

# Habib Overseas Bank Limited

(Registration number 1990/004437/06)

## ANNUAL FINANCIAL STATEMENTS 2009

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# 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 2009; 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, 61 of 1973, 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 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 16th March 2010 and are signed on its behalf by:



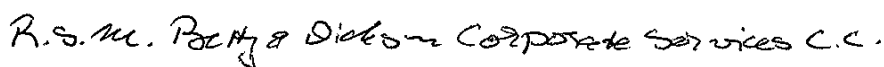
**Martin Bramwell**  
Non - Executive Director



**Manzar A Kazmi**  
Managing Director

## CERTIFICATE OF THE COMPANY SECRETARY

In terms of Section 268G(d) of the Companies Act 61 of 1973 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 2009, 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.

16th March 2010

# 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)

**Martin Bramwell**

**B Hasan**

### SECRETARY

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

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Tel: (011) 834-7441  
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Website: [www.habiboverseas.co.za](http://www.habiboverseas.co.za)

### ORIENTAL PLAZA BRANCH

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Fax: (011) 834-7446/838-3672  
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### LENASIA BRANCH

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### LAUDIUM BRANCH

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### CAPE TOWN BRANCH

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Fax: (021) 637-2099  
Telex: 521033  
E mail: [habibbankct@telkomsa.net](mailto:habibbankct@telkomsa.net)

### DURBAN BRANCH

444 Smith Street  
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P O Box 49409  
Qualbert, 4078  
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Fax: (031) 304-8966  
Telex: 620040  
E mail: [hobdbn@mweb.co.za](mailto:hobdbn@mweb.co.za)

# Habib Overseas Bank Limited

## CHAIRMAN'S STATEMENT

Global recession continued unabated throughout 2009 with the exception of China and a few emerging countries. The Central Banks of the major developed countries have tried to stimulate the economies by cutting interest rates and providing liquidity and these steps should have a positive impact in 2010.

South Africa, having seen negative growth for two consecutive quarters in 2009, had a positive final quarter. Inflation was contained at 6.2% for the year compared to 11.5% for 2008. The Rand remained strong against the U.S. dollar during the later part of the year and the South African Reserve Bank was able to gradually reduce the repo rate bringing it down by 4.5% over the year to 7%. The football World Cup in 2010 should provide a further boost to the ailing tourist industry.

I am pleased to report that by the Grace of God the Bank enjoyed another successful year. Customer deposits increased by 19.9% to R662.4 million (2008 : R552.3 million) and loans and advances increased by 10.2% to R194.8 million (2008 : R176.7 million). In spite of the difficult trading conditions the pre-tax profit was R21.9 million compared to R22.9 million for the previous year.

During 2010 we will adhere to our selective marketing approach and prudent lending policies. These are reflected in the negligible impairment charge on loans and advances during a difficult year. The quality of personal service to customers has always been of paramount importance and would continue to remain the focus of our attention.

I would like to express my deep appreciation to the staff for their dedication and hard work and thank my colleagues on the Board for their continued support.



Habib Mohamed D Habib  
Chairman  
16 March 2010

# Habib Overseas Bank Limited

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF HABIB OVERSEAS BANK LIMITED

We have audited the consolidated annual financial statements of Habib Overseas Bank Limited and its subsidiary, N77 Oriental Plaza (Pty) Limited, which comprise the directors' report, the statement of financial position as at 31 December 2009, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 11 to 41.

#### ***Directors' responsibility for the Financial Statements***

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### ***Auditor's Responsibility***

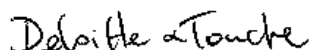
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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.

#### ***Auditor's Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2009, and of its financial performance and 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**

Per: Mgcinisihlalo Jordan

Partner

16 March 2010

Deloitte & Touche

Registered Auditors

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

## DIRECTORS' REPORT

The directors have pleasure in presenting their annual financial statements for the year ended 31 December 2009.

## SHARE CAPITAL

Habib Overseas Bank 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 R21,990,673 (2008: R22,951,552).

## GOING CONCERN

The Group and the Company 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 and Company 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 is as follows:

	2009	2008
	R	R
Net profit after taxation for the year	84 086	126 291

## CAPITAL ADEQUACY

	2009	2008
Capital Adequacy ratio	16.44%	17.56%

# Habib Overseas Bank Limited

## Statement of financial position

at 31 December 2009

	Notes	Group		Company	
		2009 R	2008 R	2009 R	2008 R
<b>ASSETS</b>					
Cash and cash equivalents	3	514,954,604	427,466,256	514,127,839	426,798,900
Investments and negotiable securities	4	29,692,718	29,682,083	29,692,718	29,682,083
Loans and advances	6	194,797,611	176,662,408	194,797,611	176,662,408
Other assets	7	6,403,737	7,538,836	6,403,737	7,538,836
Receiver of Revenue	17	315,485	229,939	315,485	229,939
Deferred tax asset	18	269,477	214,339	269,477	214,339
Investment in subsidiary	5	-	-	2,199,499	2,199,499
Property, plant and equipment	8	4,561,650	5,279,979	3,358,911	4,001,917
<b>Total assets</b>		<b>750,995,282</b>	647,073,840	<b>751,165,277</b>	647,327,921
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
<b>Equity attributable to ordinary shareholders</b>					
Share capital	9	20,000,000	20,000,000	20,000,000	20,000,000
Retained earnings		33,647,023	31,040,559	33,817,043	31,294,665
<b>Liabilities</b>		<b>697,348,259</b>	596,033,281	<b>697,348,234</b>	596,033,256
Short-term borrowings	3	29,331,302	39,133,551	29,331,302	39,133,551
Deposits and current accounts	10	662,402,114	552,341,924	662,402,114	552,341,924
Other liabilities	11	5,614,843	4,557,806	5,614,818	4,557,781
<b>Total equity and liabilities</b>		<b>750,995,282</b>	647,073,840	<b>751,165,277</b>	647,327,921

# Habib Overseas Bank Limited

## Statement of comprehensive income

for the year ended 31 December 2009

	Notes	Group		Company	
		2009 R	2008 R	2009 R	2008 R
<b>Net interest income</b>		<b>31,959,704</b>	34,538,657	<b>31,959,704</b>	34,538,657
Interest and similar income	13	<b>57,285,660</b>	62,402,069	<b>57,285,660</b>	62,402,069
Interest expense and similar charges	13	<b>(25,325,956)</b>	(27,863,412)	<b>(25,325,956)</b>	(27,863,412)
Non-interest income	14	<b>17,567,663</b>	14,709,519	<b>17,520,912</b>	14,667,018
<b>Net interest and non-interest income</b>		<b>49,527,367</b>	49,248,176	<b>49,480,616</b>	49,205,675
Impairment charge on loans and advances	15	<b>47,149</b>	(105,819)	<b>47,149</b>	(105,819)
Operating expenditure	16	<b>(27,490,351)</b>	(26,064,514)	<b>(27,537,092)</b>	(26,148,304)
<b>Profit before taxation</b>		<b>22,084,165</b>	23,077,843	<b>21,990,673</b>	22,951,552
Taxation	17	<b>(7,277,701)</b>	(6,845,876)	<b>(7,268,295)</b>	(6,845,876)
<b>Profit for the year</b>		<b>14,806,464</b>	16,231,967	<b>14,722,378</b>	16,105,676

Included in the interest and similar income is an amount of R 140,164 (2008 : R 81,203) being the gains on derivative financial instruments (forward exchange contracts) at 31 December 2009.



# Habib Overseas Bank Limited

## Statement of changes in equity

for the year ended 31 December 2009

	Note	Share capital R	Retained earnings R	Total R
<b>Group</b>				
<b>Balance as at 01 January 2008</b>		20,000,000	18,808,592	38,808,592
Profit for the year			16,231,967	16,231,967
Dividends declared and paid in 2008	19		(4,000,000)	(4,000,000)
<b>Balance as at 31 December 2008</b>		20,000,000	31,040,559	51,040,559
Profit for the year			14,806,464	14,806,464
Dividends declared and paid in 2009	19		(12,200,000)	(12,200,000)
<b>Balance as at 31 December 2009</b>		20,000,000	33,647,023	53,647,023
<b>Company</b>				
<b>Balance as at 01 January 2008</b>		20,000,000	19,188,989	39,188,989
Profit for the year			16,105,676	16,105,676
Dividends declared and paid in 2008	19		(4,000,000)	(4,000,000)
<b>Balance as at 31 December 2008</b>		20,000,000	31,294,665	51,294,665
Profit for the year			14,722,378	14,722,378
Dividends declared and paid in 2009	19		(12,200,000)	(12,200,000)
<b>Balance as at 31 December 2009</b>		20,000,000	33,817,043	53,817,043

# Habib Overseas Bank Limited

## Statement of cash flows

for the year ended 31 December 2009

	Notes	Group 2009 R	2008 R	Company 2009 R	2008 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Interest income and other income received	20	76,264,702	73,433,625	76,217,951	73,391,124
Interest paid	21	(25,589,550)	(27,313,134)	(25,589,550)	(27,313,134)
Cash paid to suppliers and employees	22	(24,800,545)	(23,791,798)	(24,922,608)	(23,951,847)
<b>Operating income before changes in operating assets</b>		<b>25,874,607</b>	22,328,693	<b>25,705,793</b>	22,126,143
Increase in loans and advances	23	(18,100,203)	(28,627,820)	(18,100,203)	(28,627,820)
Increase in deposits and current accounts	24	110,060,190	78,132,951	110,060,190	78,132,951
Taxation paid	25	(7,418,385)	(7,197,533)	(7,408,979)	(7,197,533)
Dividends paid	26	(12,200,000)	(4,000,000)	(12,200,000)	(4,000,000)
<b>Net cash inflow from operating activities</b>		<b>98,216,209</b>	60,636,291	<b>98,056,801</b>	60,433,741
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Additions to property and equipment	8	(650,846)	(1,110,381)	(650,846)	(1,110,381)
Proceeds on the sale of property and equipment	20	4,100	-	4,100	-
Sale / (purchase) of treasury bills		(278,867)	54,110	(278,867)	54,110
<b>Net cash outflow from investing activities</b>		<b>(925,613)</b>	(1,056,271)	<b>(925,613)</b>	(1,056,271)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>97,290,596</b>	59,580,021	<b>97,131,188</b>	59,377,470
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	3	<b>388,332,705</b>	328,752,684	<b>387,665,349</b>	328,287,879
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	3	<b>485,623,301</b>	388,332,705	<b>484,796,537</b>	387,665,349

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009

### 1. ACCOUNTING POLICIES

#### 1.1 Basis of accounting and statement of compliance

The consolidated Annual Financial Statements for the year ended 31 December 2009 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 1973. 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 5 (Non-current assets held for sale and discontinued operations) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

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.

IFRIC 17 (Distributions of Non-cash Assets to Owners) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IAS 24 (Related Party Disclosures) was issued during 2009 but is only effective for annual periods beginning on or after 1 January 2011. The Group will comply with the applicable standard from the year ending 31 December 2009.

IAS 27 (Consolidated and Separate Financial Statements) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IAS 28 (Investments in Associates) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IAS 31 (Interest in Joint Ventures) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

IAS 39 (Financial instruments: Recognition and measurement) was issued during 2008 but is only effective for annual periods beginning on or after 1 July 2009. The Group will comply with the applicable standard from the year ending 31 December 2010.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 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.

#### 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

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.6 Financial instruments (continued)

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.

#### (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 as 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 receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables 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.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.6 Financial instruments (continued)

##### 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.

##### (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.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.6 Financial instruments (continued)

##### (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.

#### 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.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 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 difference 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.

#### 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.



# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.10 Property, plant and equipment (Continued)

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 vehicle	-	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 provision 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 Arreas 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 29.69 million (2008 : R 29,68 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 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 are R1.9 million (2008:R1.8 million).

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

<b>2 STATEMENT OF FINANCIAL POSITION</b>					
<b>CLASSIFICATION OF FINANCIAL INSTRUMENTS</b>					
<b>Group</b>	<b>2009</b>	<b>Held-for-</b>	<b>Designated as</b>	<b>Loans and</b>	<b>Non-financial</b>
	<b>R</b>	<b>trading</b>	<b>at fair value</b>	<b>receivables at</b>	<b>assets and</b>
		<b>R</b>	<b>through profit</b>	<b>amortised cost</b>	<b>liabilities</b>
			<b>or loss</b>	<b>R</b>	<b>R</b>
			<b>R</b>		
<b>ASSETS</b>					
Cash and cash equivalents	514,954,604			514,954,604	
* Other short-term securities	29,692,718			29,692,718	
** Loans and advances to customers	194,797,611			194,797,611	
*** Derivative financial instruments (Forward exchange contracts)	1,951,259	1,951,259			
*** Other assets	4,452,478			4,452,478	
Receiver of Revenue	315,485				315,485
Deferred tax asset	269,477				269,477
Property, plant and equipment	4,561,650				4,561,650
<b>Total assets</b>	<b>750,995,282</b>	<b>1,951,259</b>	<b>-</b>	<b>743,897,411</b>	<b>5,146,612</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Ordinary share capital	20,000,000				20,000,000
Reserves	33,647,023				33,647,023
<b>Total ordinary equity</b>	<b>53,647,023</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53,647,023</b>
<b>Total Liabilities</b>					
Short-term borrowings	29,331,302	1,811,095		29,331,302	
Derivative financial instruments (Forward exchange contracts)	1,811,095	1,811,095			
Amount owed to depositors	662,402,114			662,402,114	
Other liabilities	3,803,748			3,803,748	
<b>Total equity and liabilities</b>	<b>750,995,282</b>	<b>1,811,095</b>	<b>-</b>	<b>695,537,164</b>	<b>53,647,023</b>

\* The fair value of the Short-term securities is R 28,264,000 as per the market price from the Samos system.

\*\* 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 equal 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 2009 (continued)

### 2 STATEMENT OF FINANCIAL POSITION CLASSIFICATION OF FINANCIAL INSTRUMENTS

Group	2008 R	Held-for- trading R	Designated as at fair value through profit or loss R	Loans and receivables at amortised cost R	Non-financial assets and liabilities R
<b>ASSETS</b>					
Cash and cash equivalents	427,466,256			427,466,256	
* Other short-term securities	29,682,083			29,682,083	
** Loans and advances to customers	176,662,408			176,662,408	
*** Derivative financial instruments (Forward exchange contracts)	1,808,314	1,808,314			
*** Other assets	5,730,522			5,730,522	
Receiver of Revenue	229,939				229,939
Deferred tax asset	214,339				214,339
Property, plant and equipment	5,279,979				5,279,979
<b>Total assets</b>	<b>647,073,840</b>	<b>1,808,314</b>	<b>-</b>	<b>639,541,269</b>	<b>5,724,257</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Ordinary share capital	20,000,000				20,000,000
Reserves	31,040,559				31,040,559
<b>Total ordinary equity</b>	<b>51,040,559</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,040,559</b>
<b>Total Liabilities</b>					
Short-term borrowings	39,133,551			39,133,551	
Derivative financial instruments (Forward exchange contracts)	1,727,111	1,727,111			
Amount owed to depositors	552,341,924			552,341,924	
Other liabilities	2,830,695			2,830,695	
<b>Total equity and liabilities</b>	<b>647,073,840</b>	<b>1,727,111</b>	<b>-</b>	<b>594,306,170</b>	<b>51,040,559</b>

\* The fair value of the Short-term securities is R 28,271,400 as per the market price from the Samos system.

\*\* 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 equal 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 2009 (continued)

2 STATEMENT OF FINANCIAL POSITION CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)			Designated as at fair value through profit or loss		
Group	2009 R	Held-for- trading R	R	Loans and receivables at amortised cost R	Non-financial assets and liabilities R
<b>ASSETS</b>					
Cash and cash equivalents	514,127,839			514,127,839	
* Other short-term securities	29,692,718			29,692,718	
** Loans and advances to customers	194,797,611			194,797,611	
*** Derivative financial instruments (Forward exchange contracts)	1,951,259	1,951,259			
*** Other assets	4,452,478			4,452,478	
Receiver of Revenue	315,485				315,485
Deferred tax asset	269,477				269,477
Investment in subsidiary	2,199,499				2,199,499
Property, plant and equipment	3,358,911				3,358,911
<b>Total assets</b>	<b>751,165,277</b>	<b>1,951,259</b>	<b>-</b>	<b>743,070,648</b>	<b>6,143,372</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Ordinary share capital	20,000,000				20,000,000
Reserves	33,817,043				33,817,043
<b>Total ordinary equity</b>	<b>53,817,043</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53,817,043</b>
<b>Total Liabilities</b>	<b>697,348,234</b>	<b>1,811,095</b>	<b>-</b>	<b>695,537,164</b>	<b>-</b>
Short-term borrowings	29,331,302			29,331,302	
Derivative financial instruments (Forward exchange contracts)	1,811,095	1,811,095			
Amount owed to depositors	662,402,114			662,402,114	
Other liabilities	3,803,723			3,803,728	
<b>Total equity and liabilities</b>	<b>751,165,277</b>	<b>1,811,095</b>	<b>-</b>	<b>695,537,164</b>	<b>53,817,043</b>

\* The fair value of the Short-term securities is R 28,264,000 as per the market price from the Samos system.

\*\* 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 equal 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 2009 (continued)

2 STATEMENT OF FINANCIAL POSITION CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)	2008 R	Held-for- trading R	Designated as at fair value through profit or loss R	Loans and receivables at amortised cost R	Non-financial assets and liabilities R
<b>ASSETS</b>					
Cash and cash equivalents	426,798,900			426,798,900	
* Other short-term securities	29,682,083			29,682,083	
** Loans and advances to customers	176,662,408			176,662,408	
*** Derivative financial instruments (Forward exchange contracts)	1,808,314	1,808,314			
*** Other assets	5,730,522			5,730,522	
Receiver of Revenue	229,939				229,939
Deferred tax asset	214,339				214,339
Investment in subsidiary	2,199,499				2,199,499
Property, plant and equipment	4,001,917				4,001,917
<b>Total assets</b>	<b>647,327,921</b>	<b>1,808,314</b>	<b>-</b>	<b>638,873,913</b>	<b>6,645,694</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Ordinary share capital	20,000,000				20,000,000
Reserves	31,294,665				31,294,665
<b>Total ordinary equity</b>	<b>51,294,665</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,294,665</b>
<b>Total Liabilities</b>	<b>596,033,256</b>	<b>1,727,111</b>	<b>-</b>	<b>594,306,145</b>	<b>-</b>
Short-term borrowings	39,133,551			39,133,551	
Derivative financial instruments (Forward exchange contracts)	1,727,111	1,727,111			
Amount owed to depositors	552,341,924			552,341,924	
Other liabilities	2,830,670			2,830,670	
<b>Total equity and liabilities</b>	<b>647,327,921</b>	<b>1,727,111</b>	<b>-</b>	<b>594,306,145</b>	<b>51,294,665</b>

\* The fair value of the Short-term securities is R 28,271,400 as per the market price from the Samos system.

\*\* 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 equal 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 2009 (continued)

	Group		Company	
	2009 R	2008 R	2009 R	2008 R
<b>3 CASH AND CASH EQUIVALENTS (AND SHORT-TERM BORROWINGS)</b>				
Coin and bank notes	3,788,981	3,677,940	3,788,981	3,677,940
Money at call and short term notice with banks	506,081,623	417,720,316	505,254,858	417,052,960
Balances with central bank	5,084,000	6,068,000	5,084,000	6,068,000
	<b>514,954,604</b>	427,466,256	<b>514,127,839</b>	426,798,900
Short-term borrowings	(29,331,302)	(39,133,551)	(29,331,302)	(39,133,551)
Net cash and cash equivalents	<b>485,623,302</b>	388,332,705	<b>484,796,537</b>	387,665,349
<b>Net maturity analysis</b>				
Maturing within 1 month	252,169,302	172,413,765	251,342,537	171,746,409
Maturing after 1 month but within 6 months	218,940,000	214,882,058	218,940,000	214,882,058
Maturing after 6 months but within 1 year	14,514,000	1,036,882	14,514,000	1,036,882
	<b>485,623,302</b>	388,332,705	<b>484,796,537</b>	387,665,349
<b>4 INVESTMENTS AND NEGOTIABLE SECURITIES</b>				
<b>Treasury Bills</b>				
Maturing within 1 year	29,692,718	29,682,083	29,692,718	29,682,083
<b>Total investment in Treasury Bills</b>	<b>29,692,718</b>	29,682,083	<b>29,692,718</b>	29,682,083
<b>Market valuation of total investments</b>	<b>28,264,000</b>	28,271,400	<b>28,264,000</b>	28,271,400
		Holding	2009 R	2008 R
<b>5 INVESTMENT IN SUBSIDIARY</b>				
N77 Oriental Plaza (Proprietary) Limited - share at cost		100%	1	1
Loan to subsidiary			2,199,498	2,199,498
			<b>2,199,499</b>	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 2009 (continued)

	Group		Company	
	2009 R	2008 R	2009 R	2008 R
<b>6 LOANS AND ADVANCES</b>				
Advances to customers and bills discounted	<b>196,873,733</b>	178,785,679	<b>196,873,733</b>	178,785,679
Less: Impairments of loans and advances	<b>(2,076,122)</b>	(2,123,271)	<b>(2,076,122)</b>	(2,123,271)
Advances to customers and bills discounted net of impairments	<b>194,797,611</b>	176,662,408	<b>194,797,611</b>	176,662,408
<b>Net maturity analyses</b>				
Maturing within 1 month (overdrafts - payable on demand)	<b>184,228,611</b>	161,781,408	<b>184,228,611</b>	161,781,408
Maturing after 1 month but within 6 months	<b>7,132,000</b>	3,393,000	<b>7,132,000</b>	3,393,000
Maturing after 6 months but within 1 year	<b>2,539,000</b>	357,000	<b>2,539,000</b>	357,000
Maturing after 1 year	<b>898,000</b>	11,131,000	<b>898,000</b>	11,131,000
	<b>194,797,611</b>	176,662,408	<b>194,797,611</b>	176,662,408
<b>Sectorial analyses</b>				
Companies and Close Corporations	<b>167,044,611</b>	162,992,408	<b>167,044,611</b>	162,992,408
Unincorporated businesses	<b>13,035,000</b>	5,299,000	<b>13,035,000</b>	5,299,000
Individuals	<b>12,706,000</b>	7,200,000	<b>12,706,000</b>	7,200,000
Non-profit institutions	<b>2,012,000</b>	1,171,000	<b>2,012,000</b>	1,171,000
	<b>194,797,611</b>	176,662,408	<b>194,797,611</b>	176,662,408
<b>Sectorial distribution</b>				
Manufacturing	<b>54,510,000</b>	31,030,953	<b>54,510,000</b>	31,030,953
Electricity, gas and water supply	-	2,507,839	-	2,507,839
Wholesale and retail trade, repair of specified items, hotel	<b>80,473,000</b>	78,477,592	<b>80,473,000</b>	78,477,592
Transport, storage and communication	<b>1,096,000</b>	846,482	<b>1,096,000</b>	846,482
Financial intermediation and insurance	<b>17,842,000</b>	16,458,852	<b>17,842,000</b>	16,458,852
Real estate	<b>5,861,000</b>	3,716,968	<b>5,861,000</b>	3,716,968
Business services	<b>15,691,000</b>	18,316,601	<b>15,691,000</b>	18,316,601
Community, social and personal services	<b>4,013,000</b>	4,021,023	<b>4,013,000</b>	4,021,023
Private households (individuals)	<b>13,854,000</b>	9,439,778	<b>13,854,000</b>	9,439,778
Other	<b>1,457,611</b>	11,846,320	<b>1,457,611</b>	11,846,320
	<b>194,797,611</b>	176,662,408	<b>194,797,611</b>	176,662,408
<b>7 OTHER ASSETS</b>				
Accrued interest	<b>3,461,731</b>	4,884,828	<b>3,461,731</b>	4,884,828
Other accounts receivable	<b>2,942,006</b>	2,654,008	<b>2,942,006</b>	2,654,008
The carrying amounts of these assets approximates their fair value.				
	<b>6,403,737</b>	7,538,836	<b>6,403,737</b>	7,538,836

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (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 2008	1,949,499	2,648,263	10,079,047	14,676,809
Additions	-	482,902	627,479	1,110,381
Balance as at 1 January 2009	1,949,499	3,131,165	10,706,526	15,787,190
Additions	-	407,432	243,414	650,846
Disposal	-	-	(17,998)	(17,998)
<b>Balance as at 31 December 2009</b>	<b>1,949,499</b>	<b>3,538,597</b>	<b>10,931,942</b>	<b>16,420,038</b>

Accumulated depreciation	Land and buildings R	Motor vehicles R	Furniture and office equipment R	Total R
Balance as at 1 January 2008	(626,050)	(1,854,755)	(6,654,993)	(9,135,798)
Depreciation expense	(70,085)	(361,384)	(939,944)	(1,371,413)
Balance as at 1 January 2009	(696,135)	(2,216,139)	(7,594,937)	(10,507,211)
Depreciation expense	(70,384)	(350,320)	(948,471)	(1,369,175)
Disposal	-	-	17,998	17,998
<b>Balance as at 31 December 2009</b>	<b>(766,519)</b>	<b>(2,566,459)</b>	<b>(8,525,410)</b>	<b>(11,858,388)</b>

### Carrying amount

As at 31 December 2008	1,253,364	915,026	3,111,589	5,279,979
<b>As at 31 December 2009</b>	<b>1,182,980</b>	<b>972,138</b>	<b>2,406,532</b>	<b>4,561,650</b>

### Property

#### 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 2009 (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 2008	-	2,648,263	9,829,047	12,477,310
Additions	-	482,902	627,479	1,110,381
Disposal	-	-	-	-
Balance as at 1 January 2009	-	3,131,165	10,456,526	13,587,691
Additions	-	407,432	243,414	650,846
Disposal	-	-	(17,998)	(17,998)
<b>Balance as at 31 December 2009</b>	-	<b>3,538,597</b>	<b>10,681,942</b>	<b>14,220,539</b>

Accumulated depreciation	Land and buildings R	Motor vehicles R	Furniture and office equipment R	Total R
Balance as at 1 January 2008	-	(1,854,755)	(6,435,865)	(8,290,620)
Depreciation expense	-	(361,384)	(933,770)	(1,295,154)
Balance as at 1 January 2009	-	(2,216,139)	(7,369,635)	(9,585,774)
Depreciation expense	-	(350,320)	(943,533)	(1,293,853)
Disposal	-	-	17,998	17,998
<b>Balance as at 31 December 2009</b>	-	<b>(2,566,459)</b>	<b>(8,295,170)</b>	<b>(10,861,629)</b>

### Carrying amount Company

As at 31 December 2008	-	915,026	3,086,891	4,001,917
<b>As at 31 December 2009</b>	-	<b>972,138</b>	<b>2,386,772</b>	<b>3,358,911</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements for the year ended 31 December 2009 (continued)

	Group		Company	
	2009 R	2008 R	2009 R	2008 R
<b>9 SHARE CAPITAL</b>				
<b>Authorised</b>				
25,000,000 ordinary shares of R1 each	<b>25,000,000</b>	25,000,000	<b>25,000,000</b>	25,000,000
<b>Issued</b>				
20,000,000 ordinary shares of R1 each	<b>20,000,000</b>	20,000,000	<b>20,000,000</b>	20,000,000
There are no shares to be issued under the control of the directors until the next AGM.				
<b>10 DEPOSITS AND CURRENT ACCOUNTS</b>				
Current accounts	<b>402,377,509</b>	335,482,212	<b>402,377,509</b>	335,482,212
Savings accounts	<b>20,188,401</b>	18,307,327	<b>20,188,401</b>	18,307,327
Time deposit accounts	<b>239,836,204</b>	198,552,385	<b>239,836,204</b>	198,552,385
	<b>662,402,114</b>	552,341,924	<b>662,402,114</b>	552,341,924
<b>Maturity analyses</b>				
Maturing within 1 month	<b>634,911,114</b>	511,893,924	<b>634,911,114</b>	511,893,924
Maturing after 1 month but within 6 months	<b>26,661,000</b>	37,454,000	<b>26,661,000</b>	37,454,000
Maturing after 6 months but within 1 year	<b>830,000</b>	2,994,000	<b>830,000</b>	2,994,000
	<b>662,402,114</b>	552,341,924	<b>662,402,114</b>	552,341,924
<b>11 OTHER LIABILITIES</b>				
Accrued interest	<b>992,344</b>	1,255,938	<b>992,344</b>	1,255,938
Accrued expenses	<b>1,042,014</b>	426,002	<b>1,042,014</b>	426,002
Other accounts payables	<b>3,580,485</b>	2,875,866	<b>3,580,485</b>	2,875,841
The carrying amounts of these liabilities approximates their fair value				
	<b>5,614,843</b>	4,557,806	<b>5,614,843</b>	4,557,781
<b>12 CONTINGENT LIABILITIES</b>				
Letters of guarantee				
Letters of credit	<b>47,912,485</b>	24,800,025	<b>47,912,485</b>	24,800,025
Acceptances	<b>27,810,296</b>	20,309,427	<b>27,810,296</b>	20,309,427
	<b>1,079,955</b>	948,902	<b>1,079,955</b>	948,902
	<b>76,802,736</b>	46,058,354	<b>76,802,736</b>	46,058,354

# Habib Overseas Bank Limited

## Notes to annual financial statements for the year ended 31 December 2009 (continued)

	Group		Company	
	2009 R	2008 R	2009 R	2008 R
<b>13 INTEREST INCOME AND EXPENSE</b>				
<b>Interest and similar income comprises interest on:</b>				
Loans and advances	19,950,520	24,758,271	19,950,520	24,758,271
Balances with banks	34,892,215	34,446,692	34,892,215	34,446,692
Investments and negotiable securities	2,442,925	3,197,106	2,442,925	3,197,106
	<b>57,285,660</b>	62,402,069	<b>57,285,660</b>	62,402,069
<b>Interest expense and similar comprises interest on:</b>				
Current and time deposit accounts	(24,572,510)	(26,341,686)	(24,572,510)	(26,341,686)
Savings accounts	(286,163)	(299,607)	(286,163)	(299,607)
Balances with banks	(467,283)	(1,222,119)	(467,283)	(1,222,119)
	<b>(25,325,956)</b>	(27,863,412)	<b>(25,325,956)</b>	(27,863,412)
<b>14 NON-INTEREST INCOME</b>				
Commission and foreign exchange earnings	9,434,569	7,190,539	9,434,569	7,190,539
Fee based income	6,739,951	5,654,940	6,739,951	5,654,940
Other income	1,393,143	1,864,040	1,346,392	1,821,539
	<b>17,567,663</b>	14,709,519	<b>17,520,912</b>	14,667,018
<b>15 IMPAIRMENT CHARGES ON LOANS AND ADVANCES</b>				
Balance at beginning of year	2,123,271	2,017,452	2,123,271	2,017,452
Specific impairment (reversed)/raised during the year	(35,000)	78,868	(35,000)	78,868
Interest suspense raised during the year	(12,149)	26,951	(12,149)	26,951
Charge to income statement	(47,149)	105,819	(47,149)	105,819
Balance at end of year	<b>2,076,122</b>	2,123,271	<b>2,076,122</b>	2,123,271
Comprising:				
Specific impairment (including interest suspended)	(146,122)	(193,271)	(146,122)	(193,271)
Portfolio impairment reserve	(1,930,000)	(1,930,000)	(1,930,000)	(1,930,000)
	<b>(2,076,122)</b>	(2,123,271)	<b>(2,076,122)</b>	(2,123,271)

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

	Group		Company	
	2009 R	2008 R	2009 R	2008 R
<b>16 OPERATING EXPENDITURE</b>				
Operating expenses includes the following items:				
<b>Staff costs</b>	<b>(11,509,139)</b>	(10,539,522)	<b>(11,509,139)</b>	(10,539,522)
- Staff cost	<b>(11,509,139)</b>	(10,539,522)	<b>(11,509,139)</b>	(10,539,522)
<b>Auditors' remuneration</b>	<b>(476,362)</b>	(508,000)	<b>(476,362)</b>	(508,000)
- Audit fee	<b>(476,362)</b>	(508,000)	<b>(476,362)</b>	(508,000)
<b>Depreciation</b>	<b>(1,369,175)</b>	(1,371,413)	<b>(1,293,853)</b>	(1,295,154)
Land and buildings	<b>(70,384)</b>	(70,085)	-	-
Motor vehicles	<b>(350,320)</b>	(361,384)	<b>(350,320)</b>	(361,384)
Furniture and office equipment	<b>(948,471)</b>	(939,944)	<b>(943,533)</b>	(933,770)
<b>Provident Fund Contributions</b>	<b>(667,996)</b>	(565,763)	<b>(667,996)</b>	(565,763)
Current service costs	<b>(667,996)</b>	(565,763)	<b>(667,996)</b>	(565,763)
<b>Operating leases</b>	<b>(1,877,711)</b>	(1,877,711)	<b>(2,537,711)</b>	(2,537,711)
Rental - banks premises	<b>(662,570)</b>	(662,570)	<b>(1,322,570)</b>	(1,322,570)
Rental - staff accommodation	<b>(1,215,141)</b>	(1,215,141)	<b>(1,215,141)</b>	(1,215,141)
<b>Directors' emoluments</b>				
<b>Executive directors</b>	<b>(2,012,734)</b>	(1,559,866)	<b>(2,012,734)</b>	(1,559,866)
Basic salary (gross)	<b>(1,380,000)</b>	(916,600)	<b>(1,380,000)</b>	(916,600)
Bonus and performance related payments	<b>(115,000)</b>	(200,000)	<b>(115,000)</b>	(200,000)
Private use of motor vehicle	<b>(186,407)</b>	(135,080)	<b>(186,407)</b>	(135,080)
Medical aid contribution	<b>(80,116)</b>	(51,894)	<b>(80,116)</b>	(51,894)
Pension / provident scheme contributions	<b>(81,000)</b>	(54,996)	<b>(81,000)</b>	(54,996)
Cell phone	<b>(59,000)</b>	(36,000)	<b>(59,000)</b>	(36,000)
Housing allowance	<b>(111,211)</b>	(165,296)	<b>(111,211)</b>	(165,296)
<b>Non-executive directors</b>	<b>(100,000)</b>	(1,800,136)	<b>(100,000)</b>	(1,800,136)
Directors' fees	<b>(100,000)</b>	(1,800,136)	<b>(100,000)</b>	(1,800,136)

# Habib Overseas Bank Limited

## Notes to annual financial statements for the year ended 31 December 2009 (continued)

	Group		Company	
	2009 R	2008 R	2009 R	2008 R
<b>17 TAXATION</b>				
<b>South African Normal Taxation</b>	<b>(7,277,701)</b>	(6,845,876)	<b>(7,268,295)</b>	(6,845,876)
- Current taxation	<b>(6,428,324)</b>	(6,720,000)	<b>(6,418,918)</b>	(6,720,000)
- Prior year adjustment		5,800		5,800
	<b>315,485</b>	229,939	<b>315,485</b>	229,939
- Overpayment of prior years taxation	<b>229,939</b>	-	<b>229,939</b>	-
- Overpayment during the year	<b>85,546</b>	229,939	<b>85,546</b>	229,939
- Secondary taxation on companies	<b>(1,220,000)</b>	(400,000)	<b>(1,220,000)</b>	(400,000)
- Deferred taxation	<b>55,138</b>	38,385	<b>55,138</b>	38,385
<b>TAX RATE RECONCILIATION</b>				
Standard rate of taxation	<b>28.00%</b>	28.00%	<b>28.00%</b>	28.00%
Adjustment for:				
- secondary tax on companies	<b>5.55%</b>	1.74%	<b>5.55%</b>	1.74%
- temporary differences on property and equipment	<b>0.25%</b>	0.03%	<b>0.25%</b>	0.03%
- temporary differences impairments on advances	<b>(0.59%)</b>	(0.02%)	<b>(0.59%)</b>	(0.02%)
- permanent differences	<b>0.09%</b>	0.11%	<b>0.09%</b>	0.11%
- adjustments recognised in the current year in relation to the current tax of prior years	<b>0.00%</b>	(0.03%)	<b>0.00%</b>	(0.03%)
- utilisation of assessed loss in subsidiary	<b>(0.16%)</b>	(0.16%)	<b>(0.00%)</b>	0.00%
Effective rate of taxation	<b>33.14%</b>	29.66%	<b>33.31%</b>	29.83%
<b>18 DEFERRED TAXATION</b>				
Deferred tax asset - beginning of the year	<b>(214,339)</b>	(175,954)	<b>(214,339)</b>	(175,954)
Originating temporary difference - furniture and office equipment	<b>(55,138)</b>	(38,385)	<b>(55,138)</b>	(38,385)
Deferred tax asset - end of the year	<b>(269,477)</b>	(214,339)	<b>(269,477)</b>	(214,339)
<b>19 ORDINARY DIVIDENDS</b>				
Final dividend of 61 cents per share for the year 2009 declared on 3 December 2009 and paid from current earnings.	<b>12,200,000</b>	4,000,000	<b>12,200,000</b>	4,000,000
	<b>12,200,000</b>	4,000,000	<b>12,200,000</b>	4,000,000
<b>20 INCOME RECEIVED</b>				
Accounts receivable at beginning of year	<b>7,538,836</b>	3,898,519	<b>7,538,836</b>	3,898,519
Interest and similar income	<b>57,285,660</b>	62,402,069	<b>57,285,660</b>	62,402,069
Accounts receivable at end of year	<b>(6,403,737)</b>	(7,538,836)	<b>(6,403,737)</b>	(7,538,836)
	<b>58,420,759</b>	58,761,752	<b>58,420,759</b>	58,761,752
Adjustments for:				
Interest accrued on treasury bills in the current year	<b>268,231</b>	(10,695)	<b>268,231</b>	(10,695)
Interest suspense	<b>12,149</b>	(26,951)	<b>12,149</b>	(26,951)
	<b>58,701,139</b>	58,724,106	<b>58,701,139</b>	58,724,106
Non-interest revenue				
Profit on sale of fixed assets	<b>17,567,663</b>	14,709,519	<b>17,520,912</b>	14,667,018
	<b>(4,100)</b>	-	<b>(4,100)</b>	-
	<b>76,264,702</b>	73,433,625	<b>76,217,951</b>	73,391,124

# Habib Overseas Bank Limited

## Notes to annual financial statements for the year ended 31 December 2009 (continued)

	Group		Company	
	2009 R	2008 R	2009 R	2008 R
<b>21 INTEREST PAID</b>				
Accrued interest at beginning of year	(1,255,938)	(705,660)	(1,255,938)	(705,660)
Interest expense and similar charges	(25,325,956)	(27,863,412)	(25,325,956)	(27,863,412)
Accrued interest at end of year	992,344	1,255,938	992,344	1,255,938
	<b>(25,589,550)</b>	<b>(27,313,134)</b>	<b>(25,589,550)</b>	<b>(27,313,134)</b>
<b>22 CASH PAID TO EMPLOYEES AND SUPPLIERS</b>				
Operating expenditure	(27,490,351)	(26,064,514)	(27,537,092)	(26,148,304)
Adjustments for:				
Depreciation	1,369,175	1,371,413	1,293,853	1,295,154
	<b>(26,121,176)</b>	<b>(24,693,101)</b>	<b>(26,243,239)</b>	<b>(24,853,150)</b>
Working capital changes:				
Increase in bills payable	620,635	523,887	620,635	523,887
Increase in other accounts payable	699,996	377,416	699,996	377,416
	<b>(24,800,545)</b>	<b>(23,791,798)</b>	<b>(24,922,608)</b>	<b>(23,951,847)</b>
<b>23 INCREASE IN LOANS AND ADVANCES</b>				
Loans and advances net of impairments and interest suspense at beginning of the year	176,662,408	148,113,456	176,662,408	148,113,456
Impairment of loans and advances (excluding interest suspended)	35,000	(78,868)	35,000	(78,868)
Loans and advances net of impairments and interest suspense at end of year	(194,797,611)	(176,662,408)	(194,797,611)	(176,662,408)
Increase in loans and advances	<b>(18,100,203)</b>	<b>(28,627,820)</b>	<b>(18,100,203)</b>	<b>(28,627,820)</b>
<b>24 INCREASE IN DEPOSITS AND CURRENT ACCOUNTS</b>				
Deposits and current accounts at beginning of year	552,341,924	474,208,973	552,341,924	474,208,973
Deposits and current accounts at end of year	662,402,114	552,341,924	662,402,114	552,341,924
Increase in deposits and current accounts	<b>110,060,190</b>	<b>78,132,951</b>	<b>110,060,190</b>	<b>78,132,951</b>
<b>25 TAXATION PAID</b>				
Amounts receivable at beginning of year	229,939	83,333	229,939	83,333
Overprovision of prior years taxation	(229,939)	(5,800)	(229,939)	(5,800)
Charge for year	6,112,839	6,490,061	6,103,433	6,490,061
Secondary tax paid	1,220,000	400,000	1,220,000	400,000
Amounts receivable at end of year	85,546	229,939	85,546	229,939
	<b>7,418,385</b>	<b>7,197,533</b>	<b>7,408,979</b>	<b>7,197,533</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements for the year ended 31 December 2009 (continued)

	2009 R	Group	2008 R	2009 R	Company	2008 R
<b>26 DIVIDENDS PAID</b>						
Dividends declared	<b>(12,200,000)</b>		(4,000,000)	<b>(12,200,000)</b>		(4,000,000)
	<b>(12,200,000)</b>		(4,000,000)	<b>(12,200,000)</b>		(4,000,000)

### 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	<b>(667,996)</b>		(565,763)	<b>(667,996)</b>		(565,763)
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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	<b>1,248,928</b>	1,489,277	<b>1,248,928</b>	1,489,277
Fixed deposit - GBP denominated	<b>417,026</b>	596,563	<b>417,026</b>	596,563
Favourable bank balances - USD denominated	<b>392,908</b>	136,916	<b>392,908</b>	136,916
Unfavourable bank balances - USD denominated	<b>(28,867,444)</b>	(38,570,201)	<b>(28,867,444)</b>	(38,570,201)

In addition, Habibsons Bank Limited (London and Zurich Branch) issued guarantees to the Bank totaling R 17,560,510 in respect of facilities granted by the bank to its customers in South Africa.

Habibsons Bank Limited and the Bank share common directors. All transactions have taken place at arms length.

Directors' emoluments (Note 16)

Rentals paid to N77 Oriental Plaza (Proprietary) Limited	-	-	<b>660,000</b>	660,000
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### 29 COMMITMENTS

#### Operating lease commitments

<1 Year	<b>2,495,966</b>	2,488,600	<b>2,495,966</b>	2,488,600
1-5 Years	<b>6,002,644</b>	2,693,430	<b>6,002,644</b>	2,693,430

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (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, 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	2009		
	Statement of financial position	Off-Statement of financial position	Total
<b>Maximum exposure to credit risk per financial assets</b>			
<b>Cash and balances with central bank</b>	<b>30,491,082</b>	-	<b>30,491,082</b>
Local and foreign cash	3,788,981	-	3,788,981
Mandatory reserve deposits with central banks	5,084,000	-	5,084,000
Other balances with central banks	21,618,101	-	21,618,101
<b>Loans and advances</b>	<b>679,261,133</b>	-	<b>679,261,133</b>
Overdrafts	196,873,733	-	196,873,733
Term loans	484,463,522	-	484,463,522
Less: impairments of loans and advances	(2,076,122)	-	(2,076,122)
<b>Investments and negotiable securities</b>	<b>29,692,718</b>	-	<b>29,692,718</b>
Investment securities	29,692,718	-	29,692,718
Derivative financial assets (Forward exchange contracts)	1,951,259	-	1,951,259
Guarantees - irrevocable	-	47,912,485	47,912,485
Letter of credit and acceptances	-	28,890,251	28,890,251
Other assets	5,037,440	-	5,037,440
Property, plant and equipment	4,561,650	-	4,561,650
	<b>750,995,281</b>	<b>76,802,736</b>	<b>827,798,017</b>



# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### IFRS 7 DISCLOSURES

Group credit risk analysis	2008		
	Statement of financial position	Off-Statement of financial position	Total
<b>Maximum exposure to credit risk per financial assets</b>			
<b>Cash and balances with central bank</b>	<b>33,568,986</b>	-	<b>33,568,986</b>
Local and foreign cash	3,677,940	-	3,677,940
Mandatory reserve deposits with central banks	6,068,000	-	6,068,000
Other balances with central banks	23,823,046	-	23,823,046
<b>Loans and advances</b>	<b>570,559,678</b>	-	<b>570,559,678</b>
Overdrafts	178,785,679	-	178,785,679
Term loans	393,897,270	-	393,897,270
Less: impairments of loans and advances	(2,123,271)	-	(2,123,271)
<b>Investments and negotiable securities</b>	<b>29,682,083</b>	-	<b>29,682,083</b>
Investment securities	29,682,083	-	29,682,083
Derivative financial assets (Forward exchange contracts)	1,808,314	-	1,808,314
Guarantees - irrevocable	-	24,800,025	24,800,025
Letter of credit and acceptances	-	21,258,329	21,258,329
Other assets	6,174,800	-	6,174,800
Property, plant and equipment	5,279,979	-	5,279,979
	<b>647,073,840</b>	<b>46,058,354</b>	<b>693,132,194</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 30 RISK MANAGEMENT (Continued)

#### 30.1 CREDIT RISK (Continued)

Company credit risk analysis	2009		
	Statement of financial position	Off-Statement of financial position	Total
<b>Maximum exposure to credit risk per financial assets</b>			
<b>Cash and balances with central bank</b>	<b>30,491,082</b>	-	<b>30,491,082</b>
Local and foreign cash	3,788,981	-	3,788,981
Mandatory reserve deposits with central banks	5,084,000	-	5,084,000
Other balances with central banks	21,618,101	-	21,618,101
<b>Loans and advances</b>	<b>678,434,368</b>	-	<b>678,434,368</b>
Overdrafts	196,873,733	-	196,873,733
Term loans	483,636,757	-	483,636,757
Less: impairments of loans and advances	(2,076,122)	-	(2,076,122)
<b>Investments and negotiable securities</b>	<b>29,692,718</b>	-	<b>29,692,718</b>
Investment securities	29,692,718	-	29,692,718
Derivative financial assets (Forward exchange contracts)	1,951,259	-	1,951,259
Guarantees - irrevocable	-	47,912,485	47,912,485
Letter of credit and acceptances	-	28,890,251	28,890,251
Other assets	5,037,440	-	5,037,440
Investment in subsidiary	2,199,499	-	2,199,499
Property, plant and equipment	3,358,911	-	3,358,911
	<b>751,165,277</b>	<b>76,802,736</b>	<b>751,165,277</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 30 RISK MANAGEMENT (Continued)

#### 30.1 CREDIT RISK (Continued)

Company credit risk analysis	2008		Total
	Statement of financial position	Off-Statement of financial position	
<b>Maximum exposure to credit risk per financial assets</b>			
<b>Cash and balances with central bank</b>	<b>33,568,986</b>	-	<b>33,568,986</b>
Local and foreign cash	3,677,940	-	3,677,940
Mandatory reserve deposits with central banks	6,068,000	-	6,068,000
Other balances with central banks	23,823,046	-	23,823,046
<b>Loans and advances</b>	<b>569,892,322</b>	-	<b>569,892,322</b>
Overdrafts	178,785,679	-	178,785,679
Term loans	393,229,914	-	393,229,914
Less: impairments of loans and advances	(2,123,271)	-	(2,123,271)
<b>Investments and negotiable securities</b>	<b>29,682,083</b>	-	<b>29,682,083</b>
Investment securities	29,682,083	-	29,682,083
Derivative financial assets (Forward exchange contracts)	1,808,314	-	1,808,314
Guarantees - irrevocable	-	24,800,025	24,800,025
Letter of credit and acceptances	-	21,258,329	21,258,329
Other assets	6,174,800	-	6,174,800
Investment in subsidiary	2,199,499	-	2,199,499
Property, plant and equipment	4,001,917	-	4,001,917
	<b>693,132,194</b>	<b>46,058,354</b>	<b>693,386,275</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements

### for the year ended 31 December 2009 (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.

##### 30.4 IMPAIRED LOANS AND ADVANCES

The total loans and advances are R 194,797,611 (2008 : R 176,662,408) of which R 154,393 (2008 : R 354,318) are impaired advances.

##### 30.5 CREDIT ENHANCEMENTS

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

	<b>2009</b>
	<b>R</b>
Habibsons bank guarantee	13,495,656.54
Imperial bank guarantee	6,932,464.00
BNP Paribas bank guarantee	1,842,500.00
HSBC bank guarantee	3,531,291.00
	<u>25,801,911.54</u>

##### 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 plays 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 fair value of financial instruments through profit & loss are discussed below:

#### 2009

	<b>Financial Instruments Level 2</b>	
	<b>Carrying value</b>	<b>Fair value TPL</b>
	<b>R</b>	<b>R</b>
Derivative financial instrument assets	37,845,593	39,796,852
Derivative financial instrument liabilities	37,844,762	39,655,857
Treasury bills	29,692,718	29,692,718

#### 2008

	<b>Financial Instruments Level 2</b>	
	<b>Carrying value</b>	<b>Fair value TPL</b>
	<b>R</b>	<b>R</b>
Derivative financial instrument assets	31,876,103	33,684,417
Derivative financial instrument liabilities	31,893,995	33,621,106
Treasury bills	29,682,083	29,682,083

# Habib Overseas Bank Limited

## Notes to annual financial statements

### for the year ended 31 December 2009 (continued)

#### 30 RISK MANAGEMENT (Continued)

##### 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 2009 would decrease by:

R 115k	(2008:decrease R 91k)	in 1 months time
R 118k	(2008:decrease R 114k)	in 3 months time
R 251k	(2008:decrease R 288k)	in 6 months time
R 384k	(2008:decrease R 576k)	in 12 months time

###### (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:

<b>ASSETS</b>	<b>ZAR EQUIVALENT</b>	<b>GBP</b>	<b>USD</b>	<b>EURO</b>
Cash	1,001,153	2,605	124,553	4,915
Due from Banks Demand	25,819,376	34,941	3,277,262	117,806
Due from Banks Time	9,551,681	-	1,296,022	-
Loans and Advances	28,867,902	-	3,916,947	-
<b>LIABILITIES</b>				
Deposits	34,378,049	37,203	4,438,231	115,480
Due to Banks	29,235,944	-	3,966,885	-

Any adverse movement in exchange rate to the extent of 10% would have affected the risk by R 19,200.00. Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies was negative R 2,227,660 (2008 : positive R 885,371)

##### 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 2009 (continued)

### 30 RISK MANAGEMENT (Continued)

#### 30.8 LIQUIDITY RISK (Continued)

Group	2009 R	Term Maturity					1 - 5 years	Non- Cash
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months			
<b>ASSETS</b>								
Cash and cash equivalents	514,954,604	273,872,604	40,578,000	189,247,000	11,257,000			
Other short-term securities	29,692,718		9,926,814	19,765,904				
Loans and advances to customers	194,797,611	184,228,611	272,000	2,482,000	6,917,000	898,000		
Derivative financial instruments (Forward exchange contracts)	1,951,259				1,951,259			
Other assets	4,452,478							4,452,478
Receiver of Revenue	315,485							315,485
Deferred tax asset	269,477							269,477
Property, plant and equipment	4,561,650							4,561,650
<b>Total assets</b>	<b>750,995,282</b>	<b>458,101,215</b>	<b>50,776,814</b>	<b>211,494,904</b>	<b>20,125,259</b>	<b>898,000</b>		<b>9,599,090</b>
<b>EQUITY AND LIABILITIES</b>								
<b>Equity</b>								
Ordinary share capital	20,000,000							20,000,000
Reserves	33,647,023							33,647,023
<b>Total ordinary equity</b>	<b>53,647,023</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53,647,023</b>
<b>Total liabilities</b>								
Short-term borrowings	29,331,302	29,331,302						
Derivative financial instruments (Forward exchange contracts)	1,811,095				1,811,095			
Amount owed to depositors	662,402,114	556,940,114	77,971,000	16,784,000	9,877,000	830,000		
Other liabilities	3,803,748							3,803,748
<b>Total equity and liabilities</b>	<b>750,995,282</b>	<b>586,271,416</b>	<b>77,971,000</b>	<b>16,784,000</b>	<b>11,688,095</b>	<b>830,000</b>	<b>57,450,771</b>	
<b>Remaining contractual maturities</b>								
<b>Balance sheet liabilities</b>								
Short-term borrowings	29,331,302	29,331,302						
Derivative financial instruments (Forward exchange contracts)	1,811,095				1,811,095			
Amount owed to depositors	663,389,795	557,320,795	78,208,000	16,934,000	10,084,000	843,000		
Other liabilities	2,816,067							2,816,067
<b>Off-balance sheet liabilities</b>	<b>76,802,736</b>	<b>68,663,736</b>		<b>510,000</b>	<b>6,356,000</b>	<b>1,273,000</b>		
Irrevocable guarantees	47,912,485	47,912,485						
Irrevocable letters of credit and acceptances	28,890,251	20,751,251		510,000	6,356,000	1,273,000		
<b>Total liabilities</b>	<b>774,150,995</b>	<b>655,315,833</b>	<b>78,208,000</b>	<b>17,444,000</b>	<b>18,251,095</b>	<b>2,116,000</b>	<b>2,816,067</b>	

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 30 RISK MANAGEMENT (Continued)

#### 30.8 LIQUIDITY RISK (Continued)

Group	2008 R	Term Maturity					Non-Cash
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	
<b>ASSETS</b>							
Cash and cash equivalents	427,466,256	125,460,232	87,123,966	214,882,058			
Other short-term securities	29,682,083			29,682,083			
Loans and advances to customers	176,662,408	161,398,408	214,000	2,056,000	1,694,000	11,300,000	
Derivative financial instruments (Forward exchange contracts)	1,808,314				1,808,314		
Other assets	5,730,522						5,730,522
Receiver of Revenue	229,939						229,939
Deferred tax asset	214,339						214,339
Property, plant and equipment	5,279,979						5,279,979
<b>Total assets</b>	<b>647,073,840</b>	<b>286,858,640</b>	<b>87,337,966</b>	<b>246,620,141</b>	<b>3,502,314</b>	<b>11,300,000</b>	<b>11,454,779</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Ordinary share capital	20,000,000						20,000,000
Reserves	31,040,559						31,040,559
<b>Total ordinary equity</b>	<b>51,040,559</b>						<b>51,040,559</b>
<b>Total liabilities</b>							
Short-term borrowings	39,133,551	39,133,551					
Derivative financial instruments (Forward exchange contracts)	1,727,111				1,727,111		
Amount owed to depositors	552,341,924	448,758,924	63,135,000	32,594,000	7,854,000		
Other liabilities	2,830,695						2,830,695
<b>Total equity and liabilities</b>	<b>647,073,840</b>	<b>487,892,475</b>	<b>63,135,000</b>	<b>32,594,000</b>	<b>9,581,111</b>	<b>-</b>	<b>53,871,254</b>
<b>Remaining contractual maturities</b>							
<b>Balance sheet liabilities</b>							
Short-term borrowings	39,143,439	39,143,439					
Derivative financial instruments (Forward exchange contracts)	1,727,111				1,727,111		
Amount owed to depositors	553,587,974	450,004,974	63,135,000	32,594,000	7,854,000		
Other liabilities	1,574,757						1,574,757
<b>Off-balance sheet liabilities</b>	<b>46,058,351</b>	<b>24,800,025</b>	<b>-</b>	<b>21,258,326</b>	<b>-</b>	<b>-</b>	<b>-</b>
Irrevocable guarantees	24,800,025	24,800,025					
Irrevocable letters of credit and acceptances	21,258,326			21,258,326			
<b>Total liabilities</b>	<b>642,091,632</b>	<b>513,948,438</b>	<b>63,135,000</b>	<b>53,852,329</b>	<b>9,581,111</b>	<b>-</b>	<b>1,574,757</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 30 RISK MANAGEMENT (Continued)

#### 30.8 LIQUIDITY RISK (Continued)

Company	2009 R	Term Maturity					1 - 5 years	Non- Cash
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months			
<b>ASSETS</b>								
Cash and cash equivalents	514,127,839	273,045,839	40,578,000	189,247,000	11,257,000			
Other short-term securities	29,692,718		9,926,814	19,765,904				
Loans and advances to customers	194,797,611	184,228,611	272,000	2,482,000	6,917,000	898,000		
Derivative financial instruments (Forward exchange contracts)	1,951,259				1,951,259			
Other assets	4,452,478							
Receiver of Revenue	315,485							4,452,478
Deferred tax asset	269,477							315,485
Investment in subsidiary	2,199,499							2,199,499
Property, plant and equipment	3,358,911							3,358,911
<b>Total assets</b>	<b>751,165,277</b>	<b>457,274,450</b>	<b>50,776,814</b>	<b>211,494,904</b>	<b>20,125,259</b>	<b>898,000</b>		<b>10,595,850</b>
<b>EQUITY AND LIABILITIES</b>								
<b>Equity</b>								
Ordinary share capital	20,000,000							20,000,000
Reserves	33,817,043							33,817,043
<b>Total ordinary equity</b>	<b>53,817,043</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53,817,043</b>
<b>Total liabilities</b>	<b>697,348,234</b>	<b>586,271,416</b>	<b>77,971,000</b>	<b>16,784,000</b>	<b>11,688,095</b>	<b>830,000</b>		<b>3,803,723</b>
Short-term borrowings	29,331,302	29,331,302						
Derivative financial instruments (Forward exchange contracts)	1,811,095				1,811,095			
Amount owed to depositors	662,402,114	556,940,114	77,971,000	16,784,000	9,877,000	830,000		
Other liabilities	3,803,723							3,803,723
<b>Total equity and liabilities</b>	<b>751,165,277</b>	<b>586,271,416</b>	<b>77,971,000</b>	<b>16,784,000</b>	<b>11,688,095</b>	<b>830,000</b>		<b>57,620,766</b>
<b>Remaining contractual maturities</b>								
<b>Balance sheet liabilities</b>								
Short-term borrowings	29,331,302	29,331,302						
Derivative financial instruments (Forward exchange contracts)	1,811,095				1,811,095			
Amount owed to depositors	663,389,795	557,320,795	78,208,000	16,934,000	10,084,000	843,000		
Other liabilities	2,816,042							2,816,042
<b>Off-balance sheet liabilities</b>	<b>76,802,736</b>	<b>68,663,736</b>	<b>-</b>	<b>510,000</b>	<b>6,356,000</b>	<b>1,273,000</b>		<b>-</b>
Irrevocable guarantees	47,912,485	47,912,485						
Irrevocable letters of credit and acceptances	28,890,251	20,751,251	-	510,000	6,356,000	1,273,000		
<b>Total liabilities</b>	<b>774,150,970</b>	<b>655,315,833</b>	<b>78,208,000</b>	<b>17,444,000</b>	<b>18,251,095</b>	<b>2,116,000</b>		<b>2,816,042</b>



# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2009 (continued)

### 30 RISK MANAGEMENT (Continued)

#### 30.8 LIQUIDITY RISK (Continued)

Group	2008 R	Term Maturity					1 - 5 years	Non- Cash
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months			
<b>ASSETS</b>								
Cash and cash equivalents	426,798,900	124,792,876	87,123,966	214,882,058				
Other short-term securities	29,682,083			29,682,083				
Loans and advances to customers	176,662,408	172,698,408	214,000	2,056,000	1,694,000			
Derivative financial instruments (Forward exchange contracts)	1,808,314				1,808,314			
Other assets	5,730,522							5,730,522
Receiver of Revenue	229,939							229,939
Deferred tax asset	214,339							214,339
Investment in subsidiary	2,199,499							2,199,499
Property, plant and equipment	4,001,917							4,001,917
<b>Total assets</b>	<b>647,327,921</b>	<b>297,491,284</b>	<b>87,337,966</b>	<b>246,620,141</b>	<b>3,502,314</b>	<b>-</b>	<b>-</b>	<b>12,376,216</b>
<b>EQUITY AND LIABILITIES</b>								
<b>Equity</b>								
Ordinary share capital	20,000,000							20,000,000
Reserves	31,294,665							31,294,665
<b>Total ordinary equity</b>	<b>51,294,665</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,294,665</b>
<b>Total liabilities</b>	<b>596,033,256</b>	<b>487,892,475</b>	<b>63,135,000</b>	<b>32,594,000</b>	<b>9,581,111</b>	<b>-</b>	<b>-</b>	<b>2,830,670</b>
Short-term borrowings	39,133,551	39,133,551						
Derivative financial instruments (Forward exchange contracts)	1,727,111				1,727,111			
Amount owed to depositors	552,341,924	448,758,924	63,135,000	32,594,000	7,854,000			
Other liabilities	2,830,670							2,830,670
<b>Total equity and liabilities</b>	<b>647,327,921</b>	<b>487,892,475</b>	<b>63,135,000</b>	<b>32,594,000</b>	<b>9,581,111</b>	<b>-</b>	<b>-</b>	<b>54,125,335</b>
<b>Remaining contractual maturities</b>								
<b>Balance sheet liabilities</b>	<b>596,033,256</b>	<b>489,148,413</b>	<b>63,135,000</b>	<b>32,594,000</b>	<b>9,581,111</b>	<b>-</b>	<b>-</b>	<b>1,574,732</b>
Short-term borrowings	39,143,439	39,143,439						
Derivative financial instruments (Forward exchange contracts)	1,727,111				1,727,111			
Amount owed to depositors	553,587,974	450,004,974	63,135,000	32,594,000	7,854,000			
Other liabilities	1,574,732							1,574,732
<b>Off-balance sheet liabilities</b>	<b>46,058,354</b>	<b>24,800,025</b>	<b>-</b>	<b>21,258,326</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Irrevocable guarantees	24,800,025	24,800,025						
Irrevocable letters of credit and acceptances	21,258,329			21,258,326				
	642,091,610	513,948,438	63,135,000	53,852,329	9,581,111	-	-	1,574,732

# Habib Overseas Bank Limited