

Habib Overseas Bank Limited

(Registration number 1990/004437/06)

AUDITED ANNUAL FINANCIAL STATEMENTS 2012

CONTENTS	Page
Directors' responsibility statement	2
Certificate of the company secretary	2
Directors and secretary	3
Chairman's statement	4
Independent auditor's report	5
Audit committee report	6
Director's report	7
ANNUAL FINANCIAL STATEMENTS	
- Statement of financial position	8
- Statement of comprehensive income	9
- Statement of changes in equity	10
- Statement of cash flows	11
- Notes to the annual financial statements	12-43

Prepared by:
Rizwana Shaik (Accountant)

Habib Overseas Bank Limited

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated 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 2012; the statement of comprehensive income, the statement of changes in equity and statement of cash flows 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.

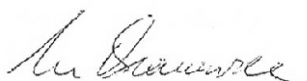
The directors' responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements, so as to be free from material misstatement, whether owing to fraud or error, selecting and applying appropriate accounting 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 Habib Overseas Bank 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 consolidated and company annual financial statements, as identified in the first paragraph, were approved by the Board of Directors on 18 March 2013 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 88(2)(e) 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 2012, 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.



Ms Rizwana Shaik
Company Secretary
18 March 2013

Habib Overseas Bank Limited

DIRECTORS AND SECRETARY DIRECTORS

Habib Mohamed D Habib
(Chairman)

Asgar D Habib
(Senior Vice Chairman)

Zain Habib
(Vice Chairman)

Ahmed H Habib
(Non-executive Director)

S Manzar Abbas Kazmi
(Managing Director)

Arshad Ansari
(Executive Director)

Martin Bramwell
(Non-executive Director)

Brian W Smith
(Non-executive Director)
Appointed 01.03.2013

COMPANY SECRETARY
Ms Rizwana Shaik
Appointed 01.08.2012
rshaik@habiboverseas.co.za

HEAD OFFICE

N-77 North Mall
Oriental Plaza
Fordsburg 2092
P O Box 62369
Marshalltown, 2107
Tel: (011) 834-7441
Fax: (011) 834-7446

E-mail: habib@habiboverseas.co.za
Website: www.habiboverseas.co.za

ORIENTAL PLAZA BRANCH

N-77 Oriental Plaza
Fordsburg
P O Box 62369
Marshalltown, 2107
Tel: (011) 834-7441/838-3670
Fax: (011) 834-7446/838-3672
Telex: 430 073
E-mail: sshaik@habiboverseas.co.za

LENASIA BRANCH

53 Gembok Street
Lenasia
P O Box 62369
Marshalltown, 2107
Tel: (011) 854-5998
Fax: (011) 854-6308
Telex: 420 032
E-mail: hoblenasia@telkomsa.net

LAUDIUM BRANCH

246 Tangerine Street
Laudium
P O Box 14573
Laudium, 0037
Tel: (012) 374-2355/374-6993
Fax: (012) 374-5561
Telex: 320 088
E-mail: habiboverseasbankpta@gmail.com

CAPE TOWN BRANCH

12 Mavis Road
Rylands
P O Box 38382
Gatesville, 7766
Tel: (021) 637-2090/637-2093
Fax: (021) 637-2099
Telex: 521 033
E-mail: habibbankct@telkomsa.net

DURBAN BRANCH

444 Smith Street
Durban
P O Box 49409
Qualbert, 4078
Tel: (031) 304-9010
Fax: (031) 304-8966
Telex: 620 040
E-mail: hobdbn@mweb.co.za

Habib Overseas Bank Limited

CHAIRMAN'S STATEMENT

The year 2012 was a difficult year for the global economy and the performance in general remained lacklustre. The financial crisis persisted in Europe and it could not come out of recession, growth rates in China and India slowed down while US economy showed some signs of modest growth. The slowdown in the Chinese economy also adversely affected the growth and progress of other emerging economies while the social and political unrest in Middle East and North Africa kept the entire area in an uncertain state.

The South African economy, which was gradually recovering from the effects of international financial crisis of 2008 – 2009, suffered a set back in 2012, due to strikes in the mining and freight sectors, high unemployment rate, volatility of the Rand, sharp increase in petrol, electricity and food prices and low commodity prices. These factors have resulted in a slow down in the growth rate and the economic activities in the country as a whole. Due to difficult global and domestic economic conditions the recovery is expected to be slow in 2013 and an upward trend in growth is expected to be seen from 2014 onwards.

I am pleased to report that by the Grace of God, in the year 2012, the bank has continued to make satisfactory progress in all areas of its operations. With the continued support of our customers, deposits have increased to R998.8 million (2011 – R933.7 million), and advances stood at R296.8 million (2011 – R251.3 million). In spite of low interest rates and pursuing a conservative approach towards lending, the bank's profitability showed a good increase mainly due to increase in fee -based / commission income. The pre-tax profit for 2012 was R21.0 million (2011 – R16.4 million) showing an increase of 28%.

Despite difficult market conditions, we have done well in 2012, and maintain an optimistic outlook for 2013. Our conservative approach to lending and aggressive approach towards deposit mobilisation and business generation will remain our focus of activities in 2013. We will continue to maintain like always healthy liquidity, a low credit/deposit ratio and a very comfortable level of capital adequacy ratio.

I would like to place on record my gratitude to the staff of the bank who have worked hard and with devotion. I also thank my colleagues on the Board for their valuable advice and support.



Habib Mohamed D Habib
Chairman
18 March 2013

Habib Overseas Bank Limited

AUDITORS' REPORT

INDEPENDENT AUDITOR'S 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 at 31 December 2012, 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 8 to 43.

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.

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 2012, 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.

Other reports required by Companies Act

As part of our audit of the annual financial statements for the year ended 31 December 2012, we have read the Director's report, the Audit Committee Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibilities of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

DELOITTE & TOUCHE

Deloitte & Touche Registered Auditors

Per: L Nunes
Partner
12 April 2013

National Executive: LL Bam Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit
DL Kennedy Risk Advisory e Legal Services NB Kader TaxT Pillay Consulting K Black Client & Industries
JK Mazzaocco Talent & Transformation CR Beukman Finance M Jordon Strategy S Gwala Specialists Projects
TJ Brown Chairman of the Board MJ Comber Deputy Chairman of the Board
A full list of partners and directors is available on request
B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code
Member of Deloitte Touche Tohmatsu Limited

Habib Overseas Bank Limited

AUDIT COMMITTEE REPORT

The audit committee is a Committee appointed by the shareholders. The audit committee comprised non-executive directors M Bramwell (chairman), Z Habib and A Habib. 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 (7)(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.
- reviewed 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 audits, and management responses thereon.

Internal financial controls

The Committee has reviewed the effectiveness of the company's 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 indicate 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 reviewed the annual financial statements for the year ended 31 December 2012 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.

Considerations on King III and Integrated reports


King III proposes that organisations should produce integrated reports. JSE listing requirements require all JSE listed companies to provide narrative of how each has applied the recommendations of King III. The approach to unlisted companies, such as ours, is advisory rather than compulsory.

Limited guidance on the integrated reporting is currently available, especially considering the nature of the business conducted by the bank. The approach will evolve as a framework is developed by interested organisations. Nevertheless, we take cognisance of the issues addressed in King III, and are satisfied that the main proposals are taken into account and the relevant information presented in sections of the annual report.

The main issues relevant to the bank include:

- Strategy: The nature of the business is stated under the principal activities in the directors report.
- Corporate governance: The commitment of the directors and relevant mechanisms, are confirmed in the director's report.
- Risk management: The risks and their management are detailed in note 32 to the annual financial statements.
- Performance: The results of the bank's activities are clearly set out in the annual financial statements and supporting notes.
- Prospects: The directors are satisfied that the company is a going concern for the foreseeable future, as stated in the director's report.

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 2012.

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. The Board has appointed Mr Brian Smith as Non-executive director on the 1 March 2013, and Ms Rizwana Shaik as the company secretary on 1 August 2012.

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

Total comprehensive income after taxation of Habib Overseas Bank for the year amounted to R15,397,159 (2011: R11,023,340).

GOING CONCERN

The Habib Overseas Bank 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 wholly owned subsidiary N77 Oriental Plaza (Proprietary) Limited.

	2012	2011
	R	R
Net profit/(loss) after taxation for the year	267,462	(122,782)

CAPITAL ADEQUACY

	2012	2011
Capital adequacy ratio	18.96%	16.31%

Habib Overseas Bank Limited

Statement of financial position

at 31 December 2012

	Notes	Group		Company	
		2012 R	2011 R	2012 R	2011 R
ASSETS					
Non-Current Assets		16,338,581	15,577,433	17,556,138	16,722,076
Property, plant and equipment	3	3,231,282	3,199,417	2,249,340	2,144,561
Investment in subsidiary	4	-	-	2,199,499	2,199,499
Long-term loans and advances	5	13,107,299	12,378,016	13,107,299	12,378,016
Current Assets		1,074,443,180	1,014,837,085	1,074,443,180	1,014,837,085
Cash and cash equivalents	6	659,699,837	700,747,381	659,699,837	700,747,381
Investments and negotiable securities	7	126,108,743	69,458,614	126,108,743	69,458,614
Loans and advances	8	283,773,286	238,965,965	283,773,286	238,965,965
Other assets	9	4,358,449	5,375,460	4,358,449	5,375,460
Receiver of Revenue	27	223,920	-	223,920	-
Deferred tax asset	20	278,945	289,665	278,945	289,665
Total assets		1,090,781,761	1,030,414,518	1,091,999,318	1,031,559,161
EQUITY AND LIABILITIES					
Capital and Reserves					
Equity attributable to ordinary shareholders		74,350,314	64,685,693	74,288,518	64,891,359
Share capital	10	20,000,000	20,000,000	20,000,000	20,000,000
Retained earnings		54,350,314	44,685,693	54,288,518	44,891,359
Liabilities		1,016,431,447	965,728,825	1,017,710,800	966,667,802
Non-Current Liabilities		11,701,609	25,212,392	11,701,609	25,212,392
Short-term borrowings	6	11,701,609	25,212,392	11,701,609	25,212,392
Current Liabilities		1,004,729,838	940,516,433	1,006,009,191	941,455,410
Deposits and current accounts	11	997,574,016	932,782,997	998,853,369	933,718,555
Receiver of Revenue	27	-	273,168	-	290,699
Other liabilities	12	7,155,822	7,460,268	7,155,822	7,446,156
Total equity and liabilities		1,090,781,761	1,030,414,518	1,091,999,318	1,031,559,161

Habib Overseas Bank Limited

Statement of comprehensive income

at 31 December 2012

	Notes	Group		Company	
		2012 R	2011 R	2012 R	2011 R
Revenue					
Net interest income		37,201,232	32,190,548	37,201,074	32,190,548
Interest and similar income	14	59,324,714	48,920,576	59,324,556	48,920,576
Interest expense and similar charges	14	(22,123,482)	(16,730,028)	(22,123,482)	(16,730,028)
Non-interest income	15	22,621,389	19,736,262	22,445,335	19,684,836
Net interest and non-interest income		59,822,621	51,926,810	59,646,409	51,875,384
Impairment charge on loans and advances	16	(320,388)	(695,147)	(320,388)	(695,147)
Operating expenditure	17	(38,159,050)	(34,950,155)	(38,295,366)	(34,775,948)
Profit before taxation		21,343,183	16,281,508	21,030,655	16,404,289
Taxation	19	(5,711,866)	(5,444,104)	(5,666,800)	(5,444,104)
Profit for the year		15,631,317	10,837,404	15,363,855	10,960,185
Other comprehensive income		33,304	63,155	33,304	63,155
Exchange differences on transactions		25,693	20,503	25,693	20,503
Net gain on hedging instruments entered into for cash flow hedges (FEC)		7,611	42,652	7,611	42,652
Total comprehensive income for the year		15,664,621	10,900,559	15,397,159	11,023,340
Profit attributable to:		15,664,621	10,900,559	15,397,159	11,023,340
- Owners of the Company		15,664,621	10,900,559	15,397,159	11,023,340
- Non-Controlling interest		-	-	-	-
Total comprehensive income attributable to:		15,664,621	10,900,559	15,397,159	11,023,340
- Owners of the Company		15,664,621	10,900,559	15,397,159	11,023,340
- Non-Controlling interest		-	-	-	-

Habib Overseas Bank Limited

Statement of changes in equity

for the year ended 31 December 2012

	Note	Share capital R	Retained earnings R	Total R
Group				
Balance as at 01 January 2011		20,000,000	37,785,134	57,785,134
Changes in equity in the current year				
Profit for the year			10,837,404	10,837,404
Other Comprehensive Income			63,155	63,155
Dividends declared and paid in 2011	21		(4,000,000)	(4,000,000)
Balance as at 31 December 2011		20,000,000	44,685,693	64,685,693
Changes in equity in the current year				
Profit for the year			15,631,317	15,631,317
Other Comprehensive Income			33,304	33,304
Dividends declared and paid in 2012	21		(6,000,000)	(6,000,000)
Balance as at 31 December 2012		20,000,000	54,350,314	74,350,314
Company				
Balance as at 01 January 2011		20,000,000	37,868,019	57,868,019
Changes in equity in the current year				
Profit for the year			10,960,185	10,960,185
Other Comprehensive Income			63,155	63,155
Dividends declared and paid in 2011	21		(4,000,000)	(4,000,000)
Balance as at 31 December 2011		20,000,000	44,891,359	64,891,359
Changes in equity in the current year				
Profit for the year			15,363,855	15,363,855
Other Comprehensive Income			33,304	33,304
Dividends declared and paid in 2012	21		(6,000,000)	(6,000,000)
Balance as at 31 December 2012		20,000,000	54,288,518	74,288,518

Habib Overseas Bank Limited

Statement of cash flows

at 31 December 2012

	Notes	Group 2012 R	2011 R	Company 2012 R	2011 R
CASH FLOW FROM OPERATING ACTIVITIES					
Interest income and other income received	22	82,684,561	68,645,802	82,508,349	68,594,376
Interest paid	23	(21,634,148)	(16,878,729)	(21,634,148)	(16,878,729)
Cash paid to suppliers and employees	24	(38,134,054)	(32,877,220)	(38,329,171)	(32,790,645)
Operating income before changes in operating assets		22,916,358	18,889,853	22,545,029	18,925,002
Increase in loans and advances	25	(45,937,635)	(9,142,161)	(45,937,635)	(9,142,161)
Increase in deposits and current accounts	26	64,791,020	213,447,825	65,134,814	214,383,383
Taxation paid	27	(6,198,234)	(4,569,792)	(6,170,699)	(4,552,261)
Dividends paid	28	(6,000,000)	(4,000,000)	(6,000,000)	(4,000,000)
Net cash inflow from operating activities		29,571,509	214,625,725	29,571,509	215,613,963
CASH FLOW FROM INVESTING ACTIVITIES					
Payments for property and equipment	3	(850,643)	(596,208)	(850,643)	(596,208)
Proceeds on disposal of property and equipment	22	200	50,000	200	50,000
Payments to acquire financial assets - treasury bills		(56,257,827)	(10,032,744)	(56,257,827)	(10,032,744)
Net cash outflow from investing activities		(57,108,270)	(10,578,952)	(57,108,270)	(10,578,952)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(27,536,761)	204,046,773	(27,536,761)	205,035,011
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6	675,534,989	471,488,216	675,534,989	470,499,978
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	647,998,228	675,534,989	647,998,228	675,534,989

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012

1. ACCOUNTING POLICIES

1.1 Basis of accounting and separate statement of compliance

The consolidated annual financial statements for the year ended 31 December 2012 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 and derivatives at fair-value.

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.

IAS 12 (*Deferred tax - recovery of underlying asset*) This amendment requires that deferred tax on investment property be measured at fair value and non-depreciable assets measured at revalued amounts be calculated based on the tax consequences that would arise on the sale of property. As a result, of the amendment, SIC21 Income taxes - *recovery of revalued non-depreciable assets* at revalued amount is withdrawn. The Group's policy is not to revalue investment properties as a result no deferred tax liability arises as the statement has no impact on the Group.

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 Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank 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 Habib Overseas Bank 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.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

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:
 - loans and advances
 - accounts receivable

(d) Available for sale

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.

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 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 instrument, 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 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.

No financial assets have been designated as at FVTPL. 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.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.6 Financial instruments (continued)

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.

(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.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.6 Financial instruments (continued)

(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. 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.

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 future 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 of loans and advances

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.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

1. ACCOUNTING POLICIES (CONTINUED)

1.9 Impairments of loans and advances (continued)

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 Statement of Comprehensive Income. Both specific and portfolio impairments raised during the year less the recoveries of advances previously written-off, are charged to the statement of comprehensive income.

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 they are depreciated on the reducing balance method.

Furniture and equipment are stated at cost less accumulated depreciation and any recognised impairment losses. Depreciation is provided for on the 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 rates 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 the 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 R126.1 million (2011 : R 69.4 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 119k (2011 : R1.079 million). The derivative instruments are calculated on the forward exchange rates.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

2 STATEMENT OF FINANCIAL POSITION - CLASSIFICATION OF FINANCIAL INSTRUMENTS

Group	2012 R	Held-for- trading R	Held-to-maturity investments R	Carried at amortised cost R	Non-financial assets and liabilities R
ASSETS					
Non-Current Assets	16,338,581			13,107,299	3,231,282
Property, plant and equipment	3,231,282				3,231,282
Long-term loans and advances	13,107,299			13,107,299	
Current Assets	1,074,443,180	119,520	126,108,743	947,712,057	502,865
Cash and cash equivalents	659,699,837			659,699,837	
* Other short-term securities	126,108,743		126,108,743		
** Loans and advances to customers	283,773,286			283,773,286	
*** Derivative financial instruments (Forward exchange contracts)	119,520	119,520			
*** Other assets	4,238,929			4,238,929	
Receiver of Revenue	223,920				223,920
Deferred tax asset	278,945				278,945
Total assets	1,090,781,761	119,520	126,108,743	960,819,351	3,734,147
EQUITY AND LIABILITIES					
Equity					
Ordinary share capital	20,000,000				20,000,000
Reserves	54,350,314				54,350,314
Total ordinary equity	74,350,314	-	-	-	74,350,314
Total Liabilities	1,016,431,447	111,909	-	1,016,319,538	-
Non-Current Liabilities	11,701,609			11,701,609	
Short-term borrowings	11,701,609			11,701,609	
Current Liabilities	1,004,729,838	111,909		1,004,617,929	
*** Derivative financial instruments (Forward exchange contracts)	111,909	111,909			
Amount owed to depositors	997,574,016			997,574,016	
*** Other liabilities	7,043,913			7,043,913	
Total equity and liabilities	1,090,781,761	111,909	-	1,016,319,538	74,350,314

* The Short-term securities fair value is R 120,094,405 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price. There is no impairment on the investment since it is held-to-maturity.

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

*** The sum of 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 2012 (continued)

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

Group	2011 R	Held-for- trading R	Held-to-maturity investments R	Carried at amortised cost R	Non-financial assets and liabilities R
ASSETS					
Non-Current Assets	15,577,433			12,378,016	3,199,417
Property, plant and equipment	3,199,417				3,199,417
Long-term loans and advances	12,378,016			12,378,016	
Current Assets	1,014,837,085	1,079,283	69,458,614	944,009,523	289,665
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	238,965,965			238,965,965	
*** 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
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	965,728,825	1,036,631	-	964,419,026	273,168
Non-Current Liabilities	25,212,392			25,212,392	
Short-term borrowings	25,212,392			25,212,392	
Current Liabilities	940,516,433	1,036,631	-	939,206,634	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. There is no impairment on the investment since it is held-to-maturity.

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

*** The sum of 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 2012 (continued)

2 STATEMENT OF FINANCIAL POSITION - CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)					
Company	2012	Held-for-	Held-to-maturity	Carried at	Non-financial
	R	trading	investments	amortised cost	assets and
		R	R	R	liabilities
					R
ASSETS					
Non-Current Assets	17,556,199			13,107,299	4,448,839
Property, plant and equipment	2,249,340				2,249,340
Investment in subsidiary	2,199,499				2,199,499
Long-term loans and advances	13,107,299			13,107,299	
Current Assets	1,074,443,180	119,520	126,108,743	947,712,052	502,865
Cash and cash equivalents	659,699,837			659,699,837	
* Other short-term securities	126,108,743		126,108,743		
** Loans and advances to customers	283,773,286			283,773,286	
*** Derivative financial instruments (Forward exchange contracts)	119,520	119,520			
*** Other assets	4,238,929			4,238,929	
Receiver of Revenue	223,920				223,920
Deferred tax asset	278,945				278,945
Total assets	1,091,999,318	119,520	126,108,743	960,819,351	4,951,704
EQUITY AND LIABILITIES					
Equity					
Ordinary share capital	20,000,000				20,000,000
Reserves	54,288,518				54,288,518
Total ordinary equity	74,288,518	-	-	-	74,288,518
Total Liabilities	1,017,710,800	111,909	-	1,017,598,891	-
Non-Current Liabilities	11,701,609	-	-	11,701,609	-
Short-term borrowings	11,701,609			11,701,609	
Current Liabilities	1,006,009,191	111,909	-	1,005,897,282	-
*** Derivative financial instruments (Forward exchange contracts)	111,909	111,909			
Amount owed to depositors	998,853,369			998,853,369	
*** Other liabilities	7,043,913			7,043,913	
Total equity and liabilities	1,091,999,318	111,909	-	1,017,598,891	74,288,518

* The Short-term securities fair value is R 120,094,405 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price. There is no impairment on the investment since it is held-to-maturity.

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

*** The sum of 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 2012 (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					
Non-Current Assets	16,722,076			12,378,016	4,344,060
Property, plant and equipment	2,144,561				2,144,561
Investment in subsidiary	2,199,499				2,199,499
Long-term loans and advances	12,378,016			12,378,016	
Current Assets	1,014,837,085	1,079,283	69,458,614	944,009,523	289,665
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	238,965,965			238,965,965	
*** 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
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	966,667,802	1,036,631	-	965,340,472	290,699
Non-Current Liabilities	25,212,392	-	-	25,212,392	-
Short-term borrowings	25,212,392	-	-	25,212,392	-
Current Liabilities	941,455,410	1,036,631	-	940,128,080	290,699
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. There is no impairment on the investment since it is held-to-maturity.

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

*** The sum of 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 2012 (continued)

NON-CURRENT ASSETS

3 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 2011	1,949,499	3,538,597	11,190,234	16,678,330
Additions	-	191,905	404,303	596,208
Disposals	-	(174,579)	(26,986)	(201,565)
Balance as at 1 January 2012	1,949,499	3,555,923	11,567,551	17,072,973
Additions	-	462,861	387,782	850,643
Disposals	-	(145,144)	(1,775,796)	(1,920,940)
Balance as at 31 December 2012	1,949,499	3,873,640	10,179,537	16,002,676

Accumulated Depreciation	Land and buildings R	Motor vehicles R	Furniture and office equipment R	Total R
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)
Disposals	-	174,579	25,699	200,278
Balance as at 1 January 2012	(907,288)	(3,017,487)	(9,948,781)	(13,873,556)
Depreciation expense	(70,383)	(249,218)	(463,766)	(783,367)
Disposals	-	145,144	1,740,385	1,885,529
Balance as at 31 December 2012	(977,671)	(3,121,561)	(8,672,162)	(12,771,394)

Carrying amount

As at 31 December 2011	1,042,211	538,436	1,618,770	3,199,417
As at 31 December 2012	971,828	752,079	1,507,375	3,231,282

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. The municipal valuation of the property is R2,373,000 (2011: R2,373,000).

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
 The municipal valuation of the property is R1,650,000 (2011: R1,650,000).

On the 8th December 2012, the Directors announced the disposal of some furniture, office equipment, computer equipment and computer software which have exceeded their useful lives. Most of the furniture was completely damaged. However, proceeds were received on household items. Office equipment and computer equipment became obsolete following the upgrade of the bank's technology.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

NON-CURRENT ASSETS

3 PROPERTY, PLANT AND EQUIPMENT Company

Cost	Motor vehicles R	Furniture and office equipment R	Total R
Balance as at 1 January 2011	3,538,597	10,940,235	14,478,832
Additions	191,905	404,303	596,208
Disposals	(174,579)	(26,986)	(201,565)
Balance as at 1 January 2012	3,555,923	11,317,552	14,873,475
Additions	462,861	387,782	850,643
Disposals	(145,144)	(1,775,796)	(1,920,940)
Balance as at 31 December 2012	3,873,640	9,929,538	13,803,178

Accumulated Depreciation	Motor vehicles R	Furniture and office equipment R	Total R
Balance as at 1 January 2011	(2,898,950)	(9,175,215)	(12,074,165)
Depreciation expense	(293,116)	(561,911)	(855,027)
Disposals	174,579	25,699	200,278
Balance as at 1 January 2012	(3,017,487)	(9,711,427)	(12,728,914)
Depreciation expense	(249,218)	(461,235)	(710,453)
Disposals	145,144	1,740,385	1,885,529
Balance as at 31 December 2012	(3,121,561)	(8,432,277)	(11,553,838)

Carrying amount Company

As at 31 December 2011	538,436	1,606,125	2,144,561
As at 31 December 2012	752,079	1,497,261	2,249,340

	Holding	2012 R	2011 R
4 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 2012 (continued)

	Group		Company	
	2012 R	2011 R	2012 R	2011 R
NON-CURRENT ASSETS				
5 LONG-TERM LOANS AND ADVANCES				
- Loans to customers	13,107,299	12,378,016	13,107,299	12,378,016
Net maturity analyses				
Maturing in excess of 1 year	13,107,299	12,378,016	13,107,299	12,378,016
Sectoral analyses				
Companies and close corporations	11,371,357	11,512,930	11,371,357	11,512,930
Unincorporated businesses	1,108,932	243,555	1,108,932	243,555
Individuals	627,010	621,532	627,010	621,532
	13,107,299	12,378,016	13,107,299	12,378,016
Sectoral distribution				
Manufacturing	1,445,037	1,883,976	1,445,037	1,883,976
Wholesale and retail trade, repair of specified items, hotel	5,308,478	2,275,379	5,308,478	2,275,379
Transport, storage and communication	-	243,556	-	243,556
Financial intermediation and insurance	2,270,532	807,095	2,270,532	807,095
Real estate	2,353,887	6,266,667	2,353,887	6,266,667
Business services	1,102,355	279,812	1,102,355	279,812
Private households (individuals)	627,010	621,532	627,010	621,532
	13,107,299	12,378,016	13,107,299	12,378,016
CURRENT ASSETS				
6 CASH AND CASH EQUIVALENTS (AND SHORT-TERM BORROWINGS)				
Coin and bank notes	3,710,631	4,266,163	3,710,631	4,266,163
Money at call and short term notice with banks	646,475,206	687,709,218	646,475,206	687,709,218
Balances with central bank	9,514,000	8,772,000	9,514,000	8,772,000
	659,699,837	700,747,381	659,699,837	700,747,381
Short-term borrowings	(11,701,609)	(25,212,392)	(11,701,609)	(25,212,392)
Net cash and cash equivalents	647,998,228	675,534,989	647,998,228	675,534,989
Net maturity analyses				
Maturing within 1 month	220,998,228	303,938,869	220,998,228	303,938,869
Maturing after 1 month but within 3 months	425,000,000	370,594,288	425,000,000	370,594,288
Maturing after 3 months but within 1 year	2,000,000	1,001,832	2,000,000	1,001,832
	647,998,228	675,534,989	647,998,228	675,534,989
<p>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. The cash placed with banks within a maturity of 3 months can be recalled at any point of time under stress situation.</p>				
7 INVESTMENTS AND NEGOTIABLE SECURITIES				
Treasury Bills				
Maturing within 1 year	126,108,743	69,458,614	126,108,743	69,458,614
Total investment in Treasury Bills	126,108,743	69,458,614	126,108,743	69,458,614
Market valuation of total investments	120,094,405	66,131,700	120,094,405	66,131,700

No impairments are recorded as treasury bills are held-to-maturity.

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

	Group		Company	
	2012	2011	2012	2011
	R	R	R	R
CURRENT ASSETS				
8 LOANS AND ADVANCES				
Advances to customers and bills discounted	300,146,664	254,289,672	300,146,664	254,289,672
Less: Long-term loans and advances	(13,107,299)	(12,378,016)	(13,107,299)	(12,378,016)
Less: Impairment of loans and advances	(3,266,079)	(2,945,691)	(3,266,079)	(2,945,691)
Advances to customers and bills discounted net of impairments	283,773,286	238,965,965	283,773,286	238,965,965
Net maturity analyses				
Maturing within 1 month (overdrafts - payable on demand)	263,802,783	221,603,978	263,802,783	221,603,978
Maturing after 1 month but within 3 months	7,497,934	10,730,503	7,497,934	10,730,503
Maturing after 3 months but within 1 year	12,472,562	6,631,484	12,472,562	6,631,484
	283,773,286	238,965,965	283,773,286	238,965,965
Sectoral analyses				
Companies and close corporations	263,826,836	205,328,052	263,826,836	205,328,052
Unincorporated businesses	11,906,000	21,244,444	11,906,000	21,244,444
Individuals	5,867,450	11,328,468	5,867,450	11,328,468
Non-profit institutions	2,173,000	1,065,000	2,173,000	1,065,000
	283,773,286	238,965,965	283,773,286	238,965,965
Sectoral distribution				
Manufacturing	70,507,664	42,360,855	70,507,664	42,360,855
Electricity, gas and water supply	3,888,008	4,901,967	3,888,008	4,901,967
Wholesale and retail trade, repair of specified items, hotel	139,369,309	124,677,363	139,369,309	124,677,363
Transport, storage and communication	1,275,883	923,052	1,275,883	923,052
Financial intermediation and insurance	7,846,280	22,135,627	7,846,280	22,135,627
Real estate	9,753,066	493,826	9,753,066	493,826
Business services	10,190,994	1,622,883	10,190,994	1,622,883
Community, social and personal services	11,812,785	2,927,515	11,812,785	2,927,515
Private households (individuals)	5,867,450	11,328,468	5,867,450	11,328,468
Other	23,261,847	27,594,408	23,261,847	27,594,408
	283,773,286	238,965,965	283,773,286	238,965,965
9 OTHER ASSETS				
Accrued interest	3,063,244	2,997,246	3,063,244	2,997,246
Other accounts receivable	1,295,205	2,378,214	1,295,205	2,378,214
The carrying amounts of these assets approximates their fair value.				
	4,358,449	5,375,460	4,358,449	5,375,460

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

	2012 R	Group 2011 R	2012 R	2011 R
10 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
CURRENT LIABILITIES				
11 DEPOSITS AND CURRENT ACCOUNTS				
Current and Call accounts	643,854,315	592,153,294	643,133,668	593,088,852
Savings accounts	38,194,517	42,875,186	38,194,517	42,875,186
Time deposit accounts	315,525,184	297,754,517	315,525,184	297,754,517
	997,574,016	932,782,997	998,853,369	933,718,555
Maturity analyses				
Maturing within 1 month	972,805,860	804,993,338	974,085,213	805,928,895
Maturing after 1 month but within 6 months	22,070,347	126,924,960	22,070,347	126,924,960
Maturing after 6 months but within 1 year	2,697,809	864,700	2,697,809	864,700
	997,574,016	932,782,997	998,853,369	933,718,555
12 OTHER LIABILITIES				
Accrued interest	1,112,133	622,799	1,112,133	622,799
Accrued expenses	3,958,076	2,116,432	3,958,076	2,116,432
Other accounts payables	2,085,613	4,721,037	2,085,613	4,706,925
The carrying amounts of these liabilities approximates their fair value.				
	7,155,822	7,460,268	7,155,822	7,446,156
13 CONTINGENT LIABILITIES				
Letters of guarantee	45,842,640	26,653,809	45,842,640	26,653,809
Letters of credit	16,758,002	19,812,759	16,758,002	19,812,759
Acceptances	1,295,782	3,363,322	1,295,782	3,363,322
	63,896,424	49,829,890	63,896,424	49,829,890

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

	Group		Company	
	2012 R	2011 R	2012 R	2011 R
14 INTEREST INCOME AND EXPENSE				
Interest and similar income comprises interest on:				
Loans and advances	24,539,140	23,976,622	24,539,140	23,976,622
Balances with banks	29,078,892	21,387,030	29,078,734	21,387,030
Investments and negotiable securities	5,706,682	3,556,924	5,706,682	3,556,924
	59,324,714	48,920,576	59,324,556	48,920,576
Interest expense and similar charges comprises interest on:				
Current and time deposit accounts	(21,766,071)	(16,271,102)	(21,766,071)	(16,271,102)
Savings accounts	(147,757)	(200,837)	(147,757)	(200,837)
Balances with banks	(209,654)	(258,089)	(209,654)	(258,089)
	(22,123,482)	(16,730,028)	(22,123,482)	(16,730,028)
15 NON-INTEREST INCOME				
Commission and foreign exchange earnings	10,681,625	9,805,768	10,681,625	9,805,768
Fee based income	9,798,424	8,181,345	9,798,424	8,181,345
Other income	2,141,340	1,749,149	1,965,286	1,697,723
	22,621,389	19,736,262	22,445,335	19,684,836
Other comprehensive income:				
Net gain on derivative instruments	7,611	42,652	7,611	42,652
Exchange differences on foreign transactions	25,693	20,503	25,693	20,503
	22,654,693	19,799,417	22,478,639	19,747,991
Included in the interest, non-interest and other comprehensive income is an amount of R7,611 (2011: R 42,652) being the gains on derivative financial instruments (forward exchange contracts) at 31 December 2012.				
16 IMPAIRMENT CHARGE ON LOANS AND ADVANCES				
Balance at beginning of year	2,945,691	2,326,487	2,945,691	2,326,487
Specific impairment raised during the year	401,032	726,387	401,032	726,387
Interest suspense (reversed) during the year	(80,644)	(31,240)	(80,644)	(31,240)
Charge to income statement	320,388	695,147	320,388	695,147
Advances written off against specific impairments	-	(75,943)	-	(75,943)
Balance at end of year	3,266,079	2,945,691	3,266,079	2,945,691
Comprising:				
Specific impairment (including interest suspended)	(2,366,079)	(2,045,691)	(2,366,079)	(2,045,691)
Portfolio impairment reserve	(900,000)	(900,000)	(900,000)	(900,000)
Balance at end of year	(3,266,079)	(2,945,691)	(3,266,079)	(2,945,691)

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2012 (continued)

	Group		Company	
	2012 R	2011 R	2012 R	2011 R
17 OPERATING EXPENDITURE				
Operating expenses includes the following items:				
Staff costs	(15,810,081)	(14,596,895)	(15,810,081)	(14,596,895)
- Staff cost	(15,810,081)	(14,596,895)	(15,810,081)	(14,596,895)
Provident Fund Contributions	(901,144)	(834,895)	(901,144)	(834,895)
Current service costs	(901,144)	(834,895)	(901,144)	(834,895)
Auditors' remuneration	(655,829)	(640,000)	(655,829)	(640,000)
- Audit fee	(655,829)	(640,000)	(655,829)	(640,000)
Depreciation	(783,367)	(928,572)	(710,453)	(855,027)
Land and buildings	(70,383)	(70,384)	-	-
Motor vehicles	(249,218)	(293,116)	(249,218)	(293,116)
Furniture and office equipment	(463,766)	(565,072)	(461,253)	(561,911)
Operating leases	(3,262,583)	(2,654,451)	(3,862,583)	(3,314,451)
Rental - banks premises	(1,426,998)	(960,244)	(2,026,998)	(1,620,244)
Rental - staff accommodation	(1,835,585)	(1,694,207)	(1,835,585)	(1,694,207)

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

	Group		Company	
	2012 R	2011 R	2012 R	2011 R
18 Directors' emoluments				
Total Directors Emoluments	(2,786,980)	(2,584,781)	(2,786,980)	(2,584,781)
Managing Director - Manzar A Kazmi	(1,670,225)	(1,264,796)	(1,670,225)	(1,264,796)
Basic salary (gross)	(930,000)	(715,000)	(930,000)	(715,000)
Bonus and performance related payments	(80,000)	(72,500)	(80,000)	(72,500)
Private use of motor vehicle	(202,819)	(169,015)	(202,819)	(169,015)
Medical aid contribution	(43,608)	(39,721)	(43,608)	(39,721)
Pension / provident scheme contributions	(69,600)	(42,000)	(69,600)	(42,000)
Cell phone	(30,000)	(25,000)	(30,000)	(25,000)
Travel	(32,498)	(60,998)	(32,498)	(60,998)
Other	(48,000)	(6,666)	(48,000)	(6,666)
Housing allowance	(234,000)	(133,896)	(234,000)	(133,896)
Executive Director 1 - A Zaheer (Resigned 30.06.2011)	-	(530,340)	-	(530,340)
Basic salary (gross)	-	(360,000)	-	(360,000)
Bonus and performance related payments	-	-	-	-
Private use of motor vehicle	-	(43,260)	-	(43,260)
Medical aid contribution	-	(14,867)	-	(14,867)
Pension / provident scheme contributions	-	(21,000)	-	(21,000)
Cell phone	-	(10,000)	-	(10,000)
Leave encashment	-	(7,529)	-	(7,529)
Other (ex-gratia lump sum)	-	(6,666)	-	(6,666)
Housing allowance	-	(67,018)	-	(67,018)
Executive Director 2 - A Ansari (Appointed 12.08.2011)	(1,116,455)	(789,645)	(1,116,455)	(789,645)
Basic salary (gross)	(651,600)	(493,000)	(651,600)	(493,000)
Bonus and performance related payments	(55,050)	(49,050)	(55,050)	(49,050)
Private use of motor vehicle	(94,353)	(78,627)	(94,353)	(78,627)
Medical aid contribution	(49,848)	(41,608)	(49,848)	(41,608)
Pension / provident scheme contributions	(47,894)	(28,980)	(47,894)	(28,980)
Cell phone	(9,000)	(7,500)	(9,000)	(7,500)
Other	(33,030)	(6,666)	(33,030)	(6,666)
Housing allowance	(175,680)	(84,214)	(175,680)	(84,214)
Non-executive Directors	(680,081)	(100,000)	(680,081)	(100,000)
Non-executive Director 1 - M Bramwell	(100,000)	(100,000)	(100,000)	(100,000)
Non-executive Director 2 - Asghar Habib	(580,081)	-	(580,081)	-

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 2012 (continued)

	Group		Company	
	2012 R	2011 R	2012 R	2011 R
19 TAXATION				
South African Normal Taxation	(5,711,866)	(5,444,104)	(5,666,800)	(5,444,104)
- Current taxation - current year	(5,925,066)	(4,777,531)	(5,880,000)	(4,760,000)
- Current taxation - overpayment/(underpayment) during the year	223,920	(273,168)	223,920	(290,699)
- Secondary taxation on companies	-	(400,000)	-	(400,000)
- Deferred taxation	(10,720)	6,595	(10,720)	6,595
TAX RATE RECONCILIATION				
Standard rate of taxation	28.00%	28.00%	28.00%	28.00%
Adjustment for:				
- secondary tax on companies	0.00%	2.45%	0.00%	2.43%
- temporary differences on property and equipment	(0.17)%	0.10%	(0.17)%	0.04%
- temporary differences on impairments on advances	(0.28)%	0.02%	(0.28)%	0.02%
- temporary differences disallowable provision	(1.13)%	2.06%	(1.13)%	2.04%
- permanent differences	0.42%	0.58%	0.42%	0.01%
- recognition/utilisation of assessed loss in subsidiary	0.00%	(0.26)%	0.00%	0.57%
Effective rate of taxation	26.87%	33.00%	26.84%	33.10%
20 DEFERRED TAXATION				
- Deferred tax asset beginning of the year on fixed assets	(226,665)	(220,070)	(226,665)	(220,070)
- Originating temporary difference	10,720	(6,595)	10,720	(6,595)
Deferred tax asset end of the year on fixed assets	(215,945)	(226,665)	(215,945)	(226,665)
- Deferred tax asset beginning of the year on general debt allowance	(63,000)	(63,000)	(63,000)	(63,000)
- Originating temporary difference	-	-	-	-
Deferred tax asset end of the year on general debt allowance	(63,000)	(63,000)	(63,000)	(63,000)
Total deferred tax at the end of the year	278,945	289,665	278,945	289,665
21 ORDINARY DIVIDENDS				
- Final dividend of 30 cents per share for the year 2012 declared on 19 December 2012 and paid from current earnings distributed to shareholders.	5,100,000	4,000,000	5,100,000	4,000,000
- Dividend withholding tax	900,000	-	900,000	-
Dividend declared and paid	6,000,000	4,000,000	6,000,000	4,000,000
22 INTEREST INCOME AND OTHER INCOME RECEIVED				
Accounts receivable at beginning of year	5,375,460	5,328,109	5,375,460	5,328,109
Interest and similar income	59,324,714	48,920,576	59,324,556	48,920,576
Accounts receivable at end of year	(4,358,449)	(5,375,460)	(4,358,449)	(5,375,460)
	60,341,725	48,873,225	60,341,567	48,873,225
Adjustments for:				
Interest accrued on treasury bills in the current year	(392,301)	(8,080)	(392,301)	(8,080)
Interest suspense	80,644	31,240	80,644	31,240
	60,030,068	48,896,385	60,029,910	48,896,385
Non-interest revenue	22,654,693	19,799,417	22,478,639	19,747,991
Adjustment for:				
Proceeds on sale of fixed assets	(200)	(50,000)	(200)	(50,000)
	82,684,561	68,645,802	82,508,349	68,594,376

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

	Group		Company	
	2012 R	2011 R	2012 R	2011 R
23 INTEREST PAID				
Accrued interest at beginning of year	(622,799)	(771,500)	(622,799)	(771,500)
Interest expense and similar charges	(22,123,482)	(16,730,028)	(22,123,482)	(16,730,028)
Accrued interest at end of year	1,112,133	622,799	1,112,133	622,799
	(21,634,148)	(16,878,729)	(21,634,148)	(16,878,729)
24 CASH PAID TO EMPLOYEES AND SUPPLIERS				
Operating expenditure	(38,159,050)	(34,950,155)	(38,295,366)	(34,775,948)
Adjustments for:				
Depreciation	783,367	928,572	710,453	855,027
Loss on disposal of fixed assets	35,410	1,288	35,410	1,288
	(37,340,273)	(34,020,295)	(37,549,503)	(33,919,633)
Working capital changes:				
(Decrease)/Increase in bills payable	(1,710,702)	1,979,277	(1,696,589)	1,979,277
Increase/(decrease) in other accounts payable	916,921	(836,202)	916,921	(850,289)
	(38,134,054)	(32,877,220)	(38,329,171)	(32,790,645)
25 INCREASE / (DECREASE) IN LOANS AND ADVANCES				
Loans and advances net of impairments and interest suspense at beginning of the year	251,343,982	242,928,208	251,343,982	242,928,208
Impairment of loans and advances (excluding interest suspended)	(401,032)	(726,387)	(401,032)	(726,387)
Loans and advances net of impairments and interest suspense at end of year	(296,880,585)	(251,343,982)	(296,880,585)	(251,343,982)
(Decrease) in loans and advances	(45,937,635)	(9,142,161)	(45,937,635)	(9,142,161)
26 INCREASE IN DEPOSITS AND CURRENT ACCOUNTS				
Deposits and current accounts at beginning of year	932,782,997	719,335,172	933,718,555	719,335,172
Deposits and current accounts at end of year	997,574,017	932,782,997	998,853,369	933,718,555
Increase in deposits and current accounts	64,791,020	213,447,825	65,134,814	214,383,383
27 TAXATION PAID				
Amounts (payable)/receivable at beginning of year	(273,168)	607,739	(290,699)	607,739
Overpayment / (underpayment) of current years taxation	223,920	(273,168)	223,920	(290,699)
Charge for year	(5,925,066)	(4,777,531)	(5,880,000)	(4,760,000)
Secondary tax paid	-	(400,000)	-	(400,000)
Amounts (receivable)/payable at end of year	(223,920)	273,168	(223,920)	290,699
	(6,198,234)	(4,569,792)	(6,170,699)	(4,552,261)

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2012 (continued)

	Group		Company	
	2012 R	2011 R	2012 R	2011 R
28 DIVIDENDS PAID				
Dividends declared and paid	(6,000,000)	(4,000,000)	(6,000,000)	(4,000,000)
	(6,000,000)	(4,000,000)	(6,000,000)	(4,000,000)

29 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	(901,144)	(834,895)	(901,144)	(834,895)
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30 RELATED PARTIES

The subsidiary is a property investment company.

- 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 with Habib Overseas Bank Limited of R1,279,352 and a long-term loan of R2,199,498.98.

31 COMMITMENTS

Operating lease commitments

The operating lease commitments are recognised as expenses and calculated in accordance with the IFRS on a straight-line basis over the lease term.

< 1 Year	238,084	462,959	238,084	462,959
> 1-5 Years	4,858,253	4,249,182	4,858,253	4,249,182

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 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.

32.1 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.

32.2 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	2012		
	Statement of financial position	Off-Statement of financial position	Total
Maximum exposure to credit risk per financial assets			
Cash and balances with central bank	29,599,199	-	29,599,199
Local and foreign cash	3,710,631	-	3,710,631
Mandatory reserve deposits with central banks	9,514,000	-	9,514,000
Other balances with central banks	16,374,568	-	16,374,568
Loans and advances with Banks & Customers	926,981,223	-	926,981,223
Overdrafts and loans	300,146,664	-	300,146,664
Term loans (Bank Placement)	630,100,638	-	630,100,638
Less: impairments of loans and advances	(3,266,079)	-	(3,266,079)
Investments and negotiable securities	126,108,743	-	126,108,743
Investment securities	126,108,743	-	126,108,743
Other assets	4,582,369	-	4,582,369
Derivative financial assets (FEC)	119,520	-	119,520
Other assets	4,462,849	-	4,462,849
Contingent Liabilities		63,896,424	63,896,424
Guarantees - irrevocable	-	45,842,640	45,842,640
Letters of credit and acceptances		18,053,784	18,053,784
	1,087,271,534	63,896,424	1,151,167,958

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.2 CREDIT RISK IFRS 7 DISCLOSURES

Group 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 with Banks & Customers	924,642,173	-	924,642,173
Overdrafts and loans	254,289,672	-	254,289,672
Term loans (Bank Placement)	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
Other assets	5,375,460	-	5,375,460
Derivative financial assets (FEC)	1,079,283	-	1,079,283
Other assets	4,296,177	-	4,296,177
Contingent Liabilities		49,829,890	49,829,890
Guarantees - irrevocable	-	26,653,809	26,653,809
Letters of credit and acceptances		23,176,081	23,176,081
	1,026,925,436	49,829,890	1,076,755,326

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.2 CREDIT RISK

Company credit risk analysis	2012		
	Statement of financial position	Off-Statement of financial position	Total
Maximum exposure to credit risk per financial assets			
Cash and balances with central bank	29,599,199	-	29,599,199
Local and foreign cash	3,710,631	-	3,710,631
Mandatory reserve deposits with central banks	9,514,000	-	9,514,000
Other balances with central banks	16,374,568	-	16,374,568
Loans and advances with Banks & Customers	926,981,223	-	926,981,223
Overdrafts and loans	300,146,664	-	300,146,664
Term loans (Bank Placement)	630,100,638	-	630,100,638
Less: impairments of loans and advances	(3,266,079)	-	(3,266,079)
Investments and negotiable securities	126,108,743	-	126,108,743
Investment securities	126,108,743	-	126,108,743
Other assets	4,582,369	-	4,582,369
Derivative financial assets (FEC)	119,520	-	119,520
Other assets	4,462,849	-	4,462,849
Contingent Liabilities		63,896,424	63,896,424
Guarantees - irrevocable	-	45,842,640	45,842,640
Letters of credit and acceptances		18,053,784	18,053,784
	1,087,271,534	63,896,424	1,151,167,958

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.2 CREDIT RISK

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 with Banks & Customers	924,642,173	-	924,642,173
Overdrafts and loans	254,289,672	-	254,289,672
Term loans (Bank Placement)	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
Other assets	5,375,460	-	5,375,460
Derivative financial assets (FEC)	1,079,283	-	1,079,283
Other assets	4,296,177	-	4,296,177
Contingent Liabilities		49,829,890	49,829,890
Guarantees - irrevocable	-	26,653,809	26,653,809
Letters of credit and acceptances		23,176,081	23,176,081
	1,026,925,436	49,829,890	1,076,755,326

Habib Overseas Bank Limited

Notes to annual financial statements for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.3 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	2012	
	Value of collateral against credit exposure in R 000's	% of credit exposure to total exposure
Financial Collateral		
Cash collateral	98,777	33.27%
Bank Guarantees	12,169	4.10%
Non-financial collateral		
Mortgage bond	124,995	42.10%
Notarial bond stock & equipment	16,101	5.42%
Insurance policies	2,238	0.75%
Cession on book debt	5,637	1.90%
Suretyship	32,874	11.07%
Other / unsecured	4,090	1.38%
Total Exposure	296,881	100.00%

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	26.00%
Bank Guarantees	29,917	11.90%
Non-financial collateral		
Mortgage bond	102,434	40.75%
Notarial bond stock & equipment	11,674	4.64%
Insurance policies	1,524	0.61%
Cession on book debt	4,272	1.70%
Suretyship	31,291	12.45%
Other / unsecured	4,876	1.94%
Total Exposure	251,344	100.00%

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

	Group		Company	
	2012 R	2011 R	2012 R	2011 R

32.4 IMPAIRED LOANS AND ADVANCES

The total loans and advances are R 296,880,585 (2011: R 251,343,981) of which R 4,146,084 (2011: R 6,671,256) are impaired advances.

Classification categories of advances

Standard	292,734,502	244,672,725	292,734,502	244,672,725
Special Mention	1,001,293	-	1,001,293	-
Sub-standard	2,988,124	3,399,569	2,988,124	3,399,569
Doubtful	-	3,271,687	-	3,271,687
Loss	156,666	-	156,666	-
	296,880,585	251,343,981	296,880,585	251,343,981

Collateral held against impaired advances

Special Mention	749,195	-	749,195	-
Sub-standard	725,462	764,197	725,462	764,197
Doubtful	-	2,716,333	-	2,716,333
Loss	-	-	-	-
	1,474,657	3,480,530	1,474,657	3,480,530

Provision held against impaired advances

Special Mention	113,776	-	113,776	-
Sub-standard	2,095,637	1,324,604	2,095,637	1,324,604
Doubtful	-	721,087	-	721,087
Loss	156,666	-	156,666	-
	2,366,079	2,045,691	2,366,079	2,045,691

32.5 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	7,195,323	15,550,296	7,195,323	15,550,296
Investec bank guarantee	-	9,331,523	-	9,331,523
BNP Paribas bank guarantee	602,838	481,063	602,838	481,063
SCBL Singapore bank guarantee	1,248,612	1,380,339	1,248,612	1,380,339
HSBC bank guarantee	3,122,404	3,173,821	3,122,404	3,173,821
	12,169,177	29,917,043	12,169,177	29,917,043

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.6 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.

32.7 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.

32.7.1 FINANCIAL INSTRUMENTS FVTPL

The financial instruments through profit & loss are disclosed below:

	Group		Company	
	2012 R	2011 R	2012 R	2011 R
Financial Instruments Level 2 - Derivative financial instrument				
Notional value				
Derivative financial instrument assets	2,583,838	10,687,534	2,583,838	10,687,534
Derivative financial instrument liabilities	2,576,227	10,644,882	2,576,227	10,644,882
	7,611	42,652	7,611	42,652
Financial Instruments Level 2 - Derivative financial instrument				
Fair value TPL				
Derivative financial instrument assets	119,520	1,079,283	119,520	1,079,283
Derivative financial instrument liabilities	111,909	1,036,631	111,909	1,036,631
	7,611	42,652	7,611	42,652

32.7.2 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 2012 would decrease by:

	in 000's			
	2012 R	2011 R	2012 R	2011 R
decrease in 1 months time	(170)	(179)	(170)	(179)
decrease in 3 months time	(243)	(536)	(243)	(536)
decrease in 6 months time	(516)	(1,071)	(516)	(1,071)
decrease in 12 months time	(1,032)	(2,142)	(1,032)	(2,142)
Cumulative decrease in the year	(1,961)	(3,928)	(1,961)	(3,928)

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.7.2 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	CHF	CAD	PKR
Cash	1,127,548	7,090	118,849	1,540	1,900				
Due from Banks Demand	12,248,159	23,201	1,082,690	239,382	-	1,565	900	2,000	200,000
Loans and Advances	22,523,817		2,654,545		-				
Other Assets	660,066	8	77,763	12	-				
Total assets	36,559,590	30,299	3,933,847	240,934	1,900	1,565	900	2,000	200,000

LIABILITIES	ZAR Equivalent	GBP	USD	EURO	SAR	AUD	CHF	CAD	PKR
Deposits	21,878,940	28,711	2,214,098	240,543	-	-	-	-	-
Due to Banks	11,701,411		1,379,070		-	-	-	-	-
Other Liabilities	2,637,411	9	310,801	12	-	-	-	-	-
Total liabilities	36,217,762	28,720	3,903,969	240,543	-	-	-	-	-

Net open position	341,827	1,579	29,878	379	1,900	1,565	900	2,000	200,000
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Any adverse movement in exchange rate to the extent of 10% would have affected the risk by positive R 34,182.70 (2011: negative R 19,625.07).

Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies was positive R 1,095,810 positive R 1,095,810

32.8 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.

32.9 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.

32.10 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 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.10 LIQUIDITY RISK ANALYSIS

Group	2012 R	Term Maturity					
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	Indeterminate Maturity
ASSETS							
Non-Current Assets	16,338,581	-	-	-	-	13,107,299	3,231,282
Property, plant and equipment	3,231,282						3,231,282
Long-term loans and advances	13,107,299					13,107,299	
Current Assets	1,074,443,180	533,708,788	151,391,662	372,218,260	16,230,888	2,390,717	502,865
Cash and cash equivalents	659,699,837	264,699,837	120,000,000	275,000,000	-	2,000,000	
Other short-term securities	126,108,743		29,948,725	96,160,018			
Loans and advances to customers	283,773,286	268,200,601	502,182	133,957	14,936,546	-	
Derivative financial instruments (Forward exchange contracts)	119,520	6,810	54,821	57,889			
Other assets	4,238,929	801,540	885,934	866,396	1,294,342	390,717	-
Receiver of Revenue	223,920						223,920
Deferred tax asset	278,945						278,945
Total assets	1,090,781,761	533,708,788	151,391,662	372,218,260	16,230,888	15,498,016	3,734,147
EQUITY AND LIABILITIES							
Equity							
Ordinary share capital	20,000,000						20,000,000
Reserves	54,350,314						54,350,314
Total ordinary equity	74,350,314	-	-	-	-	-	74,350,314
Total liabilities	1,016,431,447	862,893,357	128,971,372	18,176,822	6,389,896	-	-
Non-Current Liabilities							
Short-term borrowings	11,701,609	11,701,609					
Current Liabilities							
Derivative financial instruments (Forward exchange contracts)	111,909	6,711	52,601	52,597			
Amount owed to depositors	997,574,016	844,141,124	128,918,771	18,124,225	6,389,896		
Other liabilities	7,043,913	7,043,913					
Total equity and liabilities	1,090,781,761	862,893,357	128,971,372	18,176,822	6,389,896	-	74,350,314
REMAINING CONTRACTUAL LIABILITIES							
Balance sheet liabilities	1,016,431,447	862,110,452	129,500,243	18,342,596	6,478,156	-	-
Non-Current Liabilities							
Short-term borrowings	11,701,609	11,701,609					
Current Liabilities							
Derivative financial instruments (Forward exchange contracts)	111,909	6,711	52,601	52,597			
Amount owed to depositors	998,656,198	844,440,401	129,447,642	18,289,999	6,478,156		
Other liabilities	5,961,731	5,961,731					
Off-balance sheet liabilities							
Irrevocable guarantees	45,842,640	45,842,640					
Irrevocable letters of credit and acceptances	18,053,784	18,053,784					
Total liabilities	1,080,327,871	926,006,876	129,500,243	18,342,596	6,478,156	-	-

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.10 LIQUIDITY RISK ANALYSIS

Group	2011 R	Term Maturity					
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	Indeterminate Maturity
ASSETS							
Non-Current Assets	15,517,433					12,378,016	3,199,417
Property, plant and equipment	3,199,417						3,199,417
Long-term loans and advances	12,378,016					12,378,016	
Current Assets	1,014,837,085	471,830,438	90,681,274	424,358,915	27,676,793	-	289,665
Cash and cash equivalents	700,747,381	249,747,381	80,000,000	370,000,000	1,000,000		
Other short-term securities	69,458,614		9,964,561	44,655,748	14,838,305		
Loans and advances to customers	238,965,965	221,588,101	15,877	8,225,597	9,136,390	-	
Derivative financial instruments (Forward exchange contracts)	1,079,283	13,000	221,000	845,283			
Other assets	4,296,177	481,956	479,836	632,287	2,702,098		
Deferred tax asset	289,665						289,665
Total assets	1,030,414,518	471,830,438	90,681,274	424,358,915	27,676,793	12,378,016	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	965,728,825	775,830,851	61,383,147	120,735,418	7,506,241	-	273,168
Non-Current Liabilities	25,212,392	25,212,392					
Short-term borrowings	25,212,392	25,212,392					
Current Liabilities	940,516,433	750,618,459	61,383,147	120,735,418	7,506,241	-	273,168
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					
Current taxation	273,168						273,168
Total equity and liabilities	1,030,414,518	775,830,851	61,383,147	120,735,418	7,506,241	-	64,958,861
REMAINING CONTRACTUAL LIABILITIES							
Balance sheet liabilities	965,728,825	769,560,231	61,504,147	120,979,418	7,596,241	-	6,088,788
Non-Current Liabilities	25,219,814	25,219,814					
Short-term borrowings	25,219,814	25,219,814					
Current Liabilities	940,509,011	744,340,417	61,504,147	120,979,418	7,596,241	-	6,088,788
Derivative financial instruments (Forward exchange contracts)	1,036,631	9,631	575,000	452,000			
Amount owed to depositors	933,383,592	744,330,786	60,929,147	120,527,418	7,596,241		
Other liabilities	5,815,620						5,815,620
Receiver of Revenue	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	812,546,121	61,504,147	120,979,418	14,440,241	-	6,088,788

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.10 LIQUIDITY RISK ANALYSIS

Company	2012 R	Term Maturity					
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	Indeterminate Maturity
ASSETS							
Non-Current Assets	17,556,138	-	-	-	-	13,107,299	4,448,839
Property, plant and equipment	2,249,340						2,249,340
Investment in subsidiary	2,199,499						2,199,499
Long-term loans and advances	13,107,299					13,107,299	
Current Assets	1,074,443,180	531,708,788	151,391,662	372,218,260	16,230,888	2,390,717	502,865
Cash and cash equivalents	659,699,837	262,699,837	120,000,000	275,000,000	-	2,000,000	
Other short-term securities	126,108,743		29,948,725	96,160,018	-	-	
Loans and advances to customers	283,773,286	268,200,601	502,182	133,957	14,936,546	-	
Derivative financial instruments (Forward exchange contracts)	119,520	6,810	54,821	57,889	-	-	
Other assets	4,238,929	801,540	885,934	866,396	1,294,342	390,717	
Receiver of Revenue	223,920						223,920
Deferred tax asset	278,945						278,945
Total assets	1,091,999,318	531,708,788	151,391,662	372,218,260	16,230,888	15,498,016	4,951,704
EQUITY AND LIABILITIES							
Equity							
Ordinary share capital	20,000,000						20,000,000
Reserves	54,288,518						54,288,518
Total ordinary equity	74,288,518	-	-	-	-	-	74,288,518
Total liabilities	1,017,710,800	864,172,710	128,971,372	18,176,822	6,389,896	-	-
Non-Current Liabilities	11,701,609	11,701,609	-	-	-	-	-
Short-term borrowings	11,701,609	11,701,609					
Current Liabilities	1,004,729,838	852,471,101	128,971,372	18,176,822	6,389,896	-	-
Derivative financial instruments (Forward exchange contracts)	111,909	6,711	52,601	52,597	-	-	
Amount owed to depositors	996,853,369	845,420,477	128,918,771	18,124,225	6,389,896	-	
Other liabilities	7,043,913	7,043,913					
Receiver of Revenue	-						
Total equity and liabilities	1,091,999,318	864,172,710	128,971,372	18,176,822	6,389,896	-	74,288,518
REMAINING CONTRACTUAL LIABILITIES							
Balance sheet liabilities	1,017,710,800	863,389,805	129,500,243	18,342,596	6,478,156	-	-
Non-Current Liabilities	11,701,609	11,701,609					
Short-term borrowings	11,701,609	11,701,609					
Current Liabilities	1,006,009,191	851,688,196	129,500,243	18,342,596	6,478,156	-	-
Derivative financial instruments (Forward exchange contracts)	111,909	6,711	52,601	52,597	-	-	
Amount owed to depositors	999,965,502	845,749,705	129,447,642	18,289,999	6,478,156		
Other liabilities	5,931,780	5,931,780					
Off-balance sheet liabilities	63,896,424	63,896,424	-	-	-	-	-
Irrevocable guarantees	45,842,640	45,842,640					
Irrevocable letters of credit and acceptances	18,053,784	18,053,784					
Total liabilities	1,081,607,224	927,286,229	129,500,243	18,342,596	6,478,156	-	-

Habib Overseas Bank Limited

Notes to annual financial statements

for the year ended 31 December 2012 (continued)

32 RISK MANAGEMENT (Continued)

32.10 LIQUIDITY RISK ANALYSIS

Company	2011 R	Term Maturity					
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 months	1 - 5 years	Indeterminate Maturity
ASSETS							
Non-Current Assets	16,722,076	-	-	-	-	12,378,016	4,344,060
Property, plant and equipment	2,144,561						2,144,561
Investment in subsidiary	2,199,499					12,378,016	2,199,499
Long-term loans and advances	12,378,016						
Current Assets	1,014,837,085	471,830,438	90,681,274	424,358,915	27,676,793	-	289,665
Cash and cash equivalents	700,747,381	249,747,381	80,000,000	370,000,000	1,000,000	-	
Other short-term securities	69,458,614		9,964,561	44,655,748	14,838,305		
Loans and advances to customers	238,965,965	221,588,101	15,877	8,225,597	9,136,390	-	
Derivative financial instruments (Forward exchange contracts)	1,079,283	13,000	221,000	845,283		-	
Other assets	4,296,177	481,956	479,836	632,287	2,702,098	-	
Deferred tax asset	289,665						289,665
Total assets	1,031,559,161	471,830,438	90,681,274	424,358,915	27,676,793	12,378,016	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	966,667,802	776,752,297	61,383,147	120,735,418	7,506,241	-	290,699
Non-Current Liabilities	25,212,392	25,212,392					
Short-term borrowings	25,212,392	25,212,392					
Current Liabilities	941,455,410	751,539,905	61,383,147	120,735,418	7,506,241	-	290,699
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					-
Current taxation	290,699						290,699
Total equity and liabilities	1,031,559,161	776,752,297	61,383,147	120,735,418	7,506,241	-	65,182,058
REMAINING CONTRACTUAL LIABILITIES							
Balance sheet liabilities	966,667,802	776,297,297	61,504,147	120,979,418	7,596,241	-	290,699
Non-Current Liabilities	25,219,814	25,219,814					
Short-term borrowings	25,219,814	25,219,814					
Current Liabilities	941,447,988	751,077,483	61,504,147	120,979,418	7,596,241	-	290,699
Derivative financial instruments (Forward exchange contracts)	1,036,631	9,631	575,000	452,000			
Amount owed to depositors	934,333,932	745,281,126	60,929,147	120,527,418	7,596,241		
Other liabilities	5,786,726	5,786,726					
Receiver of Revenue	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	819,283,187	61,504,147	120,979,418	14,440,241	-	290,699