

Habib Overseas Bank Limited

(Registration number 1990/004437/06)

AUDITED ANNUAL FINANCIAL STATEMENTS 2011

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*Prepared by:
Rizwana Shaik (Manager Accounts Division)*

Habib Overseas Bank Limited

Directors' responsibilities for and approval of the annual financial statements

The directors are responsible for the preparation and fair presentation of the Group and Company annual financial statements for Habib Overseas Bank Limited (the "Bank"), comprising the Director's report, the statement of financial position at 31 December 2011; the statement of comprehensive income, the statement of changes in equity and statement of cash flow for the year then ended; the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes; in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2008 as amended.

The directors' responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements, so as to be free from material misstatement, whether owing to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are responsible, reasonable and prudent under the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the Group and Company's ability to continue as a going concern and there is no reason to believe that the business will not be going concern in the year ahead.

The auditors are responsible for reporting on whether the Group and Company annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The Group and Company annual financial statements, as identified in the first paragraph, were approved by the Board of Directors on 14 March 2012 and are signed on its behalf by:



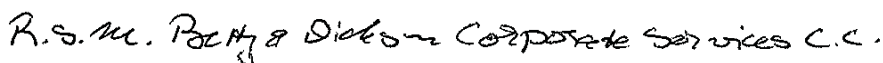
Martin Bramwell
Non - Executive Director



Manzar A Kazmi
Managing Director

CERTIFICATE OF THE COMPANY SECRETARY

In terms of Section 33(1) of the Companies Act 2008 as amended, I certify that to the best of my knowledge and belief, Habib Overseas Bank Limited has lodged with the Registrar of Companies for the year ended 31 December 2011, all such returns as are required of a Public Company in terms of the Companies Act and that all such returns are true, correct and up to date.



Company Secretary
RSM BETTY & DICKSON CORPORATE SERVICES C.C.

14 March 2012

Habib Overseas Bank Limited

DIRECTORS AND SECRETARY DIRECTORS

Habib Mohamed D Habib
(Chairman)

Asghar D Habib
(Senior Vice Chairman)

Zain Habib
(Vice Chairman)

Ahmed H Habib

S Manzar Abbas Kazmi
(Managing Director)

Anjum Zaheer
(Executive Director)
Resigned 30.06.2011

Arshad Ansari
(Executive Director)
Appointed 12.08.2011

Martin Bramwell

Bande Hasan

SECRETARY

RSM Betty and Dickson Services c.c.
Executive City
Corner Cross Street & Charmaine Avenue
President Ridge, Randburg, 2194

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Habib Overseas Bank Limited

CHAIRMAN'S STATEMENT

The year 2011 was another difficult year for the global economy. Realising the threat of a world-wide recession the central banks were united in reducing interest rates and resorting to quantitative easing. Political turmoil in several Middle East countries exacerbated the difficult situation. It is still too early to say that a recession has been averted and 2012 could well see a lot of volatility in the financial and commodity markets.

South African growth during 2011 remained weak mainly due to the deteriorating global environment and weak confidence levels. The GDP growth remained at about 3.2 %, inflation rate was slightly over 6% and unemployment was high. In the wake of the Eurozone crisis, the Rand remained volatile during the second half of the year and, as a consequence, depreciated by 17.45% against US Dollar.

I am pleased to say that, by the Grace of God, the bank performed well during 2011. The deposits increased to an all time high figure of R933.7million (2010 – R719.3 million) showing an increase of R214.4 million over the previous year. Advances increased by R8.4 million to R251.3 million. (2010 – R242.9 million) and pre – tax profit increased to R16.5 million (2010 – R15.8M).

The Bank continued to maintain a healthy liquidity and as a result of cautious approach towards lending the capital adequacy ratio was maintained well within the prescribed limits. If South African economy is not adversely affected by the ongoing global economic crisis during 2012, we hope to achieve much better results and improve our profitability despite low interest rates. We are concentrating on increasing our fee based income and enhancing our foreign exchange business.

The Bank is planning to introduce internet Banking facility for funds transfer for its clients during the current year. This product will be very helpful in improving our services and satisfying our customer needs.

Mr Anjum Zaheer retired as Executive Director in June 2011 after 12 years service. Mr Zaheer had been Chief Executive of the bank from July 1999 to August 2009 and played a significant role in the development of sound systems and controls. The bank registered steady growth in all areas during this time and, on behalf of the board, I would like to record our appreciation of the services rendered by him.

I acknowledge with appreciation the cooperation and support extended by our customers and thank them for the confidence that they have in us over the years.

I sincerely express my deep appreciation to the members of staff for their dedication and continued hard work and thank my colleagues on the Board for their valuable support.



Habib Mohamed D Habib

Chairman

14 March 2012

Habib Overseas Bank Limited

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HABIB OVERSEAS BANK LIMITED

We have audited the group annual financial statements and annual financial statements of Habib Overseas Bank Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2011, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 7 to 44.

Directors' responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Habib Overseas Bank Limited as at 31 December 2011, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Per: L Nunes
Partner
14 March 2012

Building 8, Deloitte Place, The Woodlands
Woodlands Drive, Woodmead Sandton 2196

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit
DL Kennedy Tax & Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance
CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board

A full list of partners and directors is available on request

Habib Overseas Bank Limited

AUDIT COMMITTEE REPORT

The audit committee is a committee appointed by the shareholders. The audit committee comprised of non-executive directors M Bramwell (chairman), Z Habib, A Habib and B Hasan. Mr Hasan resigned from the committee during the year. As required by the Companies Act 2008, the Committee should comprise of at least three non-executive directors who are to be elected at the forthcoming annual general meeting.

The committee has carried out its functions in accordance with its terms of reference specified by the Board and in accordance with the requirements of Section 94 (a) to (i) of the Companies Act 2008.

Objectives and scope

- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes.
- To control reporting processes and the preparation of financial statements in compliance with applicable legal and regulatory requirements and accounting standards.
- To provide a forum for the governance of risk including control issues.
- To oversee internal and external audit appointments and functions.
- To perform duties prescribed by the Companies Act 2008 and the Banks Act.

External audit

The Committee has:

confirmed the continued appointment of Deloitte & Touche as external auditors and Mr Lito Nunes as the designated partner, and determined that in our opinion they are independent of the Company giving due consideration to the provisions of Section 93 of the Companies Act 2008.

- received and agreed the terms of engagement of Deloitte & Touche
- considered and approved the audit fee payable to the external auditors
- ascertained that no material non-audit services had been provided by the external auditors
- provided oversight of the external audit process by receiving and discussing the audit plan, significant accounting and auditing issues that arose during the audit, and management's responses to issues raised and the adequacy thereof.

Internal audit

- the Committee has also carried out oversight of the internal audit function, discussed the audit plans of the internal auditors and reviewed their reports on head office and branches, and management responses.

Internal financial controls

The Committee has reviewed the effectiveness of the companies system of internal financial controls, which includes receiving assurances from management, internal and external audit. Nothing had come to the attention of the audit committee to indicated that the internal financial controls were not operating effectively.

Based on its reviews and discussions with management and both internal and external auditors, the Committee has satisfied itself of the effectiveness of internal control and the finance function of the bank.

Annual report

The committee has approved the annual financial statements for the year ended 31 December 2011 and has recommended the annual report for approval by the Board. The Board has subsequently approved the annual report which will be presented for discussion at the annual general meeting.

On behalf of the Committee



M Bramwell
Chairman of the audit committee.

Habib Overseas Bank Limited

DIRECTORS' REPORT

The directors have pleasure in presenting their annual financial statements for the year ended 31 December 2011.

SHARE CAPITAL

Habib Overseas Bank Limited has an authorised share capital of R25,000,000 and issued and fully paid capital of 20,000,000 ordinary shares of R1 each.

DIRECTORS AND SECRETARY

At the end of the financial year and at the date of this report, the directors and secretary are as detailed on page 3.

PRINCIPAL ACTIVITIES

The Bank is a registered banking institution and provides a range of financial products and services to a diverse customer base which includes individuals, corporates, charitable organisations, clubs, societies and financial institutions.

FINANCIAL

Profit before taxation of the Company for the year amounted to R16,467,444 (2010: R15,809,642).

GOING CONCERN

The Group Financial statements have been prepared on the going concern basis.

SUBSEQUENT EVENTS

The directors are not aware of any other matter or event which is material to the financial affairs of the Group that has occurred between the balance sheet date and the date of the approval of the financial statements.

MANAGEMENT OF OFF BALANCE SHEET ITEMS

The Bank's philosophy relating to the management of off balance sheet items is subject to the same scrutiny and approval process as on balance sheet items. Contingent exposure is approved and monitored by the Credit Committee in accordance with the credit policy.

CORPORATE GOVERNANCE

The directors realise that corporate governance constitutes an important component and as such, are committed to applying the principles necessary to ensure that good governance is practised at all levels across the Bank. Necessary mechanisms have been put in place to ensure that these practices are being adhered to and applied fully.

HOLDING COMPANY

Pitcairns Finance S.A. Luxembourg holds 99.9% of the shares in the Bank.

SUBSIDIARY

The interest of the Bank in the net profit after taxation of its subsidiary N77 Oriental Plaza (Proprietary) Limited.

	2011	2010
	R	R
Net profit/(loss) after taxation for the year	(122,782)	87 136

CAPITAL ADEQUACY

	2011	2010
Capital adequacy ratio	16.31%	16.76%

The capital adequacy ratio is calculated based on the qualifying capital less capitalised software divided by total risk weighted assets.

Habib Overseas Bank Limited

Statement of financial position

at 31 December 2011

	Notes	Group		Company	
		2011 R	2010 R	2011 R	2010 R
ASSETS					
Cash and cash equivalents	3	700,747,381	485,653,547	700,747,381	484,665,310
Investments and negotiable securities	4	69,458,614	59,417,790	69,458,614	59,417,790
Loans and advances	6	251,343,981	242,928,208	251,343,981	242,928,208
Other assets	7	5,375,460	5,328,109	5,375,460	5,328,109
Receiver of Revenue	25	-	607,739	-	607,739
Deferred tax asset	18	289,665	283,070	289,665	283,070
Investment in subsidiary	5	-	-	2,199,499	2,199,499
Property, plant and equipment	8	3,199,417	3,533,069	2,144,561	2,404,667
Total assets		1,030,414,518	797,751,532	1,031,559,161	797,834,392
EQUITY AND LIABILITIES					
Capital and Reserves					
Equity attributable to ordinary shareholders					
Share capital	9	20,000,000	20,000,000	20,000,000	20,000,000
Retained earnings		44,685,693	37,785,134	44,891,359	37,868,019
Liabilities					
Short-term borrowings	3	25,212,392	14,165,332	25,212,392	14,165,332
Deposits and current accounts	10	932,782,997	719,335,172	933,718,555	719,335,172
Receiver of Revenue	25	273,168	-	290,699	-
Other liabilities	11	7,460,268	6,465,894	7,446,156	6,465,869
Total equity and liabilities		1,030,414,518	797,751,532	1,031,559,161	797,834,392

Habib Overseas Bank Limited

Statement of comprehensive income

for the year ended 31 December 2011

	Notes	Group		Company	
		2011 R	2010 R	2011 R	2010 R
Net interest income		32,190,548	31,348,597	32,190,548	31,348,597
Interest and similar income	13	48,920,576	51,577,978	48,920,576	51,577,978
Interest expense and similar charges	13	(16,730,028)	(20,229,381)	(16,730,028)	(20,229,381)
Non-interest income	14	19,799,417	17,796,341	19,747,991	17,744,915
Net interest and non-interest income		51,989,965	49,144,938	51,938,539	49,093,512
Impairment charge on loans and advances	15	(695,147)	(250,365)	(695,147)	(250,365)
Operating expenditure	16	(34,950,155)	(32,950,867)	(34,775,948)	(33,033,505)
Profit before taxation		16,344,663	15,943,706	16,467,444	15,809,642
Taxation	17	(5,444,104)	(5,005,596)	(5,444,104)	(4,958,668)
Profit for the year		10,900,559	10,938,110	11,023,340	10,850,974

Habib Overseas Bank Limited

Statement of changes in equity

for the year ended 31 December 2011

	Note	Share capital R	Retained earnings R	Total R
Group				
Balance as at 01 January 2010		20,000,000	33,647,024	53,647,024
Profit for the year			10,938,110	10,938,110
Dividends declared and paid in 2010	19		(6,800,000)	(6,800,000)
Balance as at 31 December 2010		20,000,000	37,785,134	57,785,134
Profit for the year			10,900,559	10,900,559
Dividends declared and paid in 2011	19		(4,000,000)	(4,000,000)
Balance as at 31 December 2011		20,000,000	44,685,693	64,685,693
Company				
Balance as at 01 January 2010		20,000,000	33,817,045	53,817,045
Profit for the year			10,850,974	10,850,974
Dividends declared and paid in 2010	19		(6,800,000)	(6,800,000)
Balance as at 31 December 2010		20,000,000	37,868,019	57,868,019
Profit for the year			11,023,340	11,023,340
Dividends declared and paid in 2011	19		(4,000,000)	(4,000,000)
Balance as at 31 December 2011		20,000,000	44,891,359	64,891,359

Habib Overseas Bank Limited

Statement of cash flows

for the year ended 31 December 2011

	Notes	2011 R	Group 2010 R	2011 R	Company 2010 R
CASH FLOW FROM OPERATING ACTIVITIES					
Interest income and other income received	20	68,645,803	69,996,585	68,594,376	69,945,159
Interest paid	21	(16,878,729)	(20,450,225)	(16,878,729)	(20,450,225)
Cash paid to suppliers and employees	22	(32,877,220)	(30,592,099)	(32,790,645)	(30,749,073)
Operating income before changes in operating assets		18,889,854	18,954,261	18,925,002	18,745,861
Increase in loans and advances	23	(9,142,161)	(48,106,597)	(9,142,161)	(48,106,597)
Increase/(Decrease) in deposits and current accounts	24	213,447,825	56,933,058	214,383,383	56,933,058
Taxation paid	25	(4,569,792)	(5,311,443)	(4,552,261)	(5,264,515)
Dividends paid	26	(4,000,000)	(6,800,000)	(4,000,000)	(6,800,000)
Net cash inflow from operating activities		214,625,726	15,669,279	215,613,963	15,507,807
CASH FLOW FROM INVESTING ACTIVITIES					
Payments for property and equipment	8	(596,208)	(258,293)	(596,208)	(258,293)
Proceeds on disposal of property and equipment	20	50,000	-	50,000	-
Payments to acquire financial assets - treasury bills		(10,032,744)	(29,546,075)	(10,032,744)	(29,546,075)
Net cash outflow from investing activities		(10,578,952)	(29,804,368)	(10,578,952)	(29,804,368)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		204,046,774	(14,135,089)	205,035,011	(14,296,561)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3	471,488,215	485,623,304	470,499,978	484,796,539
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	675,534,989	471,488,215	675,534,989	470,499,978

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011

1. ACCOUNTING POLICIES

1.1 Basis of accounting and statement of compliance

The consolidated Annual Financial Statements for the year ended 31 December 2011 and the comparative figures are prepared in accordance with, and comply with the International Financial Reporting Standards (IFRS) and the South African Companies Act of 2008. The financial statements are presented in South African Rand (ZAR) and prepared in accordance with the going concern principle on the historical cost basis.

1.2 Accounting standards issued but not yet effective

Recent accounting developments

There are standards and interpretations in issue that are not yet effective. These include the following standards and interpretations that could be applicable to the business of the Group and may have an impact on future financial statements. The impact of initial application has not been assessed as at the date of authorisation of the annual financial statements and will not be early adopted.

IFRS 9 (*Financial Instruments*) was issued during 2009 but is only effective for annual periods beginning on or after 1 January 2013. The Group will comply with the applicable standard from the year ending 31 December 2013.

IFRS 10 (*Consolidated Financial Statements*) was issued during 2010 but is only effective for annual periods beginning on or after 1 January 2013. The Group will comply with the applicable standard from the year ending 31 December 2013.

IFRS 11 (*Joint Arrangements*) was issued during 2010 but is only effective for annual periods beginning on or after 1 January 2013. The Group will comply with the applicable standard from the year ending 31 December 2013.

IFRS 12 (*Disclosure of interests in Other Entities*) was issued during 2010 but is only effective for annual periods beginning on or after 1 January 2013. The Group will comply with the applicable standard from the year ending 31 December 2013.

IFRS 13 (*Fair Value Measurement*) was issued during 2010 but is only effective for annual periods beginning on or after 1 January 2013. The Group will comply with the applicable standard from the year ending 31 December 2013.

1.3 Interest income and expenses recognition

Interest income and expenses are recognised on a time proportion basis, taking account of the principal amounts outstanding and the effective rate over the period to maturity. Interest income and expenses are recognised on the statement of comprehensive income for all interest bearing instruments using the effective rate of interest method. Interest income and expense include the amortisation of any discount or premium or other differences between initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

1.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instructions issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3. Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5. Non current Assets held for sale and discounted operations, which are recognised and measured at fair value less costs to sell.

1.6 Financial instruments

Financial assets and liabilities are recognised on the balance sheet when the Bank becomes a party to the contractual provision of the instrument.

Financial instruments of the Bank are classified as follows:

(i) Financial assets

- (a) Financial instruments at Fair Value through Profit or Loss.
- (b) Investments held to maturity. The Bank classifies Treasury Bills (Negotiable securities) as held to maturity.
- (c) The Bank has classified the following financial assets as loans and receivables originated by the Bank:
 - Loans and Advances
 - Accounts receivable

Investments are recognised and de-recognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated allocating future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.6 Financial instruments (continued)

(a) Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL. No financial assets have been designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future, or
- it is a derivative that it is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 30 in Risk Management.

(b) Held-to-maturity investments

Bills of exchange and debentures with fixed or determined payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

(c) Loans and advances

Trade receivables, loans, and advances that have fixed or determinable payments that are not quoted in an active market are classified as loans and advances. Loans and advances are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been impacted.

De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.6 Financial instruments (continued)

(ii) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences the residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

The Bank has classified the following as financial liabilities:

- (a) Financial liabilities at FVTPL;
- (b) Foreign currency financial liabilities; and
- (c) Other liabilities

(a) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future, or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of profit taking, or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

(b) Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction date. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities at fair value, denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising from exchange are included in net profit or loss for the year, except for exchange differences arising on non-monetary assets and liabilities where fair value is recognised directly to equity. In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts.

(c) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(d) De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.7 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.8 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current tax

The tax currently payable is based on taxable income for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, for all the temporary differences arising between the tax values of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

(c) Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

1.9 Impairments

Specific impairments are made against identified doubtful advances. Portfolio impairments are maintained to cover potential losses which, although not specifically identified, may be present in the advances portfolio.

Advances which are deemed uncollectible are written-off against the specific impairments. Loans previously written-off which subsequently become fully performing are re-incorporated in the advances portfolio and recoveries are recognised in the Income Statement. Both specific and portfolio impairments raised during the year less the recoveries of advances previously written-off, are charged to the income statement.

The Bank reviews the carrying amounts of its advances to determine whether there is any indication that those advances have suffered an impairment loss. Where it is not possible to estimate the recoverable amount of an individual advance, the Bank estimates the recoverable amount on a portfolio basis for a group of similar financial assets.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.10 Property, plant and equipment

The Group considers land and buildings to be owner occupied and “depreciated”. The subsidiary considers land and buildings to be an investment property and adopts the carrying value at cost less accumulated depreciation.

Furniture and equipment are stated at cost less accumulated depreciation and any recognised impairment losses. Depreciation is provided for on a straight line basis to write off the cost of fixed assets to their residual values over their expected useful lives. Properties and equipment acquired during the year are depreciated from the date when they are available for use.

The following straight-line methods are in use:

• Land and buildings	-	4%
• Furniture and office equipment	-	10% - 20%
• Motor vehicles	-	20%

1.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.12 Post employment benefits

The Bank provides benefits through a provident fund to employees. The provisions for retirement and survivor's benefits are recognised in the statement of comprehensive income when they accrue for payment.

1.13 Lease property

- The Bank only holds lease properties under operating lease arrangements.
- Lease payments are expensed on a straight-line basis over the term of the lease.

1.14 Areas of judgement and estimation

(a) Classification of financial assets

The directors have reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is R 69.4 million (2010 : R 59.4 million).

(b) Useful lives of property and equipment

The Group reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

(c) Fair value of derivatives and other financial instruments

The directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The carrying amount of the derivatives is R 1,08 million (2010 : R2 million).

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

2 STATEMENT OF FINANCIAL POSITION CLASSIFICATION OF FINANCIAL INSTRUMENTS

Group	2011 R	Held-for- trading R	Held-to-maturity investments R	Carried at amortised cost R	Non-financial assets and liabilities R
ASSETS					
Cash and cash equivalents	700,747,381			700,747,381	
* Other short-term securities	69,458,614		69,458,614		
** Loans and advances to customers	251,343,981			251,343,981	
*** Derivative financial instruments (Forward exchange contracts)	1,079,283	1,079,283			
*** Other assets	4,296,177			4,296,177	
Deferred tax asset	289,665				289,665
Property, plant and equipment	3,199,417				3,199,417
Total assets	1,030,414,518	1,079,283	69,458,614	956,387,539	3,489,082
EQUITY AND LIABILITIES					
Equity					
Ordinary share capital	20,000,000				20,000,000
Reserves	44,685,693				44,685,693
Total ordinary equity	64,685,693	-	-	-	64,685,693
Total Liabilities					
Short-term borrowings	25,212,392	1,036,631	-	964,419,026	273,168
*** Derivative financial instruments (Forward exchange contracts)	1,036,631	1,036,631			
Amount owed to depositors	932,782,997			932,782,997	
*** Other liabilities	6,423,637			6,423,637	
Receiver of Revenue	273,168				273,168
Total equity and liabilities	1,030,414,518	1,036,631	-	964,419,026	64,958,861

* The Short-term securities fair value is R 66,131,700 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price.

** The carrying amount (amortised less impairments) of loans and advances is a reasonable approximation of the fair value.

*** The sum of other assets (liabilities) and derivative financial instruments approximates to other assets (liabilities) as shown on the face of the statement of financial position.

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

2 STATEMENT OF FINANCIAL POSITION CLASSIFICATION OF FINANCIAL INSTRUMENTS

Group	2010 R	Held-for- trading R	Held-to-maturity investments R	Carried at amortised cost R	Non-financial assets and liabilities R
ASSETS					
Cash and cash equivalents	485,653,547			485,653,547	
* Other short-term securities	59,417,790		59,417,790		
** Loans and advances to customers	242,928,208			242,928,208	
*** Derivative financial instruments (Forward exchange contracts)	2,000,673	2,000,673			
*** Other assets	3,327,436			3,327,436	
Receiver of Revenue	607,739				607,739
Deferred tax asset	283,070				283,070
Property, plant and equipment	3,533,069				3,533,069
Total assets	797,751,532	2,000,673	59,417,790	731,909,191	4,423,878
EQUITY AND LIABILITIES					
Equity					
Ordinary share capital	20,000,000				20,000,000
Reserves	37,785,134				37,785,134
Total ordinary equity	57,785,134	-	-	-	57,785,134
Total Liabilities					
Short-term borrowings	14,165,332			14,165,332	
*** Derivative financial instruments (Forward exchange contracts)	1,910,635	1,910,635			
Amount owed to depositors	719,335,172			719,335,172	
*** Other liabilities	4,555,259			4,555,259	
Total equity and liabilities	797,751,532	1,910,635	-	738,055,763	57,785,134

* The Short-term securities fair value is R 56,506,800 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price.

** The carrying amount (amortised less impairments) of loans and advances is a reasonable approximation of the fair value.

*** The sum of other assets (liabilities) and derivative financial instruments approximates to other assets (liabilities) as shown on the face of the statement of financial position.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

2 STATEMENT OF FINANCIAL POSITION CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Company	2011 R	Held-for- trading R	Held-to-maturity investments R	Carried at amortised cost R	Non-financial assets and liabilities R
ASSETS					
Cash and cash equivalents	700,747,381			700,747,381	
* Other short-term securities	69,458,614		69,458,614		
** Loans and advances to customers	251,343,981			251,343,981	
*** Derivative financial instruments (Forward exchange contracts)	1,079,283	1,079,283			
*** Other assets	4,296,177			4,296,177	
Deferred tax asset	289,665				289,665
Investment in subsidiary	2,199,499				2,199,499
Property, plant and equipment	2,144,561				2,144,561
Total assets	1,031,559,161	1,079,283	69,458,614	956,387,539	4,633,725
EQUITY AND LIABILITIES					
Equity					
Ordinary share capital	20,000,000				20,000,000
Reserves	44,891,359				44,891,359
Total ordinary equity	64,891,359	-	-	-	64,891,359
Total Liabilities					
Short-term borrowings	25,212,392			25,212,392	
*** Derivative financial instruments (Forward exchange contracts)	1,036,631	1,036,631			
Amount owed to depositors	933,718,555			933,718,555	
*** Other liabilities	6,409,525			6,409,525	
Receiver of Revenue	290,699				290,699
Total equity and liabilities	1,031,559,161	1,036,631	-	965,340,472	65,182,058

* The Short-term securities fair value is R 66,131,700 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price.

** The carrying amount (amortised less impairments) of loans and advances is a reasonable approximation of the fair value.

*** The sum of other assets (liabilities) and derivative financial instruments approximates to other assets (liabilities) as shown on the face of the statement of financial position.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

2 STATEMENT OF FINANCIAL POSITION CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Company	2010 R	Held-for- trading R	Held-to-maturity investments R	Carried at amortised cost R	Non-financial assets and liabilities R
ASSETS					
Cash and cash equivalents	484,665,310			484,665,310	
* Other short-term securities	59,417,790		59,417,790		
** Loans and advances to customers	242,928,208			242,928,208	
*** Derivative financial instruments (Forward exchange contracts)	2,000,673	2,000,673			
*** Other assets	3,327,436			3,327,436	
Receiver of Revenue	607,739				607,739
Deferred tax asset	283,070				283,070
Investment in subsidiary	2,199,499				2,199,499
Property, plant and equipment	2,404,667				2,404,667
Total assets	797,834,392	2,000,673	59,417,790	730,920,954	5,494,975
EQUITY AND LIABILITIES					
Equity					
Ordinary share capital	20,000,000				20,000,000
Reserves	37,868,019				37,868,019
Total ordinary equity	57,868,019	-	-	-	57,868,019
Total Liabilities					
Short-term borrowings	14,165,332			14,165,332	
*** Derivative financial instruments (Forward exchange contracts)	1,910,635	1,910,635			
Amount owed to depositors	719,335,172			719,335,172	
*** Other liabilities	4,555,234			4,555,234	
Total equity and liabilities	797,834,392	1,910,635	-	738,055,738	57,868,019

* The Short-term securities fair value is R 56,506,800 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price.

** The carrying amount (amortised less impairments) of loans and advances is a reasonable approximation of the fair value.

*** The sum of other assets (liabilities) and derivative financial instruments approximates to other assets (liabilities) as shown on the face of the statement of financial position.

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	2011 R	Group	2010 R	2011 R	2010 R
				Company	
3 CASH AND CASH EQUIVALENTS (AND SHORT-TERM BORROWINGS)					
Coin and bank notes	4,266,163		3,056,570	4,266,163	3,056,570
Money at call and short term notice with banks	687,709,218		475,953,977	687,709,218	474,965,740
Balances with central bank	8,772,000		6,643,000	8,772,000	6,643,000
	700,747,381		485,653,547	700,747,381	484,665,310
Short-term borrowings	(25,212,392)		(14,165,332)	(25,212,392)	(14,165,332)
Net cash and cash equivalents	675,534,989		471,488,215	675,534,989	470,499,978

Net maturity analyses

Maturing within 1 month	303,938,869	236,488,215	303,938,869	235,499,978
Maturing after 1 month but within 6 months	370,594,288	224,000,000	370,594,288	224,000,000
Maturing after 6 months but within 1 year	1,001,832	11,000,000	1,001,832	11,000,000
	675,534,989	471,488,215	675,534,989	470,499,978

The short-term borrowing relates to the foreign advances lending.

The Cash threshold held with South African Reserve Bank is 2.5% of the bank's total average liabilities.

4 INVESTMENTS AND NEGOTIABLE SECURITIES

Treasury Bills

Maturing within 1 year	69,458,614	59,417,790	69,458,614	59,417,790
Total investment in Treasury Bills	69,458,614	59,417,790	69,458,614	59,417,790
Market valuation of total investments	66,131,700	56,506,800	66,131,700	56,506,800

	Holding	2011 R	2010 R
5 INVESTMENT IN SUBSIDIARY			
N77 Oriental Plaza (Proprietary) Limited - share at cost	100%	1	1
Loan to subsidiary		2,199,498	2,199,498
		2,199,499	2,199,499

N77 Oriental Plaza (Proprietary) Limited, a property holding company wholly owned by Habib Overseas Bank Limited has been incorporated in the Republic of South Africa.

The loan to subsidiary is interest free and has no fixed terms of maturity.

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	Group		Company	
	2011 R	2010 R	2011 R	2010 R
6 LOANS AND ADVANCES				
Advances to customers and bills discounted	254,289,672	245,254,695	254,289,672	245,254,695
Less: Impairment of loans and advances	(2,945,691)	(2,326,487)	(2,945,691)	(2,326,487)
Advances to customers and bills discounted net of impairments	251,343,981	242,928,208	251,343,981	242,928,208
Net maturity analyses				
Maturing within 1 month (overdrafts - payable on demand)	221,603,978	219,978,845	221,603,978	219,978,845
Maturing after 1 month but within 6 months	10,730,503	9,685,783	10,730,503	9,685,783
Maturing after 6 months but within 1 year	6,631,484	3,440,412	6,631,484	3,440,412
Maturing after 1 year	12,378,016	9,823,168	12,378,016	9,823,168
	251,343,981	242,928,208	251,343,981	242,928,208
Sectoral analyses				
Companies and Close Corporations	216,840,981	207,804,208	216,840,981	207,804,208
Unincorporated businesses	21,488,000	16,968,000	21,488,000	16,968,000
Individuals	11,950,000	17,338,000	11,950,000	17,338,000
Non-profit institutions	1,065,000	818,000	1,065,000	818,000
	251,343,981	242,928,208	251,343,981	242,928,208
Sectoral distribution				
Agriculture, hunting, forestry & fishing	-	2,263,314	-	2,263,314
Manufacturing	44,244,831	36,734,143	44,244,831	36,734,143
Electricity, gas and water supply	4,901,967	3,890,582	4,901,967	3,890,582
Wholesale and retail trade, repair of specified items, hotel	126,952,742	111,242,231	126,952,742	111,242,231
Transport, storage and communication	1,166,608	837,027	1,166,608	837,027
Financial intermediation and insurance	22,942,722	23,945,727	22,942,722	23,945,727
Real estate	6,760,493	12,665,415	6,760,493	12,665,415
Business services	1,902,695	13,787,890	1,902,695	13,787,890
Community, social and personal services	2,927,515	3,070,198	2,927,515	3,070,198
Private households (individuals)	11,737,746	17,290,932	11,737,746	17,290,932
Other	27,806,662	17,200,749	27,806,662	17,200,749
	251,343,981	242,928,208	251,343,981	242,928,208
7 OTHER ASSETS				
Accrued interest	2,997,246	2,688,899	2,997,246	2,688,899
Other accounts receivable	2,378,214	2,639,210	2,378,214	2,639,210
The carrying amounts of these assets approximates their fair value.				
	5,375,460	5,328,109	5,375,460	5,328,109

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

8 PROPERTY, PLANT AND EQUIPMENT Group

Cost	Land and buildings R	Motor vehicles R	Furniture and office equipment R	Total R
Balance as at 1 January 2010	1,949,499	3,538,597	10,931,941	16,420,037
Additions	-	-	258,293	258,293
Disposal	-	-	-	-
Balance as at 1 January 2011	1,949,499	3,538,597	11,190,234	16,678,330
Additions	-	191,905	404,303	596,208
Disposal	-	(174,579)	(26,986)	(201,565)
Balance as at 31 December 2011	1,949,499	3,555,923	11,567,551	17,072,973

Accumulated depreciation	Land and buildings R	Motor vehicles R	Furniture and office equipment R	Total R
Balance as at 1 January 2010	(766,519)	(2,566,459)	(8,525,410)	(11,858,388)
Depreciation expense	(70,385)	(332,491)	(883,998)	(1,286,874)
Disposal	-	-	-	-
Balance as at 1 January 2011	(836,904)	(2,898,950)	(9,409,408)	(13,145,262)
Depreciation expense	(70,384)	(293,116)	(565,072)	(928,572)
Disposal	-	174,579	25,699	200,278
Balance as at 31 December 2011	(907,288)	(3,017,487)	(9,948,781)	(13,873,556)

Carrying amount

As at 31 December 2010	1,112,595	639,647	1,780,826	3,533,068
As at 31 December 2011	1,042,211	538,436	1,618,770	3,199,417

Properties

Johannesburg Property

Premises acquired on 16 July 1998 being section No 46 as shown on sectional plan No SS31 / 85 in the building known as Oriental Plaza, Fordsburg, Johannesburg, in extent 678 square meters and an undivided share in the common property in the land and buildings as apportioned in accordance with the participation quota of the said section.

Durban Property

Premises acquired on 31 August 2000 situated at 444 Smith Street, Durban consisting of:
Portion 5 (of 1) of ERF 11003 Durban in extent 390 square meters
Portion 7 (of 6) of ERF 11003 Durban in extent 195 square meters

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

8 PROPERTY AND EQUIPMENT Company

Cost	Land and buildings R	Motor vehicles R	Furniture and office equipment R	Total R
Balance as at 1 January 2010	-	3,538,597	10,681,942	14,220,539
Additions	-	-	258,293	258,293
Disposal	-	-	-	-
Balance as at 1 January 2011	-	3,538,597	10,940,235	14,478,832
Additions	-	191,905	404,303	596,208
Disposal	-	(174,579)	(26,986)	(201,565)
Balance as at 31 December 2011	-	3,555,923	11,317,552	14,873,475

Accumulated depreciation	Land and buildings R	Motor vehicles R	Furniture and office equipment R	Total R
Balance as at 1 January 2010	-	(2,566,459)	(8,295,169)	(10,861,628)
Depreciation expense	-	(332,491)	(880,046)	(1,212,537)
Disposal	-	-	-	-
Balance as at 1 January 2011	-	(2,898,950)	(9,175,215)	(12,074,165)
Depreciation expense	-	(293,116)	(561,911)	(855,027)
Disposal	-	174,579	25,699	200,278
Balance as at 31 December 2011	-	(3,017,487)	(9,711,427)	(12,728,914)

Carrying amount Company

As at 31 December 2010	-	639,647	1,765,020	2,404,667
As at 31 December 2011	-	538,436	1,606,125	2,144,561

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	2011 R	Group 2010 R	2011 R	Company 2010 R
9 SHARE CAPITAL				
Authorised				
25,000,000 ordinary shares of R1 each	25,000,000	25,000,000	25,000,000	25,000,000
Issued				
20,000,000 ordinary shares of R1 each	20,000,000	20,000,000	20,000,000	20,000,000
There are no shares to be issued under the control of the directors until the next AGM.				
10 DEPOSITS AND CURRENT ACCOUNTS				
Current and Call accounts	592,153,294	481,435,137	593,088,852	481,435,137
Savings accounts	42,875,186	41,291,228	42,875,186	41,291,228
Time deposit accounts	297,754,517	196,608,807	297,754,517	196,608,807
	932,782,997	719,335,172	933,718,555	719,335,172
Maturity analyses				
Maturing within 1 month	804,993,338	689,653,078	805,928,896	689,653,078
Maturing after 1 month but within 6 months	126,924,960	28,126,786	126,924,960	28,126,786
Maturing after 6 months but within 1 year	864,700	1,555,308	864,700	1,555,308
	932,782,997	719,335,172	933,718,555	719,335,172
11 OTHER LIABILITIES				
Accrued interest	622,799	771,500	622,799	771,500
Accrued expenses	2,116,432	2,092,718	2,116,432	2,092,718
Other accounts payables	4,721,037	3,601,676	4,706,925	3,601,651
The carrying amounts of these liabilities approximates their fair value.				
	7,460,268	6,465,894	7,446,156	6,465,869
12 CONTINGENT LIABILITIES				
Letters of guarantee	26,653,809	17,659,234	26,653,809	17,659,234
Letters of credit	19,812,759	26,975,491	19,812,759	26,975,491
Acceptances	3,363,322	482,519	3,363,322	482,519
	49,829,890	45,117,244	49,829,890	45,117,244

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	Group		Company	
	2011 R	2010 R	2011 R	2010 R
13 INTEREST INCOME AND EXPENSE				
Interest and similar income comprises interest on:				
Loans and advances	23,976,622	21,134,692	23,976,622	21,134,692
Balances with banks	21,387,030	27,302,315	21,387,030	27,302,315
Investments and negotiable securities	3,556,924	3,140,971	3,556,924	3,140,971
	48,920,576	51,577,978	48,920,576	51,577,978
Included in the interest and similar income is an amount of R42,652 (2010: R 90,038) being the gains on derivative financial instruments (forward exchange contracts) at 31 December 2011.				
Interest expense and similar charges comprises interest on:				
Current and time deposit accounts	(16,271,102)	(19,511,585)	(16,271,102)	(19,511,585)
Savings accounts	(200,837)	(238,744)	(200,837)	(238,744)
Balances with banks	(258,089)	(479,052)	(258,089)	(479,052)
	(16,730,028)	(20,229,381)	(16,730,028)	(20,229,381)
14 NON-INTEREST INCOME				
Commission and foreign exchange earnings	9,805,768	8,656,629	9,805,768	8,656,629
Fee based income	8,181,345	7,513,647	8,181,345	7,513,647
Other income	1,812,304	1,626,065	1,760,878	1,574,639
	19,799,417	17,796,341	19,747,991	17,744,915
15 IMPAIRMENT CHARGE ON LOANS AND ADVANCES				
Balance at beginning of year	2,326,487	2,076,122	2,326,487	2,076,122
Specific impairment (reversed)/raised during the year	726,387	1,006,000	726,387	1,006,000
Portfolio impairment (reversed)/raised during the year	-	(1,030,000)	-	(1,030,000)
Interest suspense raised/(reversed) during the year	(31,240)	274,365	(31,240)	274,365
Charge to income statement	695,147	250,365	695,147	250,365
Advances written off against specific provisions	(75,943)	-	(75,943)	-
Balance at end of year	2,945,691	2,326,487	2,945,691	2,326,487
Comprising:				
Specific impairment (including interest suspended)	(2,045,691)	(1,426,487)	(2,045,691)	(1,426,487)
Portfolio impairment reserve	(900,000)	(900,000)	(900,000)	(900,000)
Balance at end year	(2,945,691)	(2,326,487)	(2,945,691)	(2,326,487)

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	Group		Company	
	2011 R	2010 R	2011 R	2010 R
16 OPERATING EXPENDITURE				
Operating expenses includes the following items:				
Staff costs	(14,596,895)	(12,944,800)	(14,596,895)	(12,944,800)
- Staff cost	(14,596,895)	(12,944,800)	(14,596,895)	(12,944,800)
Auditors' remuneration	(640,000)	(521,622)	(640,000)	(521,622)
- Audit fee	(640,000)	(521,622)	(640,000)	(521,622)
Depreciation	(928,572)	(1,286,874)	(855,027)	(1,212,537)
Land and buildings	(70,384)	(70,385)	-	-
Motor vehicles	(293,116)	(332,491)	(293,116)	(332,491)
Furniture and office equipment	(565,072)	(883,998)	(561,911)	(880,046)
Provident Fund Contributions	(834,895)	(749,925)	(834,895)	(749,925)
Current service costs	(834,895)	(749,925)	(834,895)	(749,925)
Operating leases	(3,140,180)	(2,497,530)	(3,314,451)	(3,157,530)
Rental - banks premises	(1,445,973)	(887,331)	(1,620,244)	(1,547,331)
Rental - staff accommodation	(1,694,207)	(1,610,199)	(1,694,207)	(1,610,199)

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	Group		Company	
	2011 R	2010 R	2011 R	2010 R
Directors' emoluments				
Total Directors Emoluments	(2,584,781)	(2,348,627)	(2,584,781)	(2,348,627)
Managing Director	(1,264,796)	(1,208,219)	(1,264,796)	(1,208,219)
Basic salary (gross)	(715,000)	(755,000)	(715,000)	(755,000)
Bonus and performance related payments	(72,500)	(62,500)	(72,500)	(62,500)
Private use of motor vehicle	(169,015)	(129,033)	(169,015)	(129,033)
Medical aid contribution	(39,721)	(49,086)	(39,721)	(49,086)
Pension / provident scheme contributions	(42,000)	(44,100)	(42,000)	(44,100)
Cell phone	(25,000)	(30,000)	(25,000)	(30,000)
Travel	(60,998)	-	(60,998)	-
Other (ex-gratia lump sum)	(6,666)	-	(6,666)	-
Housing allowance	(133,896)	(138,500)	(133,896)	(138,500)
Executive Director 1 - (Resigned 30.06.2011)	(530,340)	(1,140,408)	(530,340)	(1,140,408)
Basic salary (gross)	(360,000)	(780,000)	(360,000)	(780,000)
Bonus and performance related payments	-	(65,000)	-	(65,000)
Private use of motor vehicle	(43,260)	(81,316)	(43,260)	(81,316)
Medical aid contribution	(14,867)	(37,596)	(14,867)	(37,596)
Pension / provident scheme contributions	(21,000)	(46,200)	(21,000)	(46,200)
Cell phone	(10,000)	(30,000)	(10,000)	(30,000)
Leave encashment	(7,529)	-	(7,529)	-
Other (ex-gratia lump sum)	(6,666)	-	(6,666)	-
Housing allowance	(67,018)	(100,296)	(67,018)	(100,296)
Executive Director 2 - (Appointed 12.08.2011)	(789,645)	-	(789,645)	-
Basic salary (gross)	(493,000)	-	(493,000)	-
Bonus and performance related payments	(49,050)	-	(49,050)	-
Private use of motor vehicle	(78,627)	-	(78,627)	-
Medical aid contribution	(41,608)	-	(41,608)	-
Pension / provident scheme contributions	(28,980)	-	(28,980)	-
Cell phone	(7,500)	-	(7,500)	-
Other (ex-gratia lump sum)	(6,666)	-	(6,666)	-
Housing allowance	(84,214)	-	(84,214)	-
Non-executive directors	(100,000)	(100,000)	(100,000)	(100,000)
Directors' fees	(100,000)	(100,000)	(100,000)	(100,000)

The above directors do not hold any shares in the Bank.

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	Group		Company	
	2011 R	2010 R	2011 R	2010 R
17 TAXATION				
South African Normal Taxation	(5,444,104)	(5,005,596)	(5,444,104)	(4,958,668)
- Current taxation - current year	(4,777,531)	(4,946,928)	(4,760,000)	(4,900,000)
- Current taxation - overpayment/(underpayment) during the year	(273,168)	607,739	(290,699)	607,739
- Secondary taxation on Companies	(400,000)	(680,000)	(400,000)	(680,000)
- Deferred taxation	6,595	13,593	6,595	13,593
TAX RATE RECONCILIATION				
Standard rate of taxation	28.00%	28.00%	28.00%	28.00%
Adjustment for:				
- secondary tax on companies	2.45%	3.91%	2.43%	3.94%
- temporary differences on property and equipment	0.10%	0.49%	0.04%	0.50%
- temporary differences on impairments on advances	0.02%	(1.28%)	0.02%	(1.29%)
- temporary differences disallowable provision	2.06%	0.00%	2.04%	0.00%
- permanent differences	0.58%	0.01%	0.57%	0.01%
- recognition/utilisation of assessed loss in subsidiary	(0.21%)	0.14%	0.00%	0.00%
Effective rate of taxation	33.00%	31.27%	33.10%	31.16%
18 DEFERRED TAXATION				
Deferred tax asset - beginning of the year	(283,070)	(269,477)	(283,070)	(269,477)
Originating temporary difference - furniture and office equipment	(6,595)	(13,593)	(6,595)	(13,593)
Deferred tax asset - end of the year	(289,665)	(283,070)	(289,665)	(283,070)
19 ORDINARY DIVIDENDS				
Final dividend of 20 cents per share for the year 2011 declared on 8 December 2011 and paid from current earnings.	4,000,000	6,800,000	4,000,000	6,800,000
	4,000,000	6,800,000	4,000,000	6,800,000
20 INTEREST INCOME AND OTHER INCOME RECEIVED				
Accounts receivable at beginning of year	5,328,109	6,403,737	5,328,109	6,403,737
Interest and similar income	48,920,576	51,577,978	48,920,576	51,577,978
Accounts receivable at end of year	(5,375,460)	(5,328,109)	(5,375,460)	(5,328,109)
	48,873,225	52,653,606	48,873,225	52,653,606
Adjustments for:				
Interest accrued on treasury bills in the current year	(8,080)	(178,997)	(8,080)	(178,997)
Interest suspense	31,240	(274,365)	31,240	(274,365)
	48,896,385	52,200,244	48,896,385	52,200,244
Non-interest revenue	19,799,418	17,796,341	19,747,991	17,744,915
Adjustment for:				
Proceeds on sale of fixed assets	(50,000)	-	(50,000)	-
	68,645,803	69,996,585	68,594,376	69,945,159

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	Group		Company	
	2011 R	2010 R	2011 R	2010 R
21 INTEREST PAID				
Accrued interest at beginning of year	(771,500)	(992,344)	(771,500)	(992,344)
Interest expense and similar charges	(16,730,028)	(20,229,381)	(16,730,028)	(20,229,381)
Accrued interest at end of year	622,799	771,500	622,799	771,500
	(16,878,729)	(20,450,225)	(16,878,729)	(20,450,225)
22 CASH PAID TO EMPLOYEES AND SUPPLIERS				
Operating expenditure	(34,950,155)	(32,950,867)	(34,775,948)	(33,033,505)
Adjustments for:				
Depreciation	928,572	1,286,873	855,027	1,212,537
Disposal of fixed assets	1,288	-	1,288	-
	(34,020,295)	(31,663,994)	(33,919,633)	(31,820,968)
Working capital changes:				
Increase/(decrease) in bills payable	1,979,277	(78,348)	1,979,277	(78,348)
Increase/(decrease) in other accounts payable	(836,202)	1,150,243	(850,289)	1,150,243
	(32,877,220)	(30,592,099)	(32,790,645)	(30,749,073)
23 INCREASE / (DECREASE) IN LOANS AND ADVANCES				
Loans and advances net of impairments and interest suspense at beginning of the year	242,928,208	194,797,611	242,928,208	194,797,611
Impairment of loans and advances (excluding interest suspended)	(726,387)	24,000	(726,387)	24,000
Loans and advances net of impairments and interest suspense at end of year	(251,343,982)	(242,928,208)	(251,343,982)	(242,928,208)
Increase/ (decrease) in loans and advances	(9,142,161)	(48,106,597)	(9,142,161)	(48,106,597)
24 INCREASE IN DEPOSITS AND CURRENT ACCOUNTS				
Deposits and current accounts at beginning of year	719,335,172	662,402,114	719,335,172	662,402,114
Deposits and current accounts at end of year	932,782,997	719,335,172	933,718,555	719,335,172
Increase in deposits and current accounts	213,447,825	56,933,058	214,383,383	56,933,058
25 TAXATION PAID				
Amounts receivable at beginning of year	607,739	315,485	607,739	315,485
Overpayment / (underpayment) of current years taxation	(273,168)	607,739	(290,699)	607,739
Charge for year	(4,777,531)	(4,946,928)	(4,760,000)	(4,900,000)
Secondary tax paid	(400,000)	(680,000)	(400,000)	(680,000)
Amounts (receivable)/payable at end of year	273,168	(607,739)	290,699	(607,739)
	(4,569,792)	(5,311,443)	(4,552,261)	(5,264,515)

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

	2011 R	Group	2010 R	2011 R	Company	2010 R
26 DIVIDENDS PAID						
Dividends declared	(4,000,000)		(6,800,000)	(4,000,000)		(6,800,000)
	(4,000,000)		(6,800,000)	(4,000,000)		(6,800,000)

27 RETIREMENT BENEFITS

The Bank has established a defined contribution plan managed by Old Mutual.

The contributions are as follows:

6% of the cost of employment by the employees

7.25% of the cost of employment by the employer

Total current service costs	(834,895)		(749,925)	(834,895)		(749,925)
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28 RELATED PARTIES

The Bank holds foreign currency deposits and Bank balances with Habibsons Bank Limited.

The exposures at year end are as follows :

Fixed deposit - Euro denominated	1,369,198	870,008	1,369,198	870,008
Fixed deposit - Aud denominated	18,551	-	18,551	-
Fixed deposit - GBP denominated	285,332	92,889	285,332	92,889
Favourable bank balances - USD denominated	1,714,877	142,883	1,714,877	142,883
	3,387,958	1,113,780	3,387,958	1,113,780
Unfavourable bank balances - USD denominated	(28,917,341)	(13,741,350)	(28,917,341)	(13,741,350)

N77 Oriental Plaza (Proprietary) Limited

Rental paid to it's subsidiary	-	-	660,000	660,000
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N77 Oriental Plaza (Proprietary) Limited holds a non-interest bearing current account Habib Overseas Bank Limited of R935,558.

29 COMMITMENTS

Operating lease commitments

< 1 Year	462,959	923,350	462,959	923,350
> 1-5 Years	4,249,182	4,787,353	4,249,182	4,787,353

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT

The Bank has in place a reliable system of computer hardware and software to provide management with the information required to initiate, manage and monitor various risks undertaken in the course of its business on a prudent basis. The Bank is primarily exposed to Credit Risk, Capital Risk, Operational Risk, Market Risk, Liquidity Risk, Interest Rate Risk, Foreign Exchange Risk and Compliance Risk.

30.1 CAPITAL RISK MANAGEMENT

The Bank's objective in managing capital is to assess the adequacy of the capital in order to safeguard its ability to continue as a going concern to provide return and growth to the shareholders. The capital management has become more important as a consequence of the global financial crisis. The Bank has always held capital well in excess of the regulatory requirements to ensure that it remains well capitalised in a vastly changed banking world. The internal capital adequacy assessment process approved by the Board of Directors has been reviewed by the South African Reserve Bank.

30.2 CREDIT RISK

All lending operations are governed by the credit policy approved by the Board. Lending activities are administered and monitored by the Credit Committee which consists of five directors of the Bank and meets normally every month. This committee fully monitors Group exposures, industry exposures, excess over prescribed limits, grading of the advances and industry concentration in accordance with the credit policies. The objective of this policy is to build and maintain a quality advances book. All lending approvals are submitted for review by the next level of authority, which ensures ethical standards as well as accountability. This committee also critically examines prudential policies against identified risk facilities.

IFRS 7 DISCLOSURES

Group credit risk analysis	2011		
	Statement of financial position	Off-Statement of financial position	Total
Maximum exposure to credit risk per financial assets			
Cash and balances with central bank	27,449,189	-	27,449,189
Local and foreign cash	4,266,163	-	4,266,163
Mandatory reserve deposits with central banks	8,772,000	-	8,772,000
Other balances with central banks	14,411,026	-	14,411,026
Loans and advances	924,642,173	-	924,642,173
Overdrafts	254,289,672	-	254,289,672
Term loans	673,298,192	-	673,298,192
Less: impairments of loans and advances	(2,945,691)	-	(2,945,691)
Investments and negotiable securities	69,458,614	-	69,458,614
Investment securities	69,458,614	-	69,458,614
Derivative financial assets (Forward exchange contracts)	1,079,283	-	1,079,283
Guarantees - irrevocable	-	26,653,809	26,653,809
Letter of credit and acceptances	-	23,176,081	23,176,081
Other assets	4,585,842	-	4,585,842
Property, plant and equipment	3,199,417	-	3,199,417
	1,030,414,518	49,829,890	1,080,244,407

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.2 CREDIT RISK IFRS 7 DISCLOSURES

2010

Group credit risk analysis	Statement of financial position	Off-Statement of financial position	Total
Maximum exposure to credit risk per financial assets			
Cash and balances with central bank	28,925,821	-	28,925,821
Local and foreign cash	3,056,570	-	3,056,570
Mandatory reserve deposits with central banks	6,643,000	-	6,643,000
Other balances with central banks	19,226,251	-	19,226,251
Loans and advances	699,655,934	-	699,655,934
Overdrafts	245,254,695	-	245,254,695
Term loans	456,727,726	-	456,727,726
Less: impairments of loans and advances	(2,326,487)	-	(2,326,487)
Investments and negotiable securities	59,417,790	-	59,417,790
Investment securities	59,417,790	-	59,417,790
Derivative financial assets (Forward exchange contracts)	2,000,673	-	2,000,673
Guarantees - irrevocable	-	17,659,234	17,659,234
Letter of credit and acceptances	-	27,458,010	27,458,010
Other assets	4,218,245	-	4,218,245
Property, plant and equipment	3,533,069	-	3,533,069
	797,751,532	45,117,244	842,868,776

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.2 CREDIT RISK (Continued)

Company credit risk analysis	2011		Total
	Statement of financial position	Off-Statement of financial position	
Maximum exposure to credit risk per financial assets			
Cash and balances with central bank	27,449,189	-	27,449,189
Local and foreign cash	4,266,163	-	4,266,163
Mandatory reserve deposits with central banks	8,772,000	-	8,772,000
Other balances with central banks	14,411,026	-	14,411,026
Loans and advances	924,642,173	-	924,642,173
Overdrafts	254,289,672	-	254,289,672
Term loans	673,298,192	-	673,298,192
Less: impairments of loans and advances	(2,945,691)	-	(2,945,691)
Investments and negotiable securities	69,458,614	-	69,458,614
Investment securities	69,458,614	-	69,458,614
Derivative financial assets (Forward exchange contracts)	1,079,283	-	1,079,283
Guarantees - irrevocable	-	26,653,809	26,653,809
Letter of credit and acceptances	-	23,176,081	23,176,081
Other assets	4,585,842	-	4,585,842
Investment in subsidiary	2,199,499	-	2,199,499
Property, plant and equipment	2,144,561	-	2,144,561
	1,031,559,161	49,829,890	1,081,389,051

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.2 CREDIT RISK (Continued)

Company credit risk analysis	2010		Total
	Statement of financial position	Off-Statement of financial position	
Maximum exposure to credit risk per financial assets			
Cash and balances with central bank	28,925,821	-	28,925,821
Local and foreign cash	3,056,570	-	3,056,570
Mandatory reserve deposits with central banks	6,643,000	-	6,643,000
Other balances with central banks	19,226,251	-	19,226,251
Loans and advances	698,667,697	-	698,667,697
Overdrafts	245,254,695	-	245,254,695
Term loans	455,739,489	-	455,739,489
Less: impairments of loans and advances	(2,326,487)	-	(2,326,487)
Investments and negotiable securities	59,417,790	-	59,417,790
Investment securities	59,417,790	-	59,417,790
Derivative financial assets (Forward exchange contracts)	2,000,673	-	2,000,673
Guarantees - irrevocable	-	17,659,234	17,659,234
Letter of credit and acceptances	-	27,458,010	27,458,010
Other assets	4,218,245	-	4,218,245
Investment in subsidiary	2,199,499	-	2,199,499
Property, plant and equipment	2,404,667	-	2,404,667
	797,834,392	45,117,244	842,951,636

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.3 COLLATERAL HELD

The Bank does not have a policy to sell or re-pledge the collateral in the absence of default by the owner of the collateral.

Collateral against loans and advances

The bank utilises the following financial and non-financial collateral to mitigate credit risk.

Type of collateral	2011	
	Value of collateral against credit exposure in R 000's	% of credit exposure to total exposure
Financial Collateral		
Cash collateral	65,356	25.91%
Bank Guarantees	22,127	8.46%
Non-financial collateral		
Mortgage bond	111,023	44.01%
Notarial bond stock & equipment	11,674	4.63%
Insurance policies	1,524	0.60%
Cession on book debt	4,272	1.69%
Suretyship	31,291	12.41%
Other / unsecured	4,876	2.29%
Total Exposure	251,344	100.00%

Type of collateral	2010	
	Value of collateral against credit exposure in R 000's	% of credit exposure to total exposure
Financial Collateral		
Cash collateral	79,436	32.70%
Bank Guarantees	20,941	8.62%
Non-financial collateral		
Mortgage bond	64,994	26.75%
Notarial bond stock & equipment	23,273	9.58%
Insurance policies	2,282	0.94%
Cession on book debt	6,474	2.67%
Suretyship	40,078	16.50%
Other / unsecured	5,450	2.24%
Total Exposure	242,928	100.00%

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

	Group		Company	
	2011 R	2010 R	2011 R	2010 R

30.4 IMPAIRED LOANS AND ADVANCES

The total loans and advances are R 251,343,981 (2010: R 242,928,208) of which R 6,671,256 (2010: R 8,956,571) are impaired advances.

Classification categories of advances

Standard	244,672,725	234,271,637	244,672,725	234,271,637
Special Mention	-	7,676,794	-	7,676,794
Sub-standard	3,399,569	47,377	3,399,569	47,377
Doubtful	3,271,687	841,274	3,271,687	841,274
Loss	-	91,126	-	91,126
	251,343,981	242,928,208	251,343,981	242,928,208

Collateral held against impaired advances

Special Mention	-	2,608,338	-	2,608,338
Sub-standard	764,197	18,956	764,197	18,956
Doubtful	2,716,333	841,274	2,716,333	841,274
Loss	-	-	-	-
	3,480,530	3,468,568	3,480,530	3,468,568

Provision held against impaired advances

Special Mention	-	1,322,570	-	1,322,570
Sub-standard	1,324,604	12,791	1,324,604	12,791
Doubtful	721,087	-	721,087	-
Loss	-	91,126	-	91,126
	2,045,691	1,426,487	2,045,691	1,426,487

30.5 CREDIT ENHANCEMENTS

The bank did not take possession of any collateral or call for any credit enhancements during the year. The following outstanding loans and advances were secured by the bank guarantees:

Habibsons bank guarantee	15,550,296	16,006,945	15,550,296	16,006,945
Investec bank guarantee	9,331,523	3,000,000	9,331,523	3,000,000
BNP Paribas bank guarantee	481,063	2,263,314	481,063	2,263,314
SCBL Singapore bank guarantee	1,380,339	-	1,380,339	-
HSBC bank guarantee	3,173,821	3,075,004	3,173,821	3,075,004
	29,917,043	24,345,263	29,917,043	24,345,263

Habib Overseas Bank Limited

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for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.6 OPERATIONAL RISK

Operational risk arises out of incorrect processing of transactions, errors, fraud and forgery, system failure or other occurrences. Two executive directors monitor this risk as part of routine operations through a system of internal controls which, inter alia, requires segregation of duties and internal audit reviews. In this particular area, internal and external audit play a key role in identifying possible areas of improvement.

30.7 MARKET RISK

All trading operations are customer/transaction driven and, therefore, the potential of any risk arising as a result of movement of exchange rates, commodity prices, share prices or volatility is minimal. The Bank does not trade on its own account.

30.7.1 FINANCIAL INSTRUMENTS FVTPL

The financial instruments through profit & loss are disclosed below:

	Group		Company	
	2011 R	2010 R	2011 R	2010 R
Financial Instruments Level 2				
Notional value				
Derivative financial instrument assets	10,687,534	23,987,445	10,687,534	23,987,445
Derivative financial instrument liabilities	10,644,882	23,897,407	10,644,882	23,897,407
	42,652	90,038	42,652	90,038
Financial Instruments Level 2				
Fair value TPL				
Derivative financial instrument assets	1,079,283	2,000,673	1,079,283	2,000,673
Derivative financial instrument liabilities	1,036,631	1,910,635	1,036,631	1,910,635
	42,652	90,038	42,652	90,038

30.7.2 SENSITIVITY ANALYSIS OF MARKET RISK

(a) INTEREST RATE RISK

Executive directors regularly monitor rate sensitive assets and liabilities as part of our ongoing process. Almost the entire advances book is prime related which acts as a safeguard against adverse movements in interest rate.

Interest rate sensitivity analysis

If interest rate had been 50 basis points lower and all other variables remained constant, the Bank profit for the year ended 31 December 2011 would decrease by:

	in 000's			
	2011 R	2010 R	2011 R	2010 R
decrease in 1 months time	(179)	(144)	(179)	(144)
decrease in 3 months time	(536)	(433)	(536)	(433)
decrease in 6 months time	(1,071)	(867)	(1,071)	(867)
decrease in 12 months time	(2,142)	(1,733)	(2,142)	(1,733)
Cumulative decrease in the year	(3,928)	(3,177)	(3,928)	(3,177)

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.7.2 SENSITIVITY ANALYSIS OF MARKET RISK (Continued)

(b) FOREIGN EXCHANGE RISK

All forward and spot contracts in foreign exchange are transaction driven and as a policy the Bank does not speculate in currency transactions. Open currency positions are strictly controlled in accordance with the policy approved by the Board.

Foreign currency sensitivity analysis:

ASSETS	ZAR EQUIVALENT	GBP	USD	EURO	SAR	AUD
Cash	1,842,748	4,120	177,878	33,235	440	-
Due from Banks Demand	17,776,311	22,699	1,989,115	128,878	-	2,246
Due from Banks Time	10,549,334	-	1,301,583	-	-	-
Loans and Advances	28,917,341	-	3,567,840	-	-	-
Other Assets	670,516	786	81,494	18	-	-
Total assets	59,756,250	27,605	7,117,910	162,126	440	2,246
LIABILITIES	ZAR EQUIVALENT	GBP	USD	EURO	SAR	AUD
Deposits	30,264,208	29,490	3,483,647	158,260	-	-
Due to Banks	25,117,590	-	3,099,024	-	-	-
Other Liabilities	4,178,202	9	515,479	12	-	-
Total liabilities	59,559,999	29,499	7,098,150	158,273	-	-
Net open position	196,251	(1,893)	19,760	3,853	440	2,246

Any adverse movement in exchange rate to the extent of 10% would have affected the risk by negative R19,625.07 (2010: negative R 29,906.00).

Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies was negative R 882,833 (2010: positive R1,147,312.00).

30.8 COMPLIANCE RISK

To ensure that the Bank manages its regulatory risk, that is, the risk that the Bank does not comply with applicable laws, regulations and supervisory requirements, an independent compliance function has been established at Group. A senior executive has been designated as compliance officer to oversee this function.

30.9 INFORMATION TECHNOLOGY RISK

The Information Technology Department manages and monitors access to the computer system. A disaster recovery site has been set up and tested. The Bank has in place service level agreements with the vendors who have been providing services in different areas of computer operations. Antivirus softwares have been installed on all computers.

30.10 LIQUIDITY RISK

Liquidity has historically been maintained at a very high level in Money Market funds with major banks and treasury bills/government stocks. Executive directors monitor this risk so as to ensure that cash flows are adequate to meet all commitments, current as well as future.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.10 LIQUIDITY RISK ANALYSIS (Continued)

Group	2011 R	Term Maturity					Indeterminate Maturity
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	
ASSETS							
Cash and cash equivalents	700,747,381	248,707,426	80,443,836	370,594,287	1,001,832		
Other short-term securities	69,458,614		9,964,561	44,655,748	14,838,305		
Loans and advances to customers	251,343,981	221,588,101	15,877	8,225,597	9,136,390	12,378,016	
Derivative financial instruments (Forward exchange contracts)	1,079,283	13,000	221,000	845,283	-		
Other assets	4,296,177	-	36,000	38,000	171,000		4,051,177
Deferred tax asset	289,665						289,665
Property, plant and equipment	3,199,417						3,199,417
Total assets	1,030,414,518	470,308,527	90,681,274	424,358,915	25,147,527	12,378,016	7,540,259
EQUITY AND LIABILITIES							
Equity							
Ordinary share capital	20,000,000						20,000,000
Reserves	44,685,693						44,685,693
Total ordinary equity	64,685,693	-	-	-	-	-	64,685,693
Total liabilities	965,728,825	769,407,214	61,383,147	120,735,418	7,506,241	-	6,696,805
Short-term borrowings	25,212,392	25,212,392					
Derivative financial instruments (Forward exchange contracts)	1,036,631	9,631	575,000	452,000			
Amount owed to depositors	932,782,997	744,185,191	60,808,147	120,283,418	7,506,241		
Other liabilities	6,423,637						6,423,637
Receiver of Revenue	273,168						273,168
Total equity and liabilities	1,030,414,518	769,407,214	61,383,147	120,735,418	7,506,241	-	71,382,498
Remaining contractual maturities							
Balance sheet liabilities	965,728,825	844,595,188	84,669,966	19,865,339	10,509,544	-	6,088,788
Short-term borrowings	25,219,814	25,219,814					
Derivative financial instruments (Forward exchange contracts)	1,036,631	9,631	575,000	452,000	-		
Amount owed to depositors	933,383,592	819,365,743	84,094,966	19,413,339	10,509,544		
Other liabilities	5,815,620						5,815,620
Current taxation	273,168						273,168
Off-balance sheet liabilities	49,829,890	42,985,890	-	6,844,000	-	-	-
Irrevocable guarantees	26,653,809	26,653,809					
Irrevocable letters of credit and acceptances	23,176,081	16,332,081			6,844,000		
Total liabilities	1,015,558,715	887,581,078	84,669,966	19,865,339	17,353,544	-	6,088,788

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Notes to annual financial statements

for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.10 LIQUIDITY RISK ANALYSIS (Continued)

Group	2010 R	Term Maturity					Indeterminate Maturity
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	
ASSETS							
Cash and cash equivalents	485,653,547	229,874,635	20,236,712	224,300,301	11,241,899		
Other short-term securities	59,417,790			49,604,316	9,813,474		
Loans and advances to customers	242,928,208	219,971,352	7,493	1,698,588	11,427,607	9,823,168	
Derivative financial instruments (Forward exchange contracts)	2,000,673	190,205	443,258	301,092	1,066,118		
Other assets	3,327,436						3,327,436
Receiver of Revenue	607,739						607,739
Deferred tax asset	283,070						283,070
Property, plant and equipment	3,533,069						3,533,069
Total assets	797,751,532	450,036,192	20,687,463	275,904,297	33,549,098	9,823,168	7,751,314
EQUITY AND LIABILITIES							
Equity							
Ordinary share capital	20,000,000						20,000,000
Reserves	37,785,134						37,785,134
Total ordinary equity	57,785,134	-	-	-	-	-	57,785,134
Total liabilities							
Short-term borrowings	14,165,332	14,165,332					
Derivative financial instruments (Forward exchange contracts)	1,910,635	174,950	409,816	291,849	1,034,020		
Amount owed to depositors	719,335,172	605,742,431	83,910,647	19,390,756	10,291,338		
Other liabilities	4,555,259						4,555,259
Total equity and liabilities	797,751,532	620,082,713	84,320,463	19,682,605	11,325,358	-	62,340,393
Remaining contractual maturities							
Balance sheet liabilities							
Short-term borrowings	14,169,595	14,169,595					
Derivative financial instruments (Forward exchange contracts)	1,910,635	174,950	409,816	291,894	1,034,020		
Amount owed to depositors	720,102,409	606,084,560	84,094,966	19,413,339	10,509,544		
Other liabilities	3,783,759						3,783,759
Off-balance sheet liabilities	45,117,244	38,273,244		-	6,844,000	-	
Irrevocable guarantees	17,659,234	17,659,234					
Irrevocable letters of credit and acceptances	27,458,010	20,614,010			6,844,000		
Total liabilities	785,083,642	658,702,349	84,504,782	19,705,188	18,387,564	-	3,783,759

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for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.10 LIQUIDITY RISK ANALYSIS (Continued)

Company	2011 R	Term Maturity					Indeterminate Maturity
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	
ASSETS							
Cash and cash equivalents	700,747,381	248,707,426	80,443,836	370,594,287	1,001,832	-	
Other short-term securities	69,458,614		9,964,561	44,655,748	14,838,305		
Loans and advances to customers	251,343,981	221,588,101	15,877	8,225,597	9,136,390	12,378,016	
Derivative financial instruments							
(Forward exchange contracts)	1,079,283	13,000	221,000	845,283	-	-	
Other assets	4,296,177						4,296,177
Deferred tax asset	289,665						289,665
Investment in subsidiary	2,199,499						2,199,499
Property, plant and equipment	2,144,561						2,144,561
Total assets	1,031,559,161	470,308,527	90,645,274	424,320,915	24,976,527	12,378,016	8,929,902
EQUITY AND LIABILITIES							
Equity							
Ordinary share capital	20,000,000						20,000,000
Reserves	44,891,359						44,891,359
Total ordinary equity	64,891,359	-	-	-	-	-	64,891,359
Total liabilities							
Short-term borrowings	25,212,392	25,212,392					
Derivative financial instruments							
(Forward exchange contracts)	1,036,631	9,631	575,000	452,000	-	-	
Amount owed to depositors	933,718,555	745,120,749	60,808,147	120,283,418	7,506,241	-	
Other liabilities	6,409,525						6,409,525
Receiver of Revenue	290,699						290,699
Total equity and liabilities	1,031,559,161	770,342,772	61,383,147	120,735,418	7,506,241	-	71,591,583
Remaining contractual maturities							
Balance sheet liabilities							
Short-term borrowings	25,219,814	25,219,814					
Derivative financial instruments							
(Forward exchange contracts)	1,036,631	9,631	575,000	452,000	-	-	
Amount owed to depositors	934,333,932	820,316,083	84,094,966	19,413,339	10,509,544	-	
Other liabilities	5,786,726						5,786,726
Current taxation	290,699						290,699
Off-balance sheet liabilities	49,829,890	42,985,890	-	-	6,844,000	-	-
Irrevocable guarantees	26,653,809	26,653,809					
Irrevocable letters of credit and acceptances	23,176,081	16,332,081	-	-	6,844,000	-	
Total liabilities	1,016,497,692	888,531,418	84,669,966	19,865,339	17,353,544	-	6,077,425

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for the year ended 31 December 2011 (continued)

30 RISK MANAGEMENT (Continued)

30.10 LIQUIDITY RISK ANALYSIS (Continued)

Company	2010 R	Term Maturity					Indeterminate Maturity
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	
ASSETS							
Cash and cash equivalents	484,665,310	228,886,398	20,236,712	224,300,301	11,241,899		
Other short-term securities	59,417,790		-	49,604,316	9,813,474		
Loans and advances to customers	242,928,208	219,971,352	7,493	1,698,588	11,427,607	9,823,168	
Derivative financial instruments							
(Forward exchange contracts)	2,000,673	190,205	443,258	301,092	1,066,118	-	
Other assets	3,327,436						3,327,436
Receiver of Revenue	607,739						607,739
Deferred tax asset	283,070						283,070
Investment in subsidiary	2,199,499						2,199,499
Property, plant and equipment	2,404,667						2,404,667
Total assets	797,834,392	449,047,955	20,687,463	275,904,297	33,549,098	9,823,168	8,822,411
EQUITY AND LIABILITIES							
Equity							
Ordinary share capital	20,000,000						20,000,000
Reserves	37,868,019						37,868,019
Total ordinary equity	57,868,019	-	-	-	-	-	57,868,019
Total liabilities	739,966,373	620,082,713	84,320,463	19,682,605	11,325,358	-	4,555,234
Short-term borrowings	14,165,332	14,165,332					
Derivative financial instruments							
(Forward exchange contracts)	1,910,635	174,950	409,816	291,849	1,034,020		
Amount owed to depositors	719,335,172	605,742,431	83,910,647	19,390,756	10,291,338	-	
Other liabilities	4,555,234						4,555,234
Total equity and liabilities	797,834,392	620,082,713	84,320,463	19,682,605	11,325,358	-	62,423,253
Remaining contractual maturities							
Balance sheet liabilities	739,966,373	620,429,105	84,504,782	19,705,188	11,543,564	-	3,783,734
Short-term borrowings	14,169,595	14,169,595					
Derivative financial instruments							
(Forward exchange contracts)	1,910,635	174,950	409,816	291,849	1,034,020		
Amount owed to depositors	720,102,409	606,084,560	84,094,966	19,413,339	10,509,544	-	
Other liabilities	3,783,734						3,783,734
Off-balance sheet liabilities	45,117,244	38,273,244	-	-	6,844,000	-	-
Irrevocable guarantees	17,659,234	17,659,234					
Irrevocable letters of credit and acceptances	27,458,010	20,614,010	-	-	6,844,000	-	-
Total liabilities	785,083,617	658,702,349	84,504,782	19,705,188	18,387,564	-	3,783,734