GRINDROD BANK

INTEGRATED ANNUAL REPORT 2021

WE PRESENT THE 2021 GRINDROD BANK LIMITED INTEGRATED ANNUAL REPORT

The report provides an overview of our strategy, performance and governance. It should be read in conjunction with the Grindrod Bank Limited annual financial statements (AFS) for the year ended 31 December 2021.

NAVIGATE OUR REPORT

Indicates where further information on a topic can be found in this report.

Indicates where further information on a topic can be found online.

FEEDBACK

Please share your feedback for improvements to our report by emailing IAR@grindrodbank.co.za

HOW THIS REPORT WAS PREPARED

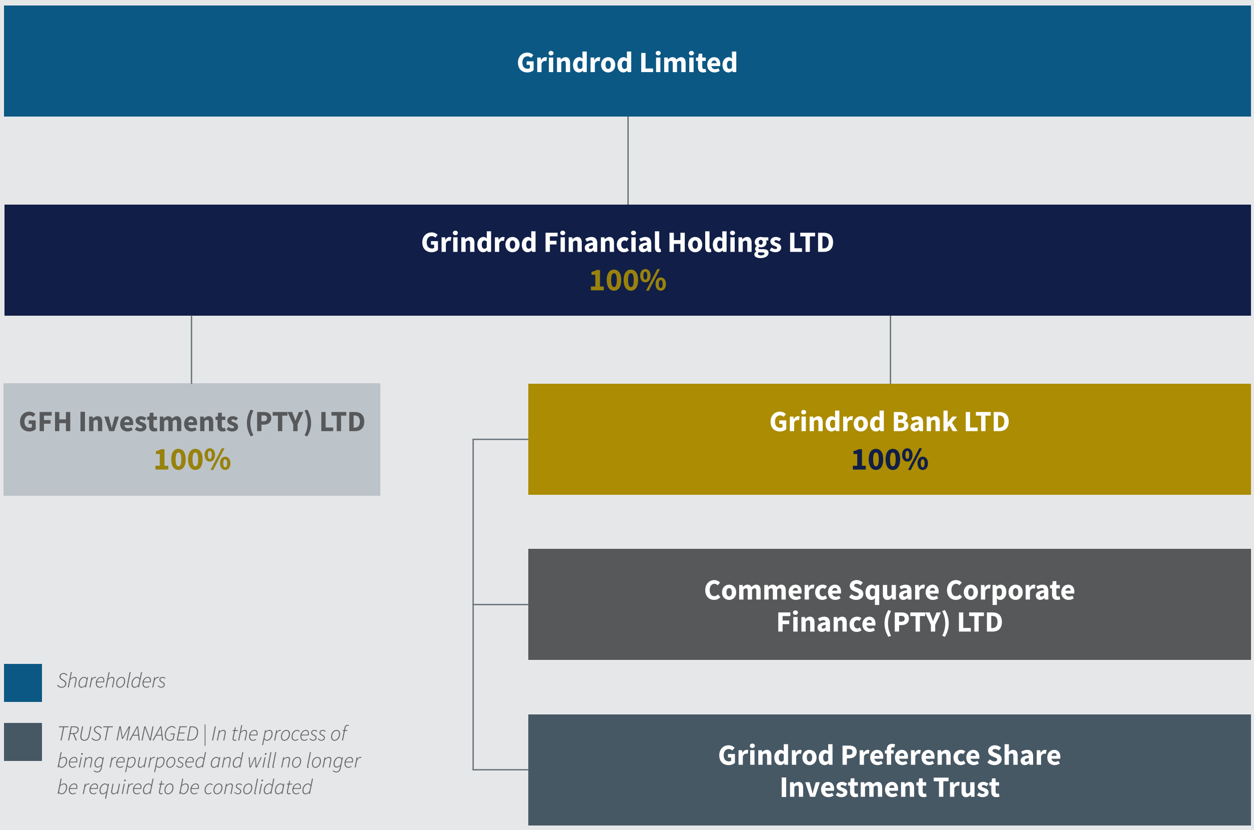
Members of executive management, accountable to the board, are responsible for the preparation of this report. Information has been sourced from interviews with senior leadership, internal documents and relevant external research to compile this report. The integrity of the information published in the report is supported by a control environment created by our assurance and risk functions. The report is not audited, but it contains certain information extracted from the audited consolidated annual financial statements on which an unqualified opinion was expressed by the Bank's independent external auditor, SizweNtsalubaGobodo Grant Thornton Inc.

Our reporting scope and boundary

Grindrod Bank Limited (the Bank) is a 100% subsidiary of Grindrod Financial Holdings Limited.

Our report contains an overview of the material aspects and activities of the Bank. It outlines how our strategy and governance enable the Bank to create and preserve long-term value, and prevent the erosion of value, for our stakeholders.

The report covers the period 1 January 2021 to 31 December 2021, with comparatives shown where applicable. Subsequent developments considered relevant between 31 December 2021 and the publication date are included.



Frameworks and reporting suite

Key frameworks applied	Integrated annual report	Annual financial statements
Companies Act No. 71 of 2008, as amended (the Companies Act)	✓	✓
Banks Act No. 94 of 1990 (the Banks Act) and associated Banks Act regulations	✓	✓
King Report on Corporate Governance™ for South Africa, 2016 (King IV)[1]	✓	✓
International Financial Reporting Standards (IFRS)		✓
JSE Debt Listings Requirements	✓	✓
SAICA Financial Reporting Guidelines		✓

[1] *Copyright and trademarks are owned by the Institute of Directors in South Africa NPC and all of its rights are reserved.*

The Bank continued to make progress in its adoption of the Value Reporting Foundation's Integrated Reporting Framework (<IR> Framework) in the preparation of the report.

Our integrated annual report, AFS and SENS announcements are available at www.grindrodbank.co.za

CONTENTS

Our Bank

How we serve our clients, enable small- and medium-sized businesses to survive and grow, and broaden access to financial services in South Africa.

6 What we do

7 How we do it

9 Our stakeholder relationships

Reflecting on 2021

The risks and opportunities we respond to when formulating and implementing our strategy to create and preserve value, while mitigating value erosion.

13 Chairperson's message

17 Navigating our operating environment

Our strategic direction

Our strategic commitment to maintain and grow our existing core operations while diversifying into the new initiatives to sustain future growth.

19 Chief executive officer's review

22 Pillar 1: Preserve and consolidate core operations

23 Pillar 2: Build and reposition the Bank

23 Pillar 3: Future-proof the Bank

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements about the Bank's anticipated performance and prospects, results, and operations. Although these statements represent our future expectations and judgements, the opinions are subject to known and unknown risks and uncertainties that could adversely impact our business and financial performance. Undue reliance should not be placed on such opinions, forecasts or data. Forward-looking statements apply to the date on which they are made. The Bank does not undertake any obligation to publicly update or revise any of its opinions for forward-looking statements, whether to reflect new data, future events or circumstances. The financial information on which the forward-looking statements are based was not audited.

BOARD RESPONSIBILITY STATEMENT

The board acknowledges its responsibility to ensure the integrity and completeness of this integrated annual report. With the support of the board committees, the board collectively assessed the report's content and believes that it offers a balanced and comprehensive view of the Bank's performance and its strategy to create and preserve value or stakeholders in the short, medium and long term. The board unanimously approved the report on 24 May 2022.

DT Soondarjee
Independent Chairperson

DA Polkinghorne
Chief executive officer (CEO)

RS Garach
Chief financial officer (CFO)

ZN Malinga
Lead independent director

S Barrett
Independent non-executive director

GG Christopulo
Independent non-executive director

MP Grindrod
Non-independent non-executive director

CR Howell
Independent non-executive director

RM Maleka
Independent non-executive director

R Ramcharan
Independent non-executive director

Bank operations

How we organise the Bank's operations and IT systems to effectively implement our strategy and position the Bank for the future. Furthermore, we set out the strategic outcomes we achieved in 2021.

25 Chief operating officer's review
31 Treasury
33 Property lending
35 Corporate, investment and SME banking
37 Platform banking

Performance

The financial outcomes of implementing our strategy; our actions to ensure that our workforce is adequately resourced and engaged for the Bank's future direction; and our journey to integrate environmental, social and governance (ESG) matters across the Bank.

39 Chief financial officer's review
47 The power of human capital
52 Our social and environmental impact
59 Managing risk and opportunity

Governing our Bank

Our approach to good governance and how we align remuneration with performance.

66 Creating value through good governance
88 Report from the human capital and remuneration committee chair
93 Corporate information
94 Glossary

OUR BANK

01

OUR PERFORMANCE IN 2021

Profitability	Gross loans and advances	BBBEE contributor status
44.15%	5.33%	Level 1
R109.17 million	**R8.78 billion**	
(2020: R75.73 million)	(2020: R8.34 billion)	(2020: Level 1)

Return on average shareholder equity	Funding base	New lending
8.05%	19.64%	R324.20 million
	R11.92 billion	
(2020: 5.83%)	(2020: R9.97 billion)	(2020: R285.47 million)

Total assets	Capital adequacy ratio	Invested in employee development
17.18%	15.66%	R2.29 million
R13.73 billion		
(2020: R11.72 billion)	(2020: 14.66%)	(2020: R1.25 million)

WHAT DIFFERENTIATES US

We provide clients with **effective, value-driven financial solutions.**

- We understand that clients look to us to anticipate their needs and deliver **seamless, efficient financial solutions**
- Our **specialist teams** integrate banking into our clients' everyday business or personal experiences, leveraging our **deep client and market insights** and the Bank's **solid foundation** to ensure value and financial security
- We have enabled many South African SMEs to **access market opportunities and grow** their businesses
- By **enabling our non-banking partners** to provide financial services to their clients, we are **broadening access to financial services**

WHAT WE DO

We have a proud 27-year history of managing client deposits and providing corporate lending, property finance and tailored financial services to our private, corporate and institutional clients. While this remains our core business, we are strengthening our focus on small- and medium-sized enterprise (SME) banking and diversifying further into platform banking.

INVESTMENTS & SAVINGS

The Bank's Treasury manages client deposit investments, and our portfolio managers provide deposit solutions that suit our clients' needs. We offer competitive investment rates.

- Call deposits
- Fixed deposits
- Prime-linked notice deposits

SPECIALISED PROPERTY FINANCE

The Bank is a niche financier, known for its commercial and industrial property finance expertise and is differentiated by its mezzanine finance product offering.

- Vanilla finance facilities
- Mezzanine finance
- Blended facilities

CORPORATE, SME & INVESTMENT BANKING

Our expert teams assist SME clients to overcome their funding challenges by providing tailor-made solutions to suit their financial needs and growth ambitions.

- Short-term loans to improve cash flow
- Working capital facilities
- Asset-backed growth finance
- Management buyout and empowerment finance
- Transactional banking

PLATFORM BANKING

We offer niche platform banking products and services in partnership with non-banking businesses to broaden client access to relevant, reliable and affordable financial services.

- Banking partnerships
- Access to card and non-card payment services
- Access to deposit, transactional and lending product platforms
- Bill payments and value-added services access
- Regulatory reporting, settlement and reconciliation services

We recognise the importance of partnerships and making meaningful contributions to our valued clients and those they serve. By collaborating with our clients, partners and other financial institutions, we continue to grow across a range of industries and sectors. We sustain our growth by remaining relevant to our existing clients and providing solutions to new clients.

HOW WE DO IT

We leverage our balance sheet, skilled human capital, and client relationships to create and sustain competitive advantage. By enabling our clients to generate wealth, grow their businesses, access platform banking services, and supporting them when they most need it, we create and preserve value for our stakeholders and economic growth for South Africa.

WHY WE EXIST

Our vision is to be the preferred provider of targeted financial services in our selected markets based on strong customer relationships. We will strengthen these relationships by providing the right solutions that combine our technology, experience and financial strength. Our goal is to create customer loyalty, shareholder value and employee satisfaction.

Our purpose as a specialist investment bank is to help our clients achieve their financial goals.

HOW WE DO BUSINESS

Our values instill a culture of excellence through:

- Sustainability
- Teamwork and trust
- Respect
- Intellect, integrity and innovation
- Virtue
- Excellence in service

WE FOCUS ON THREE STRATEGIC PILLARS

1

Preserve and consolidate core operations to maintain a solid foundation and fund growth.

2

Build and reposition the Bank by expanding our offerings to serve specific needs of targeted clients, with a primary focus on SMEs and supporting their capacity to be economic growth engines and employment creators.

3

Future-proof the Bank by repositioning our retail banking model to a platform banking model which includes working with relevant fintech and technology partners to assist non-banking businesses, which operate in the retail and SME markets, to offer digital transactional banking and payment solutions to their clients.

OUR STRATEGIC PILLARS CONSIDER:

Risks and opportunities in our external and internal environments (page 59)

Our assets and resources:
- **Our financial assets and liabilities** (page 46)
- **Our people and relationships** (page 47)

Our stakeholder relationships: we engage with our stakeholders to understand, and respond to their needs and concerns (page 9)

OUR KEY CAPABILITIES

Treasury: We raise deposits in the market which we optimise through product mix, duration and pricing. This is enhanced by our capability to manage liquidity.

Property lending: We partner with clients to provide tailored financial solutions for the acquisition or development of industrial, commercial and retail properties with vanilla and mezzanine finance.

Corporate, investment and SME banking: We craft custom solutions for South African entrepreneurs and SMEs. These include the provision of working capital finance, capital raising, empowerment finance, mergers and acquisitions, and transactional banking.

Platform banking: We assist non-banking businesses which operate in the retail and SME markets to grow by enabling them to offer digital transactional banking and payment solutions to their end clients.

FINANCIAL VALUE CREATED IN 2022

44.15% growth in profitability to **R109.17 million**	**19.64%** growth in funding base to **R11.92 billion**
>R1 billion property mezzanine funding provided over the past decade	**R1.11 million** invested in community support and enterprise development
R2.29 million invested in employee training and development	**R324.20 million** lent to SME clients

THE VALUE WE ADD FOR STAKEHOLDERS:

- Partnering with our clients in their personal and business wealth generation journeys
- Assisting our SME clients to realise their business growth ambitions
- Broadening access to reliable, low risk financial services
- Investing in our employees and communities
- Delivering consistent performance

A FUTURE PROOF BUSINESS MODEL

In five years, we expect our business profile to reflect our strategic transformation. This entails growing our SME client base to a targeted one-third of revenue (40% of the advances book), with growth in fee-based platform banking generating another one-third, and the balance attributable to our traditional investment banking and property lending businesses.

A stable business with a 27-year history of consistency

OUR STAKEHOLDER RELATIONSHIPS

The Bank has a range of stakeholders who have an interest in our business and may be impacted by the services we provide and the way we operate. By engaging constructively with our stakeholders, we can create and preserve lasting value together.

A stakeholder engagement policy guides our stakeholder engagement. Key stakeholder groups are identified, and communication plans are implemented to facilitate transparent and reciprocal engagement and respond to legitimate stakeholder concerns.

Quality of our relationships
Our self-assessment of the quality of our relationships with our stakeholders.

* Non-existent, needs to be developed	** Good, with room for improvement	*** Excellent, based on mutual trust, shared value

Clients ***

Our depositor, lending, corporate, SME and retail clients sustain our business and create economic benefit for South Africa.

Material stakeholder interests

Our clients expect:

- Financial stability and a safe haven for their financial assets
- Efficiency, personalised service and tailored solutions based on an understanding of their unique needs
- Competitive investment rates, flexible products and fairly priced loans
- Responsible treatment and support during periods of financial stress

How we engage

- High-touch, consistent engagement between clients and relationship managers
- Engagement through a range of physical and digital channels, including face-to-face meetings, telephone conversations, email and the Bank's online banking solution
- Rapid response to queries

Our response

- Provided repayment relief to select clients impacted by COVID-19 and the July 2021 civil unrest
- Disbursed loans responsibly in a competitive environment, in line with our risk appetite and limits
- Maintained service excellence in challenging operating conditions
- Introduced new deposit products in response to specific client requirements, within our risk appetite and limits
- Engaged with our clients to ensure they get the best value from our products and services

Managing client concerns

In instances where we do not meet our own standards of unmatched service, we listen and respond by improving efficiency and aligning our services with clients' needs.

The Bank has a complaints policy with a formal complaints process that is reviewed annually. The policy and a downloadable complaints form are available on our website and distributed to all employees, who are required to declare that they have read and understood it. We also evaluate, guide and oversee our partners' complaints processes where required by regulation.

Employees **

Our 184 employees deliver specialist services and maintain our client relationships, performance and reputation.

Material stakeholder interests

Our employees expect:

- Job security
- A healthy work environment
- Opportunity to realise their potential
- Fair remuneration and rewards
- Attractive benefits

How we engage

- Face-to-face meetings between employees and managers, coffee sessions with the CEO and CFO, virtual team meetings as well as Grindrod Engage (interactive 'town hall' engagement session)
- Interviews between employees and the human resources (HR) team to determine why employees stay and what may cause them to leave
- Surveys to establish employee engagement, strategy alignment or concerns
- The Deloitte Tip-offs Anonymous hotline and a suggestion portal

Our response:

Our employee value proposition provides:

- A flat organisational structure with opportunity for development
- Competitive remuneration
- A flexible/hybrid working model
- An employee wellness programme
- Risk benefits, including disability, dread disease and death cover
- Employee home loans at prime -2%
- Investment in employee training and development

Important conversations with our employees

Employee concern	How we addressed this concern
Salary alignment	Conducted a salary grading exercise to ensure fair and consistent pay
Work overload	Filled vacancies where appropriate and continue to re-align workflow
Remote working	Established a hybrid model for employees to work from the office or from home

Quality of our relationships
Our self-assessment of the quality of our relationships with our stakeholders.

* Non-existent, needs to be developed	** Good, with room for improvement	*** Excellent, based on mutual trust, shared value

Regulators **

Our regulators, the South African Reserve Bank (SARB), the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA), maintain the stability and integrity of the financial services industry and protect consumer interests.

Material stakeholder interests

Our regulators expect us to:

» Comply with regulations and industry standards
» Keep pace with regulatory changes
» Manage risk and maintain a sound financial position
» Instil a culture of sound governance and ethical conduct

How we engage

» Maintain a stable working relationship with active engagement
» The PA and the FSCA have direct access to the Bank's chairperson, directors and executive management
» Consult with industry bodies, including the Payments Association of South Africa (PASA), the National Payments System Department (NPSD) and the Banking Association of South Africa (BASA), when solutions to regulatory issues are sought, or new legislation is considered or drafted

Our response

The Bank maintains constructive engagement with its regulators by:

» Maintaining regulatory compliance and sound governance
» Engaging actively and interacting regularly with the regulator
» Seeking the regulator's guidance on compliance with prudential requirements when required
» Swiftly remediating matters raised during inspections by the PA
» Participating in industry forums and discussions about new regulations

Compliance Governance Page 86

Shareholders **

Grindrod Limited is a supportive shareholder and considers opportunities to dilute its shareholding, should the Bank secure additional strategic shareholders to advance its growth strategy.

Material stakeholder interests

Our shareholder expects:

» Consistent financial performance
» Ethical conduct
» Targeted return on equity
» Tier 2 investors focus on investment in SMEs and more diverse offerings
» Focus on broader ESG considerations

How we engage

» Engage with the shareholder to the annual general meeting (AGM)
» Regular reporting on Bank activities submitted to shareholder
» CEO represents the Bank as an executive director of Grindrod Limited
» In certain instances, the chief financial officer of Grindrod Limited is invited to board and committee meetings
» Meetings with potential providers of capital
» Regular interactions with the chairperson of the board

Our response

» Diversifying revenue and restoring a consistent trend in profit growth to improve shareholder's return
» Payment of dividends
» Robust governance and a strong focus on ethics
» Independent rating evaluation (GCR)
» Socially relevant SME strategy
» Increasing focus on ESG matters
» Regulatory compliance and disclosures
» Actively seeking additional capital

Business partners **	How we engage
New and existing commercial (Shoprite Checkers), fintech (Net1) and technology (Direct Transact) partners to enhance and expand our current capacity and future growth prospects in new markets. **Material stakeholder interests** Our partners expect: » Mutually beneficial commercial arrangements » Access to a banking licence » Peace of mind working with a bank that understands relevant regulation and compliance » Regulatory and industry relationships	» Commercial arrangements » Service level agreements (SLAs) » Participation in industry forums » Specific meetings and workshops » Direct feedback either face-to-face or through our digital channels **Our response** » Bespoke solutioning, with flexible pricing » Solid performance on deliverables » Contracting with reputable partners to develop and offer solutions » Integrated onboarding and management » Facilitated regulatory compliance and new partnership approvals » Supported automatic teller machine (ATM) recovery plan facilitated by BASA after the July civil unrest, ensuring cash availability for grant recipients » With more than one million grant recipients in the Net1 EasyPay Everywhere (EPE) client base and ATM network, we are a key contributor to grant payments

REFLECTING ON 2021

02

CHAIRPERSON'S MESSAGE

Grindrod Bank maintained the strength of its capital base despite challenging operating conditions during 2021. We continued to implement the Bank's strategy to sustain growth, and we reinforced our governance, regulatory compliance, and risk management.

Chairperson Tyrone Soondarjee

IN 2021, THE BOARD FOCUSED ON:

- Strengthening the Bank's governance, financial and regulatory control structures
- Preserving the Bank's sound capital base and liquidity
- Ensuring effective implementation of the Bank's strategy in a rapidly evolving financial services sector and post-COVID environment
- Building a platform for revenue diversification and growth

IN 2022, WE WILL PRIORITISE:

- Consolidating and building on the strategic initiatives implemented in 2021 to diversify and grow revenue
- Formalising our approach to ESG matters and integrating ESG into our strategy and business operations
- Introducing new capital to underpin the Bank's capital base and sustain our growth objectives

The board's primary focus was to maintain the stable foundations that enabled the Bank to serve its clients and support the recovery of those impacted by the economic effects of COVID-19 and the outbreak of civil unrest in July 2021. The Bank's sound financial performance, detailed in the CEO and CFO reviews, reflects our achievement of these objectives.

CEO review page 19; CFO review page 39.

STRENGTHENING GOVERNANCE

The board recognises the paramount importance of governance and is committed to ensuring that the Bank operates with integrity and complies with the law. The board maintains appropriate levels of competence, assumes responsibility for the strategic direction and performance of the Bank, is accountable, fair and transparent and entrenches an ethical culture.

The Bank further strengthened its governance, regulatory compliance, and risk management in 2021. Key improvements included:

- Appointment of a new independent non-executive director to further strengthen the board's independence and balance of skills, experience and diversity.
- Reviewed and enhanced the composition of board committees to ensure effective functioning following the new board appointment; establishment of a balance sheet management committee as a sub-committee of the risk and capital management committee to replace the asset and liability committee and better define the committee's roles and responsibilities in line with Basel regulations.
- Implementation of, and compliance with, the Basel Committee of Banking Supervision (BCBS) standard 239 for effective risk data aggregation and risk reporting (RDARR) to ensure that the Bank generates reliable information to manage risk, particularly during times of economic stress.
- Increased collaboration between compliance and other internal assurance providers to strengthen regulatory and governance compliance by ensuring proactive responses and adequate controls.
- Updated all policies and procedures to be in-line with government regulations, most notably with regards to POPI legislation.

A strong, diverse and independent board

Following a fundamental recomposition in 2020, the board has stabilised and represents appropriate independence and diversity of skills, experience, race and gender.

Reynolds Maleka was appointed as an independent non-executive director with effect from 26 October 2021. Reynolds is a seasoned executive with over 17 years of experience in leadership roles at large financial institutions. He will strengthen the board's IT governance and IT risk skills in support of the Bank's strategic direction. On behalf of the board, I welcome Reynolds and look forward to working with him as we navigate a new era in banking.

I am pleased to report that our board recomposition resulted in 60% black representation at 31 December 2021, while 30% of our members are female, and significantly, four of our six key board committees are chaired by women.

The independence of all serving board members was evaluated by the directors' affairs committee based on the independence criteria set out by the PA and King IV, and tenure in excess of nine years. Seven of the eight non-executive directors were deemed independent.

Based on King IV requirements, an internal, self-assessment of the board's effectiveness was performed during the final quarter of 2021. The overall score achieved was 8.33 out of a possible score of 10. Although the review's outcome was favourable, the board acknowledged that there was scope for improvement in some areas which will be addressed during 2022.

BUILDING A SUSTAINABLE ORGANISATION

Strategic direction

The Bank's strategy formulation process starts with an annual review by executive management and the development of a three-year business plan by each division aligned to the Bank's three-pillar strategy. Non-executive directors are invited to provide high-level input early in the process and the strategy and business plan are presented to the board for approval in November.

Two years ago, we approved a new strategic direction to future-proof the Bank in a fast-evolving, but pre-COVID, financial services environment. As the health and economic threats of COVID-19 receded during 2021, the board and executive management reviewed the strategy post-COVID as part of this process. We took into consideration that while our industry remains robust, all banks, large and small, continue to respond to tectonic shifts that are reshaping the global financial system. We are all adapting to a faster pace of digitisation and convergence of industries while navigating technologically driven competition from non-financial market entrants. At the same time, we are transitioning to hybrid working models and balancing what is good for business with conditions that attract and retain talent.

Within this context, the board concluded that the Bank is moving in the right direction. We remain committed to our strategy to preserve the Bank's core operations which form the foundation of exciting, new strategic initiatives to remain relevant to our clients and sustain future growth. We continue to strengthen elements of the strategy that will broaden the Bank's franchise value and scope and enable it to transition to a full services bank over time. As a second-tier challenger bank, we are mindful that our future success is closely aligned with South Africa's. That is why we focus so intently on broadening access to low-cost financial services and assisting SMEs to achieve their growth ambitions.

CEO review on page 19

A solid capital base

Managing a bank requires that we balance growth aspirations with business prerequisites, such as safeguarding the capital base and operations while complying with capital and liquidity regulations. Like other financial institutions, we curtailed our risk appetite to protect the Bank from heightened credit risk during COVID-19 but accumulated surplus cash in a highly liquid market. To optimise the deployment of our surplus funds and mitigate the effect of what is commonly referred to as a lazy balance sheet, we invested in higher-yielding capital-light financial instruments. Our financial liquidity will allow the Bank to capitalise on opportunities as market appetite for credit returns. It will also help to fund our growth in new capital-light activities such as transactional and platform banking.

Our capital adequacy and liquidity ratios remained comfortably above regulatory requirements during 2021, demonstrating the soundness of the Bank's capital base and enabling the resumption of dividend payments. An ordinary dividend of R30 million was declared in September 2021 and paid to Grindrod Limited. The total preference dividend for the 2021 year amounted to R17.63 million.

The board routinely reviews the Bank's capital structure to ensure that our capital base has adequate capacity to maintain the growth of our lending book, achieve our targeted return on equity (ROE), support future dividend payments and fund our new strategic initiatives. We consider various options when we deem it necessary to raise capital and are currently actively engaging several potential providers of tier 2 capital to the Bank. We hope to conclude this process during the second half of the 2022 financial year and will deploy the capital to grow our SME business.

CFO review on page 39

Effective leadership

The capacity, capability and continuity of the Bank's leadership underpin its ability to effectively implement its strategy. In addition to strengthening our board, we made senior leadership appointments to reinforce our strategy implementation and IT capacity.

As financial services evolve, our workforce and skills requirements are changing. We are customising our leadership and employee development programmes to meet specific requirements aligned with the Bank's operations and strategy.

The Bank's succession programme identifies and develops candidates for critical senior management and key employee positions. Development plans ensure that identified successors receive the relevant training and mentoring.

I am satisfied that the board and executive management represent an appropriate diversity of skills and experience to capitalise on the opportunities and navigate the changes facing the Bank today and in future.

The power of human capital page 47

STAKEHOLDER ENGAGEMENT

Many of the Bank's stakeholders continued experiencing the ongoing effects of COVID-19, while the civil unrest in July 2021 took a heavy toll on the businesses of some of our clients. We continued to provide financial relief to select clients in need, impacted by the pandemic or the July civil unrest without exposing the Bank to undue risk.

We increased engagement with our employees and ensured that they had the necessary support to continue providing excellent service to our clients as they navigated multiple challenges, including the transition to different ways of working.

We made further progress in developing constructive, open-door relationships with our regulator, ensuring that we play our part in maintaining a stable financial system. We conduct our operations with integrity, maintain supportive relationships with our clients, our employees and our communities and advance the interests of our industry.

Our strategic direction has introduced new commercial and technology partners who will play a vital role in implementing our platform banking strategy. Our relationships with these partners are clearly defined and managed to ensure mutually beneficial outcomes.

Grindrod Limited, as the controlling shareholder in the Bank, continues to play a critical supportive role from both a strategic and financial perspective. Murray Paul Grindrod serves as a non-independent, non-executive director on the board and there is regular interaction between the Bank chairperson and the CEO with the Grindrod Limited Group CEO.

Our stakeholder relationships page 9

INTEGRATING ESG INTO OUR BUSINESS

The socio-economic and environmental fault lines exposed by COVID-19 increased pressure on businesses to convert their ESG commitments into concrete actions. Through the allocation of funding, banks play an essential role in the trajectory of climate change and can also positively impact economic growth and financial inclusion.

With this in mind, we continue on our journey to integrate ESG principles across the Bank with concrete actions to implement an environmental and social management system aligned with reporting best practice, including the implementation of recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) performance. We have integrated non-financial and ESG-related key performance indicators (KPIs) into the Bank's scorecard to drive effective implementation of the ESRM process. This includes factoring environmental and social risk into our credit policy and loan approval processes and increasing our focus on responsible financing through exclusion criteria, client engagement and, consequently, sustainable investment.

Our social and environmental impact page 52

OUTLOOK

The operating environment for banks is expected to remain challenging in an environment of sustained economic weakness and competition. We will leverage our competitive advantages to maintain our good relationships with clients and ensure that our financial, risk management and compliance systems remain alert and capable of mitigating risk whilst capitalising on opportunity.

We are confident, that even in these challenging times, the opportunities before us outweigh the risks. We intend to consolidate and build on the strategic initiatives implemented in 2021 to diversify and grow revenue and we will do so in a manner that recognises our higher purpose in society. We move forward from a position of strength in our leadership and financial base, and we expect to make good progress in our plan to introduce new capital to underpin our future growth.

APPRECIATION

It is a credit to the support of our executive management and employees, our clients, the regulator and many other stakeholders that the Bank was able to restore the momentum of revenue growth and profitability.

On behalf of the board, I thank our executive management and employees for implementing the Bank's strategy during a turbulent period. We are grateful for the loyal support of our clients and service providers who partnered with us in ensuring continued operations during the year. We are also mindful of the stabilising influence of our financial services regulator and industry bodies.

Finally, I thank my board colleagues for their unstinting support and commitment to ensure the board, and its committees, fulfil the Bank's purpose. We remain a trusted financial services organisation that helps our clients achieve their financial goals and contributes to economic growth.

During the year we said goodbye to Julian Beare who had served as a non-executive director for over 9 years. During that time Julian had served as chairperson of various sub-committees and also as the Bank chairperson. I would like to pay tribute to Julian's dedication, wisdom, and unstinting loyalty and to thank him on behalf of the board, the shareholder, and management for his many years of service.

Tyrone Soondarjee
Chairperson

NAVIGATING OUR OPERATING ENVIRONMENT

03

EXTERNAL AND INTERNAL TRENDS

Our operating environment impacts our ability to create and preserve value. By understanding major external and internal trends and their impacts on the Bank and our stakeholders, we can respond strategically.

1 Technology-driven competition in financial services

- Digitisation of financial services, accelerated by COVID-19, is increasing the demand for greater financial inclusion.
- Digital innovations such as mobile money and digital wallets, open banking, cryptocurrencies and the reinvention of cross border payments are increasing reach and convenience while reducing the cost of financial services.
- These disruptive trends are challenging banks and heightening competition in the payments arena as non-banking retailers, mobile network operators and fintechs respond to client demand for fast, convenient and low-cost services.
- The growing phenomenon of platform banking, which facilitates financial and non-financial exchanges between consumers and producers using digital infrastructure, is compelling traditional financial services providers to collaborate with non-banking or fintech partners to remain relevant and competitive.

Our response: Platform banking page 37

2 Escalating threat of financial crime

- As the financial services sector implements Financial Action Task Force (FATF) recommendations globally, criminals are finding alternative channels to launder illicit funds, placing increasing pressure on banks to identify risks and strengthen compliance with anti-money laundering (AML) and know your customer (KYC) regulations. Organised financial criminals are capitalising on clients' increasing adoption of open banking and instant or alternative payment mechanisms, placing the assets and data of service providers and their clients at risk.

2 Escalating threat of financial crime continued

- Security, compliance and data privacy are listed amongst the leading current concerns of banks and fintechs.
- As the digitisation of financial services evolves further, providers extend risk management to their entire ecosystems, including clients and third-party service providers.

Our response: Chief operating officer's review page 25

3 Continuously evolving regulatory environment

- Financial regulators respond continuously to changes in the financial services landscape to maintain financial stability, consumer protection and trust in incumbent and new service providers.
- Several current regulatory amendments focus on market conduct and the emergence of new digital payment technologies, systems and service providers. These include:
  - A new National Payment System Act to be promulgated in 2022
  - A Conduct of Financial Institutions Bill to replace the Financial Advisory and Intermediary Services Act
  - Position papers by the FSCA and Intergovernmental Fintech Working Group on platform models, fintech, open banking, crypto assets and central bank digital currencies
- The increased pace and volume of regulatory changes are costly, while non-compliance heightens the risk of punitive actions and reputational damage.

Our response: Governance page 86

4 Sustained economic impact on property market

- Sustained weakness in the South African economy subdued the property market, resulting in rising vacancies, lower rentals and escalations, and higher operating costs. These factors were compounded by the acceleration of remote or hybrid working models due to COVID-19 and the July civil unrest in KwaZulu-Natal, with significant consequences for the future use of commercial property.
- Uncertainty about property values, long-term value appreciation and cash flow sustainability reduced deal activity in the property market.
- Aggressive pricing and deal structuring practices by competitor banks, together with lower interest rates and lower returns on mezzanine debt, pose a threat to one of the Bank's core businesses.
- A higher interest rate cycle may compound uncertainty if it affects overall investment confidence and returns

Our response: Property lending report page 33

5 Spotlight on environmental, social and governance matters

- Increasing regulatory and industry scrutiny reflects growing awareness of the health, social and economic value of natural resources and the importance of developing green economies that reduce environmental risks and ecological scarcities.
- Through their capital deployment and investment decisions, Banks can play a pivotal role in mitigating or exacerbating social and environmental risks, including the harmful effects of climate change.
- A recent PWC presentation[1] highlighted significant shifts in investor and stakeholder sentiment towards ESG, including:
  - 89% of investors say their firm has changed its voting and/or engagement policy to be more attentive to ESG risks
  - 2/3 institutional investors believe that ESG will become "industry standard" within five years
  - 20% of all exchange traded funds (ETFs) will be tied to ESG ratings by 2028, BlackRock forecasts

Our response: Our social and environmental impact report page 52

[1] *All Eyes on ESG – PWC ESG Presentation June 2021*

OUR STRATEGIC DIRECTION

04

CHIEF EXECUTIVE OFFICER'S REVIEW

Grindrod Bank demonstrated resilience in a challenging operating environment, delivering its trademark personalised client service, restoring profitable growth and maintaining a strong financial base. Our performance was underpinned by optimal management of the Bank's core operations and further progress in implementing the growth strategy.

CEO David Polkinghorne

IN 2021, THE BANK FOCUSED ON:

- » Maintaining strong client relationships by supporting their financial needs and growth ambitions while mitigating credit risk in an uncertain environment
- » Remaining financially sound and open for business
- » Implementing our strategy to preserve our core operations and future-proof the Bank

IN 2022, WE WILL PRIORITISE:

- » Remaining responsive to the financial services needs of our existing clients and growing our SME and platform banking client bases
- » Further integrating ESG into the Bank's strategy and business operations
- » Engaging with the Bank's shareholder to access new capital for growth
- » Maintaining our prudent risk management approach and focus on regulatory compliance

As the effects of COVID-19 subsided and economic activity resumed, our recovery was supported by the resilience of our client base and quality assets backed by a sound capital foundation. Our key financial measures compared favourably with those of our second-tier banking peers. We maintained strong regulatory capital and liquidity metrics, reflecting the Bank's ability to overcome the unique challenges of the past two years. These factors resulted in GCR affirming the Bank's national long-term and short-term issuer credit ratings of A-(ZA) and A2(ZA) respectively while maintaining the long-term international scale rating at B+ and assigning a short-term international scale rating of B. GCR also maintained a stable outlook for the Bank.

The Bank's net profit after tax increased by 44.15% to R109.17 million (2020: R75.73 million), and total assets increased by 17.18% to R13.73 billion (2020: R11.72 billion). Our funding base grew by 19.64% to R11.92 billion (2020: R9.97 billion) as corporate and retail clients increased their deposits in a rising interest rate environment. We successfully leveraged our favourable rating to refinance and increase our issuance of domestic medium-term note (DMTN) funding.

A combination of loan settlements, more stringent vetting procedures implemented during COVID-19 and competitive pricing in the property lending market subdued the performance of our loan books which grew by 5.33% to R8.78 billion (2020: R8.34 billion). Where necessary, we provided temporary relief to clients who experienced operational and liquidity challenges due to the ongoing impacts of COVID-19 and the civil unrest experienced in KwaZulu-Natal, in July. While a material decline in our impairments indicated that our credit position had stabilised post-COVID-19, the civil unrest presented a new shock to many of our clients. Fortunately, all were adequately insured for damages and the majority have subsequently restored to full operations.

Our strategy to diversify and grow our revenue by expanding into new markets regained momentum during the year.

Our focus on SME banking resulted in 13.56% growth in funds deployed to the sector. We are broadening our product suite to ensure the delivery of products, services, and experiences relevant to SMEs and entrepreneurs, and strengthening our competitive edge.

The repositioning of our retail banking operation to an expanded and more diversified platform banking model remains on track. A highlight of this element of our strategy was the launch of a significant partnership with Shoprite Checkers in October 2021 that enables the retailer to extend financial services offerings to its broad client base. Our existing Net1 partnership continued to generate value, as the Net1-linked EasyPay Everywhere (EPE) and newly launched EPE Lite retail accounts grew to over one million active accounts. The Bank did not achieve its targeted revenue growth in platform banking because the launch of the Shoprite Checkers partnership was delayed by a few months. However, we expect the partnership to contribute to significant growth in our client base over the next three years. We continue to engage with other potential partners and fintechs.

Our transformation to a full services bank that builds on its traditional property lending and SME banking, requires continuous internal capacity building and reorganisation, innovative thinking and the development of solutions that meet the evolving needs of our clients, our partners and our broader society while growing the Bank.

Our operational reorganisation is largely complete and will support the development of an integrated banking solution. We want our clients to access an increasing range of products and services on one platform, regardless of whether they are a depositor, borrower, SME, retail or platform banking client.

As the Bank manages significant external and internal disruption, we are attuned to the effect of multiple stresses on the physical and emotional wellbeing of our employees. Like many other businesses, we introduced and adapted a flexible hybrid working model to maintain business continuity and facilitated the voluntary vaccination of 87% of our employees. Our extensive employee wellness interventions are available to assist employees and their families to cope with additional stress in the workplace, at home and in their communities. Our leadership and employee development programmes are being realigned to equip our people with the capacity and capabilities necessary to change the Bank, while maintaining the service excellence that differentiates us.

PROGRESS WITH IMPLEMENTING OUR STRATEGY

The Bank's strategy is to defend our existing core operations and diversify into new initiatives to sustain future growth.

Our three-pillar strategy aims to ensure that we grow responsibly, building on our strong foundations to transform into a sustainable bank of the future. We are actively developing and investing in all three pillars. Their development is not sequential, and there is significant overlap in our work to achieve the objectives in each pillar.

As we respond to changes in our external environment, we increase our focus on SME and retail clients. We are adapting our successful traditional business-to-customer high touch, low volume relationship-based business model to include a low touch, high volume business-to-business service element. Working with partners requires different skills and an increased focus on managing relationships through service level agreements and mitigating third-party risk associated with data security governance compliance. Increasing digitisation heightens our focus on cyber risk.

We proactively mitigate our strategic risks, and ensure that our decisions and processes, for example in granting credit, remain well within the Bank's risk appetite and tolerance levels.

Strategic pillars

1	2	3
Preserve and consolidate core operations	Rebuild and reposition the Bank	Future-proof the Bank
Extend and defend core businesses	**Build emerging businesses that drive medium-term profit growth**	**Create viable options to ensure our longer-term future**

1 Pillar 1 Preserve and consolidate core operations

The treasury, property finance and investment banking operations form the strong foundation developed throughout the Bank's history. These operations currently generate the bulk of the Bank's profit and fund pillars 2 and 3. We optimise their performance to maintain stability, efficiency and profitability. But as mature businesses reliant on capital, we expect their profit to flatten and growth rates to slow down over time.

The Treasury operation raises funds for the Bank and balances the product mix, duration and pricing of deposits to ensure optimal functioning. Treasury leverages the Bank's A-(ZA) credit rating to offer depositors competitive investment returns.

Our robust, defensive lending portfolio has a proven track record of resilience. Over the past decade, we provided mezzanine property funding in excess of R1 billion, with negligible bad debts, and property development funding of more than R1 billion, with all developments completed within budget and all projected cash flows achieved.

Treasury page 31; Property lending page 33

2021 progress

We protected our core operations by:

» Maintaining service excellence and client relationships
» Capitalising on market liquidity to build our depositor base and optimising surplus liquidity
» Managing risk in our lending portfolio by arranging payment relief for clients impacted by the ongoing effects of COVID-19 and the July civil unrest
» Enhancing regulatory, compliance and risk management capabilities to enable pillars 2 and 3

2022 focus

» Restore differentiators to secure competitive advantage in property lending
» Optimise surplus funds deployment
» Enhance regulatory, compliance and risk management capabilities to enable pillars 2 and 3

2 Pillar 2 Build and reposition the Bank

We are repositioning the Bank and expanding our offerings to ensure we continue to meet the evolving needs of our clients while contributing to South Africa's socio-economic development. By diversifying our income and generating new growth opportunities, we will reduce dependence on the core operations over time.

In pillar 2, we support SMEs and their capacity to be employment creators and economic growth engines. As the primary lender to more than 50% of our current SME clients, we have a foothold in the market. We are leveraging this position by expanding our product suite to be the main provider of full banking services to a growing number of established SMEs with a history of strong cash flow generation. This will enable cross-selling of products and services and reduce credit risk by enhancing our insight into our clients' businesses.

Our emerging pillar 2 activities may not be material profit generators now but have high growth potential and will be a core source of profits in the medium to longer term.

Corporate, investment and SME banking page 35

2021 progress

COVID-19 delayed the implementation of our SME strategy, but we registered promising developments, including:

- R324.20 million in new SME lending
- R790.73 million in new advances for investment banking and SME activities
- Defining market offerings to address the unique needs of SMEs as they overcome short-term financial obstacles and pursue longer-term growth

2022 focus

- Launch a business transactional account for SMEs
- Introduce other additional products and services in response to SME demand
- Accelerate the implementation of pillar 2 and 3 strategies through new executive leadership
- Raise tier 2 capital to support additional SME lending

Expanding our service offerings to SMEs

The Bank will offer a transactional banking account to businesses generating annual revenue up to R1 billion in 2022.

The initial roll-out will target the Bank's existing corporate, SME and investment banking clients and will then be extended to our depositor and property lending client bases.

Advantages:

- Core primary transactional banking increases client retention, cross-selling and revenue
- Enhanced client insight improves risk management and creates opportunities to bank clients' ecosystems and leverage platform banking
- Ability to acquire lending clients enables more competitive loan pricing

3 Pillar 3 Future-proof the Bank

We are leveraging our banking licence and expertise to create viable options to ensure the Bank's longer-term future.

This includes a portfolio of embryonic business opportunities that may grow into pillar 2 businesses over time.

Our primary focus is on the platform banking model.

With platform banking, we can bridge the gap between traditional and digital banking by working with relevant fintech and technology partners to become an enabler for retail and SME business partners that want to provide financial services to their clients.

Platform banking page 37

2021 progress

We achieved several milestones:

- Concluded an agreement with Shoprite Checkers to facilitate financial services to its client base
- Continued to strengthen existing payments and platform services as demand for low-cost digital transactional banking products increased

2022 focus

- Embed and scale the Shoprite Checkers partnership
- Pursue additional partnerships with retailers and fintechs
- Continue to generate value from the Net1-linked EPE and EPE Lite accounts

Grindrod Bank welcomes managing executive, Zizipho Nyanga, our leader of strategy implementation

Following the SARB's approval in February 2022, the Bank appointed Zizipho Nyanga as managing executive responsible for strategy with effect from 1 March 2022. Zizipho's role will be to ensure implementation of the Bank's strategy in an integrated manner. Her primary focus will be on SME and platform banking which are central to strategic pillars 2 and 3.

With over 16 years of experience in SMME banking, deal making, financial management and control environments, Zizipho brings new energy and a collaborative approach to the Bank at a pivotal time in our history.

LOOKING AHEAD

Towards the end of 2021, the Bank formalised financial and strategic targets for 2025. Our scorecard was amended to align with our 2025 targets and include ESG objectives. The scorecard is performance linked to the Bank's short-term incentive scheme for executives to ensure effective strategic implementation.

Towards 2025 – our targets

- All units profitable
- ROE >14%
- Cost to income <55%
- SMEs >50% of advances book
- Dominate platform banking space
- Embrace technology
- Recognised as a responsible ESG Bank (e.g., climate change)
- R500 million new capital (tier 1 and tier 2)

Our 2022 KPIs

- All units profitable
- ROE 9%
- Cost to income 60%
- SME deployment in 2022 is budgeted to account for 29% of all new advances
- Be a partner of choice
- Direct Transact project implementation
- Approval and implementation of a Bank 2025 Climate Change and Environmental policy including the formulation of our climate change and climate risk related disclosure policy and processes based on the TCFD recommendations and best practice
- Implementation and integration of climate risk processes in credit risk analysis
- Improve our climate change mitigation efforts with the aim to reduce our carbon emissions across all our business activities
- Implementation of internal monitoring, measurement and reporting systems for ESG
- A minimum of R150 million new capital investment

Our 2022 focus areas

- Raise tier 2 capital and introduce new shareholders to optimise the balance sheet
- Continue to increase the Bank's SME profile with new product and service offerings and executive leadership focus
- Pursue additional platform banking partnerships
- Maintain regulatory compliance

APPRECIATION

Throughout its history, the Bank's DNA has been shaped by partnerships with its shareholder, clients, employees, regulatory and industry bodies, and communities. The strong partnerships that we have formed with our stakeholders, based largely on the common purpose of creating mutually beneficial value, sustained and protected the Bank during the past two years. As we move into a new phase, our partnership model remains our guiding principle and extends to our new technology and commercial partners.

I wish to thank all our stakeholders for the role they played in assisting the Bank to restore profit growth and strategic momentum: my colleagues in the executive team for implementing our strategy under challenging circumstances, our employees for maintaining client relationships and business continuity in disruptive conditions, our loyal clients and service providers, the regulator and BASA, and our board.

David Polkinghorne
CEO

BANK OPERATIONS

05

CHIEF OPERATING OFFICER'S REVIEW

The Bank has reorganised its operational and IT functions to support effective strategy implementation. Our next step is to accelerate implementation through our alliances with business units and external partners.

COO Gareth Jasson

IN 2021, THE BANK FOCUSED ON:

- Reorganising operational and IT functions to support strategy implementation
- Positioning our teams to deliver the Bank's client-centric model
- Implementing our new operating model
- Future-proofing the Bank's IT environment
- Improving the effectiveness of the project management office (PMO)

IN 2022, WE WILL:

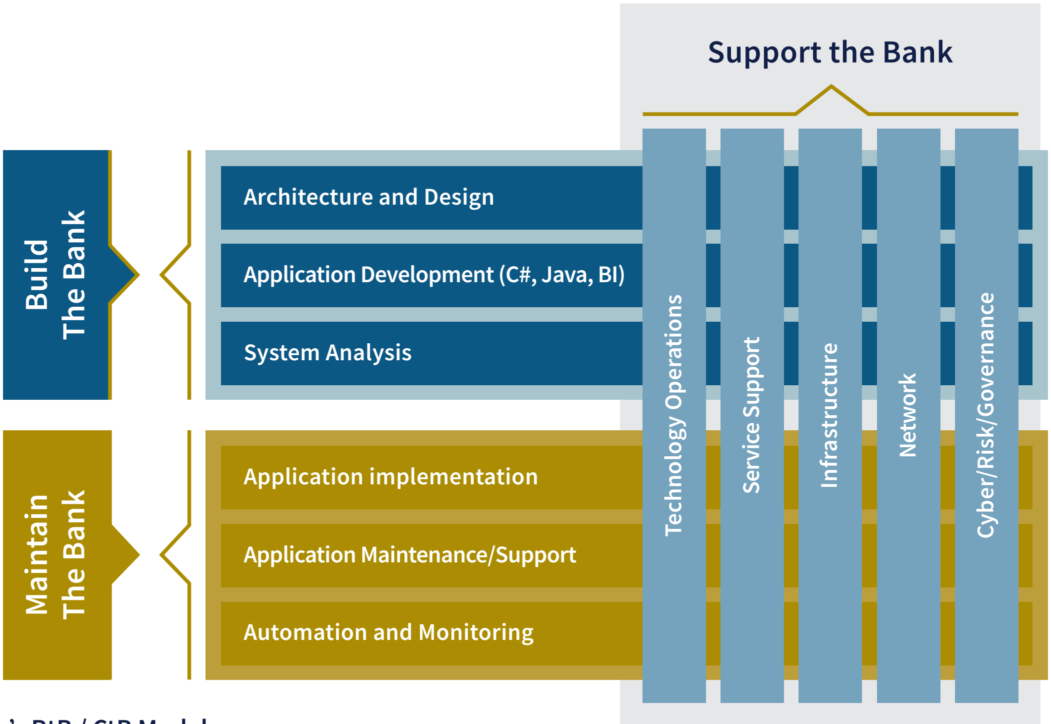
- Finalise the employee complement and drive effective implementation of the new operating model
- Complete the implementation of the relationship with Direct Transact, the Bank's technology partner
- Implement change management (inclusive of people change) throughout the Bank to support effective strategy implementation

OPERATIONAL REORGANISATION TO ENABLE OUR STRATEGY

Over the past two years, we centralised the Bank's diverse operations into one team and incorporated IT into the operations function.

The purpose of the reorganisation is to support and optimally maintain the Bank, while building a bank of the future.

Our ultimate aim is to develop an integrated banking solution that enables clients to access all the Bank's products and services efficiently, conveniently and securely on one platform, regardless of whether they are treasury, lending, SME, retail or platform banking clients. The Bank has developed a bespoke variation on the traditional Run the Bank (RtB) vs Change the Bank (CtB) Model:



The Bank's RtB / CtB Model

Our teams are positioned to deliver the Bank's client-centric model by enabling clients to fulfil their financial needs across the Bank. They focus on client onboarding, payment and instruction processing, market interactions and account management.

IMPLEMENTING OUR NEW OPERATING MODEL

<table>
<tr><th>Objectives</th><th>Operations</th><th>IT</th></tr>
<tr><td>Drive stability, risk management and resilience to remain relevant to existing clients</td><td>» Critically assess the Bank’s processes to reduce and manage risk
» Train and upskill employees and ensure adequate backup for all roles
» Remediate risk and regulatory vulnerabilities with proactive process management</td><td>» Ensure all infrastructure and applications are effectively supported
» Upgrade the disaster recovery plans and test regularly
» Remediate any risk and regulatory vulnerabilities that may be identified
» Prevent cybercrime</td></tr>
<tr><td>Build strategic platforms for critical capabilities that are fit for purpose, scalable and robust using industry best practice to become more relevant</td><td>» Deliver key business projects driven by operations
» Assess business plans to ensure adequate operational capabilities
» Investigate, advise on and implement new banking solutions, prioritising the Bank’s interface with regulators and service providers</td><td>» Deliver platform banking and payments hub business projects
» Deliver the Bank’s application programming interface (API) solution
» Investigate and implement new banking solutions, such as a business transactional bank account, in line with business expectations</td></tr>
<tr><td>Rapidly test and adopt new, improved, proven processes to remain competitive and offer an enhanced client experience</td><td>» Define an operations roadmap for better, more accurate, faster and cheaper service to internal and external clients
» Enhance our project management methodology to ensure effective and timeous project delivery</td><td>» Define a technology roadmap for better, more accurate, faster and cheaper service to internal and external clients
» Explore hybrid application solutions to enable high resilience and reduce technology cost
» Adopt best practices to align IT with international standards</td></tr>
<tr><td>Transform and reshape delivery teams to meet business demand and improve delivery efficiency</td><td colspan="2">» Optimise workforce costs and future-proof skills
» Streamline processes and enhance ways of working with Kaizen continuous improvement philosophy
» Improve ownership and accountability for projects and manage relationships</td></tr>
</table>

We are ensuring that our IT infrastructure provides a stable, cost-effective, scalable foundation for our strategy

We made progress in our journey to future-proof the Bank's IT environment. New technologies were rolled out and we changed our IT stack (a combination of programming languages, frameworks and tools used by developers to build a web or a mobile application) to conform to international standards and enable the Bank's strategy.

Leveraging our technology partnership with Direct Transact

Our focus in 2021 was to commence staged implementation of the agreement concluded with Direct Transact in 2020. Direct Transact is a technology provider with proven world-class solutions for the financial services industry. We are leveraging Direct Transact's technology systems and capabilities to:

- **Provide** customised IT infrastructure, maintenance and technology upgrades that support our core banking requirements, while concurrently enabling our pillar 2 and pillar 3 growth strategies
- **Respond** to industry changes and comply with regulatory requirements for capital management, payments and market conduct
- **Transform** client service and experience by integrating products, services and solutions on one platform
- **Build** new propositions for existing and new clients that we can bring to market quickly and improve iteratively in response to changing client requirements

Implemented in 2021:

- Conducted transactional processing, including that of our partners, through Direct Transact
- Completed a range of sub-projects, including account verification services and rapid payment solutions
- Implemented a transaction monitoring tool that seeks to proactively identify potential fraud on transactional cards

In progress:

- A new business transactional account with a debit card and overdraft facility was tested and is on track to be implemented in 2022
- Corporate and employee account payments

Managing and protecting our valuable data

The Bank established an enterprise data warehouse with the benefits of integrating and analysing data from multiple sources across the organisation from a single source.

The Bank uses two internal data centres to back up and protect data. To strengthen the business continuity process during 2021, we designated one as our primary data centre and equipped the other as a secondary data centre that continuously replicates Bank data. Data is also replicated offsite as an incremental backup. Our holistic business continuity process has been proven during the COVID-19 pandemic with a 100% offsite workforce but was formally tested again during the first quarter of 2022. The test confirmed that our data centres are stable, robust and replicable.

Cyber security

The Bank's technology landscape is monitored continually. We use a variety of tools, methods and processes to determine effectiveness of our controls in combatting cyber risk. Considering the nature of cyber risk and recent increases in ransomware attacks globally, the improvement of our existing risk posture has been a key factor of the technology strategy.

During 2021, a risk review was conducted focusing on various security measures as it pertains to cyber security. After the initial review, this has been expanded to also include aspects associated with the cyber strategy, incident response, continuity risk and key policies and procedures.

The Bank adopted and implemented controls from various frameworks in line with business needs, e.g. Center for Internet Security (CIS) controls for vulnerability scanning. A key gap identified as part of the organisational risk assessment is the lack of an IT Risk Framework. This is being addressed as part of the Bank's risk mitigation and remediation plans.

The assessment focused on the undermentioned risk areas:

- Physical Access Control
- Perimeter Security
- Email Security
- Web Security
- Cloud Security
- Network Security
- Data Security
- Infrastructure Security
- People Security

The Bank remains committed to ensuring that the highest standards of compliance are always maintained, thus we perform monthly vulnerability scans and have plans in place to remediate any identified gaps immediately. Additionally, we also perform penetration testing on client facing environments and require our third-party service providers to do the same.

Over the last couple of years, we have seen an increase in the number of ransomware attacks globally. In South Africa, key institutions have been targeted with varying levels of impact. We have also noticed an increase in phishing and impersonation attacks targeting internal users, which have been mitigated using internal tools and staff awareness. From a data perspective our use of client data and the protection of this data is covered through our compliance to the Protection of Personal Information Act (POPIA) regulations.

We have not experienced any cyber incidents in the last year and remain vigilant to address any potential risk as part of our technology strategy and operations.

The Bank appointed a new head of cyber security in January 2022.

IT governance

The Bank is governed through the operational reporting structure and the risk function which escalates material matters to the board. The project management process governs the delivery of IT development activities. The project management office (PMO) assesses each project and submits it for approval to the operating committee.

We have capacitated our project management office to effectively implement IT and other projects

A centralised PMO reports to the COO and its functions and processes include:

- Project planning, budgeting, approval and management
- Project approval by the operating committee and clear lines of management responsibility and accountability
- Regular meetings with project owners and managers to ensure projects are delivered effectively on time and within schedule

A new system was implemented to improve the effectiveness of project delivery, including the ability to display relevant dashboards. The dashboard assists with workflow management, streamlines project management and produces rapid reports that can be escalated to executive management.

Key operational projects implemented by the Bank during 2021 and their progress are detailed below:

Project	Progress to date
Implementation of Direct Transact	Main objectives for 2021 achieved.
Credit operations remediation	Work in progress to automate inefficient manual credit management processes.
FSCA audit findings remediation	70% of findings remediated. FSCA approved extended target dates for completion of outstanding matters which are on track to be completed in 2022.
Implementation of POPIA	The Bank is POPIA compliant and has met requirements for the appointment of information officers and completion of identified disclosures.
Implementation and launch of Shoprite Checkers partnership	Phase 1 of the project to enable the relationship was delivered and the partnership was successfully launched in October, following an initial delay. 196 000 retail accounts were opened by the end of December 2021. Work on further phases to leverage the partnership continues in 2022.
Expansion of Net1 partnership	The project to enable the launch of an EPE Lite account was completed in 2021.
Launch of transactional business account	Further progress to roll out the Direct Transact Enterprise System across all product types to be made. This will focus specifically on the Lending Product Types in 2022.

2022 objectives

Project	Planned Activities
Implementation of Direct Transact	Further progress to roll out the Direct Transact Enterprise System across all product types to be made. This will focus specifically on the Lending Product Types in 2022.
Credit operations remediation	Scale the remediation of the credit operations into a comprehensive workflow solution to take the remediation beyond simple automation.
FSCA audit findings remediation	Finalise the remediation of all items from the FSCA audit in 2022.
Implementation and launch of Shoprite Checkers partnership	Operationalise the Shoprite Checkers partnership and prepare for the roll-out of Phase 2 - which will include the full EFT suite for the product set.
Expansion of Net1 partnership	Further expand on the functionality on offer to Net1 – including the automated and integrated account enrolment process along with offering solutions around the R350 Grant process.

TREASURY

Head of Treasury Kim Hertzberger

OUR PERFORMANCE

Approved risk appetite and regulatory minimums

Core funding*

20% to **R10.93 billion**

Liquidity coverage ratio

350%

Net stable funding ratio

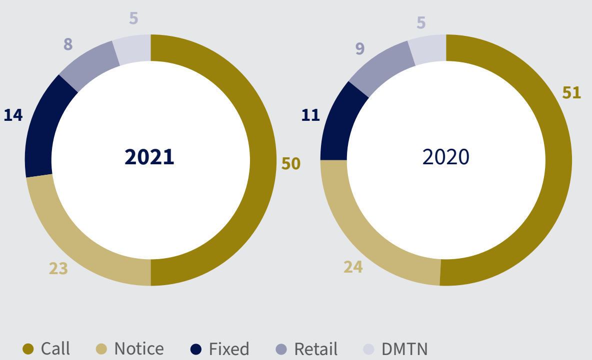
146%

* *Excluding retail and preference share funding*

OUR KEY DIFFERENTIATORS

» Service excellence
» Personalised client engagement
» Dedicated portfolio managers assigned to each client
» Competitive interest rates on deposits

A growing deposit base comprising: (%)



Treasury is responsible for managing the financial resources (funding and liquidity) the Bank uses to meet its strategic objectives within market and regulatory constraints. We attract and retain clients with personalised, trust-based relationships maintained by a team of dedicated portfolio managers.

We manage the effect of interest rates on the Bank's balance sheet by managing the re-pricing profile.

The Bank has a growing and loyal depositor base comprised mainly of SME businesses, high net worth individuals, asset and portfolio managers. Depositors are procured directly or through intermediary partners supported by our portfolio managers in regional centres in Durban, Pretoria, Johannesburg, Cape Town and Bloemfontein.

Our Online Money Manager system (OMM) provides our clients and partners with a safe and secure online banking solution that is fast and efficient. The OMM activates partner accounts within 48 hours and issues property guarantees within 24 hours with no administration or transaction fees.

Treasury manages Grindrod Bank's DMTN programme through which it secures funding at an optimal cost based on the Bank's A-(za) GCR long-term issuer rating.

OUR PERFORMANCE

Treasury reported strong growth in its deposit base as it responded to client demand for optimal returns for cash holdings in a rising interest environment. We continued to preserve and consolidate the Bank's deposit base and optimise our return on surplus funds.

Maintain a stable deposit base

Our core funding increased by R1.85 billion to R10.93 billion (2020: R9.08 billion), and we achieved a more balanced mix of funding, with a longer duration to support the Bank's lending activities. Our notice and fixed deposits increased, and we refinanced R263 million of the maturing DMTN funding tranche in June 2021 including an additional R137 million issuance. The notes were oversubscribed 1.25 times and issued at a rate of three-month JIBAR plus 250 bps, resulting in a 50 bps saving to the Bank. Funding from the DMTN programme currently amounts to R650 million.

Retain and grow our client base in difficult market conditions

The growth in core funding reflects our success in building and maintaining high touch client relationships with service excellence and relevant offerings. We increased our agent network, extended our client base to executors and municipalities and introduced new products. The prime-linked notice deposit account launched late in 2020 raised R604 million during 2021.

Maintain and optimise surplus funds

We optimised the deployment of the Bank's surplus funds by increasing our liquid assets through investment in Treasury bills and Government bonds that offered competitive yields while being capital efficient.

Redesign the Treasury operating model

We continue to amend our operating model to respond effectively to the regulatory environment while reassessing the organisational structure, roles and responsibilities, processes, and IT capabilities to meet the Bank's strategic objectives.

During 2021, we strengthened our working relationships with the finance and risk divisions to ensure compliance with the ongoing implementation of the Basel III regulatory standards. We continue to enhance data aggregation and reporting capabilities for all material risks to align with the BCBS's Risk Data Aggregation and Risk Reporting (RDARR) principles.

OUR FUTURE FOCUS

Our key focus areas in 2022 are to:

» Maintain the stability of our deposit base by continually diversifying deposits and their duration
» Introduce electronic onboarding for direct clients, agents and agents' clients to enhance their banking experience
» Assist in the raising of tier 2 (supplementary) capital
» Continue to develop other market-driven products after ongoing client consultation and engagement

As we focus on protecting and optimising Treasury functions, we will continue to navigate the ongoing impacts of COVID-19 on our business and the wellness of our employees.

PROPERTY LENDING

Head of Lending Louis Savrimuthu

The property lending business is an established niche market participant with a loyal, and experienced client base, comprising of largely high net worth individuals. Clients are attracted and retained by personalised relationships with specialist property teams that tailor solutions to an individual's requirements within the Bank's risk tolerance.

OUR PERFORMANCE

Property lending base

9.24% to **R3.82 billion**

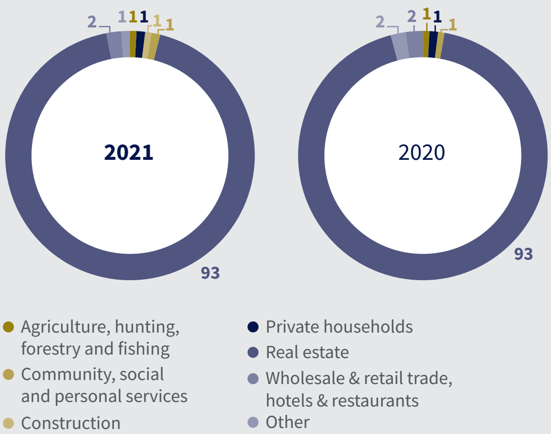
Property loan impairments

68.61%

OUR KEY DIFFERENTIATORS

» Strong trust-based relationships and repeat business with experienced property investors
» Fast, efficient loan approval
» Tailored deal structuring, with a mix of vanilla and mezzanine funding products

Concentration risk – composition of loans by sector: (%)



The property lending division forms part of the Bank's foundation, accounting for a substantial portion of the Bank's advances book. The division provides tailored financial solutions for the acquisition or development of medium and large-scale industrial, commercial and retail properties valued at between R20 million and R250 million.

The Bank provides funding packages that include traditional vanilla mortgage lending and mezzanine lending to bridge the gap between the vanilla debt and the available equity. The division's philosophy focuses on structured loans backed by experienced clients, and balance sheets, with emphasis placed on quality property assets in good locations. Vanilla lending provides long-term debt to mitigate risk in the loan book and support the higher risk mezzanine funding on select assets.

The property team maintains stable long-term client relationships with a network of experienced property investors and developers, some extending over 20 years. Our property knowledge and careful deal selection, together with our access to decision-making executives and directors, enables fast and efficient loan approvals, with tailored deal structuring within the limits of the Bank's risk tolerance.

OUR PERFORMANCE

The property lending division operated in a difficult property market that continued to be impacted by the COVID-19 pandemic and more recently the civil unrest in July 2021, that resulted in slow deal activity, which in turn lead to aggressive competition from other property financiers due to financiers pursuing the same transactions. Despite these challenges, the division performed to expectation, achieving its revenue and advances targets while reducing impairment charges.

Maintain the resilience of our robust and defensive existing portfolio

Notwithstanding the challenging property market, gross property lending grew by 9.24% to R3.82 billion in a highly competitive market. A cost-sensitive client base that considered deal pricing a key factor in the choice of financier, impacted our growth in new advances and resulted in higher-than-normal attrition rates.

The division focused on preserving the existing loan book aligned to the Bank's credit risk management process. Proactive risk management and a more stringent deal approval process, together with our clients' active asset management, resulted in provisions being maintained within benchmark levels.

Maintain consistent reliable client service and nurture client relationships

We leveraged our strong client relationships to mitigate the impact of adverse operating conditions, which further entrenched client loyalty within our existing base.

We monitored and supported clients impacted by the aftermath of COVID-19 or the July civil unrest with payment relief and bridging finance where necessary. Damage to clients' properties as a consequence of the civil unrest in July 2021, ranged from minimal and superficial to significant structural damage to two buildings that needed restoration. Most damaged properties were fully restored, and cash flows returned to pre-unrest levels.

Clients who were provided with concessions to support them against the impact of COVID-19 during the previous financial year have all resumed their contractual repayment terms.

No losses were sustained or specific provisions raised as a direct consequence of the civil unrest or COVID-19. A general overlay provision was made across the entire loan book.

OUR FUTURE FOCUS

Our key focus areas in 2022 are to:

- Continue to optimise the book mix and entrench the Bank as a niche property funder, focusing on mezzanine funding
- Maintain key differentiators in deal structuring and pricing to remain competitive
- Attract and retain key employees to support growth of the lending book and revenue generation
- Target new business in empowerment transactions, the convenience retail sector, logistics warehouses, and residential or student accommodation

We remain committed to retaining our loyal client base and attracting new clients as we navigate an increasingly competitive environment. We will continue to prioritise the wellbeing of our employees who underpin our strong client relationships.

CORPORATE, INVESTMENT AND SME BANKING

Head of Investment and SME Banking
Nishlan Naidoo

OUR PERFORMANCE

Lending base

3.19% to **R4.84 billion**

R324.20 million
new SME lending

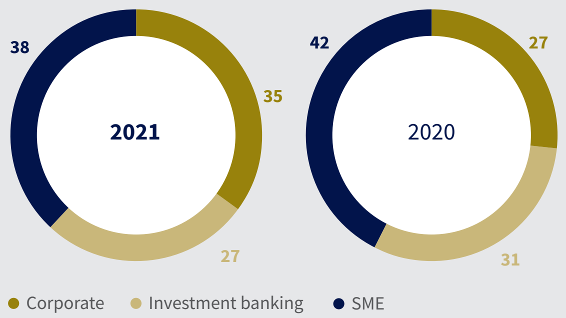
13.6%

4 316 jobs supported by 64 SME clients

OUR KEY DIFFERENTIATORS

- Our agility enables us to tailor bespoke client solutions
- Our relatively large footprint in the SME market enhances our understanding of our clients' unique needs
- A specialised and experienced deal team generates new relationships and repeat business opportunities

Low concentration risk – composition of loans per sector: (%)



The corporate, investment and SME banking business is diversifying and growing the Bank's revenue with tailored solutions for South African entrepreneurs and SMEs. We partner with our clients to help them achieve their growth ambitions by providing personalised service and an expanding range of bespoke solutions.

The division focuses primarily on the investment and SME banking needs of companies generating revenue between R50 million and R500 million a year. It offers corporate banking services as and when these are required.

Our investment banking services include:

- empowerment and management buyout transactions for unlisted companies;
- growth capital to fund the expansion of SMEs with a track record of strong cash generation; and
- loan sizes typically ranging between R30 million and R120 million.

Our SME lending portfolio comprises clients operating primarily in the manufacturing, industrial, financial and automotive sectors. We provide:

- short-term facilities to improve their cash flow management and working capital cycles;
- asset-backed growth finance to fund equipment, vehicles and inventory; and
- flexible, personalised service based on SME-specific needs.

OUR PERFORMANCE

Progressive implementation of the SME strategy resulted in the achievement of our targeted deployment levels as the operating environments of many of our clients gradually improved, and our teams settled into new ways of working. Overall returns from our corporate, investment and SME banking activities increased, despite an increase in SME client attrition and settlements. This was the result of better than-expected performance from our underlying portfolio which resulted in some clients early settling as they decided to sell their underlying assets under favourable market conditions and the accompanying compelling valuations for these. We also experienced excess partial settlements as dividends received from underlying assets where in excess of what we anticipated, driven by their out performance. Provisions remained in line with our risk appetite and limits. A key focus was the development of new or enhanced products for SME clients that will be launching during 2022.

Monitor and expand our portfolio, focusing on investment banking services

The investment banking portfolio continued to mature. Our clients' underlying assets generally performed well, and the disposal of certain assets at attractive values positively affected non-interest income. Settlements resulted from outperformance and compelling valuations.

We maintained resilient client relationships with existing clients, evidence through our repeat business activities with them, continued to monitor the performance of underlying assets to ensure an early response to credit risk, and expanded our portfolio with new business in different market segments.

Grow SME lending within the Bank's risk tolerance

The division continued to experience significant demand for SME facilities and acquired several new SME clients across various sectors (i.e., financial services, transport and industrial). However, the SME client base remained relatively constant as general attrition offset new client acquisitions. Our indirect lending to SMEs grew by approximately 50 clients. This resulted from lending to SME aggregators who then provided loans to smaller, micro SMEs that fall outside our criteria for size. We have a preference for more sizeable loans considering our internal structures and associated costs.

New lending opportunities generated through our reputation and word-of-mouth contributed to growth in the deployment of funds. Impairments remained at acceptable levels.

The division is currently exploring ways to overcome risk-related barriers to a more rapid response to the growth in demand from SMEs.

Further entrench relationships with our existing client base

We expect to retain clients by expanding our product suite in response to their needs. A product approval process for the new products and services was finalised in 2021 and new products, including a business transactional banking account for SMEs will be launched during 2022.

OUR FUTURE FOCUS

Our key focus areas in 2022 are to

- Meet challenging growth targets in our SME banking business without losing sight of our purpose to partner with our clients and contribute to enhancing the economy and job creation
- Launch new products and services to our SME clients that consider their business requirements, lifecycle, onboarding needs through human interaction, quick decision-making and low-cost options
- Offer specialist financial services to clients in different markets to sustain growth across the business

As we continue to implement our growth strategy, we remain committed to attracting new clients while retaining our loyal existing client base. We remain alert to the financial health of their assets through enhanced monitoring and engagement. We also remain focused on the wellbeing of our employees who underpin our strong client relationships.

PLATFORM BANKING

Head of Platform Banking
Pierre Loubser

OUR PERFORMANCE

Retail client base

4.9% to **>1 million**

Partnerships concluded

- Shoprite Checkers (commercial)
- Direct Transact (technology)

OUR BUSINESS DRIVERS

- Selecting and securing appropriate partners in scalable marketplaces with suitable products and services
- Creating sustainable partnerships based on mutually beneficial commercial agreements
- Technologically backed ease of integration
- Bank sponsorship with appropriate licensing to meet partners' needs

OUR KEY DIFFERENTIATORS

- **Experience** in onboarding and managing partnerships at scale
- **Clear partnership roles** supported by flexible, bespoke commercial arrangements
- **Effective data management** for regulatory reporting and reconciliation
- Understanding of regulatory landscape and **good relationships with regulators**

The Bank made good progress in repositioning its retail banking operation to a more diversified platform banking model based on partnerships and the orchestration of ecosystems. Our engagements with fintech and technology players resulted in the launch of a significant partnership with Shoprite Checkers.

The platform banking operation enables access to an extensive range of digital product platforms and payments services supported by sustainable commercial arrangements with non-banking businesses that offer growth potential. By accessing our core banking, product and payments systems, these partners benefit from our regulatory reporting, settlement and reconciliation expertise, and experience as a licensed, financial services provider.

Our partnerships with Net1 and Shoprite Checkers demonstrate our experience in enabling partners at significant scale. Both partnerships generate fees from transactional banking products or payment services and have the potential to be expanded further as they strengthen their ecosystems and marketplaces with the provision of additional digital financial services to their clients.

OUR PERFORMANCE

The successful launch of our partnership with Shoprite Checkers in October 2021 was a highlight in developing our platform banking model. The arrangement enables Shoprite Checkers to offer its clients basic transactional banking services, such as cash withdrawal at their tills or sending money to others. The launch secured more than 100 000 clients in the first month and a total of 196 000 clients by year-end.

As we focused on embedding our new partner and developed the capacity and capability to become a mature banking service provider to partners across our product and payment offerings, we continued to generate value from our existing Net1 partnership.

Manage and generate more value from existing partnerships

While the existing EPE account remains our primary product with Net1, we expanded the relationship by launching a new EPE Lite account and participated in the South African Security Agency's request for proposal (RFP) for the distribution of the R350 COVID-19 related social relief grant. By participating in the RFP, we expressed our intent to play a meaningful support role in distributing social grants.

Our total client base increased to over one million clients during 2021. We expect the Shoprite Checkers arrangement to contribute to significant further growth in our client base over the next three years.

Embed the new technology partner

The Bank completed the initial phases of embedding Direct Transact. The operations division commenced staged implementation of the partnership agreement to leverage Direct Transact's technology systems and capabilities to drive our strategy.

Continue to invest in human capital capacity and capability across the platform banking value chain

The Bank continued to invest in the capacity and capability required to support its repositioning for platform banking. During 2021, the stronger IT capacity played a key role in advancing the implementation of platform banking.

The Bank has adequate governance capacity to ensure relevant regulatory oversight of new partnerships and products associated with its pillar 2 and 3 strategies.

OUR FUTURE FOCUS

Our key focus areas in 2022 are to

» Generate more value from existing partnerships by expanding and enabling products and services they offer to their clients and growing our client base
» Continuously pursue new partnership opportunities, ensuring the most suitable role for the Bank as a participant and orchestrator in selected partner ecosystems
» Enable multi-partner integration with API layers and IT infrastructure
» Optimise the platform banking investment and cost structure

As we implement our platform banking strategy, we constantly monitor disruptive trends in the financial services industry and navigate unprecedented regulatory changes in the digital payments landscape.

PERFORMANCE 06

CHIEF FINANCIAL OFFICER'S REVIEW

Grindrod Bank delivered a strong financial performance during 2021, restoring the momentum of profitable growth from a solid financial base.

IN 2021, THE BANK FOCUSED ON:

- Restoring consistent profitable growth in difficult operating conditions
- Managing and mitigating credit risk
- Optimising surplus liquidity by deploying cash into higher-yielding capital-light financial instruments
- Maintaining a sound capital base and healthy liquidity as a platform for growth

IN 2022, WE WILL PRIORITISE:

- Accelerating the implementation of our strategy to diversify and grow revenue
- Raising tier 2 capital to support the Bank's lending activities
- Delivery of acceptable returns to our shareholder

CFO Rakesh Garach

Although operating conditions were subdued by the ongoing effects of COVID-19, civil unrest and sustained weakness in the South African economy, the Bank rallied as clients regained their confidence, and we optimised the deployment of surplus cash in a market awash with liquidity.

Net profit after tax increased by 44.15% to R109.17 million (2020: R75.73 million), primarily due to lower impairments and a higher net interest margin, partially offset by higher operating expenditure. Our key ratios reflected these contributors to our results, with return on equity increasing to 8.05% (2020: 5.83%), return on assets increasing to 0.86% (2020: 0.56%) and the credit loss ratio dropping from 128bps to 61bps. Total operating expenses increased by 24.41% to R327.63 million from R263.35 million at December 2020. The higher expenses are largely attributed to an increase of 39.01% in staff costs and the roll-out of a project to improve the core banking capabilities of the Bank to enhance product delivery to its client base. The increase in staff costs was mainly due to the recognition of short-term employee incentives. Following the lifting of PA Guidance Note 4/2020 in February 2021, employee incentives linked to performance achieved by employees in the 2020 financial year were paid in June 2021. For the 2021 financial year, short-term employee incentives were based on a business scorecard methodology whereby specific targets set by the board had to be met in order to determine a short-term incentive pool. In terms of IAS 19, the requirement of a constructive obligation was met, hence a provision was raised at year-end. This led to an increase in the cost-to-income ratio of the Bank to 64.79% (2020: 59.68%). We expect this ratio to normalise at levels below 60% going forward.

Capital adequacy and liquidity ratios were comfortably above regulatory requirements, demonstrating the soundness of the Bank's capital and liquidity bases. This enabled the resumption of ordinary dividend payments. An ordinary dividend of R30 million was declared in September 2021 and paid to Grindrod Limited. The total preference dividend declared and paid for the 2021 year amounted to R17.63 million.

RESTORING CONSISTENT GROWTH IN DIFFICULT OPERATING CONDITIONS

Profitability

44.15%

R109.17 million
(2020: R75.73 million)

Total income

14.60%

R505.68 million
(2020: R441.25 million)

Operating expenses

24.41%

R327.63 million
(2020: R263.35 million)

Cost to income ratio

64.79%

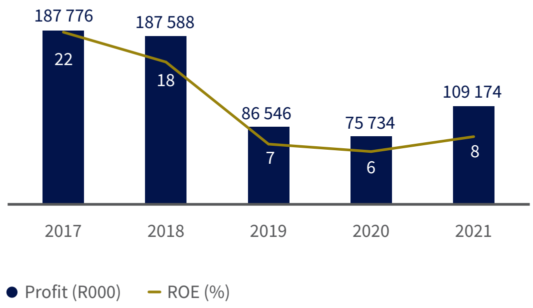
(2020: 59.68%)

Return on average shareholder equity

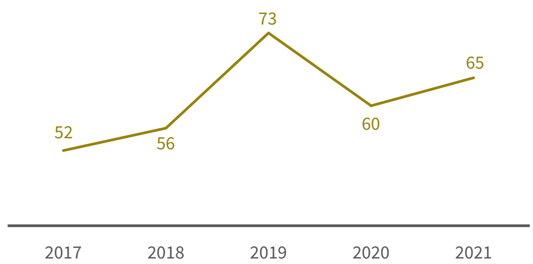
8.05%

(2020: 5.83%)

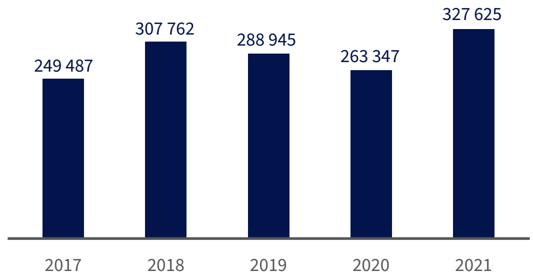
Profit and return on equity



Cost to income ratio (%)



Operating expenses (R000)



Total income increased by 14.60% to R505.68 million, largely due to a higher net interest margin partially offset by lower net gains on financial instruments recognised at fair value and lower fee income from corporate and platform banking.

The overall improvement in the **net interest margin** was supported by loan book growth, higher IFRS 9 fees, better deployment of surplus cash into higher-yielding capital-light financial instruments that remediated the Bank's negative carry position as the income earned from investing this surplus liquidity exceeded the cost on the funding raised.

Non-interest income decreased by 7.84% to R231.19 million (2020: R250.87 million) due to lower fee income and lower mark-to-market gains on the fair value loan portfolio. A 15.81% reduction in **net fee income** to R47.72 million (2020: R56.68 million) was mainly attributable to an 11.21% decline in platform banking fee income to R36.77 million (2020: R41.41 million) as a result of lower transactional activity and a delay in the implementation of the new Shoprite Checkers partnership. Commercial arrangements such as these, and the Bank's Net1 partnership, are expected to contribute to future growth in revenue as client adoption of their products is scaled.

The Bank's **operating expenses** increased by 24.41% to R327.63 million. The significant increase in costs was attributable to a 39.01% increase in staff costs to R211.39 million (2020: R152.07 million).

Other operating expenses increased by 4.46%, mainly due to the roll-out of a project to improve the core banking capabilities of the Bank to enhance product delivery to its client base.

The increase in operating costs translated into a higher cost to income ratio of 64.79% (2020: 59.68%) and a negative JAWS ratio of 9.81% (2020: positive 20.08). We expect the cost to income ratio to normalise in the 2022 financial year and be below 60%.

The Bank's effective tax rate increased to 13.45% (2020:0.85%) due to higher taxable profit in 2021. The Bank's lower effective tax rate from the standard 28% corporate tax rate is largely attributable to exempt preference dividend income.

MANAGING CREDIT RISK

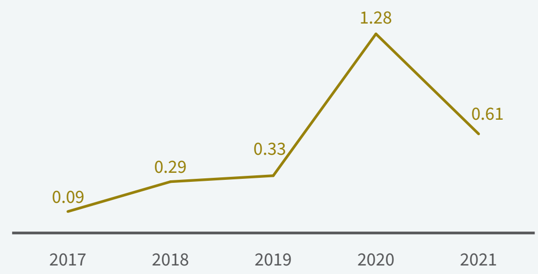
A material reduction in credit impairments improved the Bank's profitability.

Credit loss ratio

0.61%

(2020: 1.28%)

Credit loss ratio (%)



After the COVID-19 related spike in non-performing loans during the prior year, the Bank experienced a 48.87% reduction in the credit impairment charge to R51.91 million (2020: R101.52 million). This translated into a credit loss ratio of 61 bps (2020: 128 bps) and was attributable to improved credit management over the loan portfolio, better-than-expected collection outcomes and a reduction in stage 3 loan impairments as some clients cured.

The impairments included stage 1 and 2 impairments of R3.57 million and included a forward-looking riot overlay provision of R4.24 million linked to the loans impacted by the July civil unrest. Certain of the Bank's lending clients were impacted by the civil unrest that occurred in KwaZulu-Natal in July 2021, which caused damage to the properties that serve as security and underpin the facilities provided by the Bank. The damages had a knock-on effect and resulted in 3 clients requesting temporary relief on loan repayments while insurance claims were being processed and finalised. Although these clients have sufficient insurance cover for the repair of the properties and servicing of the facilities, the Bank deemed it prudent to raise a riot overlay provision while insurance claims are being finalised.

The Bank did not release its COVID-19 judgemental overlay as it maintains a conservative outlook in an uncertain environment.

Provisions (R000)

Stage 1 and 2 expected credit losses (ECLs)	31 December 2021	31 December 2020	Income statement movement
Stage 1 ECL: Advances	21 187	20 670	**517**
Stage 2 ECL: Advances	1 370	2 550	**(1 179)**
Stage 2 ECL: Advances – COVID specific adjustment	11 476	11 476	**0**
Stage 2 ECL: Advances – July riots specific adjustment	4 235	–	**4 235**
Total stage 1 and 2 ECLs	**38 268**	**34 696**	3 573

PRESERVING AND CONSOLIDATING OUR CORE OPERATIONS

We grew our funding base and kept our lending book stable despite challenging operating conditions

Funding base

19.64%

R11.92 billion
(2020: R9.97 billion)

Total assets

17.18%

R13.73 billion
(2020: R11.72 billion)

Gross loans and advances

5.33%

R8.78 billion
(2020: R8.34 billion)

Return on assets

0.86%

(2020: 0.56%)

The increase in the funding base was a highlight of the year, attributable to:

- A R1.77 billion increase in deposits due to growth in call, notice and fixed deposits – a healthy split to mitigate concentration risk in the portfolio.
- Refinancing of R263 million of DMTN funding and an additional R137 million issuance. The notes were oversubscribed 1.25 times and issued at a rate of three-month JIBAR plus 250 bps, resulting in a 50-bps saving to the Bank. Funding from the DMTN programme currently amounts to R650 million.

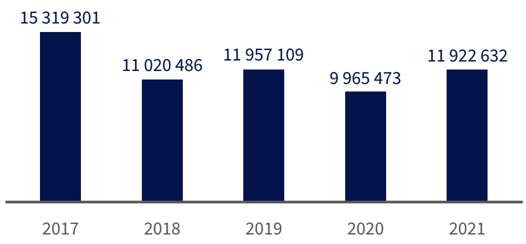
In addition, the Bank received a R36 million allocation from the SARB guaranteed loan scheme, created to assist business during the COVID-19 pandemic which was fully deployed into eligible lending.

The weighted average duration of the funding base increased to 81 days (2020: 75 days) and is a deliberate strategy of the Bank to diversify its funding base.

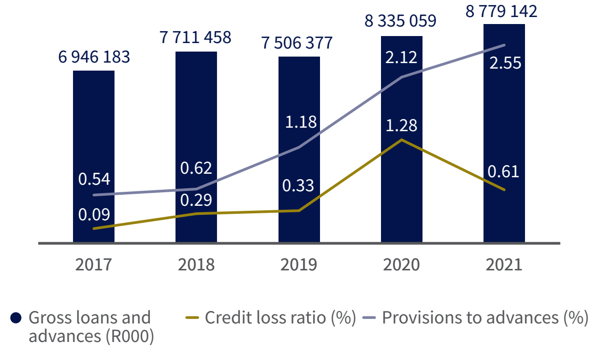
The growth in deposits and additional DMTN issuance increased cash and negotiable securities by 48.95% to R5.05 billion (2020: R3.39 billion). Most of the surplus liquidity was placed in instruments with a short to medium tenor with the South African Reserve Bank in the form of higher-yielding capital light Treasury Bills.

Gross loans and advances increased by 5.33% to R8.78 billion. The subdued performance was attributable to increasing competition in the property lending market and the Bank's conservative approach to credit risk.

Funding base (R000)



Gross loans and advances



SOUND CAPITAL MANAGEMENT AND LIQUIDITY

Capital adequacy ratio	Liquidity coverage ratio	Net stable funding ratio
15.66%	**350%**	**146%**
(2020: 14.66%)	(2020: 453%)	(2020: 129%)

A stable and robust capital position

The Bank's capital adequacy ratio was 15.67% at 31 December 2021, comfortably exceeding the prescribed regulatory minimum requirement of 10.50%.

As the threat of COVID-19 lessens, the regulator is gradually removing relief provided to the financial sector and reinstating capital requirements in place before COVID-19.

The Pillar 2A capital requirement of 1% was reinstated from 1 January 2022. This increase caused the Bank's minimum capital requirement to increase to 11.50% .

Financial health underpinned by liquidity and solvency

Healthy liquidity ratios with a liquidity coverage ratio of 350% and a net stable funding ratio of 146%, comfortably exceeding regulatory minimum requirements.

OUTLOOK

During 2021 we restored our growth momentum and positioned the Bank to continue implementing its strategy. Looking ahead, we expect our operating environment to remain difficult as competition in our niche markets intensifies and the domestic economy remains subdued. However, we are cautiously optimistic that clients will resume their lending and investment activities during 2022. We are well positioned to remain responsive to our existing clients' financial services needs and grow our client base with exciting new SME and platform banking offerings. We have established a sound financial platform for the Bank to accelerate its diversification, grow revenue and deliver acceptable returns to our shareholder.

Rakesh Garach
CFO

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Change	2021 R000	2020 R000
Interest and similar income	-5%	746 786	783 363
Interest and similar expense	-20%	(472 290)	(592 980)
Net interest and similar income		274 496	190 383
Non-interest revenue		231 188	250 866
Net fee income	-16%	47 718	56 676
Gains and losses on financial instruments	-7%	180 821	194 190
Other non-interest revenue		2 649	–
Total revenue	15%	505 684	441 249
Impairment losses on financial assets	-49%	(51 913)	(101 522)
Operating income	34%	453 771	339 727
Operating expenses	24%	(327 625)	(263 347)
Profit before tax		126 146	76 380
Income tax expense		(16 972)	(646)
Profit for the year	44%	109 174	75 734
Other comprehensive income		–	–
Total comprehensive income for the year	44%	109 174	75 734

STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Change	31 December 2021 R000	31 December 2020 R000
Assets			
Cash and short-term funds	21%	**1 117 663**	923 536
Negotiable securities	59%	**3 935 984**	2 469 396
Loans and advances	5%	**8 561 255**	8 167 160
Investment securities		**9 118**	9 198
Current tax asset		**1 315**	11 795
Other assets		**20 826**	75 332
Property and equipment		**24 747**	14 828
Deferred tax asset		**61 046**	47 931
Total assets		**13 731 954**	11 719 176
Liabilities			
Deposits and funding instruments	20%	**11 922 632**	9 965 473
Derivative instruments		**24 277**	73 046
Provisions		**47 562**	14 990
Other liabilities		**64 734**	54 460
Total liabilities		**12 059 205**	10 107 969
Equity			
Ordinary share capital		**–**	–
Share premium		**380 278**	380 278
Preference share capital		**285 000**	285 000
Retained earnings		**1 007 471**	945 929
Total equity		**1 672 749**	1 611 207
Total liabilities and equity		**13 731 954**	11 719 176

THE POWER OF HUMAN CAPITAL

Our employees deliver specialist financial services through trust-based relationships with clients that underpin our reputation and performance. They embody our brand in the implementation of the Bank's strategy.

As financial services evolve, our workforce and skills requirements are changing, and we support our employees in skills development and the transition into new ways of working. We attract, develop and retain high-performance individuals who subscribe to our values, and we reward them by equitably sharing the value they create for the Bank.

EMPLOYEE VALUE PROPOSITION

Our policies, processes and organisational structure contribute to a healthy work environment.

We remunerate and reward our employees fairly.

We invest in the development of our employees to support their best performance and to enable them to build successful careers in financial services.

We attract, develop, reward and retain high performing employees to achieve our strategic goals.

R2.29 million

invested in training and development

(2020: R1.25 million)

Empowerment

BBBEE level 1

Zero

workplace fatalities or lost-time injuries

22%

employees with >10 years' service

(2020: 19%)

Ethics

Code of Conduct

24-hour toll-free hotline

Ethics awareness and training

IN 2021, THE BANK FOCUSED ON:

» Prioritising employee wellbeing to address the mental health and wellness impacts of COVID-19 and the July civil unrest
» Promoting a high-performance team culture through executive development and employee upskilling
» Approving an improved Short Term Incentive Scheme to reward high-performing individuals across the Bank
» Achieving level 1 BBBEE status
» Maintaining operational continuity, employee motivation and client engagement during the shift to a hybrid working model

IN 2022, WE WILL:

» Implement the Bank's STI and develop a new long-term incentive scheme (LTI) to give effect to our performance and retention strategy
» Review our organisational capacity to ensure we are equipped to achieve the Bank's strategic goals
» Continue our senior and middle management development programmes focused on future capacity and capability requirements
» Continue to focus on employee health, wellbeing and different ways of working
» Continue to foster an environment that supports diversity, equity, inclusion and belonging
» Promote accountability and clear consequence management

EMPLOYEE WELLNESS

Our employee wellness programme (EWP) provides confidential, personal support and information to help employees deal with everyday stressors and more serious concerns. We are contracted to Employee Assistant Programme (EAP) which provides counsellors who follow a strict, professional code of ethics to protect personal privacy. All Bank employees and their immediate dependents can access EWP services, free of charge. Employees also participate in wellness days that offer medical assessments and include other service providers, including those focusing on financial wellbeing.

Our investments in our people include skills programmes, safe and healthy working conditions and employee assistance. We encourage a work-life balance through initiatives such as “No Meeting Fridays” and Yoga days.

A health and safety committee oversees health and safety management, training and compliance with the Occupational Health and Safety Act. The committee maintained its focus on the Bank’s protocols to manage exposure to COVID-19 in the workplace. More than 87% of employees were fully vaccinated voluntarily against COVID-19 during 2021.

No workplace fatalities or lost-time injuries were reported.

EMPLOYEE ENGAGEMENT

Employee engagement was high on our agenda in 2021 as the Bank sought to maintain employee wellbeing, productivity and business continuity during the implementation of a hybrid working model. At the same time, we re-organised certain business units to align operational delivery with strategic direction.

Our employee engagement is conducted one-on-one or in teams through several channels. Management and the HR department encourage an open-door approach and in 2021, the CEO and CFO held informal sessions to engage directly with employees across the Bank. Employees have a range of options to raise specific concerns that may impact their engagement and motivation, specifically with the Bank’s ethics officer, employment equity committee, the board’s social and ethics committee, an employee suggestion platform, or the Deloitte Tip-offs Anonymous hotline.

Employee engagement is centred on the premise that a person’s expertise and abilities are of profound significance for any organisation. Some of the key aspects of engagement are the potential of people and the impact that they have on our business. In addition, these aspects consist of an employee’s positive attitude towards the governance model and ethical matters and commitment on all levels.

Our stakeholder relationships page 9

Realigning our organisation to the strategy

A hybrid working model was implemented from October 2021 with employees working at the office two days a week, subject to any further COVID restrictions that may become necessary.

As the Bank proceeds further on its strategic journey and adapts to the hybrid working model, it is undergoing organisational change to ensure adequate capacity and capability to future-proof operations.

A repositioning of the operational and IT structures was completed in 2021 to improve the efficiency of client service and project delivery and facilitate new strategic partnerships. Our focus has now shifted to developing and implementing service level agreements between the operational team and business units to clarify responsibility and accountability and accelerate the implementation of the Bank’s strategy.

We continued our work to align employee culture to the Bank’s values. Executive management and heads of departments presented the strategy and implementation progress to employees. The Bank intervened proactively to help employees adapt to the strategic and organisational changes, including training and awareness programmes on diversity, inclusion and ethics, with topics on intercultural and interpersonal competence and ethics, our behaviours and impact on others, trust, reliability and acceptance and courageous conversations.

Embedding an ethical culture

The Bank monitors and manages ethics through both the social and ethics committee and the Ethics Forum. The forum is chaired by the ethics officer and is complemented by a team of individuals who were elected by employees and are well respected within the organisation.

During 2021, the Bank participated in a review by the Ethics Institute on the monitoring and reporting practices of the Bank’s social and ethics department as part of embedding an ethical culture. While noting that the social and ethics committee had made good progress in its reporting practices, the Ethics Institute made several recommendations for improvement which the Bank is implementing.

All employees are encouraged to report any unethical activities or behaviour either directly to management, HR, the employment equity committee, the Connect online portal, or the Deloitte Tip-offs Anonymous hotline. In 2021, two Bank-related incidents (2020: no incidents) were reported through the hotline. The matters were investigated and resolved and are accordingly closed. No incidents of corruption were identified in 2021 (2020: no incidents).

EMPLOYEE COMPOSITION

Grindrod Bank's employee composition	2021	2020	2019	2018	2017
African	**56**	49	53	51	47
Indian	**71**	77	71	66	62
Coloured	**17**	12	10	11	9
White	**40**	49	62	67	64
TOTAL	**184**	187	196	195	182
Female	**115**	113	122	115	104
Male	**69**	74	74	80	78

The reduction in employee numbers was attributable to resignations or terminations due to the realignment of skills.

Our diverse employee base

Employee headcount

184

(2020: 187)

Employee turnover

14.89%

(2020: 9.7%)

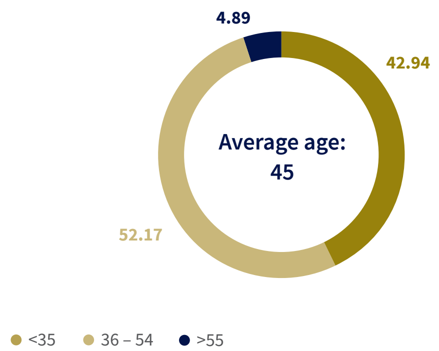
Industry average:

14% – 19%

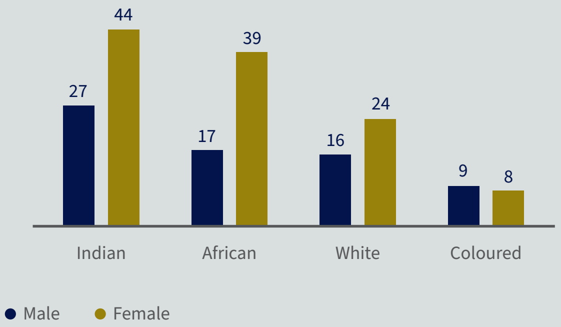
Gender diversity

62% **38%**

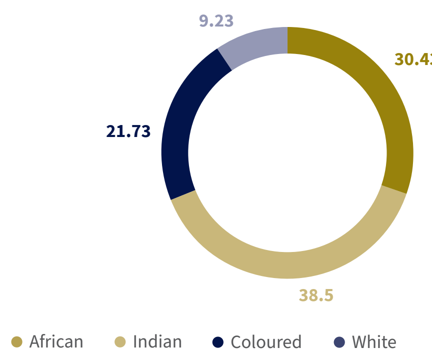
Age diversity (%)



Ethnic/gender split



Ethnic diversity (%)



DEEPENING DIVERSITY, EQUITY INCLUSION AND BELONGING

We value diversity because it makes us stronger as an organisation and ensure our relevance in the society in which we operate. We promote dignity and respect in our treatment of one another to ensure that all our employees feel valued, empowered and motivated to work together to create solutions for our clients and the communities in which we operate.

Attaining level 1 BBBEE status

The Bank maintained a level 1 BBBEE contributor status due to its concerted effort to increase performance in enterprise supplier development, skills development, empowerment finance and preferential procurement.

Elements	Targets/ weighting	2018 score	2019 score	2020 score	2021 score[1]
Ownership	25	28	25	25	**25**
Management control	20	9.73	13.78	14.64	**14.28**
Skills development	20	14.72	11.92	15.38	**13.38**
Preferential procurement	15	11.18	16.46	14.56	**15.19**
Enterprise supplier development (ESD)	10	10.71	8.88	11	**10.24**
Socio-economic development (SED) and consumer education (CE)	5	3.33	4.92	4.49	**6**
Empowerment finance	15	6.34	15	14.59	**15**
Total points		84.01	95.96	99.66	**99.09**
Level		**4**	**2**	**1**	**1**

[1] *The 2021 BBBEE score is available on our website: www.grindrodbank.co.za.*

Our goal is to maintain a Level 1 status in the forthcoming year through improvements in preferential procurement, empowerment finance, ESD, equity and skills development. In 2021, our goal was to maintain a Level 1 status, which we did through improvements in preferential procurement and consumer education.

EMPLOYEE DEVELOPMENT

We are building skills and preparing our employee base for an evolving world.

Our workforce profile and skills requirements are changing as we embrace the 4th Industrial Revolution. We are working with our employees to support new ways of working and developing different skills. We encourage our employees to innovate, be creative and develop their personal skillsets to remain relevant in the financial services industry and its future.

Our recruitment, onboarding and training processes are designed to entrench our values, ethics and conduct standards across the organisation.

Leadership development

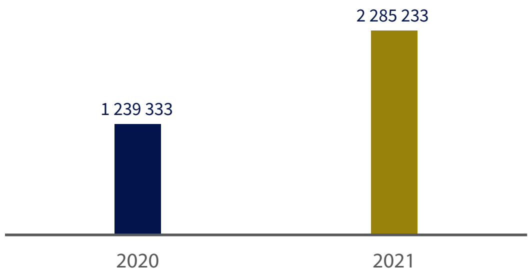
COVID-19 required a shift away from face-to-face training. Most leadership initiatives were delivered using virtual solutions. Our leadership participated in bespoke leadership development sessions customised to meet the Bank's specific business and capability requirements.

We remain committed to developing and empowering our current and emerging leaders.

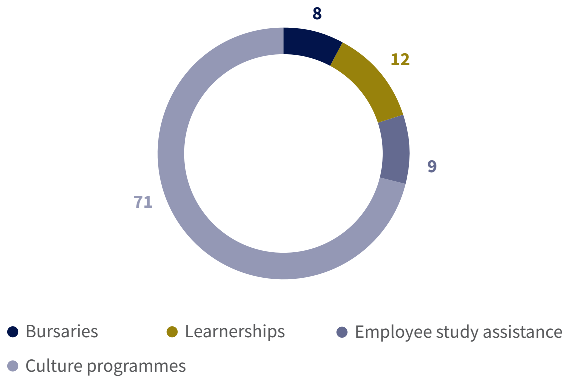
The Bank's succession programme identifies and develops candidates for critical senior management and key employee positions. Development plans are established to ensure that identified successors receive the relevant training and mentoring. A leadership development programme has been developed through the University of Stellenbosch and will be rolled out in 2022.

Learning and development

Learning and development expenditure (R)



Training initiatives (%)



We encourage continuous learning and development to ensure our people are equipped to meet the demands of a rapidly changing and increasingly digital world of work. We invest in training and development at all levels, enabling the development of a strong succession pipeline of future leaders.

During 2021, we invested R2.29 million in the following learning and development opportunities:

Employee bursaries and learnerships

The Bank supports employees to study towards a formal qualification that will give them professional recognition. While most development initiatives focus on role-specific development, the bursary scheme allows employees to apply for study support for courses they want to pursue as part of their career development.

The Bank conducts a graduate development and internship programme through the BANKSETA Kuyasa platform. Our 2021 training and development programme included three learnerships for 20 unemployed learners, comprising:

» Four learners National Certificate in Banking NQF5 qualification
» Eight learners National Certificate in Generic Management in Banking NQF5
» Eight learners National Certificate in Financial Markets and Instruments NQF6

Furthermore, five Bank employees were registered for the Khulisane occupational certificate: Organisational risk practitioner qualification which imparts risk management skills for risk officers.

TALENT ATTRACTION, RETENTION AND DEVELOPMENT

The Bank seeks to attract, develop and retain committed people, who are passionate about the banking industry, innovative and motivated to deliver exceptional client experiences.

In support of this, we remain committed to:

» Strengthening our talent pools and succession pipelines to ensure sufficient depth and breadth in line with the capabilities we need to succeed
» Accelerating the development of black talent and ensuring a greater depth of talent with specific emphasis on increasing female representation at senior leadership levels

REMUNERATION

The Bank attracts high calibre employees with specialist skills because of its employee value proposition and entrepreneurial culture. The organisational structure offers an opportunity for development across the Bank, while the newly implemented hybrid work model enables more flexible working arrangements.

The board's human capital and remuneration committee ensures that our employee remuneration is competitive. The Bank benchmarks its remuneration to ensure it is market-related and aims to pay competitive salaries, with a range of retention benefits. Short- and long-term incentives are linked to a business scorecard, which determines the annual size of the Bank's bonus pool.

Remuneration report page 88

Employee performance management

The Bank has a pay for performance model, with individual performance scores directly impacting annual increases and short-term incentive allocations. In 2021, a new scoring mechanism was rolled out to managers who were trained on setting specific, measurable, achievable, relevant and time-bound (SMART) goals.

The new scorecard includes financial and non-financial metrics for performance assessment. Non-financial metrics include ESG targets, risk management, compliance and audit performance, leadership performance and alignment to organisational culture.

OUR SOCIAL AND ENVIRONMENTAL IMPACT

The Bank continued to formalise its approach to ESG matters and integrate ESG management into its strategy and business operations.

Grindrod Bank's journey to strengthen ESG management and reporting

2019

- The International Finance Corporation (IFC) conducted a diagnostic assessment of the Bank's environmental and social (E&S) practices, focusing on the lending operation
- Initiated a process to measure and standardise the assessment, reporting and monitoring of E&S risks associated with clients' operations to manage the Bank's impact on society and reduce its exposure to associated credit, liability or reputational risks
- Adopted six of the 17 United Nations Sustainable Development Goals (SDGs) based on our ability to have an impact in these areas; implemented a programme to create awareness of the SDGs among employees and align them with the Bank's operations and socio-economic development (SED) programmes
- Implemented a series of initiatives to reduce our direct carbon footprint through energy and water management measures
- Invested R1.8 million in corporate social investment (CSI) and SED programmes, focusing on education, environmental conservation, small business development and job creation
- Reviewed and strengthened governance, regulatory compliance and risk management, including remedial actions to address gaps identified in a 2018 gap analysis to determine the Bank's compliance with King IV

2020

- Commenced the development of an E&S management system, in conjunction with the IFC
- Established targets for TCFD, but measurement against the targets was delayed by COVID-19
- Strengthened ESG operational team and ensured strong backing from executive and senior management
- Formalised and integrated SME growth strategy into Bank operations
- Invested R1.27 million in CSI and SED programmes, focusing on education, environmental conservation, small business development and job creation

2021

- IFC conducted a second diagnostic assessment of the Bank's current E&S practices
- Updated the Bank's E&S policy with findings from the IFC assessment, including climate change risks, and drafted a policy statement on the Bank's commitment to ESG risk management
- Workshopped E&S strategy and framework with executive management
- Commenced implementation of E&S management system and gradual alignment with reporting best practice, including approval of TCFD climate change targets by 2025. TCFD targets were implemented in November 2020 with the aim to review each year, as a five-year view is taken.
- Improved understanding of the business case for E&S risk management across the Bank
- Identified E&S risks and opportunities and integrated E&S risk into credit policy and loan approval processes
- Integrated non-financial and ESG-related KPIs into the Bank's performance management scorecard to drive effective implementation of the management system
- Ongoing strengthening the stakeholder engagement framework, including clarification of the operational leadership roles and responsibilities in the management of stakeholders' ESG concerns
- The Bank provided R315 million in financing to support small entrepreneurial businesses in the transport, telecommunications and communications sectors

Our plans for 2022

- Accelerate implementation of E&S management framework and strategy and develop a monitoring and evaluation framework to monitor E&S risk within business portfolios
- Train senior and operational management in monitoring and measuring the Bank's performance against TCFD targets

OUR CONTRIBUTION TO THE UN SUSTAINABLE DEVELOPMENT GOALS

The UN SDGs outline the universal goals to end poverty, protect the planet and promote shared prosperity. In 2019, the Bank identified six primary SDGs closely aligned to our broad sustainability focus areas of People, Environment and Communities and relevant to our strategy. These are the areas in which we currently contribute most.

SDGs	Mission	Implementation	Commitments	2021 progress
4 QUALITY EDUCATION	Ensure and promote inclusive and equitable education and training.	Provide employee bursaries, learnerships and graduate programmes.	CSI sponsorships: » Rally2Read » Financial literacy programmes	Training spend: Target: **1%** of NPAT 2020 / **2021** R value: 1 239 333 / **2 285 233** % of NPAT: 1.63 / **1.81** *The power of human capital page 47*
5 GENDER EQUALITY	Promote gender equality and the empowerment of women.	Empower women through learnerships, upskilling and training, including committee membership, leadership roles and board diversity.	Sponsorships to projects supporting women employment: » Blue Port	% of training spend on women: **61%** in 2020 **63%** in 2021 *The power of human capital page 47*
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	Employee wellness, including EAP. Develop or enhance HR, compliance and ESG policies. Finance entrepreneurs and SMEs to grow their businesses and create jobs.	Blue Fund projects create employment for the previously disadvantaged.	SME support: **64** SME clients **4 316** jobs created *Corporate, investment and SME banking page 35*
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Promote innovative industry solutions.	Use modern, resilient IT infrastructure. Provide remote workplace support, including solar loans, for employees.	Sponsorship of Thembelihle School.	*CSI page 56* *COO's review page 25*
10 REDUCED INEQUALITIES	Encourage a reduction in inequality.	BBBEE empowerment transactions and equity considerations for employees and board members.	CSI sponsorships: » Blue Port » Thembelihle School » Rally2Read	Social investment: Education **R914 400** Environment **R100 000** Other **R100 000** *CSI page 56*
11 SUSTAINABLE CITIES AND COMMUNITIES	Encourage sustainable business and communities.	Minimise and manage our carbon impact across all offices, including waste water, water, energy, travel. Encourage alternatives to reduce transport emissions. Fund sustainable property developments.	Working with WildOceans, focusing on marine conservation	Environment and climate change: Water efficiency ▲ **20%** Energy efficiency ▲ **20%** Greenhouse gas (GHG) emissions ▼ **13%** *Our environmental impact page 55*

OUR ENVIRONMENTAL IMPACT

We continuously monitor and mitigate our direct carbon footprint through energy and water management measures and remain conscious of the need to improve energy efficiency across our organisation. We aim to minimise our direct carbon impact and create awareness to encourage positive, sustainable behaviour from our stakeholders.

We are working on formalising our targets and measuring our performance against them to align our practices with relevant climate goals and achieve continuous improvement in our performance.

Implementing TCFD recommendations

TCFD was established to develop recommendations on disclosures to inform investment and credit decisions and enable stakeholders to better understand exposures to climate-related risk. The TCFD's recommendations are structured around four thematic areas: governance, strategy, risk management, and metrics & targets.

In 2020 the Bank approved the following TCFD targets but has not started measuring its performance. This is largely due to the challenges faced during lockdown, the lack of specialised training and skills in this area and the lack of performance measurement tools (industry specific) to assist in this process. During 2021, we approached the IFC for additional training and enrolled for training by National Treasury and BASA to implement TCFD recommendations.

TCFD targets

2019 baseline data		2022 target	Actions to achieve targets
Water	8 728 kl/FTE	» 5% reduction of water consumption per annum » 5% reduction (kl/FTE) per annum	» Water sensors for Durban office
Waste	No data	» 5% reduction of waste generated per annum » 5% reduction of waste generated (kg/FTE) per annum	» Improving recycling and waste disposal practices and reporting
Energy	2 388 MWh	Target to be set once the viability of solar photovoltaic installation established	» Explore solar panels for Johannesburg building
GHG Emissions (travel)	863 tonnes/full time employee (FTE)	» 10% reduction of tonnes CO_2e per annum » 10% reduction of tonnes CO_2e/FTE per annum	» Create incentives to encourage employees to decrease personal carbon footprint
Social (supply chain)		» 5% increase in jobs created per annum for current lending clients	» Create incentives for clients who are ESG compliant, such as discounted interest on loans

TCFD milestones

Governance	» Developing our ESG policy and climate change statements » Engaging with executive and senior management on responsibility, risks and opportunities » Implementing King IV recommendations
Strategy	» Committed to decreasing carbon emissions across all operations » Implementing or considering E&S management framework in all Bank operations » Strengthening supply chain management » Developing ESG product offering, such as solar project
Risk management	» Climate risk is included in our divisional risk register. These divisional risks then get consolidated into the Bank's risk register » Applying ESG risk considerations in lending due diligence » Evaluating ESG opportunities in the lending portfolio
Metrics and targets	» Inclusion of non-financial and ESG-related KPIs in the Bank's scorecard

CORPORATE SOCIAL INVESTMENT

The Bank invested R1.11 million (2020: R1.27 million) in a range of CSI and SED programmes. These are based on its CSI strategy, which entails:

- Partnerships with non-governmental organisations on long-term interventions aligned with the Bank's focus areas of education, environmental conservation and job creation. The flagship beneficiary is The Blue Fund which the Bank developed in partnership with WILDTRUST (previously Wildland's Conservation Trust)
- Charitable donations on an ad hoc basis in response to a specific need such as disaster relief and humanitarian aid
- Employee contributions, including donations and volunteering of time and skills to community projects and disaster or humanitarian relief

Our investments in 2021 included:

the blue fund
custodians of the coastline

The Blue Fund develops sustainable solutions for coastal communities affected by polluted and damaged coastlines and marine life.

2021 highlights:

Blue Port: Building off the foundation of WILDOCEANS' Blue Crew initiative and recycling programme, the Blue Port project was established in March 2019, with the specific aim of progressively reducing the amount of plastic waste flowing into the Durban Harbour. Through the implementation of waste trapping interventions installed in key rivers and canals flowing into the port, the projects hope to not only minimise the amount of plastic waste that ends up in our oceans but to remove the historical build-up of waste within the upstream ecosystem. The programme focuses on training and development for the unemployed youth from surrounding communities. Since 2019, a total of 92 480 kg of plastic waste has been removed by the Blue Port teams.

FELIX
Risk Training Consultants

Consumer Education is a course designed to develop the student's skills in decision-making, goal setting, and evaluation as they relate to the consumer's role in the marketplace. Emphasis is placed on consumer rights and responsibilities in a free-enterprise system. The material consists of:

Theme 1 – Your guide to Financial Health
Theme 2 – Making Credit work for you
Theme 3 – Manage my Credit Responsibility
Theme 4 – Effective Query and Complaint Resolution

Rally to Read provides books and teaching support for disadvantaged schools in remote areas. After a COVID-19 challenged year in 2020, the programme continued under a different resource delivery model and remote engagement with schools and learners. Despite these constraints, schools received books and teachers trained by Rally to Read continued to support and guide learners.

Thembelihle is an independent school providing quality education to young children from disadvantaged backgrounds in the Howick region's villages. The school offers a variety of programmes in education, technology, sport, the arts, sustainability and eco-programmes, and nutrition.

The 2021 social and ethics committee chairperson's discretionary fund was donated to the Friends of Umngazi Trust and its beneficiaries in the Pondoland community. The funds were used for much-needed infrastructure improvements at the **Sicambeni School**, the only school that serves the community. The Bank has been involved with the Umngazi Project for almost a decade by supporting the Pondo Pedal mountain biking fundraiser.

Current condition of the school exterior in need of repair.

Community working on the windows and new roof.

Umngazi school after repairs using donations. The school has since installed a brand-new roof, new windows and new doors with security gates. The electrics were replaced, and the both the interior and exterior of the school was painted.


GRINDROD
BANK
20

MANAGING RISK AND OPPORTUNITY

07

OUR KEY PRIORITIES IN 2021

Risk management is central to all decision-making as the Bank navigates heightened economic, financial and regulatory risks to preserve value and support value creation and sustainability into the future.

Sustained economic weakness raised concerns about the performance of existing clients and the Bank's ability to attract and retain new clients. Our risk management function remained resilient despite increasing inherent and emerging risks in our operating environment. To protect the Bank, while supporting the attainment of its operational and strategic objectives, we maintained robust monitoring of all risk types, ensuring that the Bank's credit, liquidity, capital and regulatory activities and indicators remain within established risk appetite and tolerance levels.

We made significant progress in our key focus areas for 2021, including:

» Implementation of, and self-compliance with, the Basel Committee of Banking Supervision standard 239 for effective risk data aggregation and risk reporting (RDARR) to ensure that the Bank generates reliable information to manage risk, particularly during times of economic stress. Formal attestation is scheduled for 2022. This process has further strengthened the Bank's internal data and reporting controls and deepened our risk management culture.

» Further enhancement of credit risk management processes, primarily more robust monitoring of loans to detect doubtful loans early and actively manage them to prevent non-performance. The Bank was marginally in breach of its tolerance level in relation to the income statement impact of provisions, as we made a considered decision to maintain the provision raised to cater for the potential impact of COVID-19 and provide for the potential impact of the July civil unrest by raising a further provision.

» Significant enhancement of the Bank's recovery plan. Stress testing scenarios were strengthened to clearly identify points of failure. The viability of recovery options will continue to be monitored routinely, and recovery triggers embedded in risk management practices.

OUR KEY PRIORITIES IN 2022

- The Bank will focus on enhancing and embedding the stress testing framework and stress scenarios throughout the organisation. This will include ensuring there is a clear link to the framework and the Banks Recovery Plan. In addition, ongoing testing will be performed on the Recovery Plan to ensure management actions remain relevant.
- Partnering with Arbutus and BarnOwl to implement an integrated Risk Management Solution which will enhance combined assurance within the Bank.
- Completion of RDARR attestation and closure of any gaps identified
- Implementation of a liquidity risk/balance sheet management framework in line with new structure of Balance Sheet Management (BSM)
- Formalisation of an Operational Risk Management Framework in line with Directive 9 and Directive 10 of 2021.

RISK GOVERNANCE

The board is responsible for risk governance and sets the guiding values and ethical climate for risk management. Through its committees, the board routinely reviews risk and opportunity in the Bank's external and internal environments. It ensures that appropriate internal controls are in place to manage and mitigate the impact of risks.

Risk and capital management report page 84

RISK MANAGEMENT

Risk and opportunity management is embedded within the Bank's culture and conducted by the risk management division, which reports functionally to the board, the risk and capital management committee (the RCMC) and the CEO. Internal and external audit review and assure the adequacy of internal controls. The chief risk officer (CRO) works within a board-approved risk and opportunity management framework. Risk champions support risk management across the Bank's operations. Ongoing training and information sessions with senior management and the board promote risk awareness.

To ensure compliance with international best practice, our risk management approach is based on:

- ISO risk management standards
- King IV
- Institute of Risk Management South Africa

RISK PROCESS

The risk and opportunity management framework and the risk appetite and tolerance statement define the risk management process and enable management to make informed and effective decisions within acceptable boundaries of risk tolerance.

Risk and opportunity management framework

The risk and opportunity management framework describes the process to identify, manage and monitor risks and opportunities and allocates responsibility for managing specific risks to board committees.

The framework was enhanced in 2021 and will be further strengthened in 2022 as the Bank's risk management matures.

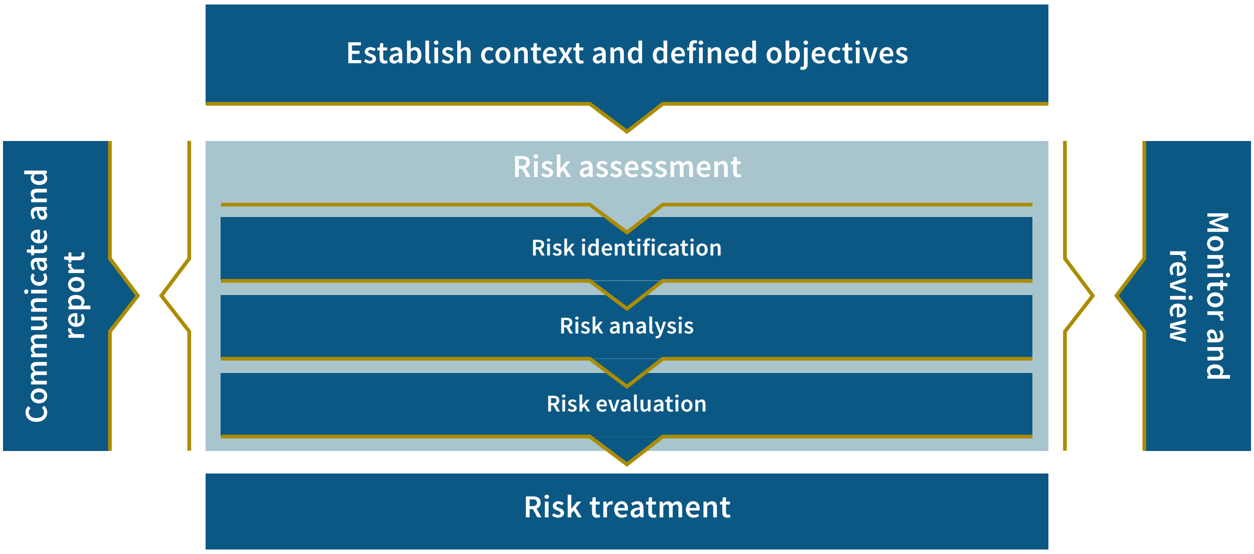
Risk appetite and tolerance statement

Risk appetite and tolerance levels are established to achieve strategic and regulatory outcomes and ensure that the Bank's business is conducted within predetermined risk boundaries. The risk tolerance framework primarily measures capital adequacy, liquidity, funding stability, the impact of non-performing loans on the income statement, credit risk, network downtime and concentration risk. We also measure the impact of fraud, complaints and non adherence to regulations on reputational risk.

The framework was enhanced in 2021 in alignment with the Bank's business recovery plan. Risk metrics were aligned across the Bank, and new metrics were established and integrated into the risk management process.

Together with compliance, internal audit, and the business units, the risk management division routinely monitors and assesses perceived risks and opportunities affecting the Bank's products or services. These are reported quarterly to the risk and capital management committee, together with actions to mitigate risks or capitalise on opportunities. Strategic risk assessments identify, evaluate and mitigate risks impacting the Bank.

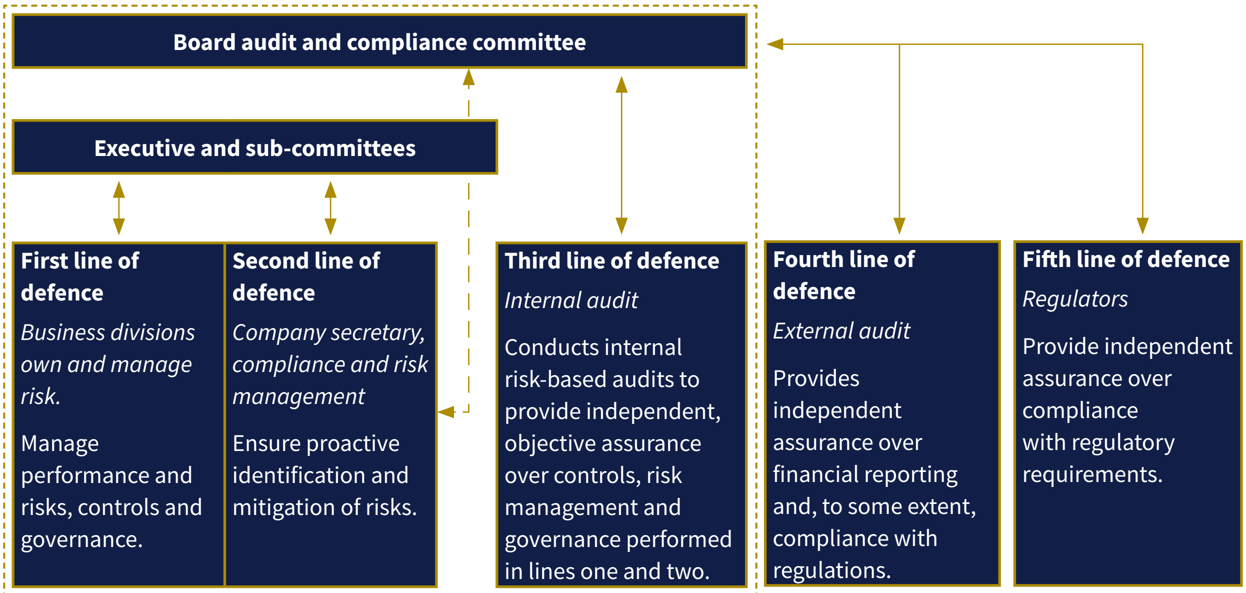
The Bank's process for identifying and managing risks based on their potential impact and likelihood of occurrence is outlined as follows:



Once identified, analysed and evaluated, risks are ranked according to the potential probability of occurring and the potential quantitative and qualitative impact on the Bank. Controls and actions to manage or mitigate these risks are then applied.

Combined assurance model

Our risk and opportunity management approach uses a combined assurance model, which provides five levels of assurance. The risk management division is responsible for combined assurance. A combined assurance forum, comprising risk management, compliance, internal audit, the CEO, CFO, company secretary and external auditors meet quarterly to coordinate assurance activities and ensure efficient oversight of risks.



Risk and capital management report page 84

Board committee risk monitoring framework

The board and board committees receive comprehensive reporting on the Bank's risks and opportunities. This facilitates their monitoring and review of risk and opportunity management as outlined in the following table. The board oversees all committees and risks that are managed.

Risk or opportunity	Balance sheet management committee*	Audit and compliance committee	Credit and large exposure committee	Directors' affairs committee	Executive committee	Human capital and remune-ration committee	Risk and capital manage-ment committee	Social and ethics committee
Accounting, including taxation					✓		✓	
Business, including new business	✓	✓	✓	✓	✓	✓	✓	✓
Capital adequacy	✓				✓		✓	
Corporate governance				✓	✓	✓	✓	✓
Credit, including counterparty			✓		✓		✓	
Directorship, including director succession				✓		✓	✓	✓
Insurance					✓		✓	
Investment	✓				✓		✓	✓
Liquidity	✓				✓		✓	
Market, interest rate and currency, including related hedging	✓				✓		✓	
Operational		✓			✓		✓	
People					✓	✓	✓	✓
Regulatory risk, compliance and legal		✓		✓	✓	✓	✓	✓
Reputational		✓			✓		✓	✓
Solvency	✓	✓			✓		✓	
Strategic					✓		✓	✓
Technology		✓			✓		✓	

* *A sub-committee of the board's risk and capital management committee.*

TOP RISKS

The Bank's top risks and the controls and actions we implement to manage or mitigate them are discussed in the following table.

Risk and the opportunities arising from managing the risk	Our treatment in 2021	Risk assessment (post-controls)
Credit Credit risk is the threat of financial loss if a counterparty to an asset fails to honour financial and contractual obligations. This may also result in breaches of regulatory and Bank limits. Credit risk is heightened during periods of economic weakness or market volatility. Effective risk management enhances loan pricing and can improve profitability.	» Enhanced credit risk management processes to achieve more robust monitoring of loans by the board's credit and large exposure committee, detect doubtful loans early and actively manage them to prevent non-performance » Maintained robust credit decision-making within the Bank's risk appetite, tolerance levels and credit process » Exercised caution in the selection of counterparties » Maintained strong client relationships and reliable insights into their financial positions » Managed non-performing loans assertively to achieve maximum recovery » Managed concentration risk in the loan portfolio	Year-on-year movement: ↔ • High potential consequence • High probability of occurrence

Risk and the opportunities arising from managing the risk	Our treatment in 2021	Risk assessment (post-controls)
Capital Capital adequacy regulations protect financial institutions and clients from potential losses. However, increases in capital requirements place banks under pressure, while non-compliance with capital adequacy requirements attracts regulatory sanctions and fines. The risk-weighting of assets encourages the Bank to consider the risk levels of all assets and ensure they are adequately secured.	» Maintained capital adequacy in line with the Bank's capital plan » The board's balance sheet management committee routinely monitored capital adequacy » Performed regular stress testing to ensure the Bank maintained sufficient capital	Year-on-year movement: ↔ • High potential consequence • Medium probability of occurrence
Liquidity Imbalances between short-term funding and longer-term loans may result in insufficient liquid assets to meet financial commitments or mandatory liquidity requirements. The Bank's current liquidity position is sound, and it uses surplus liquidity to balance its portfolios while adhering to collateral and credit criteria, and capital and liquidity prudential ratios. The DMTN programme provides additional longer-term funding to support the Bank's liquidity requirements. SARB repurchase (repo) rate transactions are used to obtain short-term liquidity.	» Maintained prudent approach to liquidity management » Complied with regulatory liquidity requirements » Diversified the deposit and lending books to manage concentration risk and maintained active monitoring of concentration risk » Performed regular stress testing	Year-on-year movement: ↔ • Medium potential consequence • Medium probability of occurrence
Regulatory Regulations governing financial stability and conduct, protection of clients' data and prevention of financial crimes are ever evolving and costly to implement. Non-compliance by the Bank or our partners exposes us to sanctions, fines and reputational damage. The Bank strengthened its governance controls and maintained a constructive relationship with regulators.	» Strengthened governance, including board skills and experience, and continuously enhanced risk management to improve regulatory compliance » Trained employees in anti-money laundering and counter-terrorism regulations » Prioritised and addressed audit findings of non-compliance	Year-on-year movement: ↔ • High potential consequence • Medium probability of occurrence

Risk and the opportunities arising from managing the risk	Our treatment in 2021	Risk assessment (post-controls)
Technology and cyber Inadequate system controls, system failures and cyber-attacks may result in financial and reputational losses to the Bank. The advancement in technology enables the Bank to reduce cyber-attacks, streamline internal processes, align system controls to leading practices and enhances client experiences to meet changing business and market requirements.	The Bank has implemented a Security, Information, and Event Management System (SIEM) to assist with security monitoring, detecting threats, and the investigations thereof. Incidents are tracked, resolved and monitored to prevent re-occurrences. » IT General Control reviews are performed by the Banks Internal Audit Division as well and External Auditors to ensure system controls are in-line with leading practises.	Year-on-year movement: ↔ • High potential consequence • Medium probability of occurrence
Market South Africa's economic downturn was worsened by COVID-19. This weakened the financial position of many businesses and consumers, which may restrict growth in our client base, reduce the ability of borrowers to repay their loans and impact our profitability. Many competitors reign in their risk appetite during economic downturns, creating opportunities for smaller banks with sound client relationships to mitigate risk.	» Differentiated the Bank with personalised solution-based service and sound client relationships » Offered attractive deposit products » Monitored credit facilities routinely to ensure early warning of financially distressed clients and enable proactive management of doubtful loans » Established a recoveries team to manage and recover maximum value from distressed loans	Year-on-year movement: ↓ • Medium potential consequence • Medium probability of occurrence

Emerging risks

The Bank reviews emerging risks and opportunities that may impact us in future. These are considered during strategic planning and are closely monitored.

Risk and opportunity	Our treatment
Heightened stress levels and risk of burnout among employees due to working in a high-pressure environment and industry. This is further exacerbated by the negative impact of the prolonged COVID-19 pandemic.	» Employee wellness continues to be monitored by management. Employees are encouraged to maintain a healthy work-life balance and take regular leave to rest and recuperate. An employee wellness program is made available to assist employees who may feel the need to speak with a professional counsellor.
The risk of insufficient electricity supply due to Eskom's inability to meet the demand of the grid could potentially lead to prolonged periods with no electricity.	» We have ensured that the Bank has adequate backup power sources at all offices, including Uninterrupted Power Supply units and generators. These backup power sources are serviced, maintained, and tested regularly to ensure that they remain in good working condition.
A risk of an increase in the rate of attempted cyberattacks, data fraud and data theft. These types of cybercrime appear to be on the increase since the onset of the COVID-19 pandemic since many people and organisations have adopted to remote working and increased online interactions. This could lead to financial loss, operational failures and non-compliance with laws and regulations for the Bank.	» The Bank appointed a new head of cyber security who is tasked with ensuring that the Bank is not vulnerable to cyberattacks of any nature. There are continuous awareness campaigns being driven to educate and alert employees to common cybercrime methodologies, how to prevent and detect cybercrime and how not to become a victim. The IT Division has implemented extensive controls to limit the risk of data theft and data fraud.

RECOVERY PLANNING

The risk function develops, maintains and implements the Bank's recovery planning process. The process is reviewed routinely to ensure that it is updated and aligned to the Bank's risk profile and operational processes. In 2021, the recovery plan was further enhanced:

- Stress testing scenarios were strengthened to clearly identify points of failure
- The viability of recovery options was monitored routinely
- Recovery triggers were embedded in risk management practices

The implementation of recovery planning processes was considered effective.

GOVERNING OUR BANK

08

CREATING VALUE THROUGH GOOD GOVERNANCE

Our governance structures and approach remained stable throughout the revision of our strategy and operating model, creating a solid foundation upon which to build the trust of our stakeholders.

OUR APPROACH TO GOVERNANCE

Our values-based governance approach enables the achievement of our strategy, the long-term sustainability of the Bank and value creation for our stakeholders.

Our governance philosophy

The board recognises the paramount importance of corporate governance and believes that the application of sound governance principles supports its fundamental goals and strategies, creates transparency and trust, and contributes to the Bank's long-term sustainability.

As the guardian of responsible governance, the board is committed to maintaining high standards of business ethics and compliance with law.

Our governance framework

The board is guided by a governance framework, based on:

» King IV principles
» Banks Act regulations, the BCBS, relevant statutes, national and international financial services benchmarks
» JSE Debt Listings Requirements, which relate to the Bank's listed notes managed through its DMTN programme
» The Bank's core values of sustainability, teamwork and trust, respect, intellect, integrity and innovation, virtue and excellence in service
» A high focus on ESG underpins our business and social sustainability

Governance priorities for 2022

Director onboarding: Guiding new directors to understand the business operations, risks, and the onerous compliance requirements of the Bank through induction and targeted training interventions

Enhancing meeting effectiveness: Streamlining the functioning of board and committee meetings to facilitate the effective discharge of the responsibilities of the board and its statutory and other committees

Ensuring best practice: Performing annual reviews of the board's charter and committees' terms of reference to keep pace with best practice in the financial industry

Governance improvements

The governance framework is reviewed regularly to ensure that it keeps pace with best practice. Governance improvements in 2021 included:

Optimal board composition: A new board appointment to strengthen the board's independence and balance of skills, experience, and diversity, especially in terms of IT governance and IT risk which was a shortcoming.

Effective functioning of committees: Reviewed and enhanced the composition of board committees following the appointment of a new non-executive director. Establishment of a balance sheet management committee (previously the asset and liability committee) as a sub-committee of the risk and capital management committee to better define the roles and responsibilities of the committee in line with Basel regulations. This followed an asset and liability management (ALM) review conducted by internal audit in partnership with PricewaterhouseCoopers (PwC) as part of the internal audit plan for 2021.

Increased governance focus: Enhanced the capacity of the company secretarial team.

Stronger regulatory and governance compliance: Increased collaboration between compliance and other internal assurance providers to ensure proactive response and adequate controls.

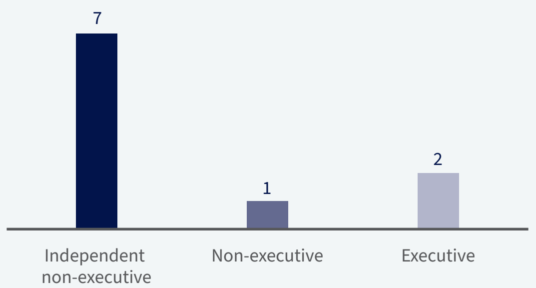
ENSURING EFFECTIVE LEADERSHIP

Independence of directors

Assessment outcome

The directors' affairs committee evaluated the independence of all serving board members based on the independence criteria set out in directive 4 of 2018 issued by the PA in October 2018. The independence criteria incorporated the nine indicators included in King IV and tenure in excess of nine years. Based on this assessment, seven of the eight non-executive directors were deemed independent and the board, on the recommendation of the directors' affairs committee, confirmed their independence.

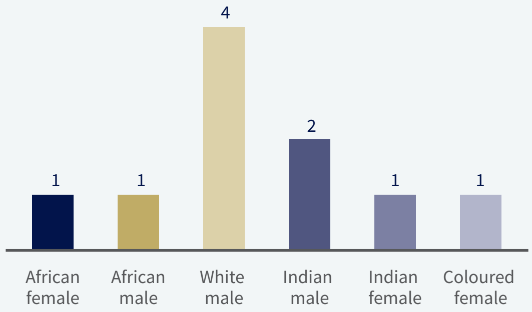
Independence (number)



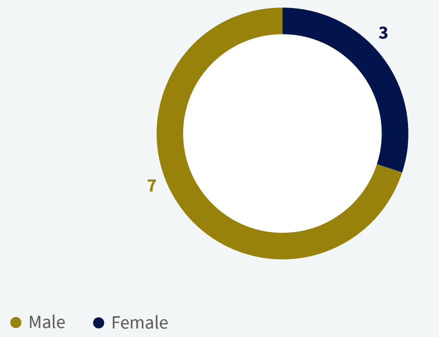
Board diversity

The board ensures that its composition contains a mix of racial, gender, age and skills diversity.

Race (number)



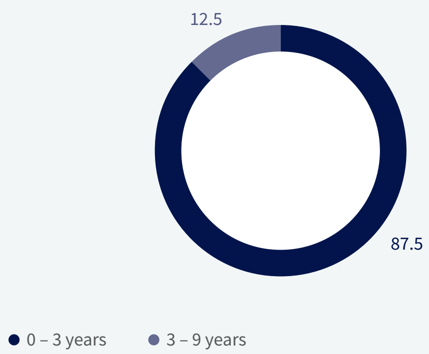
Gender (number)



Non-executive director tenure

We are guided by the PA's directive 4 of 2018 which states that any non-executive director who has served longer than nine years cannot be considered independent.

Tenure (%)

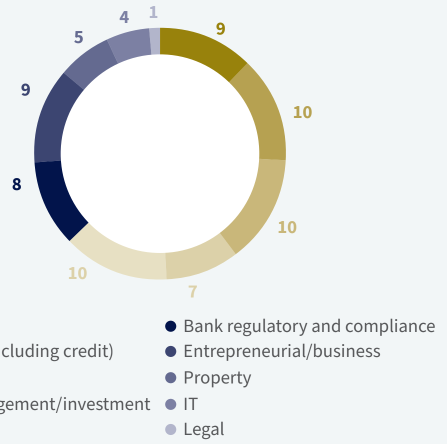


Skills and experience

The board should collectively contain the corporate leadership skills, knowledge, experience and expertise required to advance the Bank's strategic direction.

In the board's assessment, all directors have the relevant knowledge, skills and experience to make a meaningful contribution to, and ensure effective leadership of, the Bank. This includes, but is not limited to, knowledge, experience and expertise in finance, banking/financial services, property, business, governance, legal and bank regulatory compliance, IT, social services and risk management.

Skills (number of directors per skills area)



Age

Executive directors are required to retire at age 63 and non-executive directors at age 70. The board has the discretion to allow a director to continue in office beyond the stipulated age.

53
Average age of all directors

57
Average age of executive directors

44
Youngest director

60
Oldest director

DIRECTORATE

NON-EXECUTIVE DIRECTORS

Chairperson

DA
HR

Tyrone Soondarjee 60

Independent non-executive director

CA(SA)

Appointed 25 September 2019

Appointed chairperson 16 September 2020

30+ years of experience in financial, banking, banking regulatory compliance, asset management, business and IT

Other directorships include Travsiri Enterprises Proprietary Limited

Lead independent director

AC
CL
DA

Zola Malinga 44

Independent non-executive director

CA(SA)

Appointed 24 April 2017

Appointed lead independent director 21 September 2020

Over 15 years' experience in financial, investment banking, real estate finance and business

Other directorships include Jade Capital Partners, Pepkor Limited and SAPPI Limited

AC
DA
SE
RC
BC

Sherry Barrett 50

Independent non-executive director

BCom (Accounting), BCompt (Hon), CA(SA)

Appointed 19 December 2019

20+ years of financial services experience, 16 years of which was spent in banking

RC
SE
DA

Reynolds Maleka 57

Independent non-executive director

BCom University of the North), MBA (Wits), IEP (Insead)

Appointed 26 October 2021

A seasoned executive with 17 years' experience at executive and senior executive level, including leadership roles at large financial institutions

Also held key IT roles in multinational companies operating across multiple regions

AC	Audit and compliance committee
BC	Balance sheet management committee
B	Board
CL	Credit and large exposure committee
DA	Directors' affairs committee

E	Executive committee
HR	Human capital and remuneration committee
RC	Risk and capital management committee
SE	Social and ethics committee
*	*Chairperson*

AC
DA
RC

Glen Christopulo 54

Independent non-executive director

BCom (Accounting), PGDA, Adv Dip (Tax), CA(SA), CFA

Appointed 30 September 2020

Extensive experience in structured lending, securitisation, debt and equity valuations, credit, operations management, business management and leadership

Other directorships include Nodus Capital (Pty) Ltd SA and Amalia Investments (Pty) Ltd

DA
HR
RC
BC

Murray Grindrod 54

Non-independent non-executive director

BA (UCT)

Appointed 4 November 2020

Extensive experience in banking, finance, logistics and freight, and new business development

Other directorships include a director of Grindrod Shipping Holdings Ltd and a number of subsidiaries and joint ventures for Grindrod Limited

CL
DA
HR
SE

Clive Howell 59

Independent non-executive director

CA(SA), Private Equity and Venture Capital course (Harvard), TGM Course (Insead)

Appointed 30 September 2020

Experience in private equity investments as former Head of Nedbank Private Equity

Other directorships include Tevo (Pty) Ltd

CL
DA
HR

Rekha Ramcharan 51

Independent non-executive director

BA (Law), HDip (Tax), Admitted Attorney

Appointed 30 September 2020

20+ years of legal experience in specialised and project finance in corporate banking, legal risk, retail credit risk, retail business banking and P&L management

AC	Audit and compliance committee	E	Executive committee
BC	Balance sheet management committee	HR	Human capital and remuneration committee
B	Board	RC	Risk and capital management committee
CL	Credit and large exposure committee	SE	Social and ethics committee
DA	Directors' affairs committee	*	*Chairperson*

EXECUTIVE DIRECTORS

CL
SE
BC

David Polkinghorne 57

Chief executive officer

BCom, MA (Oxon)

Appointed 4 January 1999

27+ years of financial services experience

Executive director of Grindrod Limited and chairperson of the Group Pension and Provident Funds

CL
RC
BC

Rakesh Garach 57

Chief financial officer

CA(SA)

Appointed 17 July 2019

30 years of financial, banking, regulatory, compliance, business and IT experience

AC	Audit and compliance committee
BC	Balance sheet management committee
B	Board
CL	Credit and large exposure committee
DA	Directors' affairs committee
E	Executive committee
HR	Human capital and remuneration committee
RC	Risk and capital management committee
SE	Social and ethics committee
*	*Chairperson*

ACHIEVING KING IV GOVERNANCE OUTCOMES

The governance framework creates an environment necessary for the Bank to achieve the governance outcomes of an ethical culture, good performance, effective control and legitimacy. Compliance with King IV is facilitated by an effective corporate governance policy.

Ethical and effective leadership

The board ensures that the Bank operates with integrity, maintains appropriate levels of competence, is accountable, fair and transparent and continuously entrenches an ethical culture

The board provides ethical and effective leadership by delegating certain functions to management and board committees to assist in properly discharging its duties.

In its pursuit of these objectives, the board is assisted and guided by:

- The social and ethics committee, which monitors the Bank's compliance with relevant legislation and codes of best practice as a good corporate citizen and in its social and economic development, environmental and health and safety activities, consumer relationships and labour and employment matters
- The memorandum of incorporation (MOI) and the board charter which provides a clear division of responsibilities at board level to ensure a balance of power and authority

Role clarity and effective exercise of authority and responsibilities on page 75

- The governance framework, including a system of assurance on internal controls and detailed reporting to the board and its committees, which is applied to measure the board's performance against the principles of ethical leadership

The board's structure and composition are regularly evaluated to ensure that it conducts its affairs ethically and that its decision-making supports business sustainability.

Responsibility for the implementation of ethics codes and policies is delegated to management. The company secretary is the custodian of corporate governance, and a dedicated ethics officer was appointed.

Each board member has a fiduciary duty to act in the best interests of the Bank. In discharging its duty, the board ensures that the Bank operates in the best interests of its stakeholders.

Code of ethics

The Bank's code of ethics is designed to raise ethical awareness, guide decision-making and entrench integrity during stakeholder interaction.

All employees are required to adhere to the code and related governance policies which are communicated during employee induction and periodic Grindrod Engage sessions. Compliance with the code is monitored through internal audits to assess the adequacy and effectiveness of the internal control environment, which includes risks related to fraud and corruption. Non-compliance is reported to the executive committee, audit and compliance committee and social and ethics committee.

Unethical behaviour can be reported to the ethics officer, to management, HR, the employment equity committee, the Connect online portal, or the Deloitte Tip-offs Anonymous hotline. This provides an impartial facility for all stakeholders to anonymously report ethics-related matters, including fraud. All reported incidents are investigated and listed in a register, with confidentiality guaranteed. Incidents of corruption at management level are investigated internally and, if appropriate, referred to disciplinary proceedings or to law enforcement agencies.

In 2021, two Bank-related incidents (2020: no incidents) were reported through the Deloitte Tip-offs Anonymous hotline. No incidents of corruption were identified in 2021 (2020: no incidents).

Legitimacy	The Bank ensures its legitimacy by complying with applicable laws, codes and standards, supporting economic empowerment and remaining abreast of stakeholder needs.
Economic empowerment	The Bank supports the objectives of economic empowerment, in compliance with the requirements of the Broad-Based Black Economic Empowerment Amendment Act No. 46 of 2013 (BBBEE Act) and the Broad-Based Black Economic Empowerment Regulations 2016.
Tax laws	The Bank aims to comply fully and in a timely, accurate and professional manner with the tax laws and regulations, to fulfil its tax obligations by contributing fairly to the fiscus. Its moral and legal responsibilities are guided by a tax risk management framework incorporated into the governance framework.
FICA	As an accountable institution, the Bank is required to comply with the FIC Act No. 38 of 2001 (FICA), as amended by the FIC, for identifying money laundering and terrorist financing through appropriate internal control procedures and subsequent reporting to the FIC.
Exclusions	The social and ethics committee maintains an exclusion list of business sectors with which the Bank should not conduct business. The list is included in the AML RMCP policy.

The board is satisfied that the Bank complies with all significant requirements of relevant legislation, regulations, international codes and best practices.

Compliance governance on page 86

Stakeholder engagement

The board supports stakeholder engagement and communication strategies that facilitate transparent and reciprocal communication and engagement, undertaken in terms of the board-approved stakeholder engagement policy.

The Bank maintains continuous engagement with its identified key stakeholder groups, including shareholders, clients, partners, employees, regulators and the societies within which the Bank operates, to promote the achievement of business objectives and support economic, social and environmental sustainability.

2021 FOCUS

- Continued focus on maintaining business as usual and client relationships amid COVID-19 and after the July civil unrest in KwaZulu-Natal
- Communication with BASA and SARB on providing updates and statistics on the impact of COVID-19 and civil unrest
- Staff interventions on wellness and support
- Contributions to CSI projects and emergency relief schemes

FUTURE FOCUS

- Shareholder engagement to access new capital for growth
- Targeted growth in SME segment to create jobs
- Management of partner relationships in the platform banking business

Performance and value creation

The Bank's vision of securing adequate funding to enable expansion of services and growth contributes to the creation of sustainable returns and long-term value for stakeholders.

The board, supported by all its committees, oversees the Bank's ability to grow, create sustainable returns and create long-term value for stakeholders. This is accomplished by approving and monitoring the Bank's strategy, monitoring risks and opportunities, considering stakeholder concerns, and assessing financial and operational performance. These areas are managed and reported through well-entrenched management structures and processes.

THE BOARD

The roles, responsibilities, membership requirements and procedural conduct of the board and board committees are documented in the board charter and the committees' terms of reference. Board committees are authorised to investigate any activity within their mandates and interact with employees or obtain external professional advice on matters relevant to their mandate.

An internal assessment of adherence to the board charter is conducted annually. The board is satisfied that it fulfilled its responsibilities according to the charter.

Board and board committee meeting attendance as of 31 December 2021

	Board	Audit and compliance committee	Credit and large exposure committee	Directors' affairs committee	Human capital and remuneration committee	Social and ethics committee	Risk and capital management committee	Balance sheet management committee
Tyrone Soondarjee (chairperson)	9/9			3/3	4/4			
Zola Malinga (Lead independent director)	8/9	6/6	13/13	3/3				
Sherry Barrett	8/9	6/6		3/3		3/3	4/4	5/6
Julian Beare*	3/3		5/5	1/1	2/2			
Glen Christopulo	9/9	6/6		3/3			4/4	
Murray Grindrod	9/9			3/3	4/4		4/4	6/6
Clive Howell	9/9		13/13	3/3	4/4	3/3		
Reynolds Maleka**	1/1			1/1				
Rekha Ramcharan	8/9	6/6	13/13	3/3	4/4			
David Polkinghorne (CEO)	9/9		12/13			3/3		6/6
Rakesh Garach (CFO)	9/9		12/13				4/4	3/6

* *Retired 27 May 2021*
** *Appointed 26 October 2021*

In certain instances, members of management and the CFO of Grindrod Limited are invited to board and committee meetings.

Fees paid to committee members during the year are included in note 18 of the annual financial statements available on the company's website: www.grindrodbank.co.za.

Board composition

Board members are appointed through a formal process, assisted by the directors' affairs committee in terms of the board's nominations and appointment of directors' policy, to identify and review suitable candidates. The committee's nominations are submitted to the board for approval. Appointments to the board require PA approval and shareholder confirmation at the first annual general meeting following their appointment.

Ensuring effective leadership on page 67

Key changes in 2021

Appointments

» October 2021 Reynolds Maleka

Retirement

» May 2021 Julian Beare

Chairperson's message on page 13

Role clarity and effective exercise of authority and responsibilities

The board is responsible for appointing the CEO, an executive director whose role is separate from that of the chairperson, and the CFO.

<table>
<tr><td>Chairperson
Tyrone Soondarjee
Appointed in October 2020</td><td>The chairperson is responsible for leading the board and focusing it on strategic matters, overseeing the Bank's business and setting high governance standards. He plays a pivotal role in fostering the effectiveness of the board and individual directors, both inside and outside the boardroom. He is also responsible for ensuring that there is effective communication with the executive management, acting as a sounding board for the CEO and representing the Bank externally. With the support of the company secretary, he ensures that the board receives accurate, timely and clear information.</td></tr>
<tr><td>Lead independent director (LID)
Zola Malinga
Appointed LID in October 2020</td><td>The roles and responsibilities of the lead independent director are to:
» Lead the board in the absence of the chairperson
» Serve as a sounding board for the chairperson
» Act as an intermediary between the chairperson and board members, if necessary
» Deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or is inappropriate
» Chair discussions and decision-making by the board on matters where the chairperson has a conflict of interest
» Lead the performance appraisal of the chairperson</td></tr>
<tr><td>CEO
David Polkinghorne
Appointed in January 1999</td><td>The CEO, supported by the executive committee, is responsible for formulating and implementing strategies and policies, day-to-day operational management, establishing best management practices, functional standards, risk management and internal control systems, good governance, legal compliance, stakeholder engagement, the appointment and evaluation of senior management, and guiding management and their teams, within the parameters of the board-approved delegation of authority framework.

The directors' affairs committee is satisfied that David has the requisite competence and experience and is suitably qualified to hold the position. The CEO's employment contract governs his appointment and termination. A six-month notice period applies should he resign.</td></tr>
<tr><td>CFO
Rakesh Garach
Appointed in July 2019</td><td>The CFO is responsible for the Bank's financial management, its financial strategy, due and proper preparation of financial statements as per IFRS requirements and Banks Act regulatory returns and other regulations relating to banks and providing financial leadership through financial planning and organisationally aligned strategies.

The audit and compliance committee is satisfied that Rakesh's expertise, resources and experience of the finance function are appropriate to support the Bank's business.</td></tr>
<tr><td>Company secretary
Pieter Bester
Appointed in October 2020</td><td>The company secretary ensures that sound corporate governance is applied within the Bank, and compliance with relevant laws and regulations is met. The company secretary is responsible for effective meeting administration, acting as an information conduit between management and the board, and providing relevant information to the board to facilitate informed decision-making.

The board is of the opinion that Pieter has the requisite competence and is suitably qualified to hold the position of company secretary.</td></tr>
</table>

Board evaluation

A board effectiveness evaluation was performed during the last quarter of 2021 and the outcomes were discussed and considered by the directors' affairs committee in February 2022. The effectiveness review covered the following aspects:

» Board composition, effectiveness and processes
» Achieving the outcome of good performance
» Achieving the outcome of an ethical culture
» Achieving the outcome of effective control
» Achieving the outcome of legitimacy
» Compliance with applicable laws and regulations
» Regulator and shareholder engagement

The overall score achieved was 8.33 out of a possible score of 10. The board acknowledged that although the outcome of the effectiveness review was favourable, there is room for improvement in some areas, which will be addressed in the current year.

Rotation

One third of the non-executive directors are, in terms of the MOI, required to retire by rotation at the annual general meeting (AGM). Retiring directors may offer themselves for reappointment. The suitability of the directors retiring by rotation was assessed by the directors' affairs committee in February 2021, and the board recommended the re-election of these directors to the shareholders. The shareholders approved this at the AGM held on 27 May 2021.

Professional development

Members appointed to the board are inducted through a formal process involving an induction session and face-to-face meetings with key board members and management. New board members are provided with an induction pack providing an overview of the functions and responsibilities of each of the operating and support departments and copies of the most important policies, frameworks, charters, terms of reference of the various committees, and other important information such as the annual meeting calendar. The company secretary provides guidance to directors on governance, compliance and fiduciary responsibilities and sustainability. The Bank conducts an annual director training programme to enhance the board's functioning. The programme covers topics relevant to the Bank's operational environment.

NON-EXECUTIVE DIRECTOR INDUCTION

The induction session held with the new director, Reynolds Maleka, included an interactive overview of each of the operational departments of the Bank presented by the heads of department and briefed on the Bank's strategy. He was also briefed on the functioning of each of the support departments such as compliance, finance, governance and internal audit.

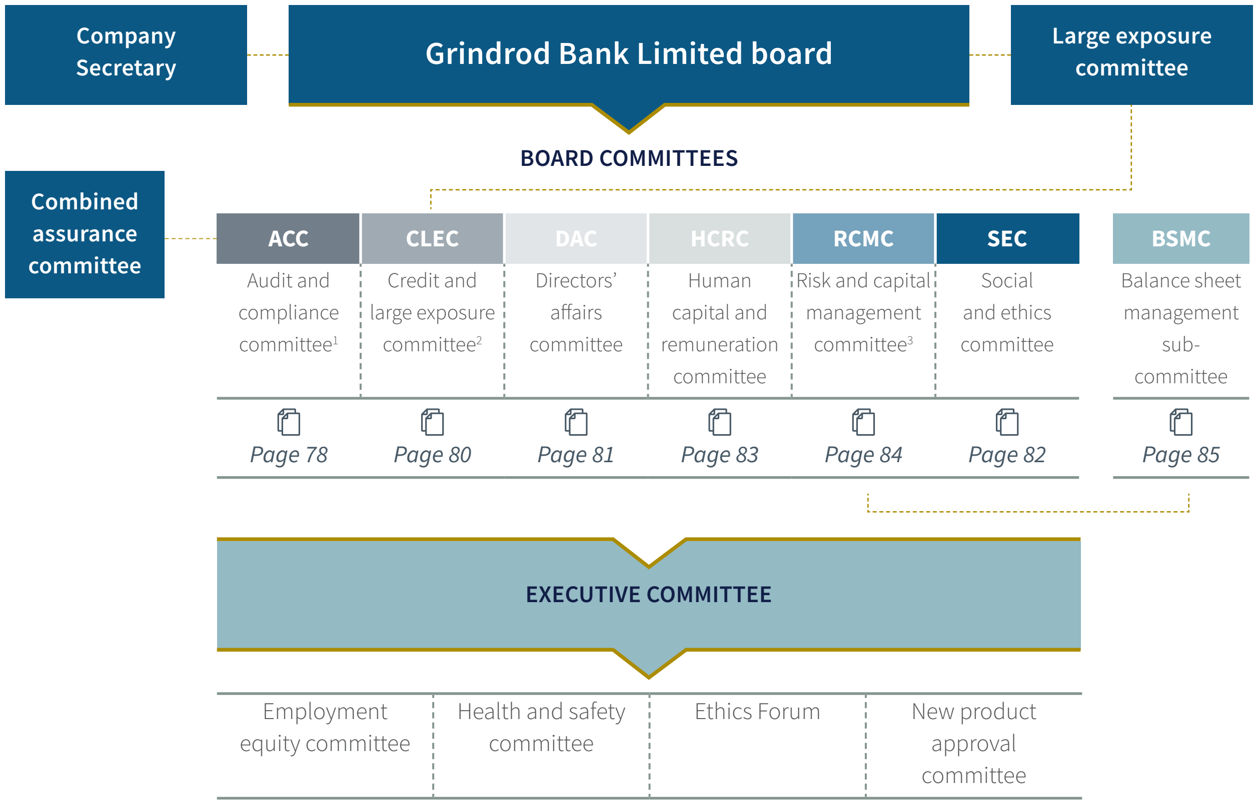
Succession

The directors' affairs committee frequently assesses the appropriateness of the succession plan for the CEO. The committee is satisfied that there is sufficient coverage for the CEO from the pool of internal and external individuals identified, including the individuals identified to be developed into the role in the short-, medium- and long-term.

Directors' declarations

Board members are required to declare all directly and indirectly held financial, economic, and other interests and any conflict of interest. Declarations are provided to the company secretary annually. Disclosure of conflicts of interest is prompted by a standing item on the agendas of the board and board committee meetings. A file containing the declarations of all directors is circulated at each board meeting for directors to confirm or update their declarations where applicable. Declarations on specific transactions are recorded in the minutes of board and committee meetings where applicable.

GOVERNANCE STRUCTURE



[1] *The chief compliance officer and chief internal auditor report into the audit and compliance committee.*

[2] *The credit and large exposure committee serves to approve the granting of credit transactions classified as large exposures in accordance with the Banks Act.*

[3] *The chief risk officer (CRO) reports to the risk and capital management committee.*

BOARD COMMITTEE FEEDBACK

AUDIT AND COMPLIANCE COMMITTEE

Role:
The audit and compliance committee is appointed in terms of section 64 of the Banks Act, section 94 of the Companies Act and the board charter. The committee assists the board by providing oversight of:

» Operation of financial controls, systems and control processes including the financial risk management function
» The performance of an effective, risk-based internal audit function
» Compliance with all relevant regulatory requirements
» Non-financial controls through a combined assurance model
» Integrity of financial information and the preparation of financial reports ensuring compliance with applicable regulations
» The appointment of external auditors including an assessment of qualifications, experience, independence and performance
» The committee meets at least four times a year*

Chairperson Zola Malinga

Composition
Sherry Barrett
Glen Christopulo
Rekha Ramcharan
Standing invitees:
David Polkinghorne
Herman Muller
Chantal Porter

Key focus area in 2021

In addition to our routine responsibilities, issues that received our attention included:

» Continued focus on remediation of the PA findings in respect of the FICA inspection
» Elevating the integration of compliance within the organisation
» IFRS 9 model
» Implementation of the outcome of the Balance Sheet Management Review conducted by PwC
» ICAAP review

Chairperson's message on page 13
Chief financial officer's review on page 39

2022 planned focus areas

In addition to the standard audit and compliance committee workplan, the committee has identified the following as key focus areas for the 2022 reporting period:

» Oversight of the continued impact of COVID-19 and the July civil unrest on the business and financial reporting
» Enhance systems of internal controls and processes over critical sources of information and models upon which estimates are based including assessment of key components of the IFRS 9 model including the external auditors review of the ECL estimates and IFRS 13 assessments
» Enhance the combined assurance model

* *The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility.*

Internal audit

The Bank's internal audit function is central to its governance processes, internal control framework and risk governance. All internal audit activities are performed in compliance with International Internal Audit Practice and the methodology and standards required by the South African Institute of Internal Auditors.

The audit and compliance committee:

» Monitors and reviews the effectiveness of the internal audit function (including staff and capacity constraints and budget), progress against the internal audit plan, scope restrictions and remediation of previously identified audit findings.
» Oversees the chief internal auditor's appointment and performance.
» Ensures that the internal audit function is subject to an independent quality review according to the Institute of Internal Auditors Standards at least once every five years.
» Requests the internal audit function to perform specific ad hoc reviews where deemed necessary.

The following highlights in 2021 are worth mentioning:

» In response to the challenging global economy as a result of COVID-19 and locally, the impact of the July civil unrest in KwaZulu-Natal, internal audit reacted to this through the quarterly assessment of the internal audit plan. This ensured planned reviews are still relevant and in line with capacity available to complete and are aligned to the ever-changing risk profile of the Bank. Internal audit still managed to complete 90% of its internal audit plan.
» The 2019 change to the JSE Listing Requirements which impact Grindrod Limited (Grindrod) requires the Group CEO and Group CFO to make a Responsibility Statement on the Internal Financial Reporting Controls in Grindrod's annual report. The Bank's internal audit is therefore required to provide feedback to Grindrod on the effectiveness of Internal Financial Controls (IFC) for the 2021 financial year. As such, the approved 2021 internal audit plan included an IFC review for the co-development (with business) of financial control frameworks through the identification of minimum critical financial reporting controls (CFRC) for key business processes and subsequent testing of the design adequacy and operating effectiveness thereof. Internal audit identified 530 financial reporting controls of which 225 were classified as key. The 225 key controls were tested for adequacy and effectiveness. Improvements will be ongoing and reviewed as part of the annual internal financial controls attestation.
» KPMG performed an external Quality Assurance Review (QAR) on the internal audit function during July 2021 and we are pleased to report that the Bank's internal audit achieved a "Generally Conforms" rating with the Institute of Internal Auditors Standards, which is the highest rating that can be achieved through such an assessment. This was the first time such as assessment was performed for the Bank.
» Significant progress was made during the year in resolving open and overdue audit findings.
» Internal audit ensured quality in all its work during the course of the year through the implementation of a formal Internal Quality Assurance Improvement Plan (QAIP), and any gaps identified during the year are highlighted to the audit and compliance committee.
» The Bank's risk, compliance and internal audit together agreed to purchase the BarnOwl Governance, Risk and Compliance (GRC) integrated tool to achieve the next level of maturity of combined assurance. BarnOwl is to be complemented by a specialist Data Analytics tool called Arbutus for ongoing monitoring and continuous auditing. The baseline system has already been installed within the Bank's internal IT infrastructure.

External auditor

SizweNtsalubaGobodo Grant Thornton (SNG Grant Thornton) served as the Company's registered external auditor for the 2020 financial year. The firm was re-appointed as external auditors for the 2021 financial year at the AGM held on 27 May 2021. The terms of engagement, independence, expertise, audit quality, objectivity and the appropriateness of key partners at SNG Grant Thornton are appraised by the committee, which includes an annual evaluation. The SNG Grant Thornton audit team includes relevant financial services experts.

In assessing the auditor's independence, the committee considered guidance contained in King IV as well as IRBA publications, the JSE Listings Requirements and related industry best practice guidelines.

The committee is satisfied that the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefits from the Company. Following review, the committee satisfied itself that the auditor's independence was not prejudiced by any consultancy, advisory or other work undertaken or as a result of any previous appointment as auditor.

CREDIT AND LARGE EXPOSURE COMMITTEE

CR

Role:
The credit and large exposure committee assists the board by:

» Ensuring that oversight processes are in place for the board to fulfil its responsibilities related to the Bank's credit approval and risk management processes
» Overseeing processes to mitigate the risk of financial loss resulting from counterparty and concentration risk
» The committee meets monthly, except in January*
» The committee is mandated to consider and approve credit applications up to R150 million. Applications above this threshold are considered and approved by the full board on recommendation of the committee

Chairperson Clive Howell

Key focus area in 2021

In addition to routine responsibilities, issues that received attention included:

» Authorisation and review of COVID-19 loans and management of concessions
» Increased monitoring of client securities
» Enhancement of systems and controls
» Enhancement of reviews of insurance cover relating to client transactions
» Enhanced follow-up of arrears and review of managed accounts to minimise bad debt
» Improved governance
» Monitoring of credit remediation processes identified through the internal and external audit functions

Managing risk and opportunity on page 59

Planned areas of focus for 2022

» Collateral information to be correctly updated and automated
» Implement automated arrears management process
» Enhance and automate Credit Online systems and controls

* *In addition to monthly meetings, the committee meets weekly to consider credit proposals, and the committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility*

Composition

Zola Malinga
Rekha Ramcharan
David Polkinghorne
Rakesh Garach
Nivashen Naicker (CRO)
Nhlanhla Hlatshwayo (Head of Credit)

DA

DIRECTORS' AFFAIRS COMMITTEE

Role:
The committee assists the board in discharging its duties in terms of Section 64B of the Banks Act in relation to:

» The adequacy, efficiency and appropriateness of the corporate governance structures and practices of the Bank
» Regular reviews of the composition of skills, experience and other qualities required for the effectiveness of the board
» Continuous director training
» Succession planning of the board and senior executives
» Board and director performance evaluations
» The committee meets at least three times a year*

Chairperson Tyrone Soondarjee

Key focus area in 2021

In addition to our routine responsibilities, issues that received our attention included:

» The constitution of a nominations sub-committee of the directors' affairs committee
» The appointment of a new independent non-executive director to enhance the board's skills and experience in the information technology area

The reconstitution of the board committees following the appointment of the new non-executive director on page 74

Chairperson's message on page 13

Planned areas of focus for 2022

» Board and committee performance evaluations
» Continuous review of succession planning at board and executive level

* *The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility.*

Composition

As directed by the PA, all non-executive directors are members of the committee.

- Zola Malinga
- Sherry Barrett
- Glen Christopulo
- Rekha Ramcharan
- Clive Howell
- Reynolds Maleka
- Murray Grindrod

SOCIAL AND ETHICS COMMITTEE

SE

Role:
The social and ethics committee assists the board in fulfilling its duties in terms of section 72 and regulation 43 of the Companies Act regulations relating to:

» Social and economic development
» Good corporate citizenship
» The environment, health and public safety
» Consumer relationships and compliance with consumer protection laws
» Labour and employment matters
» The committee meets three times a year*

Chairperson Sherry Barrett

Key focus area in 2021

In addition to our routine responsibilities, issues that received our attention included:

» Impact of the July civil unrest on employee wellness and clients
» A detailed independent assessment of the committee's responsibilities by The Ethics Institute on behalf of internal audit relating specifically to the following:
  » Ethics Management
  » Social and ethics committee Terms of Reference
  » Ethics Risk Assessment
  » Policy Review
  » Social and Ethics Monitoring and Reporting
  » Ethical Culture Assessment
» Driving awareness and conversations around ethics ("Ethics talk")
» Attainment of BBBEE Level 1 score
» Addressing whistle-blowing reports via the Deloitte Tip-offs Anonymous hotline

Continued focus on employee health and wellbeing on page 48

Chairperson's message on page 13

Our social and environmental impact on page 52

Planned areas of focus for 2022

» Continued focus on employee health and wellbeing including measurable targets in the terms of reference and monitoring thereof
» Focus on climate change as it relates to the Bank and its stakeholders
» ESG management framework and ESG policy (per CEO overview)
» Oversee internal monitoring and reporting system for identified ESG risk (per CEO overview)
» Addressing recommendations from the independent social and ethics assessment

* *The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility.*

Composition

Composition
Clive Howell
Reynolds Maleka
David Polkinghorne

HR

HUMAN CAPITAL AND REMUNERATION COMMITTEE

Role:

The human capital and remuneration committee (HCRC) is a sub-committee of the board, constituted in terms of section 64C of the Banks Act. The duties and responsibilities of committee members are in addition to those as members of the board and are subject to the provisions of the Companies Act and any other applicable law or regulatory provision.

The role and purpose of the committee is to oversee and make recommendations to the board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors and other members of senior management. The committee assists the board to ensure that:

» The company remunerates directors and executives fairly and responsibly
» The disclosure of director remuneration is accurate, complete, and transparent

Responsibilities of the committee

» Determine, agree, and develop the company's general policy on non-executive, executive and senior management remuneration
» Determine specific remuneration packages for executive and non-executive directors of the company including but not limited to basic salary, benefits in kind, any annual bonuses, performance base incentives, share incentives, pension, and other benefits
» Determine any criteria necessary to measure the performance of executive directors and senior management in discharging their functions and responsibilities
» The committee will play an integral part in succession planning, particularly in respect of the chief executive director and the executives roles as and when they become vacant

Chairperson Rekha Ramcharan

Composition
Tyrone Soondarjee
Murray Grindrod
Clive Howell

Key focus areas in 2021

Performance and achievement

» Achievement of a BBBEE scorecard Level 1
» Transformation targets met by achieving over 70% of employment within the under-represented demographics
» Driving culture change in the Bank by moving towards high performing teams
» Executive development and mentoring programmes initiated
» Skills development spend of over R2 million contributing to upskilling our staff and promoting high performance teams
» Driving learnerships and internships for unemployed youth thereby creating jobs
» Design and approval of new short-term incentive scheme to ensure that this aligns with the Bank retention and attraction strategy
» Achieved more than 87% of staff being fully vaccinated
» Driving employee wellness programmes to ensure the wellbeing of our staff

The power of human capital on page 47

Planned areas of focus for 2022

» Review of an optimised workforce by putting the right people in the right jobs
» Creating an environment of strengthened accountability and clear consequence management principles
» Drive a high-performance culture through appropriate performance measurement, increases, incentives and promotion models
» Develop a streamlined retention model with the design of a long-term incentive scheme
» Rollout of the new short-term incentive scheme
» Drive focus sessions with staff on ethics, culture, teamwork, values, accountability and building trust within the organisation to create a safe and secure Grindrod Bank
» Development programmes for our senior and middle managers in which we develop leaders of the future who inspire, empower and model the right behaviours
» Focus on employee wellness and the 'future of working'
» Aim to have herd immunity via the vaccination policy of the Bank to be rolled out in 2022
» Drive transformation, BBBEE and EE targets within the business as per the targets and business scorecard
» Continuously monitor cost to income ratios by driving key efficiencies within the business

* *The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility.*

RC

RISK AND CAPITAL MANAGEMENT COMMITTEE

Role:

The committee is appointed in terms of section 64A of the Banks Act and assists the board:

- In its evaluation of the adequacy and efficiency of the risk policies, procedures, practices, and controls applied within the Bank in the day-to-day management of its business
- In the identification of the build-up of and concentration of the various risks to which the Bank is exposed
- In developing a risk mitigation strategy to ensure that the Bank manages the risks in an optimal manner
- In formulating Grindrod Bank's risk appetite and risk tolerance levels and ensuring that the risks taken remain within the set appetite and tolerance levels
- In establishing and implementing processes that relate capital to the level of risk, and monitoring the capital adequacy goals with respect to risk, taking account of the Bank's strategic focus and business plan
- The committee meets quarterly*

The power of human capital on page 47

Chairperson Sherry Barrett

Composition
Glen Christopulo
Murray Grindrod
Reynolds Maleka
Rakesh Garach

Standing invitees:
David Polkinghorne
Nivashen Naicker

Key focus area in 2021

In addition to our routine responsibilities, issues that received our attention included:

- Implementation of the Basel Committee of Banking Supervision standard 239 for effective risk data aggregation and risk reporting (RDARR) to ensure that the Bank generates reliable information to manage risk, particularly during times of economic stress
- Further enhancements of risk management and reporting, including monitoring of credit facilities
- Significant enhancement of the Bank's recovery plan
- Ongoing monitoring of the Bank's capital adequacy and liquidity positions
- Further enhancement to the Bank's risk and opportunity management framework
- Considered impact and responded to the civil unrest in July 2021 in terms of the Bank and its operations

Planned areas of focus for 2022

- Completion of RDARR attestation and closure of any gaps identified
- Formalisation of stress testing framework and practical implementation of stress scenarios
- Implementation of a liquidity risk/balance sheet management framework in line with new structure of BSM management
- Formalisation of an Operational Risk Management Framework in line with Directive 9 and Directive 10 of 2021
- Oversight of new capital investment in support of Bank's lending activities
- Integration of climate change risk within risk management processes

* *The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility*

BC

BALANCE SHEET MANAGEMENT COMMITTEE (SUB-COMMITTEE OF RISK AND CAPITAL MANAGEMENT COMMITTEE)

Role:

The balance sheet management committee is a sub-committee of the risk and capital management committee.

The committee is responsible for:

- Balance sheet management
- Funding and liquidity risk
- Interest rate risk
- Market risk

The committee also monitors the capital adequacy ratio closely and provides recommendations to the risk and capital management committee when required.

The committee meets bi-monthly and additionally as required.*

There is, in addition, an executive management committee focused on the Bank's assets and liabilities that reports to this committee. The committee meets monthly and is responsible for the management and monitoring of the Bank's asset and liability portfolio, ensuring that the portfolio is managed within board risk appetite limits.

Chairperson **Murray Grindrod**

Composition

- Sherry Barrett
- David Polkinghorne
- Rakesh Garach
- Kim Hertzberger
- Louis Savrimuthu

Key focus area in 2021

In addition to our routine responsibilities, issues that received our attention included:

- Enhance the diversification of available sources of funding
- Diversify the investment strategy to accommodate regulatory changes
- Continue to maintain a strong balance sheet in order to preserve liquidity and capital

Chief financial officer's review on page 39

Planned areas of focus for 2022

- Enhance the diversification of available sources of funding
- Diversify the investment strategy to accommodate regulatory changes
- Continue to maintain a strong balance sheet in order to preserve liquidity and capital

* *The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility*

COMPLIANCE GOVERNANCE

Our innovative and robust compliance solutions ensure that we adhere to the applicable laws and regulations while implementing our strategy.

The board, supported by its committees and an independent compliance function, is responsible for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards. Compliance is reviewed by the audit and compliance committee in terms of its mandate.

The implementation and execution of compliance management is delegated to management.

Audit and compliance committee	Guides the board to ensure that: » There is due compliance with all risk-related policies, procedures and standards » Internal operational and financial controls are effectively maintained and reviewed where necessary » There is an effective, risk-based internal audit and compliance programme
Internal audit	Ensures the effectiveness of the risk management framework and compliance mechanisms, which are crucial pillars underpinning the sustainability of the business. This includes the risk-based audit plan, application of a combined assurance model informed by the main strategic risks.

The board is satisfied that the Bank complies with significant requirements incorporated in relevant legislation, regulations, international codes and best practices.

There were no material changes to compliance-related governance or operational structures.

COMPLIANCE OFFICER'S REPORT

Grindrod Bank maintained a good compliance culture in 2021, despite the far-reaching impacts of COVID-19. The Bank continued to strengthen its governance and regulatory compliance and these efforts were supported by an increase in collaboration and alignment between compliance and other internal assurance providers.

Focus areas that received a high level of attention during the year included:

» Remediation of findings resulting from the FICA inspection by the PA during 2020
» Navigating regulatory amendments without compromising the Bank's platform banking strategy
» Successful implementation of the Conduct Standards for Banks which became fully effective during the beginning of 2021, and which has subsequently been reviewed by the FSCA
» Stronger monitoring of compliance with the Banks Act and Regulations and enhancing compliance focus on the Bank's payments activities
» Ensuring agility in solutions and services to ensure minimal disruption to our clients and partners
» Ensuring that our employees and operational processes are repositioned to equip the Bank to adequately support service to clients and commercial partners' clients

Major regulatory amendments implemented during 2021 or underway are described in the following table.

Conduct of Financial Institutions Bill	This draft Bill may lead to new licensing requirements across the financial services industry, including from a payments perspective. The Bank is represented at key industry body stakeholder meetings to provide regular feedback to the regulator and protect its interests.
FICA inspection findings	The PA issued its final findings against the Bank following the outcome of its inspection conducted during 2020 and 2021 of the Bank's FICA compliance. Measures commenced to remediate findings related to reliance, amongst others, on third parties for FICA compliance.
POPIA	The Act became effective on 1 July 2021 and has far-reaching implications. These include the embedding of security and data integrity standards in all Bank systems, whether internal or external, that are used to process personal information Governance controls, including contractual agreements, need to be tailored before onboarding vendors who process personal information for which the Bank is ultimately responsible in terms of the Act. The Bank is required to ensure that comprehensive risk assessments and identification of processing activities are carried out across its operations to ensure all processing activities and associated risks are adequately supported through compliant controls that align to the conditions in the Act. These include awareness across the Bank of the policies, frameworks and statements adopted by the Bank to document these controls. Employee awareness training is conducted to ensure adequate adoption of key controls relating to employee behaviour in processing personal information.
Foreign exchange license	The Bank is in the process of applying to the Financial Surveillance Department of the SARB for a license for its future foreign exchange activities.

COMBINED ASSURANCE

The directors are responsible for the Bank's system of internal control, which is designed to identify, evaluate, manage and provide reasonable assurance against material misstatement and loss. It is designed to provide assurances on the maintenance of proper accounting records and the reliability of financial information used within the business and for publication.

Combined assurance model

Our risk and opportunity management approach uses a combined assurance model which provides five levels of assurance. A combined assurance forum meets quarterly and is attended by risk management, compliance, internal audit, the CEO and the CFO. The forum coordinates assurance activities to ensure efficient oversight of risks and internal controls.

Depiction of our combined assurance model on page 61

REPORT FROM THE HUMAN CAPITAL AND REMUNERATION COMMITTEE CHAIR

INTRODUCTION

People are at the heart of our business. To meet our clients' needs and accelerate our strategy to achieve our aspirations, our people must be highly skilled, experienced and engaged. Our responsibility to them is to ensure that they have the resources and capabilities needed to support our strategy and are recognised and rewarded for their performance and the value they create for our stakeholders.

Grindrod Bank's remuneration policy supports its strategy and sets forth guiding principles by which all employees are remunerated. The policy aims not only to attract and retain top talent but is also designed to ensure that individuals within the Bank live its core values of sustainability, teamwork and trust, respect, intellect, innovation and integrity, virtue and excellence in service (STRIVE).

Creating a culture and environment in which employees are sufficiently challenged and appropriately rewarded for achieving desired organisation outcomes is fundamental to the overall remuneration philosophy. In furtherance of its strategy to embed a high-performance culture, Grindrod Bank introduced, in 2021, further elements of a pay-for-performance model in which any increment or incentive is aligned to the achievement of contracted performance. A new Short Term Incentive Scheme was designed and approved for implementation in 2022 and the allocation of increases and bonuses for performance achieved in the 2021 year was based on a combination of individual and business performance.

As the pandemic extended into its second year, our response was to reconsider our immediate objectives to emphasise the short-term operational and financial resilience of the Bank, which in turn enabled us to play a key societal role in supporting our clients and employees and mitigate some of the financial and economic consequences of the crisis.

Additionally, in 2021, our employees were affected by the civil unrest in KwaZulu-Natal, which required swift action to ensure their physical safety and, as events unfolded, to support them with access to food and other necessary items.

Responsibility and approval

The remuneration policy is designed, reviewed and monitored by the Bank's human capital and remuneration committee. The committee is responsible for reviewing fair and reasonable remuneration practices across the Bank in the context of overall employee remuneration.

The human capital and remuneration committee reviews the policy at least annually, reports on its appropriateness to the board of directors of Grindrod Bank and proposes such changes as it deems necessary to the board. The board approves the policy and any material changes to the policy on an annual basis. During the 2021 year, changes were made to the policy to align to best practice and King IV.

The remuneration of the non-executive directors of Grindrod Bank must be approved by a special resolution of the shareholders of Grindrod Bank at least every two years. In 2021, the human capital and remuneration committee proposed amendments to the fees payable to the chairperson of the board, the chairperson of the audit and compliance committee, as well as the chairperson and members of the human capital and remuneration committee to compensate the non-executive directors in those roles for increased complexity and workload. Apart from these amendments, the committee also proposed a general percentage increase to the chairpersons and members of other committees in line with the general staff percentage increase. These amendments and the general increase were approved by the shareholders at the shareholders' meeting held on 27 May 2021.

Key activities

In accordance with its mandate, matters considered by the human capital and remuneration committee in 2021 included:

- Reviewing and approving the new short-term incentive scheme
- Considering, with input from human resource and management consultants, the applicability of new developments in employee remuneration, for example living wage, income gaps, medical cover, executive minimum share cover and malus clauses
- Evaluating and recommending fees for non-executive directors based on industry benchmarks
- Reviewing and approving the criteria against which executive directors are remunerated and evaluated
- Reviewing the performance of executive directors against predetermined financial and operational targets
- Reviewing and approving the remuneration packages and incentives, including annual and other incentive bonuses, of senior managers and executive directors

EMPLOYEE REMUNERATION COMPONENTS

Benchmarking

All positions are benchmarked individually, at least biennially, using independent remuneration consultants, which include, inter alia, REMchannel®, PwC Research Services (Proprietary) Limited, and 21st Century. Job evaluations supported by benchmarking provide the human capital and remuneration committee with assurance that roles are graded correctly, and that employees are paid in line with the market for the jobs they perform.

Benchmarking also informs recommended adjustments to pay scales each year. The human capital and remuneration committee uses these, and an analysis of relevant market information, to decide the annual increase guidelines.

On an aggregate basis, Grindrod Bank aims to pay employees at a consistent percentile of the market range for each role, although other factors are considered when contracting individual compensation within each level. As the business units are diverse, and each requires unique skill sets and qualifications, discretion is applied at the appointment of new employees and regularly within the business with due consideration of multiple factors, including changes in business operations and the availability of skills and expertise. Where these assessments result in proposed changes to remuneration, it is submitted to the executive and to the human capital and remuneration committee for approval at their discretion.

In assessing individual remuneration, the following aspects are considered:

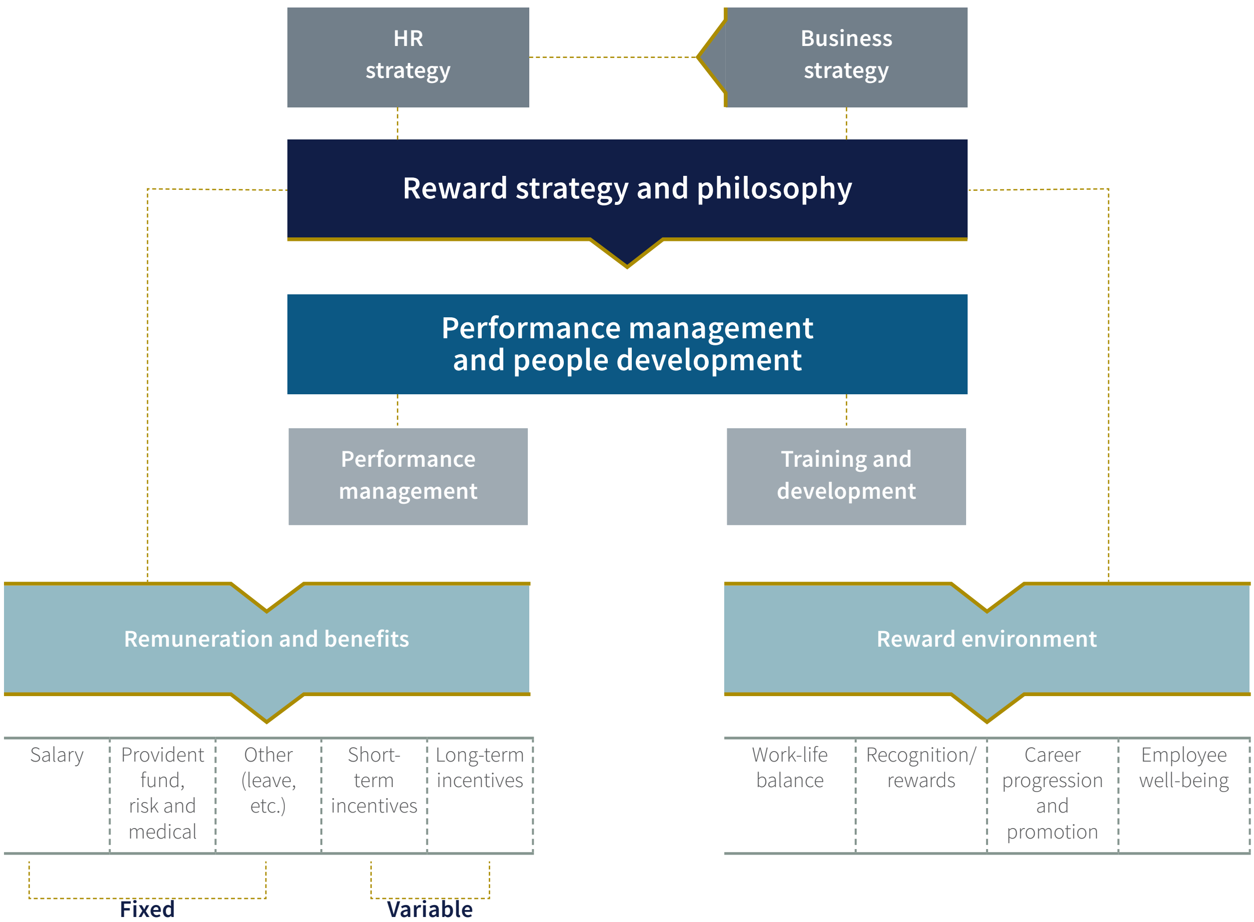
- The employee's individual performance
- Internal parity and individual positioning relative to pay scale
- Specialised skills required, market scarcity and replacement cost
- Decent standard of living measure, equal pay for equal work, wage gap and gender pay parity, specific experience and previous remuneration level.
- Grindrod Bank's variable remuneration aims to link reward directly to individual, business unit and Bank performance so that employees can directly influence their total remuneration through their individual efforts and are also incentivised to subscribe to team and organisation goals. Performance is measured against key performance areas that are agreed in advance and reviewed regularly to align with changes in business conditions and job function.

Integrating strategy and rewards

The total reward environment within the Bank is depicted below.

The Grindrod Bank approach consists of two broad components, namely the Remuneration and Benefits and the Reward Environment, which is represented by the Employee Value Proposition (EVP).

The EVP is everything offered to employees that they perceive to be of value. This includes all elements of Remuneration and Benefits and the elements within the Reward Environment. This is graphically represented in Diagram 1. (below):



We believe a comprehensive employee value proposition results in:

- Engaged employees who find meaning in their work;
- The attraction, motivation and retention of high-performing individuals which will ensure high performing teams; and
- The continuous evolution of our culture and business.

Remuneration Distribution within the Bank occurs in three tiers:

Tiers of Remuneration	Process	Changes in 2021
Fixed Pay	Grindrod Bank pays market-related salaries reflective of the individual's expertise, experience, and skills. Salaries are paid on a total cost to company basis, incorporating basic salaries, payment of Bank risk benefits and contributions to the Bank provident fund and a medical aid scheme. Salaries are paid in cash, monthly. Annual increases are granted on 1 March of each calendar year and are based on external factors, such as the prevailing rate of inflation and market forces, as well as on an individual's performance, skills, experience and effort.	In 2021, the business graded roles using the Paterson Grading system. An analysis was done regarding the benchmarking of those roles to ensure that we align them to correct band and percentile as per our Remuneration Policy.
Benefits and Allowances	All permanent employees contribute to the Galaxy Umbrella Fund in terms of the rules of the fund. The Bank does not provide post-retirement benefits. The Bank facilitates the contribution by employees to a Group-selected medical aid scheme on a salary-sacrifice basis. Membership of the scheme is not compulsory, but all employees are required to belong to a medical aid scheme. All permanent employees contribute to a life and disability insurance cover, which is a multiple of basic salary. In addition, the Bank has introduced additional cover in the form of funeral benefits, which has added an important component to the Bank risk benefits.	In 2021, staff were educated on the change from the Grindrod Provident Fund to the Galaxy Umbrella Fund. Many workshops were held with the relevant changes.

<table>
<tr><th>Tiers of Remuneration</th><th>Process</th><th>Changes in 2021</th></tr>
<tr><td>STI and LTI</td><td>Eligible employees are rewarded through a pay for performance model via short-term incentives. These are granted and reviewed annually.

The scheme is designed to:

» Have a long-term orientation with a risk management focus
» Offer clear line of sight
» Be simple but robust
» Have the potential for real long-term value creation

At the beginning of each year, the human capital and remuneration committee approves a business scorecard for the financial year, which determines the formulation of the bonus pool for scheme participants. These are set considering the Bank's strategy, the economic environment, historic performance, budget and cost of capital.

Principles of the Short-Term Incentive

The purpose of the Incentive scheme is to enhance the ability of the Company to attract, motivate, reward, and retain key staff. It is designed to reward staff who meet the performance criteria set in respect of their position and the business targets, each year to support and drive the business short term performance.

The criteria set for STI plans will reflect fundamental strategic or performance objectives determined each year to ensure a focused and successful performance incentive scheme.

The Incentive is administered by the Company and the annual ratings will be reviewed by the HCRC for approval of payments annually.

Principles of the Long-Term Incentive

In terms of the plan, participants are allocated notional shares at an approved allocation price vesting in equal tranches after three, four and five years. The Bank is required to pay a share appreciation bonus to each participant on each vesting date equal to the difference between the lower of the fair market and the capped value and the allocation price of the shares.

The fair market value of the shares is determined using the greater of:

» The consolidated net asset value of Grindrod Financial Holdings Limited; or
» Approximately seven times the consolidated sustainable after-tax profits of Grindrod Financial Holdings Limited for the latest reporting period in respect of which audited financial results have been prepared.

The capped value for the issuance of shares is 10% of the enterprise value of Grindrod Financial Holdings Limited, for the latest reporting period in respect of which audited financial results have been prepared, considering shares already in issue/awarded. The capped value for the pay out of vesting shares is 10% of profit.</td><td>Significant work was done on the business STI with the guidance of PWC in regard to the roll out of a new Short Term Incentive in 2022. The Committee's main focus was to ensure fairness and transparency.</td></tr>
</table>

Further detail on key executive management and directors' remuneration and incentives are included in note 18 of the annual financial statements available on the Bank's website: www.grindrodbank.co.za

CORPORATE INFORMATION

GRINDROD BANK LIMITED

(Registration number 1994/007994/06)

Registered office and business address

5 Arundel Close
Kingsmead Office Park
Durban
4001

Postal address

PO Box 3211
Durban
4000

Contact details

Telephone +27 31 333 6600
enquiries@grindrodbank.co.za

Website details

www.grindrodbank.co.za

Company secretary

Pieter Bester

Ethics officer

Herman Muller

Registered auditors

SizweNtsalubaGobodo Grant Thornton Incorporated
20 Morris Street East
Woodmead, 2191
PO Box 2939
Saxonwold, 2132

Tip-offs Anonymous

FreePost KwaZulu-Natal 138, Umhlanga Rocks, 4320
Telephone – Freecall:
SA and Namibia 0800 213 118
Email: grindrodethics@tip-offs.com
Free facsimile: 0800 00 77 88
(only from SA and Namibia)
International facsimile: +27 31 560 7395
www.tip-offs.com

Integrated annual report

IAR@grindrodbank.co.za

BRANCH OFFICES

Durban

5 Arundel Close
Kingsmead Office Park
Durban
4001
Telephone +27 31 333 6600

Johannesburg

4th Floor, Grindrod Tower
8a Protea Place
Sandton
2146
Telephone +27 11 459 1860

Cape Town

3rd Floor, The Terraces
25 Protea Road
Claremont
7708
Telephone +27 21 401 5131

GLOSSARY

AFS	Annual financial statements
AGM	Annual general meeting
AML	Anti-Money Laundering
BA	Banks Act
BASA	Banking Association of South Africa
BBBEE	Broad-Based Black Economic Empowerment
BCBS	Basel Committee on Banking Supervision
CEO	Chief executive officer
CFO	Chief financial officer
Civil unrest	Civil unrest that occurred in KwaZulu-Natal in July 2021
Companies Act	Companies Act No. 71 of 2008, as amended
COO	Chief operating officer
COVID-19	Coronavirus pandemic
CRO	Chief risk officer
DMTN	Domestic medium-term note
EPE	Easy Pay Everywhere
ESG	Environmental, social and governance
ESRM	Environmental and social risk management
FICA	Financial Intelligence Centre Act, Act No. 38 of 2001
FSCA	Financial Sector Conduct Authority
GDP	Gross domestic product
HR	Human resources
ICAAP	Internal capital adequacy assessment process
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Audit
IRMSA	Institution of Risk Management South Africa
ISACA	Information Systems Audit and Control Association
IT	Information technology
JIBAR	Johannesburg average inter-bank rate
King IV	King Report on Corporate Governance™ for South Africa, 2016
KPI	Key performance indicator
Manco	Management committee
MOI	Memorandum of Incorporation
NPA	New product approval
PA	Prudential Authority
PAIA	Promotion of Access to Information Act
POPIA	Protection of Personal Information Act
SARB	South African Reserve Bank
SDGs	Sustainable Development Goals
SME	Small- and medium-sized enterprises
SNG Grant Thornton	SizweNtsalubaGobodo Grant Thornton
TCFD	Task Force on Climate-related Financial Disclosures

GRINDROD BANK

www.grindrodbank.co.za