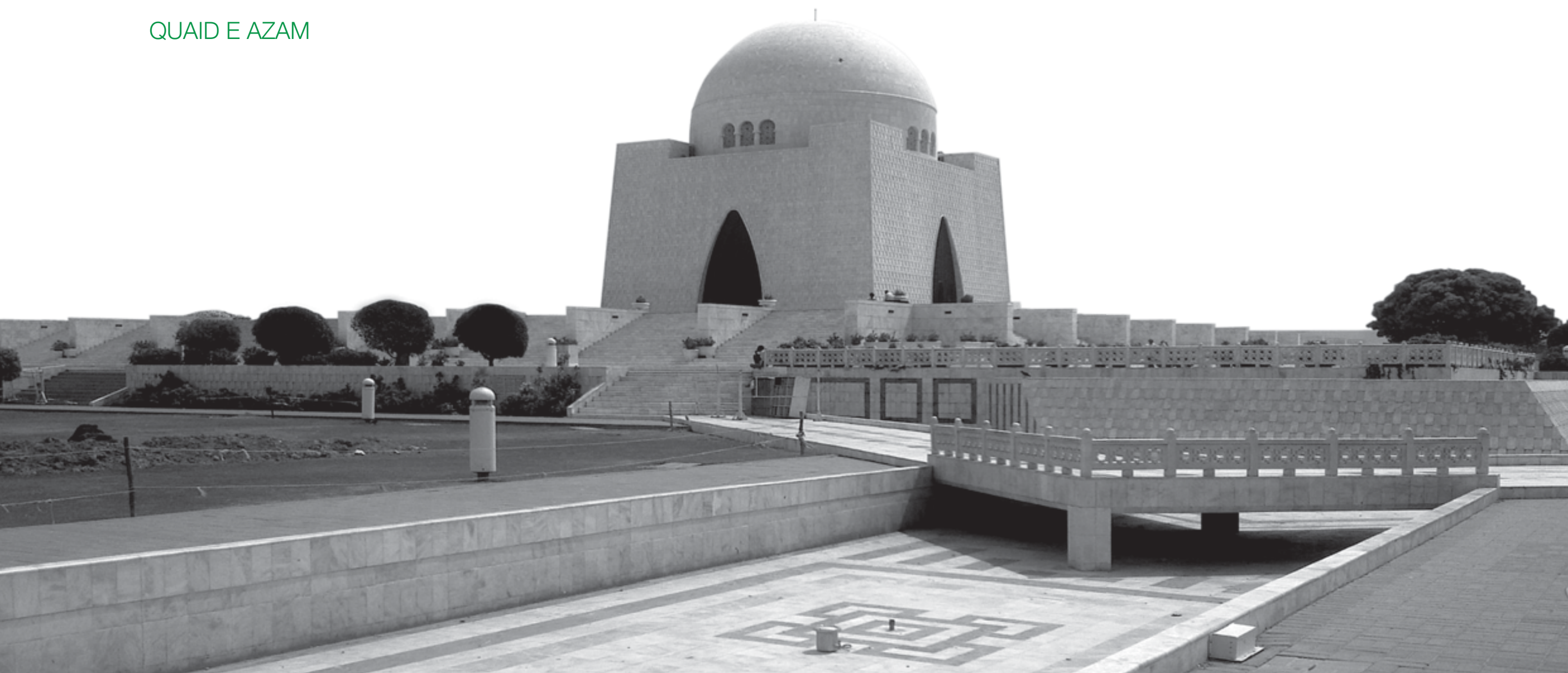
20 April 2012

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, Mrs Zaheera Karreem, who is a qualified Chartered Accountant.

PAKISTAN

QUAID E AZAM



INDEPENDENT AUDITOR'S REPORT

We have audited the annual financial statements of HBZ Bank Limited, which comprise the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended, , and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 24 to 57.

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.

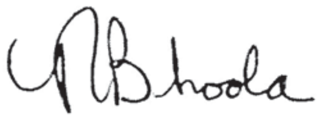
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 2011, 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.

KPMG Inc
Registered Auditor



per Naresh Bhoola
Chartered Accountant (SA)
Registered Auditor
Director

20 April 2012

20 Kingsmead Boulevard
Marriott Building
Kingsmead Office Park
Durban
4001

REPORT OF THE DIRECTORS

The Board of Directors takes pleasure in presenting the Annual Financial Statements of the Bank for the year ended 31 December 2011.

HOLDING BANK

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

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

During the year under review the Bank completed the conversion from South African Statements of Generally Accepted Accounting Practice to International Financial Reporting Standards (IFRS). In the Directors opinion this conversion has had no material impact on the amounts disclosed in the financial statements; consequently there were no retrospective adjustments to the financial position.

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 after tax is R42 483 691 (2010: R37 966 017).

DIVIDENDS AND GENERAL RESERVE

The following appropriations were proposed and paid:

	2011	2010
GENERAL RESERVE		
Transfer made	R 16,300,000	R 10,000,000
DIVIDEND		
Dividend distributed	R 22,500,000	R 35,300,000
Secondary taxation on companies	R 2,250,000	R 3,530,000

POST BALANCE SHEET EVENTS

There were no material post balance sheet events noted between 31 December 2011 and the date of these financial statements.

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 Secretary of the Bank is Mr C Harvey whose business and postal address is 135 Jan Hofmeyr Road, Westville, 3630, P O Box 1536, Wandsbeck, 3631.

DIRECTORS' REMUNERATION

Remuneration in respect of the Bank's directors are disclosed in note 30 to the annual financial statements.

Muhammad H. Habib
Chairman

Ramsay L. Daly
Vice-chairman

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 R	2010 R
ASSETS			
Cash and short-term funds	1	1 979 509 564	1 335 610 998
Investment securities	2	348 882 029	251 159 008
Other assets	3	5 440 477	5 199 850
Derivative assets held for risk management	4	2 102 210	16 040 309
Deferred taxation	5	683 351	704 707
Advances	6	1 185 447 743	851 352 979
Property and equipment	8	14 926 301	14 802 845
		3 536 991 675	2 474 870 696
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	9	10 000 000	10 000 000
Share premium	9	40 000 000	40 000 000
Regulatory reserve	10	7 297 705	8 111 540
General reserve	10	119 300 000	103 000 000
Retained earnings		43 341 610	38 844 084
Total shareholder's funds		219 939 315	199 955 624
LIABILITIES			
Deposits and other accounts	11	3 304 050 005	2 236 728 709
Provision	12	2 600 000	2 559 000
Other liabilities	13	7 828 946	18 659 577
Derivative liabilities held for risk management	14	1 855 293	16 040 309
Taxation	15	718 116	927 477
		3 536 991 675	2 474 870 696

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 R	2010 R
Interest received	16	170 773 644	158 343 587
Interest paid	17	(69 826 083)	(64 694 638)
Net interest income		100 947 561	93 648 949
Net Impairment of advances	7.3	(929 667)	(918 763)
		100 017 894	92 730 186
Other income	18	46 144 612	42 625 253
		146 162 506	135 355 439
Operating expenses	19	(80 595 763)	(73 874 438)
Profit before taxation		65 566 743	61 481 001
Taxation	20.1	(23 083 052)	(23 514 984)
Net income attributable to shareholders		42 483 691	37 966 017
Dividends per share (cents)	21	225.00	353.00
Earnings per share (cents)	22	424.84	379.66
Diluted earnings per share (cents)	22	424.84	379.66

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Notes	Ordinary share capital	Share premium	Regulatory reserve	General reserve	Retained earnings	Total
		R	R	R	R	R	R
Balance at 31 December 2009		10 000 000	40 000 000	8 944 990	93 000 000	45 344 617	197 289 607
Net profit for the year		-	-	-	-	37 966 017	37 966 017
Transfer from regulatory reserve		-	-	(833 450)	-	833 450	-
Ordinary dividends	21	-	-	-	-	(35 300 000)	(35 300 000)
Transfer to general reserve		-	-	-	10 000 000	(10 000 000)	-
Balance at 31 December 2010		10 000 000	40 000 000	8 111 540	103 000 000	38 844 084	199 955 624
Net profit for the year		-	-	-	-	42 483 691	42 483 691
Transfer from regulatory reserve		-	-	(813 835)	-	813 835	-
Ordinary dividends	21	-	-	-	-	(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

UNITED ARAB EMIRATES

BURJ AL ARAB

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 R	2010 R
Cash flows from operating activities			
Cash receipts from customers	23.1	216 918 256	200 968 840
Cash paid to customers, employees and suppliers	23.2	(148 269 016)	(136 651 931)
Cash available from operating activities	23.3	68 649 240	64 316 909
Taxation paid	23.4	(23 271 057)	(23 792 023)
Dividends paid	21	(22 500 000)	(35 300 000)
Net cash inflow from operating activities		22 878 183	5 224 886
Increase in income-earning funds and other assets	23.5	(419 049 981)	(153 513 242)
Increase in deposits and other creditors	23.6	1 042 346 649	514 689 494
Net increase in operating funds		623 296 668	361 176 252
Cash utilised in investing activities			
Capital expenditure on property and equipment		(2 367 367)	(1 109 427)
Proceeds on disposal of property and equipment		91 082	267 710
Cash utilised in investing activities		(2 276 285)	(841 717)
Increase in cash and cash equivalents		643 898 566	365 559 421
Cash and short-term assets at the beginning of year		1 335 610 998	970 051 577
Cash and short-term assets at end of year		1 979 509 564	1 335 610 998

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2011

SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

HBZ Bank Limited is a company domiciled in the Republic of South Africa. The financial statements were authorised for issue by the Directors on 27th March 2012.

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.

During the year under review the Bank completed the conversion from South African Statements of Generally Accepted Accounting Practice to International Financial Reporting Standards (IFRS). This conversion has had no material impact on the amounts disclosed in the financial statements; consequently there were no retrospective adjustments to the financial position.

(b) Use of estimates and judgements

The preparation of financial statements, in conformity of 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.

(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 respective functional currency of the Bank at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income.

(b) Interest

Interest received and paid are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points 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 received or performed.

(d) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are 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, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability. 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, and only 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 trade 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 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 whose 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 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.

For the year ended 31 December 2011

(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

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

(e) Cash and cash equivalents

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

(f) Loans and advances

Loans and 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.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(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 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 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 indications 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 method.

(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 2011

(q) Earnings per share

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

(r) Contingencies and commitments

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

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

(s) Related party transactions

Related parties include the holding company of HBZ Bank Limited, Habib Bank AG Zurich, its fellow subsidiaries and associate companies and directors of HBZ Bank Ltd, as well as their close family members.. All related party transactions have taken place in the ordinary course of business. Balances with related parties are included under note 29.

CANADA

MORAINE LAKE ALBERTA

	2011 R	2010 R
1. CASH AND SHORT-TERM FUNDS		
Balances with other banks and cash on hand	1 979 509 564	1 335 610 998
Maturity analysis		
On demand to one month	1 754 959 564	1 009 795 998
One month to six months	191 000 000	297 940 000
Six months to one year	33 550 000	27 875 000
Greater than one year	-	-
	1 979 509 564	1 335 610 998
2. INVESTMENT SECURITIES		
Interest bearing Government bonds	101 033 509	102 701 655
Treasury bills	247 848 520	148 457 353
	348 882 029	251 159 008
Maturity analysis		
On demand to one month	-	-
One month to six months	247 848 520	148 457 353
Six months to one year	-	50 969 407
Greater than one year	101 033 509	51 732 248
	348 882 029	251 159 008
3. OTHER ASSETS		
Other assets	5 440 477	5 199 850
	5 440 477	5 199 850
4. DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
Forward exchange contracts	2 102 210	16 040 309
	2 102 210	16 040 309

For the year ended 31 December 2011

	2011 R	2010 R
5. DEFERRED TAXATION		
Tax effect of timing differences between tax and book values of		
- provisions for doubtful advances	(14 546)	(42 324)
- other accruals and provisions	642 778	739 764
- fixed asset allowances	55 119	7 267
Deferred taxation asset	683 351	704 707
Deferred taxation reconciliation		
Balance at beginning of year	704 707	695 632
Charge to Statement of Comprehensive Income	(21 356)	9 075
Balance at end of year	683 351	704 707

6. ADVANCES

	2011 R	2010 R
Overdrafts	339 903 004	360 756 006
Loans	838 032 872	490 987 206
- Staff loans	1 355 713	1 022 065
- Commercial loans	794 410 717	468 043 404
- Trust receipts	42 266 442	21 921 737
Bills receivable	300 000	600 000
Foreign bills purchased	9 131 767	-
	1 187 367 643	852 343 212
Specific impairment	(1 799 517)	(904 476)
Portfolio impairment	(120 383)	(85 757)
	1 185 447 743	851 352 979
Maturity analysis		
On demand to one month	661 319 743	359 765 979
One month to six months	101 680 000	109 909 000
Six months to one year	46 498 000	32 793 000
Greater than one year	375 950 000	348 885 000
	1 185 447 743	851 352 979

Interest rates charged on clients advances range between 6% and 12% during 2011. Islamic Banking advances are included in advances.

	2011 R	2010 R
7. IMPAIRMENT OF ADVANCES		
7.1 Specific impairment		
Balance at beginning of year	904 476	111 659
Provisions raised (See note 7.3)	1 580 277	964 924
Recoveries	(685 236)	(22 475)
Write-offs against provision	-	(149 632)
Balance at end of year	1 799 517	904 476
7.2 Portfolio impairment		
Balance at beginning of year	85 757	109 443
Provisions (reduced) raised (See note 7.3)	34 626	(23 686)
Write-offs against provision	-	-
Balance at end of year	120 383	85 757
7.3 Income statement charge		
Provisions raised during the year		
- Specific impairment	1 580 277	964 924
- Portfolio impairment	34 626	(23 686)
	1 614 903	941 238
Write-offs	-	-
Recoveries	(685 236)	(22 475)
	929 667	918 763

For the year ended 31 December 2011

8. PROPERTY AND EQUIPMENT

	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

	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
2010			
Land and buildings	9 189 343	-	9 189 343
Furniture & fittings	6 839 113	(4 022 615)	2 816 498
Office equipment	3 827 523	(2 669 809)	1 157 714
Motor vehicles	2 215 517	(1 339 392)	876 125
Computers	4 015 753	(3 252 588)	763 165
	26 087 249	(11 284 404)	14 802 845

	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

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2010 movements					
Land and buildings	8 954 394	349 031	(114 082)	-	9 189 343
Furniture & Fittings	3 684 331	126 044	-	(993 877)	2 816 498
Office equipment	1 367 744	319 864	(24 841)	(505 053)	1 157 714
Motor vehicles	1 008 126	191 678	-	(323 679)	876 125
Computers	1 013 310	122 810	-	(372 955)	763 165
	16 027 905	1 109 427	(138 923)	(2 195 564)	14 802 845

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 gross carrying amount of property and equipment that has been fully depreciated but still in use is R 6 331 631 (2010 R 6 340 678).

	2011	2010
	R	R
9. ORDINARY SHARE CAPITAL		
Authorised		
10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
Issued		
10 000 000 ordinary shares at a par value of R1 each issued at R5 each		
- 10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
- Share premium on 10 000 000 ordinary share	40 000 000	40 000 000

For the year ended 31 December 2011

	2011 R	2010 R
10. NON-DISTRIBUTABLE RESERVES		
Regulatory reserve	7 297 705	8 111 540

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.

	2011 R	2010 R
General reserve	119 300 000	103 000 000

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

11. DEPOSITS AND OTHER ACCOUNTS

	2011 R	2010 R
Deposits and loans from banks	532 118 506	168 970 389
Demand deposits	1 023 443 097	822 516 049
Savings deposits	162 167 153	132 327 715
Fixed deposits	989 671 610	765 201 161
Notice deposits	596 649 639	347 713 395
	3 304 050 005	2 236 728 709
Maturity analysis		
On demand to one month	2 926 437 004	1 821 891 492
One month to six months	265 969 340	280 470 774
Six months to one year	111 643 661	119 927 443
Greater than one year	-	14 439 000
	3 304 050 005	2 236 728 709

Islamic Banking deposits are included in deposits and other accounts.

12. PROVISION

	2011 R	2010 R
Balance at beginning of year	2 559 000	2 200 000
Provisions made during the period	41 000	359 000
Balance at end of year	2 600 000	2 559 000

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

	2011 R	2010 R
13. OTHER LIABILITIES		
Creditors and other accounts payable	7 828 946	18 659 577
	7 828 946	18 659 577
14. DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
Forward exchange contracts	1 855 293	16 040 309
	1 855 293	16 040 309
15. TAXATION		
Provision for normal taxation	718 116	927 477
	718 116	927 477
16. Interest received		
Balances with other banks	70 161 931	63 348 267
Advances	82 789 874	78 863 813
Investment securities	17 821 839	16 131 506
	170 773 644	158 343 586
17. INTEREST PAID		
Deposits from banks	4 188 880	3 932 751
Deposits from customers	65 637 203	60 761 887
	69 826 083	64 694 638
18. OTHER INCOME		
Commissions and fees	30 637 291	27 163 777
Foreign exchange income	15 507 321	15 461 476
	46 144 612	42 625 253

For the year ended 31 December 2011

	2011 R	2010 R
19. OPERATING EXPENSES		
Operating expenses include :		
Directors remuneration (see note 30)	4 777 906	4 291 644
- for services as directors	1 764 000	1 504 000
- for other services	3 013 906	2 787 644
Auditors remuneration	862 343	717 329
- audit	868 686	720 690
- for other services	-	11 700
- overprovision in prior year	(6 343)	(15 061)
Depreciation	2 226 784	2 195 564
Profit on disposal of fixed assets	73 954	128 787
- from insurance proceeds	-	128 787
- from other proceeds	73 954	-
Management fee for services rendered	18 138 554	16 717 450
Retirement benefit costs	2 880 934	2 673 604
- key management personnel	243 852	230 550
- other personnel	2 637 082	2 443 054
Operating leases	3 136 167	2 749 360
- premises	2 789 875	2 345 778
- equipment	346 292	403 582
Staff costs	23 553 381	22 929 236

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

20. TAXATION

20.1 South African normal taxation

	2011 R	2010 R
Current	16 742 746	16 146 415
Deferred	21 356	(9 075)
Secondary taxation on companies (STC)	2 250 000	3 530 000
	19 014 102	19 667 340
Other taxation		
- unclaimable value added tax	3 848 949	3 642 611
- skills development levy	220 001	205 033
- regional services council levy	-	-
	4 068 950	3 847 644
Total taxation	23 083 052	23 514 984

	2011	2010
	R	R

20.2 Reconciliation of tax charge

SA Normal taxation	28.00%	28.00%
Standard rate affected by :		
- deductible expenses	-2.43%	-1.75%
- secondary taxation on companies	3.43%	5.74%
Effective rate - taxation on income	29.00%	31.99%
Effective rate - other taxation	6.21%	6.26%
Effective rate - total taxation	35.21%	38.25%

20.3 Secondary tax on companies

A contingent liability exists for the payment of STC on future distributions of retained earnings to shareholders of R3 940 146 (2010: R 3 531 280). This has been calculated based on the reserves at the end of the year at the current rate of STC taxation of 10% (2010: 10%).

21. ORDINARY DIVIDENDS

Final dividend of 225 cents per share (2010: 353 cents per share)	22 500 000	35 300 000

22. EARNINGS AND DILUTED EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on net income attributable to ordinary shareholders of R42 483 691 (2010: R37 966 017) and a weighted average of 10 000 000 (2010 : 10 000 000) ordinary shares issued. The calculation of diluted earnings per ordinary share is based on net income attributable to ordinary shareholders of R42 483 691 (2010: R37 966 017) and a weighted average number of 10 000 000 (2010: 10 000 000) ordinary shares outstanding after any adjustments for the effects of all dilutive potential ordinary shares.

23. CASH FLOW INFORMATION

23.1 Cash receipts from customers

Interest income	170 773 644	158 343 587
Other income	46 144 612	42 625 253
	216 918 256	200 968 840

For the year ended 31 December 2011

		2011	2010
		R	R
23.2	**Cash paid to customers, employees and suppliers**		
	Interest expenses	(69 826 083)	(64 694 638)
	Other payments	(78 442 933)	(71 957 293)
		(148 269 016)	(136 651 931)
23.3	**Cash available from operating activities**		
	Net income before tax	65 566 743	61 481 001
	Adjusted for non-cash items		
	- Specific debt provision	895 041	792 817
	- General debt provision	34 626	(23 686)
	- Depreciation	2 226 784	2 195 564
	- Profit on disposal of property and equipment	(73 954)	(128 787)
		68 649 240	64 316 909
23.4	**Taxation paid**		
	Amounts over / (unpaid) at beginning of year	(927 477)	(1 195 441)
	Charge to Statement of Comprehensive Income	(23 061 696)	(23 524 059)
	Amounts (over)/ unpaid at end of year	718 116	927 477
		(23 271 057)	(23 792 023)
23.5	**Increase in income-earning funds and other assets**		
	Advances	(335 024 431)	(96 373 086)
	Government securities and money market assets	(97 723 021)	(41 409 127)
	Other assets	13 697 471	(15 731 029)
		(419 049 981)	(153 513 242)
23.6	**Increase in deposits and other liabilities**		
	Deposits	1 067 321 296	490 549 442
	Creditors and other liabilities	(24 974 647)	24 140 052
		1 042 346 649	514 689 494

24. LETTERS OF CREDIT AND GUARANTEE

	2011	2010
Letters of credit	109 541 467	106 980 046
Guarantees issued on behalf of customers	99 635 598	128 637 425
	209 177 065	235 617 471

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.

	2011 R	2010 R
25. PRINCIPAL FOREIGN CURRENCY CONVERSION RATES		
One South African rand equals		
- Swiss franc	0.116	0.142
- United States dollar	0.122	0.151
- Pound sterling	0.079	0.097

26. FINANCIAL INSTRUMENTS

26.1 Credit risk management

Exposure to credit risk

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2011	2010	2011	2010	2011	2010
On balance sheet	R	R	R	R	R	R
Individually impaired						
- Gross amount	6 397 915	2 794 134	-	-	-	-
- Impairment	(1 799 517)	(904 476)	-	-	-	-
- Carrying amount	4 598 398	1 889 658	-	-	-	-
Collectively impaired						
- Gross amount	1 180 969 728	849 549 078	-	-	-	-
- Impairment	(120 383)	(85 757)	-	-	-	-
- Carrying amount	1 180 849 345	849 463 321	-	-	-	-
Not impaired	-	-	1 979 509 564	1 335 610 998	348 882 029	251 159 008
Total carrying amount	1 185 447 743	851 352 979	1 979 509 564	1 335 610 998	348 882 029	251 159 008

	Letters of credit		Guarantees		Unutilised facilities	
	2011	2010	2011	2010	2011	2010
Off balance sheet	R	R	R	R	R	R
Not impaired	-	-	-	-	-	-
Gross amount	109 541 467	106 980 046	99 635 598	128 637 425	145 680 549	200 078 870

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 2011 or 2010.

For the year ended 31 December 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:

	2011	2010
	R	R
Cash deposit	307 828 727	36 185 719
Bank guarantee	297 006 696	297 371 768
Property and other	937 389 834	954 482 066
Total	1 542 225 257	1 288 039 553

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	
	2011	2010	2011	2010	2011	2010
	R	R	R	R	R	R
Concentration by location						
- Americas	-	-	6 628 263	4 221 456	-	-
- Europe	-	-	1 122 768	4 300 785	-	-
- Asia	-	-	148 084	132 672	-	-
- South Africa	1 185 447 743	851 352 979	1 971 610 449	1 326 956 085	348 882 029	251 159 008
	1 185 447 743	851 352 979	1 979 509 564	1 335 610 998	348 882 029	251 159 008

	Loans and advances - Gross		Doubtful debts - Gross		Specific Impairment	
	2011	2010	2011	2010	2011	2010
	R	R	R	R	R	R
Concentration by industry						
- Finance & insurance	17 042 000	10 680 000	-	-	-	-
- Manufacturing	383 262 000	139 246 000	-	-	-	-
- Transportation	29 357 000	20 149 000	-	-	-	-
- Commercial real estate	342 931 000	344 258 000	-	-	-	-
- Retailers & wholesalers	330 177 000	92 676 000	6 397 915	2 794 134	1 799 517	904 476
- Other	84 598 643	245 334 212	-	-	-	-
	1 187 367 643	852 343 212	6 397 915	2 794 134	1 799 517	904 476

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.

26.2 Currency risk management

The Bank did not have any significant foreign currency exposure at 31 December 2011.

26.3 Derivative instruments

	2011	2010
	R	R
Nominal value of forward exchange contracts sold to customers	57 621 328	436 162 040
Nominal value of forward exchange contracts sold to banks	2 017 248	1 390 737
	59 638 576	437 552 777
Nominal value of forward exchange contracts purchased from customers	(2 009 020)	(1 386 320)
Nominal value of forward exchange contracts purchased from banks	(57 382 639)	(434 885 799)
	(59 391 659)	(436 272 119)

26.4 Liquidity risk management

	On demand	1-6 months	6-12 months	> 12 months	Total
	R	R	R	R	R
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	-	860 376	8 226 038
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	477 843 885	3 522 065 374
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)	474 978 401	205 013 014
2010					
Assets					
Investment securities	-	148 457 353	50 969 407	51 732 248	251 159 008
Advances	359 765 979	109 909 000	32 793 000	348 885 000	851 352 979
Other assets (incl. derivatives)	1 935 277	15 475 000	2 732 000	1 802 589	21 944 866
Cash and short term funds	1 009 795 998	297 940 000	27 875 000	-	1 335 610 998
	1 371 497 254	571 781 353	114 369 407	402 419 837	2 460 067 851
Liabilities					
Deposits and other accounts	(1 821 891 492)	(280 470 774)	(119 927 443)	(14 439 000)	(2 236 728 709)
Other liabilities (incl. derivatives)	(17 708 671)	(16 973 167)	(565 000)	(380 525)	(35 627 363)
Provisions	-	-	-	(2 559 000)	(2 559 000)
	(1 839 600 163)	(297 443 941)	(120 492 443)	(17 378 525)	(2 274 915 072)
Net liquidity gap	(468 102 909)	274 337 412	(6 123 036)	385 041 312	185 152 779

26.5 Interest rate risk management

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

	Short-term	Medium-term		Long-term		
	0 - 31 days	**32 - 91 days**	**92 - 181 days**	**182 - 365 days**	**Other**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
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**
2010						
Fixed rate items						
Assets	625 752	459 929	23 205	87 777	246 944	1 443 607
Liabilities	(584 357)	(169 835)	(4 330)	(19 786)	-	(778 308)
	41 395	290 094	18 875	67 991	246 944	665 299
Variable items						
Assets	964 499	-	-	-	-	964 499
Liabilities	(1 297 737)	-	-	-	-	(1 297 737)
	(333 238)	-	-	-	-	(333 238)
Net repricing gap	**(291 843)**	**290 094**	**18 875**	**67 991**	**246 944**	**332 061**

26.6 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 2011, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R585 000 (2010: R91 000) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R861 000 (2010: R314 000).

26.7 Financial assets and liabilities

	Non trading derivatives	Held-to -maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2011	R	R	R	R	R	R
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	
	2 102 210	348 882 029	3 164 957 307	-	3 515 941 546	
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)	
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)	
31 December 2010						
Cash and short-term funds	-	-	1 335 610 998	-	1 335 610 998	1 335 610 998
Investment securities	-	251 159 008	-	-	251 159 008	252 379 912
Derivative assets held for risk management	16 040 309	-	-	-	16 040 309	16 040 309
Advances	-	-	851 352 979	-	851 352 979	
	16 040 309	251 159 008	2 186 963 977	-	2 454 163 294	
Deposits and loans from banks	-	-	-	(168 970 389)	(168 970 389)	(168 970 389)
Deposits from customers	-	-	-	(2 067 758 320)	(2 067 758 320)	
Derivative liabilities held for risk management	(16 040 309)	-	-	-	(16 040 309)	(16 040 309)
	(16 040 309)	-	-	(2 236 728 709)	(2 252 769 018)	

The fair value of non trading derivatives is classed as a level 1 finanacial instrument in terms of the hierarchy requirements per IFRS 7. The fair value of advances and deposits cannot be reliably measured as they are unquoted. Effective interest rates on investment securities vary between 5.4% and 7.4%.

For the year ended 31 December 2011

27. RETIREMENT BENEFIT COSTS

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

28. OPERATING LEASE COMMITMENTS

	Buildings	Equipment	Total
	R	**R**	**R**
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
2010			
Not later than 1 year	1 871 164	131 760	2 002 924
Between 2 and 5 years	1 638 264	214 110	1 852 374
	3 509 428	345 870	3 855 298

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.

29. RELATED PARTIES

29.1 Identity of related parties

- The holding company of HBZ Bank Limited - Habib Bank AG Zurich
- Fellow subsidiaries - Habib European Bank Ltd., Habib Metropolitan Bank and Habib Canadian Bank.
- Fellow associates - HBZ Finance Ltd.
- The directors listed on page 4, as well as their close family members.

All related party transactions were made on terms equivalent to those that prevail in an arm's length transaction.

		2 011	2 010
		R	R

29.2 Material related party transactions

Material transactions with the company

		2 011 R	2 010 R
Dividends paid to the holding company	(See note 21)	22 500 000	35 300 000
Management fee paid to holding company		18 138 554	16 717 450
Directors' remuneration	(See note 30)	4 777 906	4 291 644
Loans to directors		3 160 443	-

The loans to directors are arm's length transactions, fully secured, with fixed terms of repayment and are included as part of total advances in note 6.

Material transactions with the group

Receivables due from group companies:

	2 011 R	2 010 R
- Habib Bank AG Zurich, Zurich	119 351	78 702
- Habib Bank AG Zurich, London	850 038	1 164 308
- HBZ Finance Ltd, Hong Kong	2 307	463
- Habib Canadian Bank, Canada	70 183	47 518
- Habib Metropolitan Bank, Pakistan	24 061	2 683
	1 065 940	1 293 674

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

Payables due to group companies:

	2 011 R	2 010 R
- Habib Bank AG Zurich, Zurich	185 016 022	1 600 659
- Habib Bank AG Zurich, London	7 519 062	3 419 903
- Habib Bank AG Zurich, Nairobi	414 517	94 262
- Habib Bank AG Zurich, Deira Dubai	9 828 140	1 286 022
- Habib European Bank Ltd, Isle of Man	91 370	14 970
	202 869 111	6 415 816

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

The highest outstanding balance for these borrowings during the financial year were:

	2 011 R	2 010 R
- Habib Bank AG Zurich, Zurich	187 715 166	8 093 548
- Habib Bank AG Zurich, London	73 276 304	95 548 845
- Habib Bank AG Zurich, Nairobi	613 862	553 216
- Habib Bank AG Zurich, Deira Dubai	13 099 919	1 286 022
- Habib European Bank Ltd, Isle of Man	105 460 063	5 942 585

For the year ended 31 December 2011

	2011 R	2010 R
Interest and charges received from group companies:		
- Habib Bank AG Zurich, Zurich	-	3 796
- Habib Bank AG Zurich, London	-	30 071
	-	33 867
Interest and charges paid to group companies:		
- Habib Bank AG Zurich, Zurich	718 825	249 016
- Habib Bank AG Zurich, London	446 257	1 792 012
- Habib European Bank Ltd, Isle of Man	3 054	1 857
- HBZ Finance Ltd, Hong Kong	350	-
	1 168 486	2 042 885

30. DIRECTORS' REMUNERATION

	Services as a director		Other services		Total	
	2011 R	2010 R	2011 R	2010 R	2011 R	2010 R
Non-executive directors	1 680 000	1 420 000	-	-	1 680 000	1 420 000
- MH Habib (Chairman)	260 000	250 000	-	-	260 000	250 000
- RL Daly (Vice Chairman)	260 000	250 000	-	-	260 000	250 000
- MY Chowdhury	240 000	230 000	-	-	240 000	230 000
- RS Habib	240 000	230 000	-	-	240 000	230 000
- PJ Neethling	240 000	230 000	-	-	240 000	230 000
- HF Leenstra	240 000	230 000	-	-	240 000	230 000
- D Dharmalingham	200 000	-	-	-	200 000	-
Executive directors	84 000	84 000	3 013 906	2 787 644	3 097 906	2 871 644
- ZA Khan - CEO	42 000	42 000	1 934 527	1 777 968	1 976 527	1 819 968
- C Harvey - Head of Compliance	42 000	42 000	1 079 379	1 009 676	1 121 379	1 051 676
Total directors' remuneration	1 764 000	1 504 000	3 013 906	2 787 644	4 777 906	4 291 644

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.

31. EFFECT OF STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of the financial statements of HBZ Bank Ltd for the year ended 31 December 2011, the following Standards and Interpretations were in issue but not yet effective:

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 July 2012
IAS 12 amendment	Deferred tax: Recovery of Underlying Assets	Annual periods beginning on or after 1 January 2012
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.

KENYA

SERENGETI NATIONAL PARK

For the year ended 31 December 2011

32. CAPITAL ADEQUACY STATEMENT

		2011 R'000	2010 R'000
Credit risk exposure	(See note 32.1)	1 202 161	1 085 500
Operational risk exposure	(See note 32.2)	236 397	215 663
Market risk exposure	(See note 32.3)	2 813	1 275
Other risk exposure	(See note 32.4)	20 366	20 003
Aggregate risk weighted exposure		1 461 737	1 322 441
Regulatory capital requirement - 9.75%		142 519	128 938
Qualifying capital and reserve funds			
Tier I			
Ordinary share capital		10 000	10 000
Share premium		40 000	40 000
General reserve		119 300	103 000
Retained earnings from prior year		44	45
Tier II			
General allowance for credit impairment per Regulation 23		6 811	7 250
		176 155	160 295
Capital Adequacy Ratio			
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure		12.1%	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
	2011	**2011**	**2011**	**2011**	**2011**	**2010**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
0%	348 883	-	307 829	656 712	-	-
5%	-	-	-	-	-	-
10%	-	-	-	-	-	-
20%	1 755 227	112 085	297 007	2 164 319	432 864	291 446
50%	70 930	150 151		221 081	110 541	118 752
100%	1 163 956	99 636	(604 836)	658 756	658 756	675 302
	3 338 996	361 872	-	3 700 868	1 202 161	1 085 500

The asset items indicated in this statement are the average for the month ended 31 December 2011, as per Regulation 23 of the Regulations issued under section 90 of the Banks Amendment Act of 2007.

ISLE OF MAN

REFUGE AT DOUGLAS

For the year ended 31 December 2011

32.2 OPERATIONAL RISK EXPOSURE

The Bank uses the Basic Indicator Approach to determine the regulatory capital requirement for its operational risk exposure.

	2011 R'000	2010 R'000
Gross income - 2008 / 2007	132 004	92 392
Gross income - 2009 / 2008	120 654	132 004
Gross income - 2010 / 2009	125 577	120 654
Total gross income for preceding three years	378 235	345 050
Average gross income for preceding three years	126 078	115 017
Fixed percentage per Regulation 33	x 15%	x 15%
Required capital and reserve funds for operational risk	18 912	17 253
Risk weighting per Regulation 33	x 12.5	x 12.5
Regulatory risk-weighted exposure	236 397	215 663

32.3 MARKET RISK EXPOSURE

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

	2011 R'000	2010 R'000
Net open foreign currency position	225	102
Risk weighting per Regulation 28	x 12.5	x 12.5
Regulatory risk-weighted exposure	2 813	1 275

32.4 OTHER RISK EXPOSURE

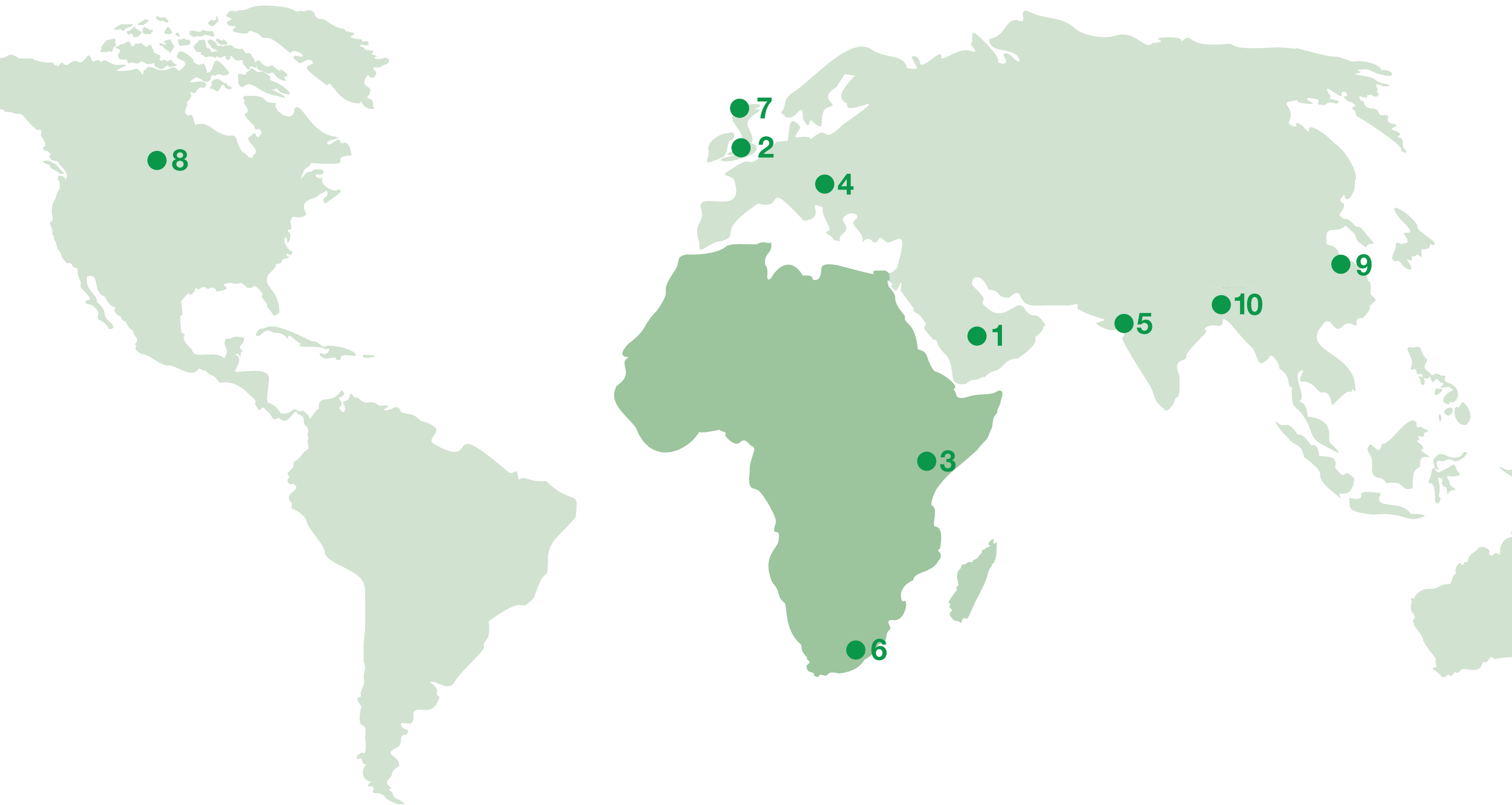
The Bank determines the regulatory capital requirement for its other risk exposure as specified in Regulation 23.

	Carrying amount	Specified risk weighting	Risk-weighted exposure	Risk-weighted exposure
	2011		**2011**	**2010**
	R'000		**R'000**	**R'000**
Cash and balances with the central bank	27 886	0%	-	-
Fixed assets	14 926	100%	14 926	14 803
Other assets	5 440	100%	5 440	5 200
			20 366	20 003

SINGAPORE

MERLION MOUNTAIN

INTERNATIONAL NETWORK SUMMARY



1. UNITED ARAB EMIRATES	Habib Bank AG Zurich	8 Branches
2. UNITED KINGDOM	Habib Bank AG Zurich	12 Branches
3. KENYA	Habib Bank AG Zurich	4 Branches
4. SWITZERLAND	Habib Bank AG Zurich	2 Branches
5. PAKISTAN	Habib Metropolitan Bank	162 Branches
6. SOUTH AFRICA	HBZ Bank Ltd	6 Branches
7. ISLE OF MAN	Habib European Bank Ltd	1 Branch
8. CANADA	Habib Canadian Bank	2 Branches
9. HONG KONG	HBZ Finance Ltd	Representative Office
10. BANGLADESH	Habib Bank AG Zurich	Representative Office

LIST OF SERVICES

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

THE RANGE OF SERVICES PRESENTLY AVAILABLE IN SOUTH AFRICA INCLUDE:

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

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

Printing www.printintime.co.za | Design and layout www.reload.co.za