HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

Annual Report
2015

Celebrating
20th Anniversary
1995 – 2015

COLLABORATIVE

Lions live and work in prides, where they defend their territory and hunt.

CONTENTS

TEN YEAR REVIEW

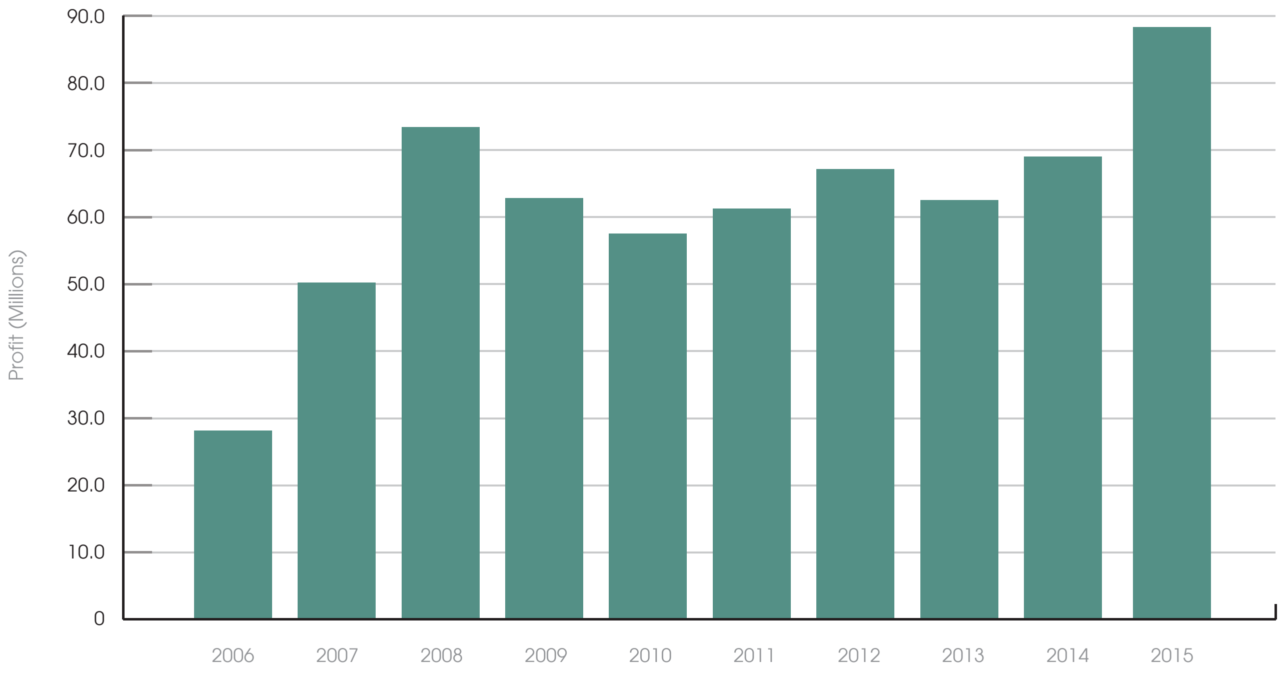
For the year ended 31 December 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
PROFITS (R MILLION)										
Profit before taxation	28.5	50.1	73.6	63.1	57.7	61.5	67.3	62.8	69.1	88.6
BALANCE SHEET (R MILLION)										
Advances	464.1	552.9	658.4	755.7	851.4	1 185.4	992.4	1 170.0	1 347.8	1 619.0
Advances growth %	41.5%	19.1%	19.1%	14.8%	12.7%	39.2%	-16.3%	17.9%	15.2%	20.1%
Deposits	1 080.3	1 155.3	1 667.6	1 746.2	2 236.7	3 304.1	2 739.8	3 255.2	3 514.2	4 049.4
Deposits growth %	16.8%	6.9%	44.3%	4.7%	28.1%	47.7%	-17.1%	18.8%	8.0%	15.2%
Total assets	1 201.5	1 323.5	1 856.0	1 957.8	2 474.9	3 536.9	3 005.2	3 573.4	3 853.6	4 419.6
Total assets growth %	17.2%	10.2%	40.2%	5.5%	26.4%	42.9%	-15.0%	18.9%	7.8%	14.7%
PERSONNEL										
Number of employees	80	90	101	109	111	113	125	128	141	136
Net contribution per employee (R '000)	356	557	729	579	520	544	538	491	490	651

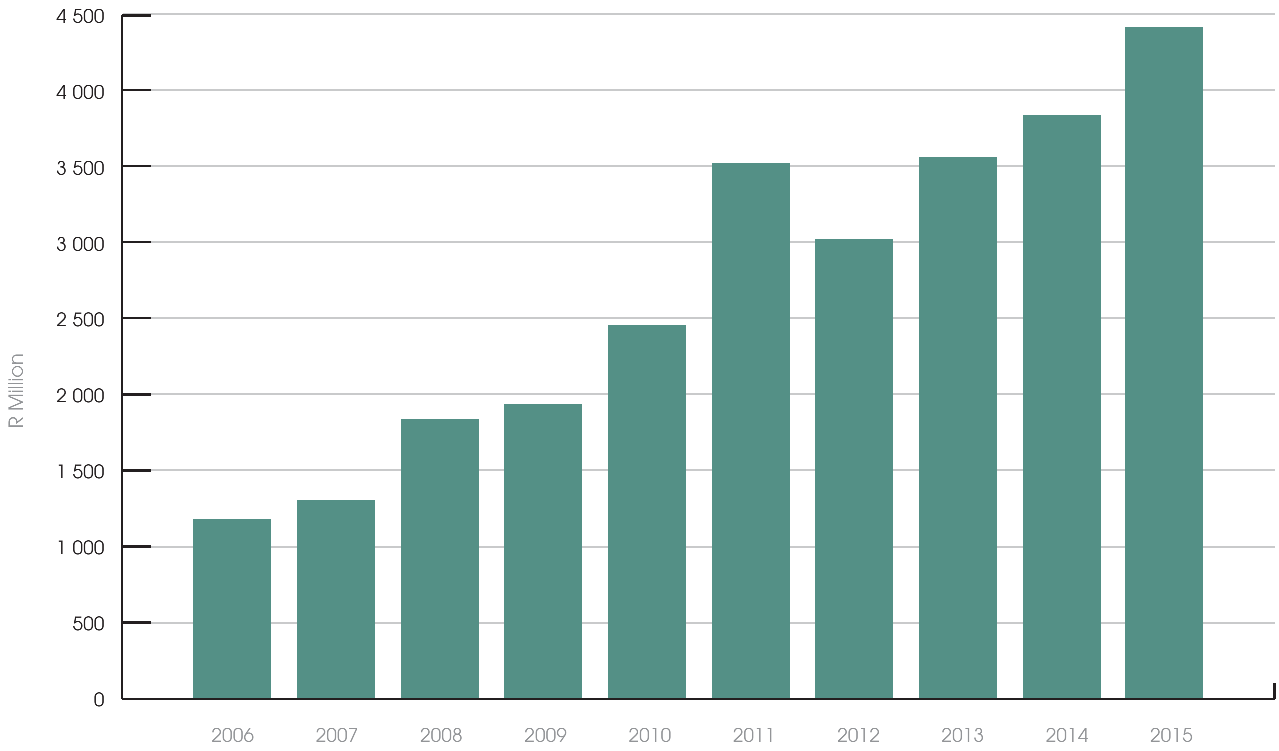
AWARE

Lions have exceptional vision. They are six times more sensitive to light than humans. This gives them a distinct hunting advantage.

PROFIT SUMMARY



TOTAL ASSETS



BOARD OF DIRECTORS AND BOARD COMMITTEES

NON EXECUTIVE DIRECTORS

Muhammad H Habib (56)# - Chairman
Bus. Admin (USA)
President, Habib Bank AG Zurich
Appointed to the Board in 1995

Ramsay L Daly (72) – Vice Chairman
B.A. LLB
Attorney
Appointed to the Board in 1995
Resigned from the Board on 31 March 2016

M Yakoob Chowdhury (73)^
Chief Executive Vice President, Habib Bank AG Zurich
Appointed to the Board in 1995

Hendrik F Leenstra (67)
Institute of Bankers SA C.A.I.B. (SA)
Ex-Regional Executive – Nedcor Group, KZN
Appointed to the Board in 2005

Dheven Dharmalingam (50)
B. Acc, Dip Acc, CA(SA)
Ex-CFO of Mutual & Federal Limited
Appointed to the Board in 2011

Mohamedali R Habib (51)*
Bus. Mgmt - Finance (USA)
Joint President, Habib Bank AG Zurich
Appointed to the Board in 2012

Oscar D Grobler (62)
Exec Masters Bus. Admin
Ex-Lead Executive ABSA Group
Appointed to the board in 2015

EXECUTIVE DIRECTORS

Zafar Alam Khan (63) – CEO and
Chief Executive Vice President
B.A.
Appointed to the Board in 2005

Christopher Du Toit Harvey (59) – Head of Corporate
Governance and Executive Vice President
B.Com, Dip Acc, Dip Corp Gov
Appointed to the Board in 1998

AUDIT COMMITTEE

Dheven Dharmalingam - Chairman
Ramsay L Daly
M Yakoob Chowdhury
Hendrik F Leenstra
Mohamedali R Habib
Oscar D Grobler
Jay Datadin* (KPMG Director)

DIRECTORS AFFAIRS COMMITTEE

Muhammad H Habib - Chairman
Ramsay L Daly
M Yakoob Chowdhury
Hendrik F Leenstra
Dheven Dharmalingam
Oscar D Grobler

CAPITAL ADEQUACY AND RISK COMMITTEE

M Yakoob Chowdhury - Chairman
Zafar Alam Khan
Christopher Du Toit Harvey
Ramsay L Daly
Hendrik F Leenstra
Dheven Dharmalingam
Oscar D Grobler

 # Swiss * Canadian ^ British * By invitation

REMUNERATIONS COMMITTEE

Muhammad H Habib - Chairman

M Yakoob Chowdhury

Dheven Dharmalingam

SOCIAL AND ETHICS COMMITTEE

Oscar D Grobler - Chairman

M Yakoob Chowdhury

Zafar Alam Khan

Christopher Du Toit Harvey

Soobramoney Gounden

EXECUTIVE MANAGEMENT

Zafar Alam Khan (63)
Chief Executive Officer

Christopher Du Toit Harvey (59)
Head of Corporate Governance

Rohinton Lim Meherjina (52)
Chief Operating Officer

Yusuf Dockrat (36)
Chief Financial Officer

Hassan Zia (63)
Head of Credit and Risk

Dudley Garner (50)
Head of Compliance

CORPORATE

Vivek Singh (39)
Senior Internal Audit Manager

Mohanpersadh Somaroo (46)
Treasury Manager

Nusrat Zaidi (54)
IT Manager

Saleem Abdulla (57)
Operational Risk Manager

Soobramoney Gounden (50)
Human Resources Manager

COMPANY SECRETARY

Christopher Du Toit Harvey (59)
Head of Corporate Governance

BRANCH NETWORK

KwaZulu-Natal Division:

A Bashir (48) (Durban)
Assistant Vice President

M Mohsin Ahmed (49) (Islamic)
Senior Manager

Z Badat (29) (Pietermaritzburg)
Manager

Gauteng Division:

M Ali Chaudhry (47) (Johannesburg)
Senior Vice President

M Raashid Faiyaz (40) (Vereeniging)
Senior Manager

S Babur H Zaidi (55) (Laudium)
Senior Vice President

A Abba (35) (Boksburg)
Senior Manager

Hammad Zaid (40) (Lenasia)
Manager

REGISTERED OFFICE

135 Jan Hofmeyr Road

Westville

3629

REGISTRATION NUMBER

1995/006163/06

CHAIRMAN'S REVIEW

It is with great pleasure that I present the annual report of HBZ Bank Limited for the year 2015. By the Grace of God, we completed 20 years of business in the Republic of South Africa. The bank first opened its counters on 1 November 1995 with its first branch on Dr. Yusuf Dadoo Street (formerly Grey Street). With our client's support and trust, HBZ Bank Limited over these years has grown to become a successful eight-branch network operation.

Mr. Oscar Grobler was inducted to the board of the bank and is the newest member of the HBZ family. Oscar is a seasoned banking professional holding a wealth of banking experience, which will further strengthen our governance model.

INTERNATIONAL

Global growth fell short of expectations in 2015, slowing to 2.4 % from 2.6 % in 2014. Lower performance was due to a general deceleration of economic activity in emerging and developing economies amid weakening commodity prices, global trade, and capital flows. The IMF marked a momentous change in 2015 when it added China's currency, the Yuan, to its currency basket. The U.S. economy continued its solid growth and job creation, while Europe generally picked up speed. But with some exceptions (such as India), the economic performance of emerging and developing countries was disappointing in the face of falling commodity prices and tighter financial conditions as a result of higher US interest rates and a strong US dollar. Synchronized and higher global growth remained elusive. The global spillover from China's falling growth, rate, through diminished imports and lower demand for commodities, were larger than anticipated.

DOMESTIC

The South African economy grew 1.5% in 2015, on account of the downturn in the global commodity cycle. The Consumer Price Index (CPI) was 4.6% for 2015, but with rising tendencies with the shortage of electricity and worsening draught conditions it is forecasted that the economy may see higher inflation levels. The year was categorized with two lending rate changes by the South African Reserve Bank raising the prime rate in July and November 2015, ending the year at 9.75%. The economic outlook for the country continued to remain stable.

OPERATING PERFORMANCE

With the support of our clients, hard work of our committed employees and an encouraging regulatory environment, the bank achieved improved results as compared to 2014. Profit before Tax rose by 28.1% to end the year with R 88.6 million. Total Assets stood at R 4.2 billion which was 14.7% higher as compared to last year figures. Advances and Deposits were higher by 20.1% and 15.2% respectively. I am pleased to announce that the bank opened its eighth branch in Vereeniging.

OUTLOOK

In 2016 emerging markets will continue to hold center stage. Capital inflows are down, some reserves have been spent although levels remain high compared with their historical average, sovereign spreads have widened, currencies have weakened, and growth is still slowing in some countries. Currency depreciation has also proved to be an extremely useful buffer to soften some economic shocks. Any further fall in commodity prices, including oil, however, could lead to more problems for exporters, including additional currency depreciations. In turn this could accelerate on-going deleveraging, exacerbate balance-of-payment problems or spark inflation.

As for South Africa, tough conditions are likely to persist in 2016, with a further moderation in household consumption growth likely, as consumer confidence remains depressed (close to levels in 1986 when the prime-lending rate was at 25% following the 1985 "debt standstill"). Low employment growth in the private sector is also negatively impacting the consumer, business confidence is depressed and the industrial sector remains in recession, while domestic investment is likely to contract in a context of poor economic demand.

Nevertheless, the focus on centralization of our bank's core functions, completed in 2015, should bear fruit and through its information technology platform the bank will aim to improve productivity and client servicing. The bank anticipates that by the second half of 2016, HBZ will issue VISA Platinum and Classic debit cards to customers. Further, the bank is aiming to also open its ninth branch by the end of 2016.

I am confident that our strong business culture coupled with entrepreneurial spirit will help HBZ Bank to achieve anticipated growth levels for 2016. The bank will continue to be cautious in lending and to maintain high liquidity as a philosophy to protect overall shareholder and customer interest, and at the same time leverage its trust in the business community.

APPRECIATION

Our staff is our biggest asset. We have been fortunate to have its commitment, devotion and dedication to help grow the bank. On behalf of the Board, I would like to place our appreciation towards their valuable contribution.

I am thankful to all our customers and well-wishers, without whom our journey of twenty years would not have been so rewarding. At the same time, I would like to thank my fellow directors and the South African Reserve Bank for their direction and support to our bank and look forward to their continued patronage.

Muhammad H. Habib

Chairman

COMMUNICATIVE

Lions communicate through a range of highly-developed behaviors and expressive movements.

RISK MANAGEMENT PHILOSOPHY

An effective and robust Risk and Control Framework is a prerequisite to the success and stability of a bank. HBZ Bank recognises that effective risk management is fundamental to generate sustainable profits, safeguard its reputation, create a competitive edge and achieve an optimal risk-reward profile.

The risk philosophy of the Bank is to keep risks to a minimum through a clear policy of broad diversification in terms of geography and product mix, and by spreading the Bank's credit and trade financing activities over a wide range of customers, with the emphasis on secured, short-term, self-liquidating lending.

The Bank defines risk as any factor, which could cause the Bank not to achieve its desired business objectives or result in adverse outcomes, including reputational damage. All actions that the Bank takes have an element of risk. The Bank recognises that it is an unavoidable consequence of banking to take calculated business risks with the objective of creating attractive returns and thus HBZ Bank does not seek to avoid risk, but to manage it in a controlled manner and in the context of the reward that is being earned.

The Bank's risk management process is to ensure that all risks are identified and understood, evaluated and quantified, and then managed to achieve the desired returns by eliminating, reducing and controlling the impact of adverse occurrences on performance to within acceptable parameters. Risk mitigation is an integral part of this process.

Risk management at HBZ Bank is guided by the following important principles:

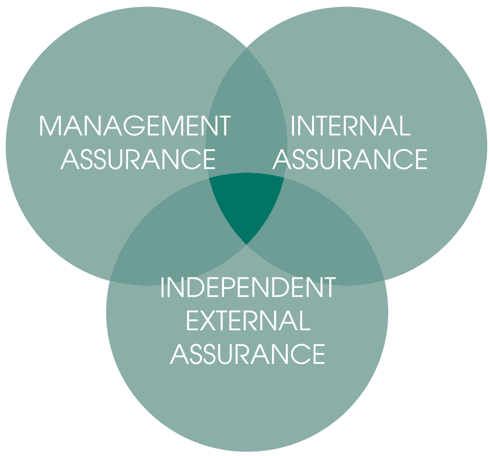
- Protection of the Bank's financial strength by controlling risk exposures and avoiding potential risk concentrations;
- Protect the Bank's reputation through a sound risk culture, and through full compliance with regulatory requirements, acceptable ethical standards and principles;
- Continuous and active management of all risk exposures to ensure that risk and reward are balanced;
- A strongly defined risk management structure;
- Independent review and oversight of the risk process;
- Continuous evaluation of the risk appetite of the Bank through clearly defined limits; and
- Communication and coordination between the Committees, executive management and other role-players in the risk management framework, without compromising segregation of duties, controls or review.

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

COMBINED ASSURANCE

The "three lines of defence" model forms the basis of the combined assurance approach required under the King Code. It aims to provide a coordinated approach to all assurance activities. We continue to make significant progress with the integration and alignment of assurance processes to optimise governance oversight, risk management and control. The 3 main elements of the Bank's Combined Assurance Model are:

1. Management assurance - including strategy implementation, performance measurements, control self-assessments and continual monitoring mechanisms and systems (finance, treasury, IT, HR.)
2. Internal assurance - risk management, regulatory compliance, internal audit, company secretary and health and safety departments.
3. Independent external assurance - external audit and other assurance providers.



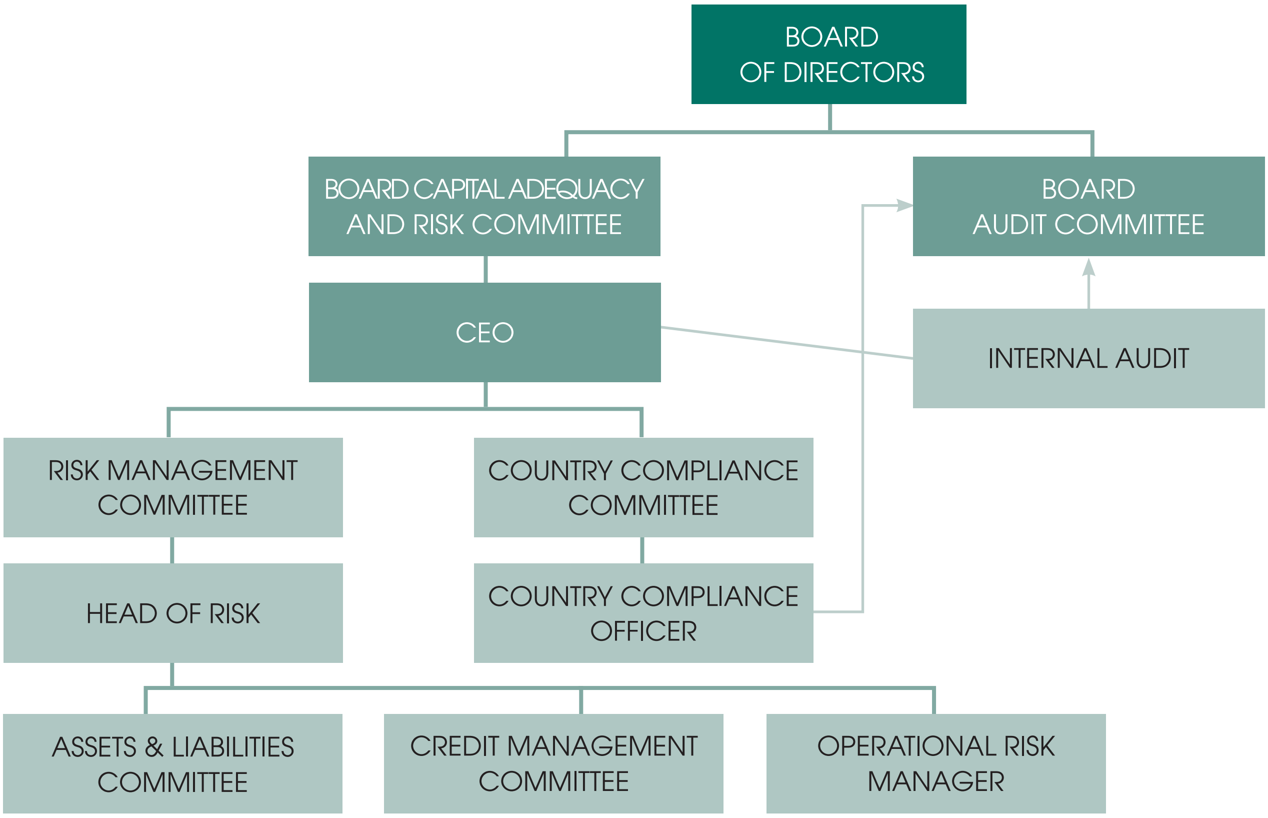
RISK MANAGEMENT FRAMEWORK

The Board is ultimately responsible for any financial loss or reduction in shareholder value suffered by the Bank. It is therefore responsible for the total process of risk management, recognising all the risks to which the Bank is exposed and ensuring that the proper mandates, policies, authority levels, risk frameworks, internal controls and systems are in place and functioning effectively.

The Bank's risk framework includes direct senior management and Board involvement to determine quantitative and qualitative risk measurement, policies and procedures, control structures, and compliance with regulations. The executive and non-executive Directors are widely represented on the various risk management Committees and processes. At every Board meeting, the Capital Adequacy and Risk Committee reports on the effectiveness of the Bank's risk management and control framework.

In line with international best practice, various Board Committees oversee policy formulation and implementation, and monitor the risk management processes and exposures. The main Board Committees are the Audit Committee and the Capital Adequacy and Risk Committee. The Risk Management Committee, the Assets and Liabilities Committee (ALCO) and various Credit Committees have been appointed by Management to enhance the risk framework.

RISK MANAGEMENT FRAMEWORK



RISKS ASSESSMENT

The Board of Directors reviews the relevant risk areas on an annual basis. The risk assessment is based on exposure data and risk analysis, which are provided by the risk department of the Bank. This covers liquidity risk, market risk, credit risk, concentration risk, operational risk and other risk types as are relevant. For its risk assessment the Board takes into consideration mitigating factors such as the effectiveness of the system of controls.

RISKS IMPACTING THE BANK AND THE MANAGEMENT THEREOF

The Board has appointed the Capital Adequacy and Risk Committee to oversee the Risk Framework of the Bank. Management has in turn determined the risks that impact the Bank and allocated various bodies to manage them. These are explained below.

RISK GROUPING	ALM RISKS			OTHER RISKS				CREDIT RISKS				OPERATIONAL RISKS		
Risk Type directly impacting the Bank	Capital Risk	Interest Rate Risk	Liquidity Risk	Compliance & Regulatory Risk	Strategic Risk	Reputational Risk	Systemic Risk	Concentration Risk	Counterparty Risk	FX Settlement Risk	Credit Risk	Fraud Risk	Ops Risk (Including IT Risk)	Physical Security Risk
Overall Supervision and Responsibility	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC	RMC
Risk Owner	Alco	Alco	Alco	CCC	RMC	RMC	RMC	Alco	CMC	RMC	CMC	ORM	ORM	ORM
Risk Manager	FC	FC	FC	CCO	Exco	Exco	Exco	CRM	CRM	RM	CRM	COO	COO	COO
Independent Risk Control	CFO	CFO	CFO	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
Risk Assurance	Internal Audit			Internal Audit				Internal Audit				Internal Audit		

RMC – Risk Management Committee
CMC – Credit Management Committee
CRM – Credit Risk Manager
RM – Risk Manager

Alco – Assets & Liabilities Committee
FC – Financial Controller
COO – Chief Operating Officer
CCC – Country Compliance Committee

CCO – Country Compliance Officer
Exco – Executive Committee
CFO – Chief Financial Officer
ORM – Operational Risk Manager

COMMITTEES THAT MANAGE RISK

Board Capital Adequacy and Risk Committee

This Board Committee comprises at least five members with a minimum of three being non-executive directors. The Chairman of the Committee is a non-executive director appointed by the Board. The Committee has the power to investigate any activity within the scope of its terms of reference. In the fulfilment of its responsibilities, the Committee may call upon the Chairmen of the other Board Committees, any of the executive directors, officers or bank secretary to provide it with information, subject to following a Board approved process.

The Committee has reasonable access to the bank's records, facilities and any other resources necessary to discharge its responsibilities. It has the right to obtain independent outside professional advice to assist with the execution of its duties, at bank's cost, subject to following a Board approved process.

The main responsibilities of the Capital Adequacy and Risk Committee are to:

- Annually evaluate the capital management strategy via the Internal Capital Adequacy Assessment.
- Manage the Bank's capital requirements to ensure capital is maintained to meet future growth taking into account stress-testing scenarios.
- Evaluate the adequacy and efficiency of the risk policies, procedures, practices and controls applied in the day-to-day management of its business;
- Manage the risk mitigation strategy to ensure the bank manages the risks in an optimal manner;
- Ensure a formal risk assessment is undertaken at least annually;
- Identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level;
- Establish a process of internal controls and reviews to ensure the integrity of the overall risk and capital management process;
- Ensure the establishment of an independent risk management function;

- Introduce such measures as may serve to enhance the adequacy and efficiency of the risk management policies, procedures, practices and controls applied within that Bank.

Four meetings were held during 2015 with attendance in accordance with requirements. Minutes were kept and filed as per the charter. The charter is reviewed on an annual basis.

Risk Management Committee

The Risk Management Committee (RMC) is a management appointed committee that has a written charter clearly setting out its responsibility, authority and functions. The charter is reviewed on an annual basis. The RMC reviews the Risk Management framework of HBZ Bank and oversees the control and enhancement of systems, policies, practices and procedures to ensure effectiveness of risk identification and compliance with internal guidelines and external requirements in support of the Bank's strategy. A typical meeting of the RMC will:

- Ensure risks are identified, measured, controlled, monitored & reported.
- Review the Bank's risk profile and appetite.
- Set and review policies, control standards, risk exposure limits or other control levers.
- Initiate stress tests & scenario plans & review their results.
- Review the credit risk regulations, policies, procedures & credit impairment provisions.
- Review the operational risk regulations, policies, procedures, IT system user access, key risk indicators, and events.
- Review all risks individually and anticipate any resulting risk issues.
- Review all issues raised by the Group and Bank's Internal and External Audit Departments.

In performing its duties, the RMC keeps an effective working relationship with the Capital Adequacy and Risk Committee and the ALCO Committee.

The RMC is chaired by the Head of Risk and is made up of the CEO, COO, CFO and Head of Compliance, while the Heads of Corporate Governance and Internal Audit attend as observers. A Branch or Area Manager is invited to attend as and when decided by the Committee. During 2015 the RMC met as per the requirements.

Credit Management Committee

This Management Committee is chaired by the CEO and comprises the Head of Credit, the COO and a senior branch manager. The Committee may request any other Senior Manager of the Bank to attend the meeting. The CMC is the credit decision making body within the Bank and approves all credit proposals, reviews and monitors all credit risks which fall within their Board approved competency.

The Committee met as per requirements and minutes were kept in line with the Board approved charter.

Assets and Liabilities Committee (ALCO)

An integral element in managing risk is the overall management of the assets and liabilities of the Bank. The ALCO was set up by Management with a written charter to oversee the arrangement of both sides of the Bank's statement of financial position, to maintain profitability, to minimise interest rate risk, to maintain adequate liquidity and manage the capital adequacy requirements of the Bank. The Committee presents a report at each Risk Management Committee meeting on the effectiveness of the management of the risks it monitors. The charter is reviewed on an annual basis.

The main responsibilities of this Committee are to:

- Review the liquidity and interest rate risk process.
- Consider the maturity of the statement of financial position
- Review and monitor capital risk and the capital adequacy process.
- Assess the various liquidity and interest-rate shock scenarios and their impact on earnings and capital.
- Allocate the assets and liabilities to reduce risk and increase profitability.

The Committee is chaired by the CFO and is made up of the COO, CEO, Head of Corporate Governance, Head of Risk, Financial Manager and Treasury Manager. During 2015 the ALCO met as per the requirements.

Country Compliance Committee

This management Committee is chaired by the Country Compliance Officer and comprises the CEO, COO, Senior Branch or Area Manager and the Head of Risk. The Committee has a written charter noting that it is responsible for overseeing the compliance function in HBZ Bank. The charter is reviewed on an annual basis.

It has the authority to consider any matters relating to compliance and the combating of money laundering and terrorist financing risks that it deems necessary. In this regard the Committee has the authority to seek any information it requires from any officer or employee of the Bank, and such officers or employees shall respond to these enquires.

The main functions of this committee are to:

Identify the money laundering and terrorist financing risks that are relevant to the Bank,

- Review the compliance monitoring process.
- Ensure that any recommendations above are incorporated into the Bank's procedures and monitoring infrastructure.
- Review the compliance and combating of money laundering and terrorist financing training requirements.
- Review the list of high risk countries. the list of high risk accounts, the list of frozen accounts , the list of

accounts that are under investigation by any regulatory body (SARS, FIC, and Police),

- Review the account opening procedures to ensure they meet local regulatory requirements.
- Review a list of new Acts or Regulations promulgated since the last meeting, assess their impact on the Bank and ensure the Bank is in compliance with them if they do impact the Bank.

The Committee met as required in 2015 and minutes were kept and filed as per the charter.

RISKS DIRECTLY IMPACTING THE BANK CREDIT RISKS

Concentration Risk

Concentration risk is the risk of losses arising that are significant enough to threaten the bank's existence due to a single exposure or group of exposures to a counterparty, industry, geographic area or with one type of security.

The fundamental principles that the Bank applies in the management of concentration risk include:

- Clearly defined rules for the grouping together of exposures;
- Clearly defined per party exposure limits;
- Continual monitoring of industry and geographic exposures at Board level;
- Retaining capital where the cumulative per party exposures is above 25% of the capital of the Bank not secured by cash deposited at the Bank or guarantees from Habib Bank AG Zurich;
- Retaining capital at 10% of any exposure to an industry (both asset and liability) of more than 40% that is not secured by cash deposited at the Bank or guarantees from Habib Bank AG Zurich;
- Reviewing concentration risk at each Risk Management meeting.

Counterparty Risk

Counterparty risk is the risk that a counterparty will not honour their commitment in a forward exchange contract or interbank placement; or a sovereign does not honour a commitment either in part or totally.

The Bank pro-actively manages this risk by:

- Having the Board approve bank limits for interbank placements and investments in sovereigns.
- Spread the interbank placements amongst the banks to avoid concentration.
- Limit the banks we purchase FEC's from to those approved by the Board.
- Spread the FEC deals amongst the approved banks to avoid concentration.
- Only deal with banks and sovereigns situated in countries that have a well regulated banking industry.

Foreign Exchange Settlement Risk

Foreign exchange settlement risk is the risk that a 3rd party bank may fail to settle or honour a FX trade with the Bank. The three main risks associated with FX transactions are principal risk, replacement cost risk and liquidity risk, which arise due to the possibility that a counter-party may fail to settle an FX trade.

The Bank pro-actively manages this risk by:

- Prohibiting staff from foreign exchange speculation and having uncovered forward positions.
- Allowing only short-term open positions on NOSTRO accounts within extremely conservative limits stipulated by the Board for each currency.
- Monitoring on a daily basis the overbought and oversold positions to ensure all forward positions are covered.
- Treasury monitoring on a daily basis the open position of the Bank to ensure it is within the limit stipulated by the board.
- Treasury monitoring on a monthly basis the open position of the Bank to ensure it is within the limit stipulated by the SARB.
- Setting Board approved formal, meaningful counter-party exposure limits for FX trading and settlement.
- Having Board approved policies and procedures that are comprehensive, consistent with relevant laws, regulations and supervisory guidance and provide an effective system of internal controls.
- Only dealing with correspondent banks that have been carefully selected by HBZ and approved by the Board.
- Ensuring that all FX deals are settled via payment-versus-payment (PVP) settlement. PVP is a mechanism that ensures the final transfer of a payment in one currency if and only if, a final transfer of a payment in another currency occurs, thereby removing principal risk.
- Signing a legally enforceable collateral arrangement (ISDA credit support annexes) to mitigate its replacement cost risk.

Credit Risk

Credit risk is the risk of financial loss arising from the possibility that commitments by counter-parties are not honoured either in part or totally.

The Board acknowledges that credit risk management is critical to the Bank and has appointed a Head of Credit to manage the Bank's credit risk process.

In line with the requirements of the South African Reserve Bank (SARB), the Bank is using the Standardised Approach to calculate regulatory credit risk capital as stipulated in the Basel III Accord.

The fundamental principles that the Bank applies in the management of credit risk include:

- A clear definition and in-depth understanding of our niche client base;
- A centralised credit department to manage proposals and security;
- Appointment of a Credit Risk Manager;
- Detailed credit granting procedures including rigorous assessment of the creditworthiness of all parties;
- Detailed and documented account opening procedures, know-your-customer and due diligence requirements;
- An emphasis on diversification of the Bank's client base limiting single party exposure as well as exposures to certain industries;
- Formation of high level credit committees with clearly defined limits;
- Periodic and routine review of facilities against updated AFS received;
- Detailed credit inspection, quality review and prompt follow-up by high level management, the independent external and internal auditors;
- Executive & non-executive's involvement in decision making and review;
- Emphasis on security based lending and conservative security values;
- Strict adherence to the regular revaluation of collateral held as security;
- Continual monitoring of all large exposures at Board level;
- Spread the interbank placements amongst the banks to avoid concentration;
- A detailed credit risk classification system of clients;
- Early detection of potentially bad loans through branch-wise monthly Watch-list reports;
- Structured procedure for recovery of non-performing accounts;
- A clear policy on the appropriate provisioning in respect of the estimated loss inherent in the advances book.

The Board approves and monitors all large exposures that are in excess of 10% of the Bank's capital. To augment the prudent assessment of advances and determination of appropriate provisioning, the Bank has a credit risk classification system.

OPERATIONAL RISKS

Fraud Risk

Fraud risk is the risk that a 3rd party or employee commits a deceptive act to obtain a benefit for themselves to the detriment of the Bank.

The Bank's fundamental principles of managing fraud risk are to:

- Instil in employees a sound culture and an ethical and values driven ethos;
- Meaningful staff training on internal and external fraud, including sharing best practices;
- The preparation and continual upgrading of Code of Conducts and Ethics manual;
- Ensure there is an effective Complaints and Whistle Blowers process installed, supported by well documented manuals:
- Regularly rotating and motivating staff;
- Ensuring immediate and effective action is taken against any persons implicated in fraudulent activities;
- Maintaining adequate and effective internal controls;
- Ensuring timeous and accurate processing of transactions;
- Reviewing of suspicious transactions including eliminating transactions with blacklisted companies and individuals;
- Ensuring appropriate investment in computer technology to support operations;
- Independent internal and external audit to check and review controls;
- Having an independent Risk Management Committee, made up of senior management, that meets quarterly with a detailed agenda including fraud risk issues;
- Ensuring that the Bank has extensive insurance cover for any material losses.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The major operational risks are:

- Internal fraud
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption and system failure
- Execution, delivery and process management

Management has appointed an Operational Risk Manager whose role is to develop and maintain the Operational Risk Management Policy of the Bank.

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

- The Bank takes active measures to limit potential operational losses by:
- Instilling in employees a sound culture, work ethic and values ethos;
- Providing a healthy, safe and secure operating environment for staff, data and information;
- Regularly rotating and motivating staff;
- The preparation and continual upgrading of clear procedure manuals;
- Correct and meaningful staff training;
- Maintaining adequate and effective internal controls;
- Ensuring timeous and accurate processing of transactions and monitoring unauthorised ones;
- Ensuring appropriate investment in computer technology to support operations;
- Ensuring an adequate business continuity and disaster management process in the event of disruption;
- Monitoring of Key Risk Indicators (KRIs);
- Risk event management, issue management and action tracking;
- Self-Risk Assessment and Change Risk Assessments for existing and new products and processes respectively;
- Internal and external independent audit checks and internal control reviews;
- Ensuring as an additional counter to potential operational risk that the Bank has extensive insurance cover for any material losses.

The Bank has an internal operational loss reporting mechanism to identify and quantify operational losses. Significant loss events and incidences are reported to the Board immediately when they occur.

Physical Security Risk

Physical security risk is the risk of financial loss from damage to the physical assets of the bank or the injury to staff or customers.

To manage this risk the Bank has ensured that:

- Branches have adequate fire and smoke alarms and access alarms linked directly to a response company;
- Each branch has an effective CCTV monitoring system with functioning back up and these systems are tested regularly;
- Each department or branch has a Health and Safety Officer appointed who performs monthly inspections and produces reports to branch management and head office;
- There is extensive insurance cover for any material losses;
- There is adequate medical aid, life and disability cover for staff.

This risk is reviewed at each Capital Adequacy and Risk Committee meeting.

ASSETS AND LIABILITIES MANAGEMENT (ALM)

Capital Risk

Capital risk is the risk that the Bank will not have adequate capital to support all the risks in the business.

The Bank's capital management process is intended to develop and use effective risk management techniques in monitoring and managing its risks to ensure it has adequate capital to support all the risks. Clearly a relationship exists between the amount of capital held by the Bank against its risks and the strength and effectiveness of the Bank's risk management and internal control processes.

It is the Board's view that increasing capital should not be the only option for addressing increased risks confronting the Bank. Other means of addressing risk, such as strengthening risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls, must also be considered. Furthermore, capital should not be regarded as a substitute for addressing fundamentally inadequate controls or risk management processes.

The Board has developed an Internal Capital Adequacy Assessment Process (ICAAP) and set capital targets that are commensurate with the Bank's risk profile and control environment, to ensure the Bank has adequate capital to support its risks beyond the core minimum requirements. During 2015 the Board reviewed the capital management and capital adequacy processes and confirmed that it achieved the objectives specified..

Interest Rate Risk

Interest rate risk arises when losses occur due to adverse variations in interest rates.

The Bank takes active measures to limit potential interest rate losses by:

- Having a policy that all assets and liabilities must match over time;

- Ensuring that the majority of the Bank's borrowings and lending activities are at variable rates allowing for relatively stable interest rate margins;
- The ALCO reviewing and monitoring the interest rate matching at every meeting;
- Matching rate-sensitive assets and liabilities over various time horizons and various economic and environmental scenarios at every ALCO meeting;
- Review the interest rate matching process at each Capital Adequacy and Risk Committee meeting.

The focused range of products offered by the bank facilitates the management of interest rate risk.

Liquidity Risk

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

The Bank controls liquidity at source by having strong internal controls at that point, ensuring a wide deposit base, simplifying the product range and centralising the Treasury function. The Bank is extremely conservative. They directly match all major deposits with inter-Bank placements and keep a large proportion of the funds short-term to buffer against unexpected cash flow requirements. This is enhanced through an ALCO and an ALM process which addresses liquidity risk pro-actively. The focused range of products offered by the Bank facilitates the management of this risk. There is an effective computerized system in place to monitor the Bank's liquidity, and reports are received by the Bank's executive management.

The liquidity management process includes a Contingency Funding Plan and Recovery Plan which takes into account various stress test scenarios and funding sources. The Bank does comprehensive stress test scenarios for cases where an intra-day liquidity shortfall is predicted and where a sudden drain in funds occurs resulting from a run on the Bank or a single large Bank placement becoming irrecoverable.

The Bank has the following sources of funding in a stress situation:

- Use available interbank lines.
- Sell government stock.
- Approach Habib Bank AG Zurich to provide funding.
- Approach the market to raise funds.

The Bank successfully complies with Basel III principles relating to liquidity risk management, specifically the liquidity coverage ratio and the net stable funding ratio. As with interest rate risk the focused range of products offered by the bank facilitates the management of liquidity risk.

OTHER RISKS

Compliance & Regulatory Risk

Compliance risk is the risk of financial loss due to the procedures implemented to ensure compliance to relevant statutory, regulatory and supervisory, industry codes of conduct and internal control requirements not being adhered to, or such controls are inefficient and ineffective.

Compliance risk includes Regulatory risk which arises when the Bank does not comply with applicable laws and regulations or supervisory requirements. As the number of statutory regulations and directives from Central Banks' increase there is a continual need to monitor the Bank's adherence to these laws. The Bank identifies compliance risk as a separate risk within its risk management framework.

The Bank has a Compliance department appointed to oversee the management of Compliance Risk. The Bank has ensured that:

- The compliance department is headed by a senior executive who has the appropriate qualifications, training and skills;
- An independent Country Compliance Committee, made up of senior management, has been set up, that meets quarterly with a detailed agenda addressing all major compliance and AML issues;
- The compliance function operates independently from internal audit and branch operations;
- An effective computer system is in place to monitor high risk transactions and reports are escalated to the relevant compliance officials;
- The compliance function confirms that the bank complies with all relevant statutory, regulatory and supervisory requirements;
- The compliance department is adequately staffed and is represented in each branch by Branch Compliance Officers;
- The compliance head presents a report at each board meeting on any non-compliance with laws and regulations or supervisory requirements.

When new acts, regulatory requirements and codes of conduct are introduced, compliance addresses these by providing training and advice on these issues, developing policies and procedures affecting regulatory issues and regularly monitoring adherence to these policies and procedures. Education and practical workshops form an important part of this process.

The Head of Compliance attends the annual International Compliance Conference hosted by our holding company and is a member of the Compliance Institute of South Africa.

Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

The Bank pro-actively manages this risk by ensuring that:

- Strategic risks are determined by Board decisions about the objectives and direction of the organisation;
- Board strategic planning and decision-making processes, is thorough;
- The Board has sufficient information about how the business is performing, and about relevant aspects of the economic, commercial, and technological environments.
- The Board is balanced in skills, knowledge, and experience to assess the variety of strategic risks the organisation faces;
- The Bank has the ability to respond to abrupt changes or fast-moving conditions;
- The Bank only accepts short-term strategic risks if it can reduce or eliminate those risks over a longer time-frame;
- Strategic risks are avoided or not accepted if the possible impacts are too great, or where the probability of success is so low that the returns offered are insufficient to warrant taking the risk.

Reputational Risk

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

The Bank pro-actively manages this risk by ensuring that:

- There are strong internal values that are regularly and pro-actively reinforced;
- The bank subscribes to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles;
- The Bank's policies and practices are regularly updated and reinforced through transparent communication, accurate reporting, continuous performance assessment, internal audit and regulatory compliance review;
- The bank has clearly defined risk management practices, to effectively monitor these risks;
- The internal controls are effective;
- There is an internal audit function that operates independently and effectively;
- The bank has a clear policy on privacy issues regarding the use of customer information which complies with the relevant rules and regulations.

Systemic Risk

Systemic risk is the risk of collapse of an entire financial system or entire market, due to financial system instability caused or exacerbated by idiosyncratic events or conditions in financial intermediaries.

It refers to the risks imposed by inter-linkages and inter-dependencies in a system, where the failure of a single entity or cluster of entities can cause a cascading failure, which could potentially bankrupt or bring down the entire system.

The fundamental principles of managing systemic risk are:

- To ensure exposure to other banks is diversified;
- To set limits for dealings with other banks approved by the Board;
- To monitor the macroeconomic situation.

SOCIAL INVESTMENT AND ETHICAL RESPONSIBILITY

ETHICAL RESPONSIBILITY

In line, with our vision "to be highly respected for all that we do", we want to be known as a Bank with high standards of ethical conduct, keeping up a long tradition established by the Habib Group. Conducting our business with high standard of ethics and integrity is essential to building on our reputation and reinforcing our values. This goes beyond compliance with applicable laws and regulations and requires a high regard for principles of morality, humility, humanity, good behaviour and justice.

The Board has appointed a Social and Ethics Committee to manage its social and ethical responsibilities.

SOCIAL INVESTMENT AND RESPONSIBILITY

Environmental Plan

The plan approved by the Board requires that:

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

Health and Safety

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

- A detailed policy,
- The formation of a committee,
- The appointment of a H&S representative and two First Aiders at each branch,
- Approval of a training plan and budget,
- Detailed procedures for monthly inspections and reporting.

During 2015 there was no inspection by the Department of Labour nor was there any H&S incidents.

Internal Social Investment

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

Skills Development

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

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

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

All staff have access to this plan and are entitled to benefit from the plan. During 2015 all the goals and objectives of the plan were achieved. To encourage continuity of the plan the Bank has set aside a separate budget to give full effect to the Workplace Skills Plan.

Employment Equity

The Bank's Employment Equity Plan as submitted to the Department of Labour is continually monitored and updated to ensure it meets the changing needs of the Bank and its employees. As a member of an international banking group, the Bank is proactive and has, for a number of years had a sound employment equity. The Bank is currently training and recruiting staff from previously disadvantaged groups to ensure employment equity at the Bank remains ahead of the plan.

External Corporate Social Investment

At HBZ, caring for our communities is as important to us as being great bankers. We believe that through caring for our neighbors, we develop a better appreciation for people and, in so doing we are better able to understand and serve our clients. HBZ recognises that social giving is not enough in its own right: for Corporate Social Investment to be truly effective and to make an on-going and meaningful difference in the lives of underprivileged people and to the overall economic wellbeing of the country, it needs to be well-managed and underpinned by the driving principle of sustainability that encompasses all the Group's stakeholders. This approach ensures the effective and balanced management of the Bank's economic, social and environmental relationships.

The Bank's CSR funding in South Africa focuses primarily in the following areas:

a) Education, with an emphasis on female education;

b) Health;

c) Relief in case of natural disasters;

d) Local community causes or projects within our niche market;

e) Environmental causes and projects.

STRATEGIC

Male lions defend the pride and its territory, while females do most of the hunting.

CORPORATE GOVERNANCE

The Corporate Governance framework and Corporate Governance plan, both reviewed by the Board annually, ensures the strategic guidance of the Bank, the effective monitoring of management by the Board, and the Board's accountability to our shareholder.

In recognition of the need to conduct the affairs of the Bank according to the highest standards of Corporate Governance and in the interests of stakeholders' protection, the Board endorse the Code of Corporate Practices and Conduct recommended in the King Reports on Corporate Governance. The Directors are of the opinion that the Bank has, in all material aspects, observed and applied these Codes, where they are applicable to the Bank, during the year under review.

The salient features of the Bank's Corporate Governance policy are built on the characteristics of:

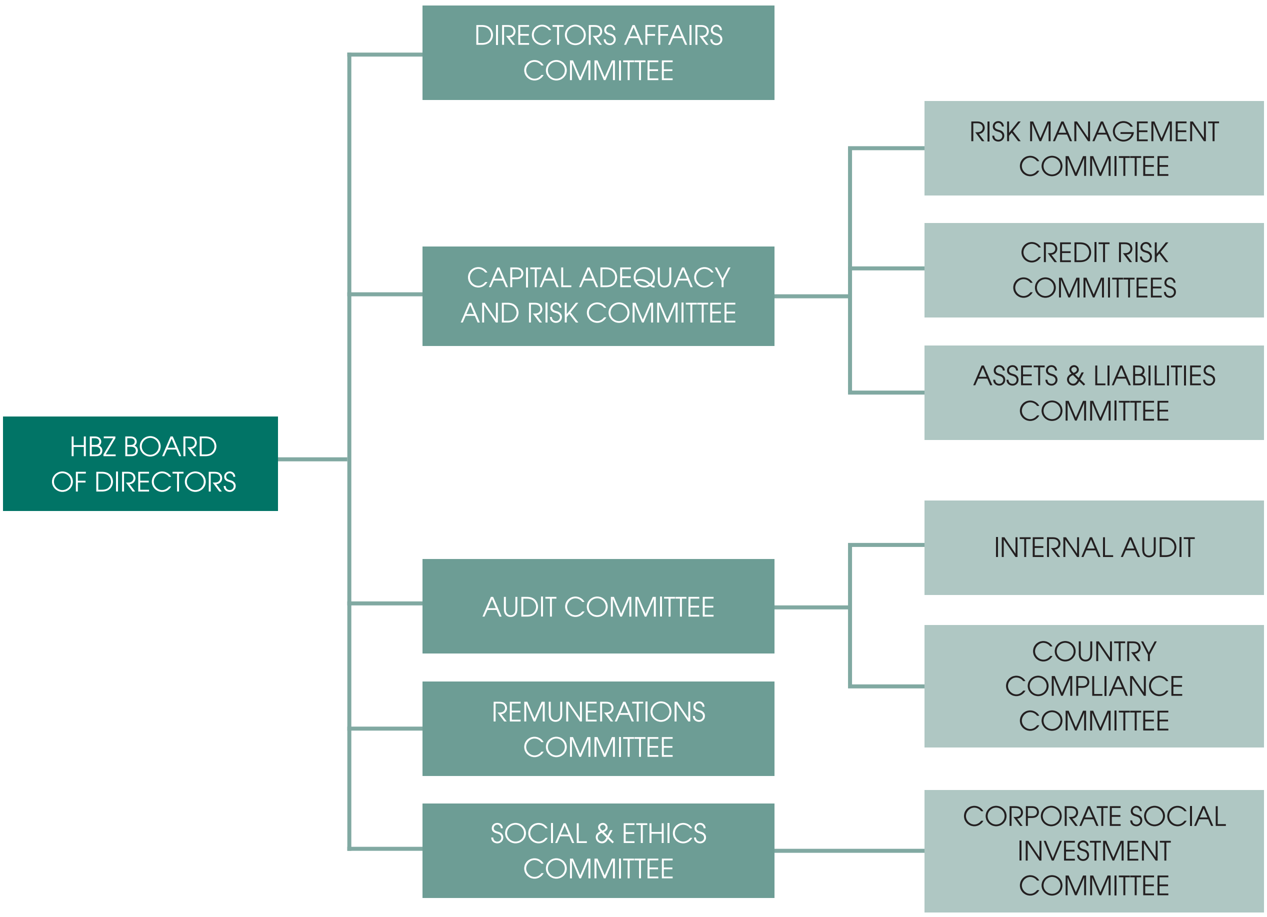
- Building and sustaining an ethical corporate culture in the Bank
- Enable discipline, independence, and transparency and social integrity
- Enable effectiveness, efficiency, responsibility and accountability
- Identifying and mitigating significant risks, including capital risk
- Promoting informed, fair and sound decision making
- Facilitating legal and regulatory compliance
- Ensuring sustainable business practices, including social and environmental activities
- Disclosing timely and accurate information to enable all stakeholders to make a meaningful analysis of the Banks performance, financial position, and governance.

BOARD OF DIRECTORS

Charter

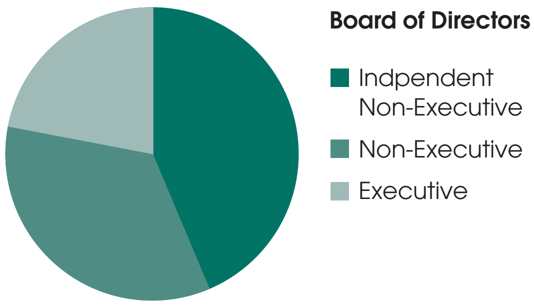
The HBZ Board has a Charter that includes the directors' code of conduct. The Board is fully committed to infusing the standards of integrity, accountability and transparency required to achieve effective corporate governance. The Charter confirms the board's accountability, fiduciary duties, conflict of interest process, appointments and tenure. The Charter is reviewed by the board on an annual basis.

HBZ's governance framework is depicted as follows:



Structure and composition

During 2015 the Board comprised of nine Directors, seven non-executive Directors and two executive Directors. Non-executive Directors comprise persons of high caliber with diverse international and local backgrounds and expertise that enable them to independent judgement to the Board deliberations and decisions. Both the Chairman and Vice Chairman are non-executive members. The roles of the Chairman and the CEO are separate with responsibilities clearly defined. Details of the Directorate are listed on page 4 of this annual report.



The Chairman of the Board is an employee of the Banks holding company, Habib Bank AG Zurich. As a result he is not classified independent in terms of Kings III, and so the Vice Chairman has been appointed as the lead independent non-executive director.

The independent non-executive directors of the Bank:

- Are not representatives of the shareholder,
- Do not have a direct or indirect interest in the Bank or its holding company,
- Have not been employed by the Bank or the Group in any capacity,
- Have not been appointed as the designated auditor or partner in the Group`s external audit firm, or senior legal adviser for the preceding three financial years,
- Are not a members of the immediate family of an individual who is, or has during the preceding three financial years, been employed by the Bank or the Group,
- Are not professional advisers to the Bank or the Group, other than as a director,
- Are free from any business or other relationship (contractual or statutory) which could be seen to interfere materially with their capacity to act in an independent manner,
- Do not receive remuneration contingent upon the performance of the Bank.

Meetings and attendance

The Board met four times during 2015 with Director's attendance in accordance with requirements. No additional Board meetings, apart from those planned, were convened during the year under review. Where Directors are unable to attend a meeting personally, teleconferencing is made available to include them in the proceedings and allow them to participate in the decisions and conclusions reached. The Board is supplied with full and timely information with a typical Board agenda including:

- A report from the CEO.
- A Report on the performance and developments of the Bank.
- Reports from the various sub-committees (Audit, Capital Adequacy & Risk, Directors Affairs, Social and Ethics and Remunerations)
- Report from the Compliance officer
- A strategic review
- Report on large exposures.
- Report on IT issues.
- Report on significant regulatory issues.

Minutes are maintained of each meeting, signed by the Chairman of the meeting and kept in a minute book by the Board Secretary. On a monthly basis all Directors receive management accounts that include a statement of comprehensive income and a statement of financial position by branch. The Board meets annually with management for a number of days to debate and agree on the proposed strategy and to consider long-term issues facing the Bank, prior to formulation of the annual financial budgets. All Directors are regularly kept abreast of statutory, regulatory, accounting, non-financial and industry developments that may affect the Bank. Furthermore all Directors have full access to management, the Bank secretary and independent professionals as well as unrestricted access to all relevant documentation required to discharge their duties.

Appointments and Retirements

One-third of Directors retire by rotation annually. The Board does not believe that the length of service of any Director could materially interfere with the Director's ability to act in the best interests of the Bank. During the year Mr. OD Grobler, a seasoned banker from the ABSA Group was appointed to the Board, replacing Mr. PJ Neethling who had passed away. When reappointing Directors, the Board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics. All Directors are regarded as fit and proper.

Board evaluations

During the year the Board performed the annual Board self-assessment evaluation. The self-assessments were collated by the Chairman and the results tabled at a meeting. The self-assessments showed no weakness in the board structure, member's attendance at meetings or the expertise, knowledge and valued input of individual directors at the meetings. The Board did agree that there would be continued focus on monitoring progress of the strategic plan.

Committees

The Board is supported by various internal Committees and functions in executing its responsibilities. These are elaborated on below while the details of the Committees members are listed on page 4 of this annual report.

AUDIT COMMITTEE

The Audit Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The majority of the Committee consists of independent non-executive Directors. The Chairman is elected by the board and is present at the Annual General Meeting. The Bank's Audit Committee members are suitably skilled and experienced non-executive directors.

The compliance officer, internal and external auditors of the Bank and the banking supervision department of the South African Reserve Bank have full access to this Committee. In addition the Chairman may call in any other employee who is able to assist the Committee on an ad hoc basis. Four meetings were held during 2015 with the CEO, CFO, COO, compliance officer, internal and external auditors invited to attend when necessary. The Committee attendance at the meetings is in accordance with requirements.

The Committee's primary responsibilities for 2015 are detailed in the separate Audit Committee report included elsewhere in this annual report.

CAPITAL ADEQUACY AND RISK COMMITTEE

The Board established the Capital Adequacy and Risk Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Board appointed the Chairman of the Committee. The Committee is made up of both non-executive and executive Directors with the Chairman a non-executive Director. Four meetings were held during 2015 with attendance in accordance with requirements.

A comprehensive Risk Management framework is in place that formalises the management of risk. This framework, including the role of the Assets and Liabilities Committee and Risk Management Committee and the application and reporting on risk, are detailed in the separate Risk Management section of this annual report.

DIRECTORS' AFFAIRS COMMITTEE

The Directors' Affairs Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee. The Committee consists of non-executive Directors. In terms of the charter two meetings were held during 2015, with the CEO and CFO invited to attend. Attendance at these meetings was in accordance with requirements.

The Committee's primary responsibilities are:

- To assist the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the Corporate Governance structure and practices of the Bank;
- To establish and maintain a Board Directorship continuity programme including planning for succession, regularly reviewing the skills and experience of the Board, and an annual self-assessment of the Board as a whole and of the contribution of each individual Director;
- To assist the Board in the nomination of successors to key management positions and ensure that a management succession plan is in place;
- To assist the Board in determining whether the services of any Director should be terminated; and
- Assist the Board in ensuring that the Bank is at all times in compliance with all applicable laws, regulation and codes of conduct and practices.

SOCIAL AND ETHICS COMMITTEE

The Board of Directors established the Social and Ethics Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee who is an independent non-executive Director. During the year under review Mr. OD Grobler was appointed Chairman of this Committee, replacing Mr. PJ Neethling who passed away. The Committee is made up of Directors and management. In terms of the charter two meetings were held during 2015 with attendance in accordance with requirements.

The responsibilities and duties of the Social and Ethics Committee include the following:

- To monitor the Bank's activities, regarding relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:
  - social and economic development;
  - good corporate citizenship, including
  - the environment, health and public safety, including the impact of the Bank's activities;
  - consumer relationships, including the Bank's public relations and compliance with consumer protection laws; and
  - labour and employment;

  - To monitor the Bank's activities with regard to ensuring the Banks ethics code is implemented effectively. This will include monitoring that:
  - the Bank's management demonstrates support for ethics though out the Bank;
  - ethical standards are articulated in a code;
  - structures, systems and processes are in place to ensure the board and employees are familiar with and adhere to the Bank's ethical standards;
  - ethics is imbedded in the corporate culture of the Bank.
- To draw matters within its mandate to the attention of the Board; and
- To report to the shareholders at the Bank's AGM on the matters within its mandate.

HBZ Bank has a strong culture of entrenched values that commit it to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. These values apply to all personnel at the Bank, with personnel expected at all times to observe their ethical obligation in such a way as to carry on business through fair commercial competitive practices.

REMUNERATION COMMITTEE

The Board of Directors established this Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee. The Bank's Remuneration Committee comprises of non-executive Directors. The Committee met once during 2015 to determine salary structures and staff policies that ensure the Directors, executive management and staff are rewarded fairly for their individual contributions to the Bank's overall performance.

The main responsibilities of the Remunerations Committee are:

- Overseeing the setting and administering of remuneration at all levels in the Bank;
- Overseeing the establishment of a remuneration policy;
- Exercising competent and independent judgment on compensation policies, processes and practices created for managing risk, capital and liquidity;
- Ensuring that an annual compensation review is conducted independently of management;
- Ensuring that all benefits, including retirement benefits and other financial arrangements, are fair and justified;
- Ensuring that the remuneration of employees in the risk control and compliance functions is determined independently of all relevant business areas, and is adequate to attract qualified and experienced staff;
- Determining the remuneration of the CEO and other executive staff;
- Advising on the remuneration of non-executive Directors;
- Overseeing the preparation for submission to the Board of the remuneration report.

Remuneration is normally reviewed annually, in November, and market data is used to benchmark competitive pay levels. The Bank does not have an incentive scheme based on performance, nor does it offer share options or deferred bonus schemes.

COMPANY SECRETARY

The Company Secretary of HBZ, Mr. C Harvey, is suitably qualified and experienced and was appointed by the Board in 1996. The Company Secretary is responsible for the duties as stipulated in Section 88(2)(e) of the Companies Act 71 of 2008 as amended. The Board recognises the pivotal role the Secretary plays in the Corporate Governance process and is thus empowered by them to ensure these duties are properly fulfilled.

In addition to his statutory duties the Company Secretary is required to:

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

All Directors have access to the advice and services of the Company Secretary whose appointment is a matter for the Board as a whole. The contact details of the Company Secretary are provided in the Director's report.

CREDIT MANAGEMENT COMMITTEES

Credit Committees comprising senior management as well as executive Directors operate at various levels within the Bank. These Committees, operating within clearly defined exposure limits and rules stipulated by the Board, review and approve all exposures to clients and potential clients.

EXECUTIVE COMMITTEES

Other executive committees vital to the application of sound governance principles within HBZ Bank are:

- The Executive Committee (Exco); chaired by the CEO and made up of the CFO, COO, Head of Risk, Head of Compliance with the Head of Corporate Governance an attendee.

- The Assets and Liabilities Committee (Alco); chaired by the CFO.
- The Risk Management Committee (RMC); chaired by the Head of Risk.
- The Country Compliance Committee; chaired by the Head of Compliance.
- The IT Steering Committee; chaired by the COO.
- The Human Resources Committee; chaired by the CEO.
- Corporate Social Investment (CSI) Committee; chaired by a non-executive Director to plan and execute the Banks CSI investments.

All these Committees are made up of skilled persons who can add value to the Committee's affairs. They all have charters that are reviewed annually. Each Committee meets at least quarterly with minutes kept of all meetings.

COMPLIANCE

The Bank has an independent compliance function responsible for guiding management to ensure that the Bank complies with the letter and spirit of all statutes, regulations, supervisory requirements and industry codes of conduct, which apply to the Bank's businesses. The compliance department has implemented and developed effective processes to address compliance issues within the Bank and has unrestricted access to the Chairman of the Audit Committee and Chairman of the Board. The role of the compliance department is elaborated on in the Risk Management section of this annual report.

INTERNAL CONTROL

The Directors of the Bank are responsible for ensuring that the Bank maintains accounting records and implements effective systems of control. Management is responsible for the implementation and maintenance of these controls.

The Directors report that the Bank's internal controls are designed to provide assurance regarding the:

- integrity, accuracy and reliability of the accounting records,
- accountability for the safeguarding and verification of assets,
- detection and prevention of risks associated with fraud, potential liability, loss and material misstatement,
- effectiveness and efficiency of operations,
- compliance with applicable laws and regulations.

Processes are in place to monitor the effectiveness of internal controls, to identify material breakdowns and to ensure that corrective action is taken. These on-going processes were in place throughout the year under review.

INTERNAL AUDIT

The Bank's independent internal audit function exists to assist management in discharging their responsibility effectively. This department has senior suitably qualified and experienced staff whose functions comply with international standards.

Internal audit operates independently from Executive Management and has unrestricted access to the Chairman of the Audit Committee, all other staff and information needed by them in the execution of their duties.

REGULATION AND SUPERVISION

The Bank is subject to external regulation and supervision by various statutory bodies and regulators. The Bank strives to achieve open and active communication with these bodies, specifically the Supervision and Exchange Control Departments of the South African Reserve Bank, the National Credit Regulator, the Payments Association of South Africa and the Financial Intelligence Centre.

Where appropriate the Bank participates in discussion groups with the various regulators to ensure that knowledge and insight is gained to maintain sound internal controls to operate within the regulatory framework.

PUBLIC DISCLOSURE OBLIGATIONS

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

EMPLOYEE PARTICIPATION AND SKILLS

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

REPORT OF THE AUDIT COMMITTEE

This report is provided by the Audit Committee, in respect of the 2015 financial year of HBZ Bank Limited, in compliance with section 94(7)(f) of the Companies Act 71 of 2008 and section 64 of the Banks Act 94 of 1990, as amended.

Details on the composition of the Audit Committee are listed on page 4 of this annual report, while the Corporate Governance report on pages 20 to 25 provides further information on the workings of the Committee.

EXECUTION OF FUNCTIONS

During the year the Audit Committee has conducted its affairs in compliance with, and discharged its responsibilities in terms of its charter as they relate to the Bank's accounting, internal and external audit, internal control and financial reporting practices. The terms of reference were reviewed and approved during the year.

During the year under review the Committee, amongst other matters, considered the following:

1. In respect of the Integrated Assurance Model:
   - the process of implementing an integrated assurance model to provide a coordinated approach to all assurance activities.
2. In respect of the external auditors and the external audit:
   - approved the reappointment of KPMG as external auditors for the year ended 31 December 2015;
   - approved the external auditor's terms of engagement and audit fees;
   - held meetings with the external auditors;
   - reviewed the audit plan and evaluated the effectiveness of the audit;
   - reviewed significant issues raised in the external audit report and the adequacy of management's corrective action in response to such findings;
   - obtained assurance from the auditors that their independence was not impaired;
   - confirmed that no non-audit services had been provided by the external auditors during the year under review;
   - obtained assurances from KPMG that adequate accounting records were maintained;
   - considered the external audit report section on the Bank's systems of internal control;
   - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act 26 of 2005.
3. In respect of internal controls and internal audit:
   - ensured that the Bank's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties;
   - held meetings with the local and Group internal auditors and reviewed the audit plan;
   - reviewed the internal audit plan, approved the internal audit charter and evaluated the effectiveness of the audit
   - considered reports of the internal auditors on the Bank's systems of internal control;
   - reviewed significant issues raised by internal audit and the adequacy of management's corrective action in response to such findings;
   - noted that there were no significant differences of opinion between the internal audit function and management;
   - assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory; and
   - received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof.

Based on the above, the Committee is of the opinion that at the date of this report there was no material breakdown in internal control that resulted in a material loss to the Bank.

4. In respect of the financial statements:
   - confirmed the going concern principle as the basis of preparation of the annual financial statements;
   - received assurance from the finance function that the internal financial controls are effective;
   - reviewed the annual financial statements prior approval by the Board;
   - reviewed reports on the adequacy of the portfolio and specific bad debt impairments;
   - ensured that the annual financial statements fairly present the financial position of the Bank as at the end of the financial year;
   - considered the appropriateness of accounting treatments and the accounting policies adopted;
   - reviewed and discussed the external auditors' audit report;
   - considered and made recommendations to the Board on the dividend payment to shareholders;
   - noted that there were no material adverse reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters.

5. In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements:
   - reviewed with management matters that could have a material impact on the Bank;
   - monitored compliance with the Companies Act, Banks Act, all other applicable legislation and governance codes;
6. In respect of risk management and IT:
   - considered and reviewed reports from management on risk management, including IT risks as they pertain to financial reporting and the going-concern assessment;
   - the Chairman is a member of and attended the Risk and Capital Adequacy Committee and attended all meetings held during the year under review.
7. In respect of the finance function:
   - considered the expertise, resources, experience and succession plan of the members of the finance function and concluded that these were appropriate;
   - considered the appropriateness of the experience and expertise of the chief financial officer and concluded that these were appropriate..

INDEPENDENCE OF THE EXTERNAL AUDITORS

The Audit Committee is satisfied that KPMG Inc. is independent of the Bank after taking into account the following factors:

- the representations made by KPMG to the Audit Committee;
- KPMG do not render non-audit services, receive any remuneration or other benefits from the Bank;
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

The Audit Committee recommended the annual report to the Board for approval.

On behalf of the Audit Committee

D Dharmalingam
Chairman

DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the annual financial statements of HBZ Bank Limited, comprising the statement of financial position at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the 2015 year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The Directors are also responsible for such internal control as the Directors deem necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The Directors are of the opinion that:

- Appropriate accounting policies have been consistently applied;
- Adequate accounting records have been maintained;
- Internal control systems are adequate to the extent that no material breakdown in the operation of these systems occurred during the year under review; and
- The financial statements fairly present the financial position of HBZ Bank Limited at 31 December 2015 and its financial performance and cash flows for the year then ended.

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

GOING CONCERN

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

FINANCIAL STATEMENTS

The annual financial statements of HBZ Bank Limited and the Directors' report appearing on pages 29 to 61 were approved by the Board of Directors on 17 March 2016 and are signed on its behalf by:

Muhammad H. Habib
Chairman

Ramsay L Daly
Vice-chairman

COMPANY SECRETARY'S CERTIFICATE

In terms of Section 88(2)(e) of the Companies Act 71 of 2008 as amended, I hereby certify to the best of my knowledge and belief, that the Bank has lodged with the Registrar of Companies all such returns as are required of the Bank in terms of the Act and that all such returns are true, correct and up to date.

Chris Harvey

Company Secretary

Durban

17 March 2016

NOTICE IN TERMS OF SECTION 29 OF THE COMPANIES ACT

These financial statements have been audited in compliance with the requirements of Section 30 of the Companies Act 71 of 2008 and have been prepared under the supervision of the Chief Financial Officer, who is a qualified Chartered Accountant.

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of HBZ Bank Limited

Report on the Financial Statements

We have audited the financial statements of HBZ Bank Limited, which comprise the statement of financial position at 31 December 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 30 to 61.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of HBZ Bank Limited at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Directors' Report, the Audit Committee's 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 responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of HBZ Bank Limited for twenty one years.

KPMG Inc.
Registered Auditor

Per Jay Datadin
Chartered Accountant (SA)
Registered Auditor
Director
28 April 2016

5 Arundel Close
KPMG House
Durban
4001

REPORT OF THE DIRECTORS

The Board of Directors takes pleasure in presenting the Annual Financial Statements of the Bank for the year ended 31 December 2015.

HOLDING COMPANY

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

NATURE OF BUSINESS

HBZ Bank Limited is a registered Bank that specialises in trade finance and retail banking.

AUTHORISED AND ISSUED SHARE CAPITAL

No additional shares were authorised or issued during the year.

FINANCIAL RESULTS

The results of the Bank are set out in the accompanying financial statements and notes. Profit for the year after tax is R63 942 711 (2014: R49 777 439).

DIVIDENDS AND GENERAL RESERVE

The following appropriations were made during the year:

	2015	2014
GENERAL RESERVE		
Transfer made	R 52,500,000	R 22,000,000
DIVIDEND		
Dividend distributed	R 30,000,000	R 22,000,000

POST BALANCE SHEET EVENTS

There were no material post balance sheet events.

DIRECTORS AND SECRETARY

Details of the directors are reflected on page 4 of this report. In accordance with the Bank's articles of association, Section 85, Messrs ZA Khan, D Dharmalingam and MR Habib retire by rotation but, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. The Secretary of the Bank is Mr C Harvey whose business and postal address is 135 Jan Hofmeyr Road, Westville, 3630, P O Box 1536, Wandsbeck, 3631.

DIRECTORS' EMOLUMENTS

Emoluments in respect of the Bank's directors are disclosed in note 20 to the annual financial statements.

Muhammad H. Habib
Chairman

Ramsay L. Daly
Vice-chairman

STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015	2014
		R	R
ASSETS			
Cash and cash equivalents	1	2 255 624 812	2 000 906 027
Investment securities	2	496 683 266	481 865 436
Other assets	3	4 620 881	3 025 828
Derivative assets held for risk management	4	25 105 462	4 200 191
Deferred taxation	5	1 317 916	984 857
Advances	6	1 618 972 163	1 347 752 361
Property and equipment	8	17 237 177	14 849 655
TOTAL ASSETS		4 419 561 677	3 853 584 355
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	9	10 000 000	10 000 000
Share premium	9	40 000 000	40 000 000
Regulatory reserve	10	8 139 047	5 271 742
General reserve	10	242 300 000	189 800 000
Retained earnings		31 155 989	52 580 583
		331 595 036	297 652 325
LIABILITIES			
Deposits and borrowings	11	4 049 392 677	3 514 240 034
Provisions	12	5 120 448	4 444 059
Other liabilities	13	8 616 076	32 363 441
Derivative liabilities held for risk management	14	24 689 440	3 891 338
Taxation	15	148 000	993 158
		4 087 966 641	3 555 932 030
TOTAL EQUITY AND LIABILITIES		4 419 561 677	3 853 584 355

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 R	2014 R
Interest received	16	269 951 877	209 091 746
Interest paid	17	(100 861 624)	(69 470 944)
Net interest income		169 090 253	139 620 802
Net impairment of advances	7.3	(1 028 137)	(3 840 065)
		168 062 116	135 780 737
Other operating income	18	54 695 055	48 918 929
		222 757 171	184 699 666
Operating expenses	19	(134 201 205)	(115 554 737)
Profit before taxation		88 555 966	69 144 929
Taxation	21.1	(24 613 255)	(19 367 490)
Profit for the year		63 942 711	49 777 439
Other comprehensive income		-	-
Total comprehensive income for the year		63 942 711	49 777 439
Dividends per share (cents)	22	300.00	220.00
Earnings per share (cents)	23	639.43	497.77
Diluted earnings per share (cents)	23	639.43	497.77

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Notes	Ordinary share capital	Share premium	Regulatory reserve	General reserve	Retained earnings	Total
		R	R	R	R	R	R
Balance at 31 December 2013		10 000 000	40 000 000	7 935 066	167 800 000	44 139 820	269 874 886
Total comprehensive income for the year		-	-	-	-	49 777 439	49 777 439
Transfer from regulatory reserve		-	-	(2 663 324)	-	2 663 324	-
Ordinary dividends	22	-	-	-	-	(22 000 000)	(22 000 000)
Transfer to general reserve		-	-	-	22 000 000	(22 000 000)	-
Balance at 31 December 2014		10 000 000	40 000 000	5 271 742	189 800 000	52 580 583	297 652 325
Total comprehensive income for the year		-	-	-	-	63 942 711	63 942 711
Transfer to regulatory reserve		-	-	2 867 305	-	(2 867 305)	-
Ordinary dividends	22	-	-	-	-	(30 000 000)	(30 000 000)
Transfer to general reserve		-	-	-	52 500 000	(52 500 000)	-
Balance at 31 December 2015		10 000 000	40 000 000	8 139 047	242 300 000	31 155 989	331 595 036

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 R	2014 R
Cash flows from operating activities			
Cash receipts from customers	24.1	324 646 932	258 010 675
Cash paid to customers, employees and suppliers	24.2	(232 503 628)	(182 794 730)
Cash available from operating activities	24.3	92 143 304	75 215 945
Taxation paid	24.4	(25 791 472)	(18 259 072)
Dividends paid	22	(30 000 000)	(22 000 000)
Net cash inflow from operating activities		36 351 832	34 956 873
Increase in income-earning funds and other assets	24.5	(309 382 579)	(152 884 386)
Increase in deposits and other liabilities	24.6	532 879 769	251 438 015
Net increase in financing activities		223 497 190	98 553 629
Cash utilised in investing activities			
Capital expenditure on property and equipment		(5 222 332)	(1 631 032)
Proceeds on disposal of property and equipment		92 095	27 029
Cash utilised in investing activities		(5 130 237)	(1 604 003)
Increase in cash and cash equivalents		254 718 785	131 906 499
Cash and cash equivalents at the beginning of year		2 000 906 027	1 868 999 528
Cash and cash equivalents at end of year		2 255 624 812	2 000 906 027

1. REPORTING ENTITY

HBZ Bank Limited is a company domiciled in the Republic of South Africa and is wholly-owned by Habib Bank AG Zurich. The financial statements were authorised for issue by the Directors on 17 March 2016.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the Companies Act of 2008.

(b) Use of estimates and judgements

The preparation of financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Actual results will not differ materially from these estimates.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Estimates and assumptions predominantly relate to impairment of loans and advances and the determination of useful lives, residual values as well as depreciation methods for property and equipment. These estimates and assumptions are explained in the notes below.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value or amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank (South African Rands) at exchange rates on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognised in the statement of comprehensive income through profit and loss.

(b) Interest

Interest received and paid is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest received and paid, presented in the statement of comprehensive income includes interest on financial assets and liabilities at amortised cost on an effective interest rate basis. Included in interest received is the profit received on Islamic Banking advances. Interest paid includes profit payable on Islamic Banking deposits..

(c) Other income

Other income comprises net fee and commission income, which is recognised as the related services are performed.

(d) Financial assets and liabilities

(i) Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition

- **Financial assets at fair value through profit or loss**
  A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.
  Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

- **Advances**

  Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method.

  Advances include Islamic advances in terms of Murabaha and Musharakah arrangements.

- **Held to maturity**

  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortised cost using the effective interest method.

  Held-to-maturity comprises investment securities.

- **Available-for-sale**

  Available-for-sale financial investments are those non derivative financial assets that are designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is re-classified to profit or loss.

(ii) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they originated. Regular purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs. Subsequent to initial recognition, financial liabilities (deposits and borrowings) are measured at their amortised cost using the effective interest method except where the Bank designates liabilities at fair value through profit or loss.

(iii) Derecognition

The Bank derecognises a financial asset when:

- The contractual rights to the receipt of cash flows arising from the financial assets have expired or,
- It has transferred its rights to receive the contractual cash flows from the financial asset and has substantially transferred all the risks and rewards of ownership of the financial asset. Any interest retained in the financial assets is recognised separately.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The amortised cost for a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique where variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

(vii) Other receivables

Other receivables are measured at their cost less impairment losses.

(viii) Other payables

Other payables are measured at cost.

(ix) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets, not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter Bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Specific impairment

The Bank creates a specific impairment against advances when there is objective evidence that it will not be able to collect all amounts due. The amount of such impairment is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the effective interest rate at the inception of the advance.

Portfolio impairment

The Bank creates a portfolio impairment against advances where there is objective evidence that the advances portfolio contains probable losses at the reporting date, which will only be identified in the future, or where there is insufficient data to reliably determine whether such losses exist. The estimated probable losses are based on historical information and take into account historical patterns of losses and the current economic climate in which the borrowers operate.

(x) Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(xi) Derivative financial instruments

The Bank uses derivative financial instruments to hedge its exposure to foreign currency risk arising from operational activities.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the statement of comprehensive income through profit and loss.

(xii) Share capital

Ordinary shares

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

(e) Cash and cash equivalents

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

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

(f) Advances

Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in advances are Islamic Advances in terms of Murabaha and Musharakah arrangements.

(g) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for as held-to-maturity.

(h) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are measured at amortised cost using the effective interest rate method.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

(ii) Subsequent costs

The Bank recognises, in the carrying amount of an item of property and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated although is subject to impairment testing. The depreciation rates are as follows:

- Leasehold improvements: 20% per annum
- Furniture: 15% per annum

- Computer and office machines: 25% per annum
- Motor vehicles: 20% per annum

Depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually at the reporting date.

The Bank has estimated the residual value on buildings and found that it is greater than cost. Depreciation has therefore not been raised on these assets. Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in profit or loss in the year in which they arise.

(j) Leased assets

The Bank classifies leases as operating leases where the lessor retains the risks and rewards of ownership. Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

(k) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses are recognised in respect of cash-generating units to reduce the carrying amount of other assets in the unit on a pro rata basis.

Reversals of impairment

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Deposits and borrowings

Deposits and borrowings are the Bank's sources of debt funding. Deposits and borrowings are measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in deposits are Islamic deposits in terms of Mudaraba agreements.

(m) Provisions

A provision is recognised if, as a result of a past event the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision for leave pay is raised for leave which has accrued to staff, and for which the Bank is liable.

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the bank to change its judgement regarding the adequacy of existing liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(q) Earnings per share

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

(r) Contingencies and commitments

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

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

(s) Related party transactions

Related parties include the holding company of HBZ Bank Limited, Habib Bank AG Zurich, its fellow subsidiaries and associate companies and directors of HBZ Bank Ltd, as well as their close family members. All related party transactions have taken place in the ordinary course of business. Balances with related parties are included under note 30.

(t) Comparatives

Comparitive figures have been reclassified where necessary.

For the year ended 31 December 2015

	2015 R	2014 R
1. CASH AND CASH EQUIVALENTS		
Balances with central bank other than the mandatory reserve deposits	4 120 605	-
Balances with other banks	2 201 644 996	1 961 890 505
Cash on hand	3 394 211	2 281 522
Mandatory reserves with central banks	46 465 000	36 734 000
	2 255 624 812	2 000 906 027
Maturity analysis		
On demand to one month	1 738 096 812	1 758 217 027
One month to six months	435 573 000	179 488 000
Six months to one year	81 955 000	63 201 000
Greater than one year	-	-
	2 255 624 812	2 000 906 027
2. INVESTMENT SECURITIES		
Interest bearing Government bonds	111 474 698	-
Treasury bills	385 208 568	481 865 436
	496 683 266	481 865 436
Maturity analysis		
On demand to one month	59 869 861	68 285 083
One month to six months	325 338 707	413 580 353
Six months to one year	-	-
Greater than one year	111 474 698	-
	496 683 266	481 865 436
3. OTHER ASSETS		
Prepayments	3 583 985	1 102 572
Sundry debtors	1 036 896	1 923 256
Income tax receivable	-	-
	4 620 881	3 025 828
4. DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
Forward exchange contracts	25 105 462	4 200 191
	25 105 462	4 200 191

		2015	2014
		R	R
5.	DEFERRED TAXATION		
	Tax effect of timing differences between tax and book values of		
	- provisions for doubtful advances	75 429	(40 857)
	- other accruals and provisions	1 347 004	1 105 096
	- fixed asset allowances	(104 517)	(79 382)
	Deferred taxation asset	1 317 916	984 857
	Deferred taxation reconciliation		
	Balance at beginning of year	984 857	801 898
	Current year temporary differences recognised in Statement of Comprehensive Income	333 059	182 959
	- provision for doubtful advances	116 286	672
	- other accruals and provisions	241 908	245 830
	- fixed asset allowances	(25 135)	(63 543)
	Balance at the end of the year	1 317 916	984 857

		2015	2014
6.	ADVANCES		
	Overdrafts	386 599 318	342 686 724
	Loans	1 238 264 636	1 007 807 096
	Staff loans	3 320 265	2 304 831
	Commercial loans	1 187 123 826	967 145 722
	Trust receipts	47 820 545	38 356 543
	Bills receivable	500 000	2 550 000
	Foreign bills purchased	-	255 709
		1 625 363 954	1 353 299 529
	Specific impairment	(6 101 920)	(5 340 019)
	Portfolio impairment	(289 871)	(207 149)
		1 618 972 163	1 347 752 361
	Maturity analysis		
	On demand to one month	611 537 163	728 889 361
	One month to six months	193 627 000	190 944 000
	Six months to one year	104 930 000	71 088 000
	Greater than one year	708 878 000	356 831 000
		1 618 972 163	1 347 752 361

Interest rates charged on clients advances range between 6% and 12.50% during 2015. Islamic Banking advances are included in advances.

For the year ended 31 December 2015

		2015	2014
		R	R
7.	IMPAIRMENT OF ADVANCES		
7.1	Specific impairment		
	Balance at beginning of year	5 340 019	1 633 784
	Impairment raised (See note 7.3)	3 893 722	4 215 620
	Recoveries	(2 948 307)	(463 235)
	Write-offs against impairment	(183 514)	(46 150)
	Balance at end of year	6 101 920	5 340 019
7.2	Portfolio impairment		
	Balance at beginning of year	207 149	119 469
	Impairments raised (See note 7.3)	82 722	87 680
	Balance at end of year	289 871	207 149
7.3	Statement of Comprehensive Income movement		
	Impairment raised during the year		
	- Specific impairment	3 893 722	4 215 620
	- Portfolio impairment	82 722	87 680
		3 976 444	4 303 300
	Recoveries	(2 948 307)	(463 235)
		1 028 137	3 840 065

8. PROPERTY AND EQUIPMENT

	Cost	Accumulated depreciation	Closing carrying value
	R	**R**	**R**
2015			
Land and buildings	9 682 091	-	9 682 091
Furniture & fittings	10 812 251	(7 318 924)	3 493 327
Office equipment	5 260 442	(4 508 005)	752 437
Motor vehicles	3 483 657	(2 002 427)	1 481 230
Computers	7 726 755	(5 898 663)	1 828 092
	36 965 196	(19 728 019)	17 237 177

	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
2014			
Land and buildings	9 679 947	-	9 679 947
Furniture & fittings	7 925 037	(6 437 284)	1 487 753
Office equipment	4 900 381	(4 030 827)	869 554
Motor vehicles	3 063 263	(1 834 714)	1 228 549
Computers	6 644 436	(5 060 584)	1 583 852
	32 213 064	(17 363 409)	14 849 655

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2015 movements					
Land and buildings	9 679 947	2 144	-	-	9 682 091
Furniture & fittings	1 487 753	2 887 214	-	(881 640)	3 493 327
Office equipment	869 554	360 061	-	(477 178)	752 437
Motor vehicles	1 228 549	890 594	(92 095)	(545 818)	1 481 230
Computers	1 583 852	1 082 319	-	(838 079)	1 828 092
	14 849 655	5 222 332	(92 095)	(2 742 715)	17 237 177

For the year ended 31 December 2015

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2014 movements					
Land and buildings	9 679 947	-	-	-	9 679 947
Furniture & fittings	2 028 425	201 704	-	(742 376)	1 487 753
Office equipment	948 569	356 664	(8 539)	(427 140)	869 554
Motor vehicles	1 276 029	443 950	-	(491 430)	1 228 549
Computers	1 589 783	628 714	-	(634 645)	1 583 852
	15 522 753	1 631 032	(8 539)	(2 295 591)	14 849 655

Land and buildings comprise the following:	**Acquisition date:**
1. Erf no. 1246, Jan Hofmeyr Road, Westville.	13 December 2004
2. 39 Rooikoppies, 23 Leander Crescent, Westville.	11 October 2004
3. Section numbers 15 and 28, Cedar Ridge, Jan Hofmeyr Road, Westville.	16 January 1996
4. Section 11, Arbor Glade, Musgrave, Durban	21 July 1997
5. Section 22, Berkley Close, Houghton, Johannesburg	14 March 2001

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

	2014	2015
	R	R
9. ORDINARY SHARE CAPITAL		
Authorised		
10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
Issued		
10 000 000 Ordinary shares at a par value of R1 each issued at R5 each		
- 10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
- Share premium on 10 000 000 Ordinary shares	40 000 000	40 000 000

		2015	2014
		R	R
10.	NON-DISTRIBUTABLE RESERVES		
	Regulatory reserve	8 139 047	5 271 742

A regulatory Reserve has been created, as a general allowance for credit impairments, by re-allocating distributable reserves to non-distributable reserves.

	General reserve	242 300 000	189 800 000

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

11.	DEPOSITS AND BORROWINGS		
	Deposits and loans from banks	241 700 551	352 118 209
	Demand deposits	1 545 356 058	1 352 672 024
	Savings deposits	202 065 790	183 827 803
	Fixed deposits	1 307 471 660	851 788 646
	Notice deposits	752 798 618	773 833 352
		4 049 392 677	3 514 240 034
	Maturity analysis		
	On demand to one month	3 503 869 350	3 129 746 041
	One month to six months	391 493 853	270 182 876
	Six months to one year	143 226 430	114 311 117
	Greater than one year	10 803 044	-
		4 049 392 677	3 514 240 034

Islamic Banking deposits are included in deposits and other accounts.

12.	PROVISION		
	Balance at beginning of year	4 444 059	3 295 000
	Provisions made during the period	676 389	1 149 059
	Balance at end of year	5 120 448	4 444 059

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

13.	OTHER LIABILITIES		
	Creditors	5 603 918	18 476 107
	Other payables	3 012 158	2 605 086
	Management fees for services rendered	-	11 282 248
		8 616 076	32 363 441

For the year ended 31 December 2015

		2015 R	2014 R
14.	DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
	Forward exchange contracts	24 689 440	3 891 338
		24 689 440	3 891 338
15.	TAXATION		
	Provision for normal taxation	148 000	993 158
		148 000	993 158
16.	INTEREST RECEIVED		
	Balances with other banks	119 680 722	85 555 839
	Advances	118 137 348	94 657 742
	Investment securities	32 133 807	28 878 165
		269 951 877	209 091 746
17.	INTEREST PAID		
	Deposits from banks	5 552 519	4 055 824
	Deposits from customers	95 309 105	65 415 120
		100 861 624	69 470 944
18.	OTHER OPERATING INCOME		
	Commissions and fees	39 477 557	36 589 642
	Foreign exchange income	15 217 498	12 310 797
	Profit on disposal of fixed assets	-	18 490
		54 695 055	48 918 929

	2015	2014
	R	R

19. OPERATING EXPENSES

	2015 R	2014 R
Operating expenses include :		
Directors' remuneration (see note 20)	6 248 117	5 829 953
Auditor's remuneration	1 157 301	1 122 972
- audit	1 157 301	1 122 972
Depreciation	2 742 715	2 295 591
Management fee for services rendered	30 364 233	27 292 149
Retirement benefit costs	3 565 650	3 083 456
- key management personnel	333 340	301 446
- other personnel	3 232 310	2 782 010
Operating leases	4 716 267	4 362 046
- premises	4 246 535	3 950 395
- equipment	469 732	411 651
Staff costs	43 009 072	34 651 597

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

20. DIRECTORS' REMUNERATION

For services as a director and other services

	2015 R	2014 R
Non-executive directors	1 943 333	1 900 000
- MH Habib (Chairman)	310 000	280 000
- RL Daly (Vice Chairman)	310 000	280 000
- MY Chowdhury	310 000	280 000
- MR Habib	280 000	260 000
- HF Leenstra	280 000	260 000
- D Dharmalingham	290 000	260 000
- O Grobler	163 333	-
- PJ Neethling	-	280 000
Executive directors	4 304 784	3 929 953
- ZA Khan - CEO	2 819 586	2 575 384
- C Harvey - Head Of Corporate Governance	1 485 198	1 354 569
Total directors' remuneration	6 248 117	5 829 953

HBZ Bank does not offer pension to directors. In terms of the Articles of Association of HBZ Bank Limited the appointment of a director is for a period of three years where-after each director is expected to retire on rotation. Directors are however eligible to offer themselves for reappointment and the board will consider reappointing them depending on current circumstances.

If there are circumstances necessitating the termination of the contract before the three year period referred to above has expired then each party will have the right to terminate the contract by giving the other party three months written notice of termination.

For the year ended 31 December 2015

		2015 R	2014 R
21.	**TAXATION**		
21.1	**South African normal taxation**		
	- current	24 946 314	19 550 449
	- deferred	(333 059)	(182 959)
	Total taxation	24 613 255	19 367 490
21.2	**Reconciliation of tax charge**		
	SA Normal taxation	28.00%	28.00%
	Standard rate affected by:		
	- permanent difference	(0.21%)	0.01%
	Effective rate - total taxation	27.79%	28.01%

22. DIVIDENDS PER SHARE

	2015 R	2014 R
Final dividend of 300 cents per share (2014: 220 cents per share)	30 000 000	22 000 000

23. EARNINGS AND DILUTED EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on net income attributable to ordinary shareholders of R63 942 711 (2014: R49 777 439) and a weighted average of 10 000 000 (2014: 10 000 000) ordinary shares issued.

The calculation of diluted earnings per ordinary share is based on net income attributable to ordinary shareholders of R63 942 711 (2014: R49 777 439) and a weighted average number of 10 000 000 (2014: 10 000 000) ordinary shares outstanding after any adjustments for the effects of all dilutive potential ordinary shares.

24. CASH FLOW INFORMATION

		2015 R	2014 R
24.1	**Cash receipts from customers**		
	Interest income	269 951 877	209 091 746
	Other income	54 695 055	48 918 929
		324 646 932	258 010 675

	2015	2014
	R	R
24.2 Cash paid to customers, employees and suppliers		
Interest expenses	(100 861 624)	(69 470 944)
Other payments	(131 642 004)	(113 323 786)
	(232 503 628)	(182 794 730)
24.3 Cash available from operating activities		
Net income before tax	88 555 966	69 144 929
Adjusted for non-cash items		
- Specific debt provision	761 901	3 706 235
- General debt provision	82 722	87 680
- Depreciation	2 742 715	2 295 591
- Profit on disposal of property and equipment	-	(18 490)
	92 143 304	75 215 945
24.4 Taxation paid		
Amounts (payable)/receivable at beginning of year	(993 158)	298 219
Charge to Statement of Comprehensive Income	(24 946 314)	(19 550 449)
Amounts payable at end of year	148 000	993 158
	(25 791 472)	(18 259 072)
24.5 (Increase)/Decrease in income-earning funds and other assets		
Advances	(272 064 425)	(181 587 093)
Investment securities	(14 817 830)	13 350 134
Other assets and derivative assets	(22 500 324)	15 352 573
	(309 382 579)	(152 884 386)
24.6 Increase/(Decrease) in deposits and other liabilities		
Deposits and borrowings	535 152 643	259 020 332
Creditors and other liabilities	(2 272 874)	(7 582 317)
	532 879 769	251 438 015

25. LETTERS OF CREDIT AND GUARANTEE

	2015	2014
Letters of credit	96 248 667	129 428 922
Guarantees issued on behalf of customers	144 343 075	108 022 652
	240 591 742	237 451 574

Guarantees and letters of credit have fixed expiry dates. Since these commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

For details on the other off-balance sheet items, refer to notes 27.1 and 29.

26. PRINCIPAL FOREIGN CURRENCY CONVERSION RATES

	2015	2014
One South African Rand equals		
- Swiss Franc	0.064	0.085
- United States Dollar	0.065	0.086
- Pound Sterling	0.044	0.055

For the year ended 31 December 2015

27. FINANCIAL INSTRUMENTS

27.1 Credit risk management

Exposure to credit risk

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
On balance sheet	**R**	**R**	**R**	**R**	**R**	**R**
Individually impaired						
- Gross amount	48 129 714	10 584 005	-	-	-	-
- Impairment	(6 101 920)	(5 340 019)	-	-	-	-
- Carrying amount	42 027 794	5 243 986	-	-	-	-
Collectively impaired						
- Gross amount	1 577 234 240	1 342 715 524	-	-	-	-
- Impairment	(289 871)	(207 149)	-	-	-	-
- Carrying amount	1 576 944 369	1 342 508 375	-	-	-	-
Not impaired	-	-	2 255 624 812	2 000 906 027	496 683 266	481 865 436
Total carrying amount	1 618 972 163	1 347 752 361	2 255 624 812	2 000 906 027	496 683 266	481 865 436

	Letters of credit		Guarantees		Unutilised facilities	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Off balance sheet	**R**	**R**	**R**	**R**	**R**	**R**
Not impaired Gross amount	96 248 667	129 428 922	144 343 075	108 022 652	385 659 434	232 751 739

Collateral held as security

The Bank holds collateral against loans and advances to customers, letters of credit, letters of guarantee and unutilised facilities. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, however property values are updated at least every three years. Collateral is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2015 or 2014.

An estimate of the fair value of collateral held against loans and advances to customers, letters of credit, letters of guarantee and unutilised facilities is shown below:

	2015 R	2014 R
Cash deposit	404 390 896	313 534 263
Bank guarantee	5 655 453	115 363 692
Property and other	1 841 568 781	1 394 604 887
Total	2 251 615 130	1 823 502 842

Concentration of credit risk

The Bank monitors concentrations of credit risk by industry and geographical location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2015 R	2014 R	2015 R	2014 R	2015 R	2014 R
Concentration by location						
- America	-	-	11 805 594	8 846	-	-
- Europe	-	-	16 693 441	5 181 370	-	-
- Asia	-	-	252 238	157 266	-	-
- South Africa	1 618 972 163	1 347 752 361	2 226 873 539	1 995 558 545	496 683 266	481 865 436
- Other African countries	-	-	-	-	-	-
	1 618 972 163	1 347 752 361	2 255 624 812	2 000 906 027	496 683 266	481 865 436

	Loans and advances - Gross		Doubtful debts - Gross		Specific Impairment	
	2015 R	2014 R	2015 R	2014 R	2015 R	2014 R
Concentration by industry						
- Finance & insurance	13 966 000	17 125 000	-	-	-	-
- Manufacturing	739 352 000	228 985 000	11 341 872	4 022 720	(980 539)	(2 500 784)
- Transportation	55 477 000	7 222 000	-	-	-	-
- Commercial real estate	208 165 000	371 753 000	1 331 213	1 908 341	(197 786)	(523 186)
- Retailers & wholesalers	568 126 000	366 298 000	14 312 119	4 180 706	(2 746 635)	(2 003 171)
- Other	40 277 954	361 916 529	21 144 510	472 238	(2 176 960)	(312 878)
	1 625 363 954	1 353 299 529	48 129 714	10 584 005	(6 101 920)	(5 340 019)

The portfolio impairment is not split by industry as it is based on the credit portfolio as a whole and not to specific loans and advances.

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27.2 Currency risk management

The Bank did not have any significant foreign currency exposure at 31 December 2015.

27.3 Derivative instruments

	2015	2014
	R	R
Nominal value of forward exchange contracts sold to customers	228 808 908	132 823 808
Nominal value of forward exchange contracts sold to banks	25 408 439	20 954 627
	254 217 347	153 778 435
Nominal value of forward exchange contracts purchased from customers	(25 334 056)	(20 940 046)
Nominal value of forward exchange contracts purchased from banks	(228 467 269)	(132 529 537)
	(253 801 325)	(153 469 583)

27.4 Liquidity risk management

	On demand	1-6 months	6-12 months	< 12 months	Total
	R	R	R	R	R
2015					
Assets					
Investment securities	59 869 861	325 338 707	-	111 474 698	496 683 266
Advances	611 537 163	193 627 000	104 930 000	708 878 000	1 618 972 163
Other assets (incl. derivatives)	14 809 372	14 301 000	354 000	261 971	29 726 343
Cash and short term funds	1 738 096 812	435 573 000	81 955 000	-	2 255 624 812
	2 424 313 208	968 839 707	187 239 000	820 614 669	4 401 006 584
Liabilities					
Deposits and other accounts	(3 503 869 350)	(391 493 853)	(143 226 430)	(10 803 044)	(4 049 392 677)
Other liabilities (incl. derivatives)	(17 351 729)	(15 209 869)	(348 000)	(543 918)	(33 453 516)
Provisions	-	(5 120 448)	-	-	(5 120 448)
	(3 521 221 079)	(411 824 170)	(143 574 430)	(11 346 962)	(4 087 966 641)
Net liquidity gap	(1 096 907 871)	557 015 537	43 664 570	809 267 707	313 039 943
2014					
Assets					
Investment securities	68 285 083	413 580 353	-	-	481 865 436
Advances	728 889 361	190 944 000	71 088 000	356 831 000	1 347 752 361
Other assets (incl. derivatives)	4 243 190	2 804 000	-	178 829	7 226 019
Cash and short term funds	1 758 217 027	179 488 000	63 201 000	-	2 000 906 027
	2 559 634 661	786 816 353	134 289 000	357 009 829	3 837 749 843

	On demand	1-6 months	6-12 months	< 12 months	Total
	R	R	R	R	R
2013					
Liabilities					
Deposits and other accounts	(3 129 746 041)	(270 182 876)	(114 311 117)	-	(3 514 240 034)
Other liabilities (incl. derivatives)	(32 149 111)	(4 586 158)	-	(512 668)	(37 247 937)
Provisions	-	(4 444 059)	-	-	(4 444 059)
	(3 161 895 152)	(279 213 093)	(114 311 117)	(512 668)	(3 555 932 030)
Net liquidity gap	(602 260 491)	507 603 260	19 977 883	356 497 161	281 817 813

27.5 Interest rate risk management

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

	Short-term	Medium-term		Long-term		
	0 - 31 days	**32 - 91 days**	**92 - 181 days**	**182 - 365 days**	**Other**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
2015						
Fixed rate items						
Assets	1 291 383	313 055	563 130	183 031	111 735	2 462 334
Liabilities	(1 284 460)	(79 703)	(157 764)	(40 748)	-	(1 562 675)
	6 923	233 352	405 366	142 283	111 735	899 659
Variable items						
Assets	1 781 482	-	-	-	-	1 781 482
Liabilities	(2 484 903)	-	-	-	-	(2 484 903)
	(703 421)	-	-	-	-	(703 421)
Net repricing gap	**(696 498)**	**233 352**	**405 366**	**142 283**	**111 735**	**196 238**
2014						
Fixed rate items						
Assets	1 385 941	420 975	303 906	64 411	292	2 175 525
Liabilities	(908 351)	(114 950)	(64 538)	(13 201)	-	(1 101 040)
	477 590	306 025	239 368	51 210	292	1 074 485
Variable items						
Assets	1 551 689	-	-	-	-	1 551 689
Liabilities	(2 413 200)	-	-	-	-	(2 413 200)
	(861 511)	-	-	-	-	(861 511)
Net repricing gap	**(383 921)**	**306 025**	**239 368**	**51 210**	**292**	**212 974**

27.6 Sensitivity analysis

In managing interest rate risk the Bank aims to reduce the impact of short-term fluctuations on the Bank's earnings. Over the longer term however, permanent changes in interest rates would have an impact on earnings. It is estimated that as at 31 December 2015, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R874 000 (2014: R960 000) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R874 000 (2014: R960 000).

27.7 Financial assets and liabilities

	Non trading derivatives	Held-to -maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2015	**R**	**R**	**R**	**R**	**R**	**R**
Cash and short-term funds	-	-	2 255 624 812	-	2 255 624 812	2 255 624 812
Investment securities	-	496 683 266	-	-	496 683 266	493 092 845
Derivative assets held for risk management	25 105 462	-	-	-	25 105 462	25 105 462
Advances	-	-	1 618 972 163	-	1 618 972 163	1 618 972 163
	25 105 462	496 683 266	3 874 596 975	-	4 396 385 703	4 392 795 282
Deposits and loans from banks	-	-	-	(241 700 551)	(241 700 551)	(241 700 551)
Deposits from customers	-	-	-	(3 807 692 126)	(3 807 692 126)	(3 807 692 126)
Derivative liabilities held for risk management	(24 689 440)	-	-	-	(24 689 440)	(24 689 440)
	(24 689 440)	-	-	(4 049 392 677)	(4 074 082 117)	(4 074 082 117)
31 December 2014						
Cash and short-term funds	-	-	2 000 906 027	-	2 000 906 027	2 000 906 027
Investment securities	-	481 865 436	-	-	481 865 436	481 664 378
Derivative assets held for risk management	4 200 191	-	-	-	4 200 191	4 200 191
Advances	-	-	1 347 752 361	-	1 347 752 361	1 347 752 361
	4 200 191	481 865 436	3 348 658 388	-	3 834 724 015	3 834 522 957
Deposits and loans from banks	-	-	-	(352 118 209)	(352 118 209)	(352 118 209)
Deposits from customers	-	-	-	(3 162 121 825)	(3 162 121 825)	(3 162 121 825)
Derivative liabilities held for risk management	(3 891 338)	-	-	-	(3 891 338)	(3 891 338)
	(3 891 338)	-	-	(3 514 240 034)	(3 518 131 372)	(3 518 131 372)

The fair value of non trading derivatives is classed as a level 1 financial instrument in terms of the hierarchy requirements per IFRS 7. The fair value of advances and deposits cannot be reliably measured as they are unquoted. Effective interest rates on investment securities vary between 5.0% and 7.9%.

28. RETIREMENT BENEFIT COSTS

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

29. OPERATING LEASE COMMITMENTS

	Buildings	Equipment	Total
	R	**R**	**R**
2015			
Not later than 1 year	5 434 051	279 112	5 713 163
Between 2 and 5 years	9 616 614	429 662	10 046 276
	15 050 665	708 774	15 759 439
2014			
Not later than 1 year	3 167 885	161 400	3 329 285
Between 2 and 5 years	3 821 610	100 875	3 922 485
	6 989 495	262 275	7 251 770

The bank leases office buildings and office equipment under operating leases. The leases on the various buildings run for a period of 3 to 5 years with an annual escalation of 8% to 10%. The leases on office equipment run for a period of 3 years with no escalation.

30. RELATED PARTIES

30.1 Identity of related parties

- The holding company of HBZ Bank Limited - Habib Bank AG Zurich
- Fellow subsidiaries - Habib European Bank Ltd, Habib Metropolitan Bank, Habib Canadian Bank, HBZ Finance Limited, Hong Kong.
- The directors and prescribed officers listed in note 20.

	2015	**2014**
	R	**R**
30.2 Material related party transactions		
Material transactions with the company		
Dividends paid to the holding company - see note 22	30 000 000	22 000 000
Management fee paid to holding company	30 364 233	27 292 149
Directors' remuneration - see note 20	6 248 117	5 829 953
Loans to directors (balance outstanding)	648 332	230 000

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

For the year ended 31 December 2015

	2015	2014
	R	R
Material transactions with the Habib group		
Receivables due from group companies:		
- Habib Bank AG Zurich, Zurich	8 913 091	10 105
- Habib Bank AG Zurich, London	7 780 351	3 139 041
- HBZ Finance Ltd, Hong Kong	3 466	1 877
- Habib Canadian Bank, Canada	8 754	8 846
- Habib Metropolitan Bank, Pakistan	25 401	3 228
	16 731 063	3 163 097

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

Payables due to group companies:		
- Habib Bank AG Zurich, Zurich	7 675 744	108 134 604
- Habib Bank AG Zurich, London	756 817	5 903 431
- Habib Bank AG Zurich, Nairobi	264 499	155 728
- Habib Bank AG Zurich, Deira Dubai	69 524 491	59 438 477
- Habib European Bank Ltd, Isle of Man	254	254
	78 221 805	173 632 494

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

The highest outstanding balance for these payables during the financial year were:		
- Habib Bank AG Zurich, Zurich	42 000 000	73 700 000
- Habib Bank AG Zurich, London	14 745 331	8 571 262
- Habib Bank AG Zurich, Nairobi	13 149 506	1 062 553
- Habib Bank AG Zurich, Deira Dubai	71 454 882	59 438 477
- Habib European Bank Ltd, Isle of Man	254	254

Interest and related transaction charges paid to group companies:		
- Habib Bank AG Zurich, Zurich	929 867	589 689
- Habib Bank AG Zurich, London	55 448	138 929
- Habib Bank AG Zurich, Dubai	2 932 713	1 870 567
- Habib European Bank Ltd, Isle of Man	-	-
- HBZ Finance Ltd, Hong Kong	-	350
	3 918 028	2 599 535

31. STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of the financial statements of HBZ Bank Ltd for the year ended 31 December 2015, there are new or revised Accounting Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretiations that are applicable to the business of the entity and may have an impact on future financial statements:

Standard/Interpretation		Effective date - periods beginning on or after
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Various standards (Amendments to 4 standards)	Improvements to IFRSs 2012-2014 Cycle	1 January 2016
IAS 1	Disclosure Initiative	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019

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

32. LIQUIDITY COVERAGE RATIO

	2015 R '000	2014 R '000
High quality liquid assets	442 722	431 109
Net cash outflows	234 225	169 161
Liquidity coverage ratio	189%	255%

The Liquidity coverage ratio was introduced on 1 January 2015, with a minimum requirement set at 60%. The minimum requirement will rise in equal annual steps to reach 100% on 1 January 2019.

For the year ended 31 December 2015

		2015 R'000	2014 R'000
33. CAPITAL ADEQUACY STATEMENT			
Credit risk exposure	(See note 33.1)	2 128 273	1 506 020
Counterparty credit risk exposure	(See note 33.2)	9 476	3 012
Operational risk exposure	(See note 33.3)	298 488	272 650
Market risk exposure	(See note 33.4)	3 125	2 600
Other risk exposure	(See note 33.5)	23 080	17 765
Risk weighted exposure in relation to deferred tax assets	(See note 33.6)	3 295	2 448
Aggregate risk weighted exposure		2 465 737	1 804 495
Regulatory capital requirement - 10.25% (2014: 10.25%)		252 738	184 961
Qualifying capital and reserve funds			
Tier I			
Ordinary share capital		10 000	10 000
Share premium		40 000	40 000
General reserve		242 300	189 800
Retained earnings from prior year		81	140
Less: Prescribed deductions against capital and reserve funds		(328)	(256)
Total Tier 1 Capital		292 053	239 684
Tier II			
General allowance for credit impairment per Regulation 23		8 429	4 149
Total qualifying capital and reserve funds		300 482	243 833
Capital Adequacy Ratio			
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure		12.2%	13.5%

33.1 CREDIT RISK EXPOSURE

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

Risk weightings	Assets	Off-balance sheet items	Credit Risk Mitigation	Risk-weighted assets	Credit risk exposure	Credit risk exposure
	2015	2015	2015	2015	2015	2013
	R'000	R'000	R'000	R'000	R'000	R'000
0%	496 684	-	404 391	901 075	-	-
5%	-	-	-	-	-	-
10%	-	-	-	-	-	-
20%	1 707 179	101 961	5 655	1 814 795	362 959	401 465
50%	431 361	428 705	13 465	873 531	436 766	195 531
100%	1 654 180	97 879	(423 511)	1 328 548	1 328 548	909 024
	4 289 404	628 545	-	4 917 949	2 128 273	1 506 020

The asset items indicated in this statement are the average for the month ended 31 December 2015, as per Regulation 23 of the Regulations issued under section 90 of the Banks Amendment Act of 2007.

For the year ended 31 December 2015

33.2 COUNTERPARTY CREDIT RISK EXPOSURE

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

Risk weightings	OTC derivative instruments	Risk exposure	Risk exposure
	2015	2015	2014
	R'000	R'000	R'000
0%	-	-	-
20%	26 265	5 253	1 083
50%	-	-	-
100%	3 921	3 921	1 857
	30 186	9 174	2 940
CVA risk weighted exposure		302	72
Counterparty credit risk exposure		9 476	3 012

33.3 OPERATIONAL RISK EXPOSURE

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

	2015 R'000	2014 R'000
Gross income - 2012 / 2011	148 027	133 723
Gross income - 2013 / 2012	154 496	148 027
Gross income - 2014 / 2013	175 056	154 496
Total gross income for preceding three years	477 579	436 246
Average gross income for preceding three years	159 193	145 415
Fixed percentage per Regulation 33	x 15%	x 15%
Required capital and reserve funds for operational risk	23 879	21 812
Risk weighting per Regulation 33	x 12.5	x 12.5
Regulatory risk-weighted exposure	298 488	272 650

33.4 MARKET RISK EXPOSURE

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

	2015	2014
Net open foreign currency position	250	208
Risk weighting per Regulation 28	x 12.5	x 12.5
Regulatory risk-weighted exposure	3 125	2 600

33.5 OTHER RISK EXPOSURE

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

	Carrying amount	Specified risk weighting	Risk-weighted exposure	Risk-weighted exposure
	2015		**2015**	**2014**
	R'000		**R'000**	**R'000**
Cash and balances with the central bank	53 980	0%	-	-
Fixed assets	16 909	100%	16 909	14 594
Other assets	6 171	100%	6 171	3 171
			23 080	17 765

33.6 RISK WEIGHTED EXPOSURE IN RELATION TO DEFERRED TAX ASSETS

The Bank determines the regulatory capital requirement for its deferred tax assets as specified in Regulation 23.

	Carrying amount	Specified risk weighting	Risk-weighted exposure	Risk-weighted exposure
	2015		**2015**	**2014**
	R'000		**R'000**	**R'000**
Deferred tax asset	1 318	250%	3 295	2 448
			3 295	2 448

INTERNATIONAL NETWORK SUMMARY

1. UNITED ARAB EMIRATES	Habib Bank AG Zurich	**8 Branches**
2. UNITED KINGDOM	Habib Bank AG Zurich	**8 Branches**
3. KENYA	Habib Bank AG Zurich	**5 Branches**
4. SWITZERLAND	Habib Bank AG Zurich	**1 Branch**
5. PAKISTAN	Habib Metropolitan Bank	**276 Branches**
6. SOUTH AFRICA	HBZ Bank Ltd	**8 Branches**
7. ISLE OF MAN	Habib European Bank Ltd	**1 Branch**
8. CANADA	Habib Canadian Bank	**2 Branches**
9. HONG KONG	HBZ Finance Ltd	**5 Branches**
10. BANGLADESH	Habib Bank AG Zurich	**Representative Office**

LIST OF SERVICES

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

THE RANGE OF SERVICES PRESENTLY AVAILABLE IN SOUTH AFRICA INCLUDE:

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

OTHER SERVICES AVAILABLE THROUGH THE GLOBAL NETWORK INCLUDE:

Personal and Private Banking Services:

- International Portfolio Management
- Financial Advisory Management
- Trustee Services
- Credit Cards
- Travellers Cheques
- Safe Deposit Lockers and Custodial Services

Corporate Banking Services:

- Overdrafts
- Commercial Loans
- Trade Finance
- Import and Export Letter of Credit
- Bills Discounting
- Global Remittances
- Bullion and Silver Dealing
- Dealings in Securities, Bonds and Stocks
- Treasury Services