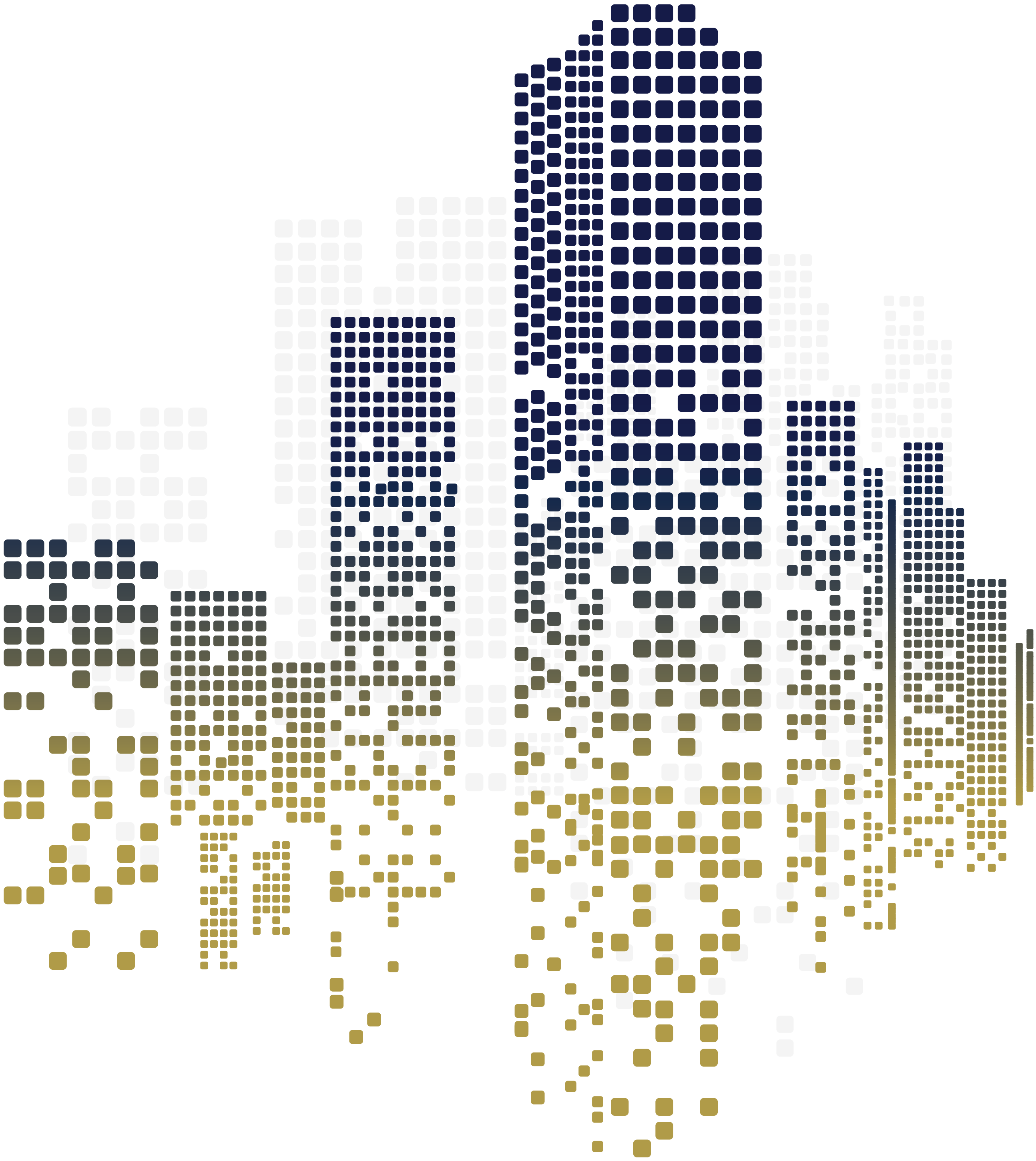
GRINDROD BANK

GRINDROD FINANCIAL HOLDINGS LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022



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CERTIFICATE BY COMPANY SECRETARY

The company secretary hereby certifies in terms of section 88(2) of the Companies Act, 71 of 2008, (the Companies Act), that the Company has lodged with the Companies and Intellectual Property Commission of South Africa all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date in respect of the financial year ended 31 December 2022.

P Kasaven
Company secretary
30 March 2023

DIRECTORS' RESPONSIBILITY AND APPROVAL OF FINANCIAL STATEMENTS

The directors are required by the Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate financial statements fairly present the affairs of Grindrod Financial Holdings Limited (the Company/Grindrod Financial Holdings) and its subsidiaries (together, referred to as the Group) as at 31 December 2022 and the results of its operations and cash flows for the period then ended, in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Debt Listing Requirements and the Companies Act. The external auditors are engaged to express an independent opinion on the consolidated and separate financial statements.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors (the board) sets standards for internal controls aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risks cannot be fully eliminated, the Group endeavour to minimise them by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal controls can provide only reasonable, and not absolute, assurance against material misstatement or loss.

A sound corporate governance framework commits the Group to high standards of business ethics. The framework guides the board, as the custodian of responsible corporate governance, in the formulation and implementation of the Group strategy to achieve targeted performance and create sustainable value to the benefit of all stakeholders. The framework comprises appropriate policies, procedures and power of execution to ensure that governance objectives are properly implemented, managed, reviewed and adjusted. This ensures responsible corporate citizenship through regulatory and best practice adherence, effective and ethical leadership and sustainable value creation.

The consolidated and separate financial statements set out on pages 15 to 81, which have been prepared on the basis as disclosed on pages 3 to 6 of the Directors' Report, were approved by the board on 30 March 2023, and are signed on its behalf by:

T Dloti	**ZN Manyathi**	**Rakesh Garach**
Chairman	*Chief executive officer*	*Chief financial officer*

DIRECTORS' REPORT
for the year ended 31 December 2022

The directors have pleasure in presenting their report which forms part of the financial statements of the Group for the year ended 31 December 2022.

Nature of business

Grindrod Financial Holdings is a bank holding company and sole shareholder of Grindrod Bank Limited (Grindrod Bank), a registered bank primarily involved in investment, corporate and retail banking.

Change in Holding Company

African Bank Limited (African Bank) acquired 100% of the ordinary share capital of Grindrod Financial Holdings, which represents 100% of the voting rights, and 100% of the preference shares issued by Grindrod Bank. All regulatory, legislative and contractually required approvals were obtained on 6 October 2022, with an effective date of 1 November 2022.

Review of financial results and activities

The operating results and financial position of the Group are fully set out in the consolidated and separate financial statements and accompanying notes. The Group has delivered strong financial performance for the year ended 31 December 2022 despite the economic headwinds still facing South Africa. Profitability increased by 65.25% to R180.42 million (2021: R109.17 million). This was largely as a result of higher net interest margin, improved credit performance and tax efficiencies that led to a lower effective tax rate.

The directors wish to highlight the following:

- The statement of financial position grew marginally by 3.53% to R14.22 billion (2021: R13.73 billion) and is largely attributable to growth in the funding base to R12.30 billion (2021: R11.92 billion).
- Loans and advances experienced muted growth and closed the year at R8.55 billion (2021: R8.56 billion). The muted growth was further exacerbated by higher than usual loan attrition in the financial year. Loan originations remains a key focus for the Group.
- As a result of muted loan book growth, the Group invested surplus liquidity from its healthy funding base in cash and negotiable securities which grew by 8.50% to R5.48 billion (2021: R5.05 billion).
- Profit after tax increased by 65.25% to R180.42 million (2021: R109.17 million) and resulted in a return on equity of 12.45%. The year-on-year increase is mainly attributable to:
  - Net interest margin increased by 22.37% to R335.91 million (2021: R274.50 million), largely due to the repo rate hikes (325bps in total for 2022).
  - The Group's net impairment charge decreased by 47.76% to R27.12 million (2021: R51.91 million) translating into a credit loss ratio of 30.84bps. The key drivers behind the decrease was a reversal of Covid-19 and Riot judgmental credit overlays, improved credit management over the loan portfolio and better-than-expected collection outcomes.
  - Income tax expense of R8.76 million (2021: R16.97 million) led to an effective tax rate of 4.63% (2021: 13.45%), which is lower than the normal corporate tax rate of 28%. This is largely due to exempt preference dividend income and realisation of tax efficiencies on the Group's fair value loan portfolio.

  The above was offset by:
  - Operating expenses increased by 10.63% to R362.44 million from R327.63 million at December 2021 and is mainly attributable to a penalty recognised due to non-compliance with the FIC Act amounting to R5.98 million (refer to note 40 for more detail), a cancellation fee of R5.00m incurred on the Group's planned new KZN premises, legal fees of R5.34m incurred on a disposal in investment securities, and computer related costs.

    The cost-to-income ratio of the Group improved slightly to 62.63% (2021: 64.79%).
- The capital adequacy ratio was calculated at 15.76% for December 2022 (December 2021: 15.66%), comfortably above the Group's regulatory minimum capital requirement of 11.50%.
- The liquidity coverage ratio was calculated at 407% (December 2021: 350%) and the net stable funding ratio was calculated at 156% (December 2021: 146%), and were comfortably above the regulatory minimum requirement.

Authorised and issued share capital

Details of the authorised and issued ordinary share capital are disclosed in note 12.

Details of the authorised and issued preference share capital are disclosed in note 14.

Dividends

An ordinary dividend of R36.39 million was declared and paid in the 2022 financial reporting period (2021: R30 million). Preference share dividends paid and accrued are presented in the consolidated statement of changes in equity.

Directors

The board was reconstituted following the acquisition of Grindrod Financial Holdings by African Bank. At 31 December 2022, and the date of this report, the board comprised of the following members:

Name	Designation	Meeting attendance	Date of appointment	Date of resignation
T Dloti[1]	Independent non-executive director (Chairman)	1/1	October 2022	
TD Soondarjee[2]	Independent non-executive director	11/12	September 2019	December 2022
S Barrett	Independent non-executive director	11/12	December 2019	December 2022
GG Christopulo	Independent non-executive director	12/12	September 2020	December 2022
LA Dlamini	Independent non-executive director	1/1	November 2022	
CR Howell	Independent non-executive director	11/12	September 2020	
RN Hutchinson-Keip	Independent non-executive director	1/1	October 2022	
RM Maleka	Independent non-executive director	12/12	October 2021	
ZN Malinga[3]	Independent non-executive director	11/12	April 2017	
H Ralinala	Independent non-executive director	1/1	October 2022	
R Ramcharan	Independent non-executive director	12/12	September 2020	December 2022
PJ Temple	Independent non-executive director	1/1	November 2022	
KG Bungane	Non-executive director	1/1	October 2022	
MP Grindrod	Non-executive director	10/11	November 2020	November 2022
ZN Manyathi[4]	Chief executive officer	1/1	October 2022	
RS Garach	Chief financial officer	10/12	July 2019	
DA Polkinghorne[5]	Outgoing chief executive officer	12/12	January 1999	

Company secretary	Date of appointment	Date of resignation
PW Bester	September 2020	October 2022
P Kasaven	October 2022	

Country of incorporation

South Africa

[1] *Appointed Chairman in November 2022.*
[2] *Resigned as Chairman in November 2022.*
[3] *Resigned as Lead independent non-executive director in November 2022.*
[4] *Appointed CEO in October 2022.*
[5] *DA Polkinghorne is being transitioned from chief executive officer of the Group to his new role as group executive of coverage and business development.*

Holding company and subsidiaries

Ultimate holding company
Bank holding company governed by the Banks Act and regulations relating to banks

African Bank Holdings Limited[1]

100%

Holding company
Governed by the Banks Act and regulations relating to banks

African Bank Limited[1]

100%

Immediate holding company
Bank holding company governed by the Banks Act and regulations relating to banks

Grindrod Financial Holdings Limited

100%

Subsidiary companies

GFH Investments Proprietary Limited[3,4]

Grindrod Bank Limited
Governed by the Banks Act and regulations relating to banks

100%

Commerce Square Corporate Finance Proprietary Limited[3,4]

The Grindrod Preference Share Investment Trust[2,3]

[1] *African Bank acquired 100% of the ordinary shares in Grindrod Financial Holdings and 100% of the preference shares in Grindrod Bank from Grindrod Limited on 1 November 2022. African Bank is 100% owned by African Bank Holdings Limited (African Bank Holdings).*
[2] *Deemed controlled entity of Grindrod Bank in terms of IFRS 10.*
[3] *Dormant entity.*
[4] *In process of deregistration.*

Going concern

Effective 1 November 2022, Grindrod Financial Holdings became a wholly owned subsidiary of African Bank. The consolidated banking group (African Bank and Grindrod Bank) are currently operating under two separate banking licenses. The intention of the board of directors of Grindrod Bank is to effect an amalgamation in terms of section 54 of the Banks Act, 94 of 1990 (the Banks Act), subject to regulatory approval, within 12 months from 31 December 2022 such that the assets and liabilities of Grindrod Bank will be transferred to African Bank and Grindrod Bank's banking license subsequently cancelled.

The purpose of the section 54 amalgamation is to drive operational efficiency whereby the consolidated banking group can operate under a single banking license. The amalgamation will not change the expected method of realisation of assets or settlement of liabilities that are transferred from Grindrod Bank to African Bank.

Given the above, the Group is expected to cease trading within 12 months from reporting date. The requirements of IFRS states that the financial statements cannot be prepared on the going concern basis, but on an alternate basis if an entity is expected to cease trading within the foreseeable future.

IFRS is not prescriptive on the alternate basis for preparing financial statements if the entity is no longer deemed to be a going concern.

The Group has applied judgement and elected to be consistent in the application of its accounting policies to prior years given that the realisation of its assets and settlement of liabilities following the transfer to African Bank will remain unchanged.

Events after the reporting period

The directors are not aware of any matter or circumstance arising since the reporting period date, other than noted above, that has a material impact on the financial statements.

Directors' interest

The directors and prescribed officers did not have any interest in the ordinary shares of the Group or Company nor in the preference shares of the Group. The directors did not have an interest in any third party or company responsible for managing the business activities of the Group or Company. Transactions with directors and prescribed officers are entered into in the normal course of business under terms that are no more favourable than those with third parties.

Reportable irregularity

During the year, the board was made aware of potentially suspicious SWIFT[1] messages being sent to foreign banks on instruction of a senior member of staff. The board took steps to address the matter in line with the Group's internal policies. The senior member of staff was immediately suspended and a comprehensive independent forensic investigation was conducted on the matter. On investigation, it was found that the senior member of staff instructed another staff member to receive and store potentially fictitious bonds on the premises of Group. A criminal complaint has been opened with the South African Police Services and as part of the Group's internal disciplinary procedures, the senior staff member was dismissed. The individual concerned did tender their letter of resignation prior to the outcome of the disciplinary inquiry, however the Group proceeded with the internal procedures and issued a sanction of dismissal. As a result of the above, the board commissioned an independent review of internal control procedures in the electronic payments area which recommended strengthening the segregation of duties, access controls and enhanced reconciliation processes. These new internal controls have since been implemented and are operating effectively.

To the knowledge of the board, the Group did not incur any financial loss. The external auditors raised a reportable irregularity, in terms of section 44 of the Auditing Profession Act, 2005 (Act 26 of 2005) on this matter. The board took the necessary actions to ensure that the reportable irregularity did not continue. For further information on the reporting process of the reportable irregularity, refer to the independent auditor's report as disclosed in the Grindrod Bank Limited Annual Financial Statements for the year ended 31 December 2022.

FICA Non-Compliance

During 2020, the PA conducted a FICA inspection. The inspection revealed certain findings of non-compliance with the FIC Act.

Refer to note 40 for more detail. The Group has instituted various procedures and controls to ensure that non-compliance does not reoccur.

Auditor

SNG Grant Thornton

Preparer of financial statements

Brendon James (head of finance), under the supervision of Rakesh Garach (chief financial officer).

Registered address

5 Arundel Close, Kingsmead Office Park, Durban, 4001

[1] SWIFT is the abbreviation for the Society for Worldwide Interbank Financial Telecommunication and is a secure messaging service used by banks and financial institutions globally.

AUDIT AND COMPLIANCE COMMITTEE REPORT

for the year ended 31 December 2022

The audit and compliance committee (the committee) have pleasure in presenting their report which forms part of the financial statements of the Group for the year ended 31 December 2022.

Role and key functions

The committee is a statutory board committee that assists the board in its corporate governance supervision responsibilities, and is appointed by the board in terms of section 94 of the Companies Act read with section 64 of the Banks Act. The committee operates independently of management, is free of any organisational restraint or pressure and acts in accordance with its statutory duties and the delegated authority of the board, within formally approved terms of reference, which are reviewed and approved annually by the board.

Role of the committee

The overall objectives and role of the committee are to:

- Provide oversight of the financial reporting process and related risk management function.
- Review the internal control and assurance processes.
- Review the integrity of financial information and the presentation of accurate financial reports in compliance with the applicable regulations and accounting standards.
- Manage and oversee the performance, conduct, quality and effectiveness of the Group's internal audit function.
- Provide oversight of the Group's compliance function.
- Appoint, manage and oversee the relationship with the external auditors including the effectiveness and independence of the external audit function.
- Ensure appropriate corporate governance and compliance within the scope of its mandate, with a specific focus on the potential risks to the Group within the framework of a combined assurance model, and for information technology (IT) governance as related to financial reporting and the going concern of the Group.

The committee is also, subject to board approval, authorised to investigate any activity within the scope of its terms of reference and to interact with the directors, management, employees and assurance providers and to obtain independent professional advice to ensure effective governance.

Composition of the committee

The committee composition satisfies the requirements of the Companies Act, the JSE Debt Listing Requirements and the Banks Act. Members of the committee are appointed following an assessment by the directors' affairs committee, of their collective qualifications and experience and approval by the Prudential Authority (PA). The chairman of the board may not serve as chairman or as a member of the committee.

The committee currently comprises of three independent non-executive directors.

The members of the committee during the reporting period and to the date of this report were:

Name	Designation	Meeting attendance	Date of appointment	Date of resignation
RN Hutchinson-Keip[1]	Independent non-executive director (Chairman)	–[2]	November 2022	
ZN Malinga[3]	Independent non-executive director	10/10	April 2017	
S Barrett	Independent non-executive director	10/10	March 2020	December 2022
GG Christopulo	Independent non-executive director	10/10	October 2020	December 2022
H Ralinala	Independent non-executive director	–[2]	November 2022	
R Ramcharan	Independent non-executive director	10/10	October 2020	December 2022

[1] *Appointed as chairman in November 2022.*
[2] *No meetings convened after date of appointment.*
[3] *Resigned as chairperson in November 2022.*

Composition of the committee *continued*

The committee has decision-making authority regarding its statutory duties and is accountable to the board.

The company secretary serves as secretary to the committee.

The independence of the committee and performance of its members were evaluated by the directors' affairs committee during 2022.

The committee invites the chief executive officer, chief financial officer, chief risk officer, chief internal auditor, chief compliance officer, head of finance, representatives of the external auditors and representatives of the ultimate holding company (where approved by the PA) to attend its meetings as required.

The internal and external auditors have unrestricted access to the chairman and members of the committee. In 2022, the committee met with the internal and external auditors without management being present.

Functions of the committee

The committee has discharged its functions as set out below.

In respect of the external auditors and the external audit:

- » Appointment of SNG Grant Thornton as the external auditor for the 2022 financial year.
- » Approved the external auditors' terms of engagement, the audit plan and audit fees.
- » Reviewed the audit process and evaluated the effectiveness of the external auditors.
- » Obtained assurance from the external auditors that their independence was not impaired.
- » Considered the nature and extent of all non-audit services provided by the external auditors.
- » Approved proposed contracts with the external auditors for the provision of non-audit services.
- » Confirmed that the reportable irregularity, as disclosed in the directors' report, were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005.

In respect of the financial statements:

- » Examined and reviewed the consolidated and separate financial statements prior to submission and approval by the board.
- » Reviewed reports on the adequacy of the provisions for performing and non-performing loans and advances and treasury assets.
- » Ensured that the consolidated and separate financial statements fairly presented the financial position of the Group and Company as at the end of the financial year and the results of operations and cash flows for the financial year.
- » Reviewing and confirming the going concern status (refer to the directors' report for the going concern assessment).
- » Ensured that the consolidated and separate financial statements comply with IFRS in all material respects.
- » Considered accounting treatments, significant unusual transactions, and accounting judgements.
- » Considered the appropriateness of the accounting policies adopted and changes thereto.
- » Reviewed and discussed the external auditors' audit report.
- » Noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal controls (other than the reportable irregularity as disclosed in the directors' report), the content of the consolidated and separate financial statements and related matters.
- » Reviewed and considered the approach adopted in defining audit materiality.

In respect of internal control and internal audit:

- » Reviewed and approved the internal audit charter and annual audit plan.
- » Evaluated the independence, effectiveness and performance of the internal audit function and compliance with its charter.
- » Considered reports of the internal and external auditors on the Group's systems of internal control, including internal financial controls and the maintenance of effective internal control systems.
- » Reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings.
- » Noted that there were no significant differences of opinion between the internal audit function and management.
- » Assessed the adequacy of the performance of the internal audit function and the adequacy of the available internal audit resources.
- » Reviewed the representations from internal audit and the combined assurance function and confirmed that there was no information indicating a material breakdown in internal controls, other than the reportable irregularity as disclosed in the directors' report, that resulted in a material loss to the Group for the year under review.
- » Met with the chief internal auditor, the chief compliance officer, management and the external auditors, over the course of the year.

In respect of legal, regulatory and compliance requirements:

- Reviewed, with management, legal, regulatory and compliance matters identified that could have a material impact on the Group.
- Monitored compliance with the Companies Act, the Banks Act and all other applicable legislation including governance codes.
- Reviewed reports from internal audit, compliance and external auditors detailing the extent of any legal matters.
- Reviewed and approved the compliance mandate and annual compliance plan.
- Reviewed any significant legal and tax matters that could have had a material impact on the consolidated and separate financial statements.
- Satisfied itself that the Group has met the requirements emanating from the principles contained in the King IV Report on Corporate Governance.

In respect of risk management and IT:

- Considered and reviewed reports from management on risk management, including fraud and IT risks as they pertained to financial reporting and the going concern assessment.

In respect of the coordination of assurance activities:

- Reviewed the plans and work outputs of the external and internal auditors as well as compliance, and concluded that these were adequate to address all significant financial risks facing the business.
- Considered the expertise, resources and experience of the finance function and the members of senior management responsible for this function and concluded that these are appropriate.
- Considered the appropriateness of the experience and expertise of the chief financial officer and concluded that these are appropriate.

Key activities

In terms of its mandate, key matters considered by the committee based on its annual work plan for 2022 included:

- Reviewing the consolidated and separate financial statements for the year ended 31 December 2022 in line with applicable legislative and regulatory compliance and recommendation thereof for approval by the board.
- Reviewing the combined assurance model and the effectiveness of the process for identifying, assessing and reporting on significant internal financial control, tax and fraud risks as related to financial reporting.
- Assessing the suitability, expertise and experience of the chief financial officer; the expertise, experience and resources of the finance function; the suitability, expertise and experience of the chief internal auditor and evaluation of the independence, effectiveness and performance of the internal audit function.
- Assessing and reviewing the expertise and effectiveness of the chief compliance officer and resources of the compliance function;
- Reviewing and approving the internal audit and compliance plan.
- Recommending the independent external auditor and designated audit partner for approval by shareholders at the Group's annual general meetings.
- Reviewing and approving the external auditor's terms of engagement, fees for audit and non-audit services, audit plan, resources, independence, effectiveness, audit findings, key audit risks and external audit report.
- Reviewing legislative and statutory compliance within the scope of its mandate and reviewing compliance with the Group's code of ethics and conduct.
- Reviewing IT risks and evaluation of audit assessments of IT-related controls performed by the internal and external auditors together with the appropriateness of actions taken by management to address key issues identified, and reporting on its findings to the risk and capital management committee.
- Reviewing and confirming the going concern status (refer to the directors' report for the going concern assessment).
- Approving this committee report for presentation to the shareholders.

External audit

SNG Grant Thornton served as the Group's registered external auditors for the 2022 reporting period. The terms of engagement, independence, expertise, audit quality, objectivity and the appropriateness of key partners at SNG Grant Thornton as the external auditor are appraised by the committee annually. 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, the Independent Regulatory Board for Auditors (IRBA) publications and the JSE Debt Listings Requirements and the related commentary thereon.

The committee satisfied itself that the auditors' independence was not prejudiced by any consultancy, advisory or other work undertaken as a result of any previous appointment as auditor.

Key audit matters (KAM)

The committee considered the key audit matters as raised by the external auditor, SNG Grant Thornton.

These matters are also key aspects considered by the committee as part of the annual reporting process in recommending the financial statements as well as the adequacy and effectiveness of internal controls to the board for approval and disclosure.

KAM: measurement of loans and advances: impairments

This is an area that is also reviewed by the credit and large exposure committee. The committee considered whether the levels of provisioning and credit impairment were appropriate. Discussions were held with management and the credit and large exposure committee to obtain comfort over the adequacy of Stage 1, 2 and 3 provisioning. The committee reviewed the methodology and assumptions applied to calculate the impairments and monitored the governance framework applied to the ECL model. The committee also reviewed the internal and external auditor's reports in order to satisfy itself in this regard.

KAM: measurement of loans and advances: fair value

The Group engaged the services of an external expert to assist in the valuation of its loans and advances portfolio to ensure compliance with IFRS 13 Fair Value Measurement. The committee satisfied itself as to the appropriateness of the skills and experience of the expert engaged and further analysed the key judgements and assumptions applied. The committee also had a specific discussion with the external auditors in order to satisfy itself in this regard.

Key focus areas for the 2023 reporting period

In addition to the standard audit committee workplan, the committee has identified the following as key focus areas for the 2023 reporting period:

» Ensuring systems of internal controls and processes are operating effectively until the planned amalgamation in terms of section 54 of the Banks Act, subject to regulatory approval, (refer to the directors' report for more detail).
» Maintain the effectiveness of the combined assurance model.
» Consider the implications of environmental, social and governance (ESG) from a financial reporting and disclosure perspective.
» Integration of business and operations of the Group into the business banking division of African Bank post the section 54 approval by the PA.

Financial statements

Following the committee's review of the consolidated and separate financial statements for the year ended 31 December 2022, it is of the opinion that, in all material respects, they comply with the Companies Act, Banks Act, JSE Debt Listing Requirements and IFRS as issued by the International Accounting Standards Board (IASB), and fairly present the results of operations, cash flows and financial position of the Group.

Based on the results of the internal and external audit reviews of the Group's internal controls and information technology general controls, no material weaknesses were identified, other than the reportable irregularity as disclosed in the directors' report, to indicate that the internal financial controls were not operating effectively.

On this basis, the committee recommended that the board approves the consolidated and separate financial statements for the year ended 31 December 2022.

RN Hutchinson-Keip
Chairperson: Audit and compliance committee
30 March 2023

SNG Grant Thornton
20 Morris Street East
Woodmead, 2191
P.O. Box 2939
Saxonwold, 2132
T: 011 231 0600

INDEPENDENT AUDITORS' REPORT

To the shareholder of Grindrod Financial Holdings Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Grindrod Financial Holdings Limited and its subsidiaries (the Group and Company) set out on pages 15 to 81, which comprise the consolidated and separate statements of financial position as at 31 December 2022, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Grindrod Financial Holdings Limited as at 31 December 2022, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separated Financial Statements section of our report.

We are independent of the Group and Company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Going Concern

We draw attention to the "Basis of preparation" note in the accounting policies and note 41 to the consolidated and separated financial statements, which describe the basis of preparing the financial statements. Grindrod Bank Limited intends to surrender its banking license as a result of the change in ownership. The consolidated and separate financial statements therefore have been prepared using an alternative basis and not on a going concern basis. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Measurement of loans and advances	
Loans and advances by the Group are either measured at amortised cost less impairments in terms of an expected credit loss (ECL) model, or at fair value through profit or loss (FVTPL). This is in accordance with IFRS 9: Financial Instruments (IFRS 9). Significant judgement is exercised by the directors in assessing these impairments and fair value measurements, and includes estimating: Impairments: » whether there was a significant increase in credit risk since inception (SICR), which determines whether a loan or advance is classified as Stage 1, 2 or 3. Many collateralised loans and advances have no scheduled repayments until the end of the loan period, making it highly judgmental to identify a SICR. » the probability that a loan or advance will default (PD), either over a 12 month period or over the lifetime of the loan or advance, depending on staging; and » the loss given default (LGD). A key input into the LGD model is the expected realisable value of the collateral securing the loan or advance. Fair value: » changes in interest rates since inception (in the case of fixed rate loans and advances); » changes in credit risk of the counterparty since inception, as well as changes in general market credit spread levels for a given credit rating; » changes in general market liquidity spread levels since inception; and » the current and projected future value of the asset being financed, in the case of loans and advances where the total payoff depends on the value of such underlying asset. Impairment of advances is disclosed in accounting policy note 1.7 and note 3, and fair value is disclosed in note 24 to the consolidated and separate financial statements. Due to the significant judgement applied by the directors, as disclosed in "Judgements made by management and key sources of estimation uncertainty" on page 22 to the consolidated and separate financial statements, the credit impairments against loans and advances measured at amortised cost and the fair value of loans and advances measured at FVTPL, are in aggregate considered to be a key audit matter.	With the assistance of auditor's and management's experts, we performed the following audit procedures on the ECL model: » assessed the design and implementation of key internal controls relating to the model; » assessed the appropriateness of assumptions and variables used in determining the ECL in relation to current market conditions and forward-looking economic information; » assessed the completeness, accuracy and validity of data inputs used during the development and application of the credit impairment model; » considered the methodologies and assumptions applied in order to assess compliance with IFRS 9, including the determination of SICR, PD, EAD (exposure at default) and LGD; » assessed the appropriateness of management's stage allocation; » evaluated the methodology used to incorporate forward looking information in the calculation of expected credit losses; » performed substantive tests of details on a sample basis, relating to the estimated realisable value of the collateral securing loans and advances included in the ECL model; and » considered and assessed the qualitative factors that influence the impairment, including the amount in arrears, period in arrears and the financial strength of the borrower. We assessed the material disclosures made by management against the requirements of IFRS 7: Financial Instruments – Disclosures and IFRS 9. With the assistance of auditor's and management's experts, we performed the following audit procedures on the fair value models: » assessed the valuation methodologies for compliance with IFRS 13: Fair Value Measurement (IFRS 13), financial instrument pricing theory and market practice; » evaluated the completeness, accuracy and validity of the contractual terms and conditions utilised as data inputs into the fair value models; and » assessed the appropriateness of the models and the reasonableness of the assumptions and market data variables used in the fair value calculations, against current market conditions and relevant forward-looking economic information. We considered whether management had appropriately considered the impact of economic events on the loan book, in their estimation process for determining both the ECL and fair value.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Grindrod Financial Holdings Limited Annual Financial Statements for the year ended 31 December 2022", which includes the Directors' Report, the Audit and Compliance Committee's Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's reports thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRSs and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and / or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Audit tenure

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc has been the auditor of Grindrod Financial Holdings Limited for 4 years.

Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered Auditor

30 March 2023

20 Morris Street East
Woodmead, Gauteng
South Africa
2191

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	31 December 2022 R000	31 December 2021 R000
Assets			
Cash and short-term funds	1	**1 490 439**	1 117 663
Negotiable securities	2	**3 992 594**	3 935 984
Loans and advances	3	**8 547 919**	8 561 255
Derivative instruments	4	**3 726**	–
Investment securities	5	**5 725**	9 118
Current tax asset		**1 929**	1 315
Other assets	6	**86 476**	20 826
Property and equipment	7	**22 737**	24 747
Deferred tax asset	8	**65 787**	61 046
Total assets		**14 217 332**	13 731 954
Liabilities			
Deposits and funding instruments	9	**12 300 505**	11 922 632
Derivative instruments	4	**–**	24 277
Provisions	10	**58 185**	47 562
Other liabilities	11	**63 438**	64 734
Total liabilities		**12 422 128**	12 059 205
Equity			
Ordinary share capital	12	**–**	–
Share premium	13	**380 278**	380 278
Preference share capital	14	**285 000**	285 000
Retained earnings		**1 129 926**	1 007 471
Total equity		**1 795 204**	1 672 749
Total liabilities and equity		**14 217 332**	13 731 954

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 R000	2021 R000
Interest and similar income	15	**992 378**	746 786
Interest and similar expense	16	**(656 473)**	(472 290)
Net interest and similar income		**335 905**	274 496
Non-interest revenue	17	**242 826**	231 188
Net fee income	17.1	**45 199**	47 718
Fee income	17.1	**183 142**	147 296
Fee expenses	17.1	**(137 943)**	(99 578)
Gains and losses on financial instruments	17.2	**180 830**	180 821
Dividend income	17.3	**3 033**	–
Other non-interest revenue	17.4	**13 764**	2 649
Total revenue		**578 731**	505 684
Impairment losses on financial assets	18	**(27 117)**	(51 913)
Operating income		**551 614**	453 771
Operating expenses	19	**(362 440)**	(327 625)
Profit before tax		**189 174**	126 146
Income tax expense	20	**(8 759)**	(16 972)
Profit for the year		**180 415**	109 174
Other comprehensive income		**–**	–
Total comprehensive income for the year		**180 415**	109 174

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Ordinary share capital R000	Share premium R000	Preference share capital R000	Retained earnings R000	Total R000
Balance at 31 December 2020	–	380 278	285 000	945 929	1 611 207
Share issuance	–	25 224	–	–	25 224
Share repurchase	–	(25 224)	–	–	(25 224)
Total comprehensive income for the year	–	–	–	109 174	109 174
Profit for the year	–	–	–	109 174	109 174
Ordinary dividends	–	–	–	(30 000)	(30 000)
Preference share dividends	–	–	–	(17 632)	(17 632)
Balance at 31 December 2021	**–**	**380 278**	**285 000**	**1 007 471**	**1 672 749**
Total comprehensive income for the year	**–**	**–**	**–**	**180 415**	**180 415**
Profit for the year	**–**	**–**	**–**	**180 415**	**180 415**
Ordinary dividends	**–**	**–**	**–**	**(36 391)**	**(36 391)**
Preference share dividends	**–**	**–**	**–**	**(21 569)**	**(21 569)**
Balance at 31 December 2022	**–**	**380 278**	**285 000**	**1 129 926**	**1 795 204**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 R000	2021 (restated) R000
Cash flows from operating activities[1]			
Cash used in operations	21	**(196 842)**	(37 535)
Interest received		**883 689**	638 067
Interest paid		**(622 773)**	(460 094)
Income tax paid		**(14 114)**	(19 607)
Movement in operating assets and operating liabilities:			
Decrease/(Increase) in loans and advances		**91 753**	(340 351)
Increase in deposits held for regulatory purposes		**(5 991)**	(74 432)
Increase in other negotiable securities		**(56 217)**	(1 466 635)
Increase in deposits and funding instruments		**344 173**	1 944 963
Net cash from operating activities		**423 678**	184 376
Cash flows from investing activities			
Acquisition of property and equipment		**(1 864)**	(4 245)
Proceeds from sale of property and equipment		**147**	67
Dividends income		**3 033**	–
Proceeds on sale of investment securities		**12 834**	–
Acquisition of investment securities		**(2 443)**	–
Net cash from/(used in) investing activities		**11 707**	(4 178)
Cash flows from financing activities			
Issue of ordinary share capital		**–**	25 224
Repurchase of ordinary share capital		**–**	(25 224)
Dividends paid to ordinary shareholders		**(36 391)**	(30 000)
Dividends paid on preference shares		**(18 518)**	(17 596)
Payment of lease liabilities	22	**(13 625)**	(12 853)
Net cash used in financing activities		**(68 534)**	(60 449)
Net increase in cash and short-term funds		**366 851**	119 749
Cash and short-term funds at 1 January		**825 554**	705 805
Cash and short-term funds at 31 December	23	**1 192 405**	825 554

[1] *The presentation of the cash flow from operating activities has been revised in the current year. The comparatives have been restated to align with the revised layout. Refer to note 35.*

ACCOUNTING POLICIES

For the year ended 31 December 2022

Reporting entity

Grindrod Financial Holdings (the Company) is domiciled in South Africa. The registered address is 5 Arundel Close, Kingsmead Office Park, Durban, 4001. The consolidated financial statements comprise the Company and its subsidiaries (collectively, the Group).

The Group is primarily involved in investment, corporate and retail banking.

Basis of preparation

The consolidated and separate financial statements (financial statements) of the Group and Company have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Debt Listing Requirements and the Companies Act. The financial statements have been prepared using an alternate basis and not on the going concern principle (refer to note 41 for more detail). Although the financial statement have not been prepared on the going concern basis, the Group has adopted its existing accounting policies as the basis of preparation for the 2022 financial statements given that the realisation of its assets and settlement of liabilities following the transfer to African Bank will remain unchanged. The financial statement have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. The financial statements are presented in South African Rand which is the Group's functional currency and all amounts are rounded to the nearest thousand.

Recent accounting developments

Adoption of new and amended standards for the first time in the current financial year

The following standards, interpretations and amendments have been adopted without affecting the Group's previously reported financial results, disclosures or accounting policies and did not impact the Group's results upon transition:

Pronouncement	Title and details
IAS 37 (amendment)	*IAS 37 – Onerous contracts – costs of fulfilling a contract* The amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or lossmaking. The amendments apply a 'direct related cost approach', which includes costs that relate directly to a contract and an allocation of costs directly related to contract activities. General and administrative costs are excluded unless they are explicitly chargeable to the counterparty to the contract.
IAS 16 (amendment)	*IAS 16 – 'Property, Plant and Equipment' on proceeds before intended use* The amendment prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.
IFRS 3 (amendment)	*IFRS 3 – Reference to the Conceptual Framework* The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are intended to update a reference to the Conceptual Framework without significantly changing the requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the Conceptual Framework in use.

Standards/Interpretations issued but not yet effective

There are new or revised accounting standards and interpretations in issue that are not yet effective for the year ended 31 December 2022, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated. These include the following standards and interpretations that have been issued, with an indication of the estimated impact on the future financial statements of the Group:

Pronouncement	Title and details	Effective date
IFRS 17	*IFRS 17 – insurance contract* The IASB issued IFRS 17, which states a new approach of accounting for insurers. IFRS 17 has a general model that requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. The standard also provides a simplification in the form of the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. The amendment is not expected to have a material impact on the Group's Financial Statements.	Annual periods beginning on or after 1 January 2023.
IAS 1 (amendment)	*IAS 1 – Disclosure of accounting policies – amendments to IAS 1 and IFRS Practice Statement 2* The IASB issued amendments to IAS 1 and an update to IFRS Practice Statement 2 Making Materiality Judgements to help preparers provide useful accounting policy disclosures. The key amendments to IAS 1 include: requiring companies to disclose their material accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. The amendment is not expected to have a material impact on the Group's Financial Statements.	Annual periods beginning on or after 1 January 2023.
IAS 8 (amendment)	*IAS 8 – Definition of accounting estimates* The amendments to IAS 8 introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendment is not expected to have a material impact on the Group's Financial Statements.	Annual periods beginning on or after 1 January 2023.

Recent accounting developments *continued*

Standards/Interpretations issued but not yet effective *continued*

Pronouncement	Title and details	Effective date
IAS 1 (amendment)	*IAS 1 – Classification of Liabilities as Current or Non-current* The proposed amendment is that if a right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting date, those conditions do not affect whether the right to defer settlement exists at the reporting date for the purpose of classifying a liability as current or non-current. Additional presentation and disclosure requirements would be applicable in such circumstances, including presenting non-current liabilities that are subject to covenants to be complied with within twelve months after the reporting period, separately in the statement of financial position. The amendment is not expected to have a material impact on the Group's Financial Statements.	Annual periods beginning on or after 1 January 2023.
IAS 12 (amendment)	*IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction* The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. In cases where the resulting deferred tax assets and liabilities are not equal, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss. The amendment is not expected to have a material impact on the Group's Financial Statements.	Annual periods beginning on or after 1 January 2023.

Critical judgements and key sources of estimation uncertainty

In the application of the accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are disclosed in the notes and policies where applicable. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Key areas where judgement and measurement uncertainty have been used include:

	Judgement	Estimate	Accounting policy/Note
» Expected credit loss measurement	✓	✓	Refer to accounting policy 1.7 and note 3 to the financial statements for judgements and estimates made.
» Assessment of control of an investee	✓		Refer to accounting policy 4 for judgements made.
» Share-based incentive schemes		✓	Refer to accounting policy 8.3 and note 34 to the financial statements for estimates made.
» Revenue recognition	✓		Refer to accounting policy 10 and notes 15 and 17 to the financial statements for judgements made.
» Valuation of level 2 loans and advances[1]	✓	✓	Refer to accounting policy 1.6 and note 24 to the financial statements for judgements and estimates made.
» Valuation of level 3 loans and advances[1]	✓	✓	Refer to accounting policy 1.6 and note 24 to the financial statements for judgements and estimates made.

[1] *The differentiation between level 2 and 3 loans and advances is that level 2 makes use of all observable inputs for the valuation, whereas level 3 includes observable and unobservable inputs.*

Other than the changes arising from the adoption of new accounting standards as noted above, the following principal accounting policies have been consistently applied in all material respects:

1. Financial instruments

1.1 Recognition and initial measurement

The Group initially recognises loans and advances, deposits and debt securities issued on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

Financial assets or financial liabilities are initially recognised at fair value.

The fair value of a financial instrument at initial recognition is generally its transaction price.

Transaction costs directly attributable to the acquisition of a financial asset or financial liability are recognised in profit or loss for financial instruments measured at fair value through profit or loss and, for all other financial instruments, against the financial instrument.

1.2 Classification and subsequent measurement

Financial assets

Financial assets are classified and subsequently measured either at amortised cost or FVTPL.

A financial asset is measured at amortised cost if it meets the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets.
- How the performance of the portfolio is evaluated and reported to the Group's management.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed.
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected).
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Group has irrevocably designated fixed rate loans and advances linked to interest rate swaps at FVTPL. The Group enters into fixed rate loans and advances from time to time, when requested by its clients. The Group enters into interest rate swap agreements to economically hedge these fixed rate loans and advances and, since these instruments are used as hedging tools, the Group has elected to recognise these fixed rate loans and advances at fair value. The Group, however, does not apply hedge accounting.

1. Financial instruments *continued*

1.2 Classification and subsequent measurement *continued*

Business model assessment *continued*

Variable rate loans and advances, comprising mortgage loans, term loans, invoice discounting, preference share financing and overdraft facilities, are held at amortised cost as the business model is to hold the assets for the collection of contractual cash flows. The contractual cash flows of these loans and advances represent SPPI. In certain instances, variable rate loans and advances include a special revenue arrangement (refer below for classification of variable rate loans and advances with special revenue arrangements).

Preference share financing consist of preference shares subscribed for by the Group that accrue dividends. The Group primarily holds these financing arrangements in order to collect the contractual cash flows in the form of dividends and the principal amount initially invested. In certain instances, the preference share financing includes a special revenue arrangement (refer below for classification of preference share financing with special revenue arrangements).

The Group enters into special revenue arrangements whereby certain loans and advances have additional revenue arrangements attached to them in terms of which the Group is entitled to a fee or special dividend derived from specified asset values upon facility expiry or upon early settlement due to realisation of the specified asset. Where the special revenue arrangements are for compensation of credit risk, they meet the SPPI requirements and are classified at amortised cost. Where the special revenue arrangements are not only for compensation of credit risk, they do not meet the SPPI requirements and are classified at FVTPL.

Negotiable securities include money-market investments, government bonds, treasury bills and preference shares. The Group considers that these securities are held within a business model whose objective is to hold assets to collect contractual cash flows.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, e.g. liquidity risk and administrative costs, as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows
- Leverage features
- Prepayment and extension terms
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans and advances)
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates)

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL.

Reclassifications

Financial assets are only reclassified, subsequent to their initial recognition, in the period after the Group changes its business model for managing the financial assets.

Subsequent measurement

Financial assets	Classification	Subsequent measurement
Loans and advances		
» Fixed rate loans and advances linked to interest rate swaps	Designated at FVTPL	These assets are subsequently measured at fair value. Net gains and losses are recognised in profit or loss.
» Fixed rate loans and advances not linked to interest rate swaps	Amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
» Variable rate loans and advances with no special revenue arrangements	Amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
» Variable rate loans and advances with special revenue arrangements	Amortised cost or FVTPL	An assessment is done to determine whether the contractual cash flows consist of SPPI. Cash flows consist of SPPI (amortised cost): These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Cash flows do not consist of SPPI (FVTPL): These assets are subsequently measured at fair value. Net gains and losses are recognised in profit or loss.
Preference share financing with no special revenue arrangements	Amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Preference share dividend income (disclosed in note 15) and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Preference share financing with special revenue arrangements	Amortised cost or FVTPL	An assessment is done to determine whether the contractual cash flows consist of SPPI. Cash flows consist of SPPI (amortised cost): These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Preference share dividend income (disclosed in note 15) and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Cash flows do not consist of SPPI (FVTPL): These assets are subsequently measured at fair value. Net gains and losses are recognised in profit or loss.
Other assets	Amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

1. Financial instruments *continued*

1.2 Classification and subsequent measurement *continued*

Financial liabilities

Financial liabilities include deposits and funding instruments, accounts payable and sundry creditors.

Financial liabilities are classified and subsequently measured at amortised cost, except for derivative financial instruments.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Financial liabilities subsequently measured at amortised cost using the effective interest method have the interest expense recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derivative financial instruments

Derivative instruments, which include interest rate swaps, are held by the Group to manage interest rate risk, defined as economic hedging activities. Derivative instruments are initially recognised at fair value and subsequently remeasured to FVTPL using market prices at each reporting date.

1.3 Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

1.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a modified financial asset is recognised at fair value with any fees received as part of the modification being included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer below 1.7 for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost does not result in a derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset by recomputing the effective interest rate on the instrument.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

1.5 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

1.6 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, the Group then uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

1.7 Credit impairment losses

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

» Financial assets that are debt instruments
» Financial guarantee contracts issued
» Loan commitments issued

No impairment loss is recognised on equity investments.

1. Financial instruments *continued*

1.7 Credit impairment losses *continued*

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, for which a 12-month ECL is measured:

- Debt investment securities that are determined to have low credit risk at the reporting date
- Financial assets on which credit risk has not increased significantly since their initial recognition

Indicators of a significant increase in credit risk (SICR) may include any of the following:

- Facility is in arrears for greater than 30 days
- Classification and appearance on a watch list
- Significant decrease in value of collateral

Loans and advances are placed under managed accounts once the loan is considered as non-performing and meets the Group's internal loan book grading criteria (stage 2 and 3), which may affect the recovery of the loan. When a loan is considered as performing, the loan is assessed for reclassification out of managed accounts. If a redefault occurs, the aforementioned process is once again followed.

12-month ECLs are the portion of lifetime ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECLs are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not experienced a SICR since initial recognition and are not credit-impaired.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECLs are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a SICR since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECLs are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'. Credit impairment is considered to occur when defined stage 3 criteria have been met, the most significant of which is default.

IFRS 9 requires an entity to apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and considers qualitative indicators where appropriate. There is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due, unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default should be the same for all financial instruments unless an entity can demonstrate that another default definition is more appropriate for a particular financial instrument.

Based on this, the Group uses the following indicators for default:

- Facilities with an outstanding amount for 90 days will be termed in default
- Conditions not being met (such as covenants or a minimum NAV). This is subject to an internal assessment of the breach
- Acts of Insolvency (liquidation/business rescue proceedings)

Collateral

Collateral is measured at fair value at inception of a financial instrument and the valuation is reviewed periodically depending on the collateral type.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls, i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- Financial assets: the original effective interest rate or an approximation thereof.
- Undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment.
- Financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

The Group calculates ECLs using the following main components, being probability of default (PD), exposure at default (EAD) and loss-given default (LGD). The calculated ECLs are then discounted using the appropriate effective interest rate of the financial asset. The assessment of SICR and the calculation of ECLs incorporate forward looking information.

The Group has performed historical analyses and identified the key economic variables impacting credit risk and ECLs for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Significant judgement and estimation are applied in this process of incorporating forward looking information into the SICR assessment and ECLs calculation.

The period of exposure used in this model for all types of facilities, except for overdraft facilities, is the expiry date of the facility granted. For overdraft facilities, the period of exposure is the average rolling period. This is deemed appropriate for the Group since behavioural patterns of individual facilities cannot consistently reflect the average behavioural patterns across products. As such, the probability that the facility will be renewed varies significantly across the loan book. All facilities are granted with a defined expiry date and with no guarantee of renewal. Renewals are subject to the normal credit evaluation process.

PD

PD is determined primarily based on judgement using knowledge of the loan book and the Group's client base. Probabilities are subject to debate and approval by, the credit executive committee, the credit and large exposure committee, the risk and capital management committee and the board. PDs are assigned according to product type.

The PD ranges for the current and prior periods applied to each product type are:

Product type	**2022 PD range %**	2021 PD range %
Mortgage bonds	**(0.19) – (2.25)**	(0.16) – (1.96)
Invoice discounting, term loans and overdrafts	**(0.40) – (4.03)**	(0.37) – (3.77)
COVID-19 Guarantee scheme loans	**(0.67) – (6.78)**	(0.55) – (5.56)
Preference shares	**(0.37) – (4.64)**	(0.35) – (4.35)

The table below reflects the impairment impact of a change in the PD% on exposures:

	2022		2021	
Stress scenario analysis	**+20% PD R000**	**-20% PD R000**	+20% PD R000	-20% PD R000
Stage 1	**1 672**	**(1 672)**	4 237	(4 237)
Stage 2	**–**	**–**	267	(269)
Stage 3[1]	**–**	**–**	–	–
	1 672	**(1 672)**	4 504	(4 506)

[1] *Subject to specific impairment and not model impairment.*

1. Financial instruments *continued*

1.7 Credit impairment losses *continued*

EAD

EAD is calculated based on product type, access level and repayment type. Depending on these factors, three measurement types are possible:

- Average utilisation
- Interest roll-up
- Amortisation

LGD

LGD is per period and is calculated considering the projected exposure less the cash flows expected from realising security, valued according to the established and approved credit policy.

Where collateral is held to secure multiple facilities, the collateral is apportioned proportionately across facilities where multiple facilities are structured for a single lending transaction unless a contractual ranking is applied.

Forward looking information (FLI)

The LGD is adjusted for forward looking economic scenarios according to the type of security held as collateral. Three economic scenarios are utilised, i.e., poor, stable and good, and the applicable adjustment is based on judgement using freely available forecast economic indicators applicable to the nature of security.

The Group considers the following as guidance for each economic scenario:

Poor	Stable	Good
The projected security values based on the forecasted data are expected to decrease relative to the current market performance.	The projected security values based on the forecasted data are expected to remain stable relative to the current market performance.	The projected security values based on the forecasted data are expected to improve relative to the current market performance.

Utilising the factors above, the overall probabilities and LGD adjustments are assigned to the applicable industries. Both the impact on exposure and collateral are considered.

The most significant macro-economic variables have been stressed against the final ECL allowance balance in order to determine the sensitivity of the model to changes in FLI.

The table below reflects stress scenarios based on forward looking information (FLI):

Stress scenario analysis	Stress impact %	Stress impact R000	Total ECLs R000
2022			
Base FLI			**8 362**
Positive FLI	**(10.61)**	**(887)**	**7 475**
Negative FLI	**13.23**	**1 106**	**9 468**
2021			
Base FLI			38 268
Positive FLI	(2.7)	(1 042)	37 226
Negative FLI	2.1	801	39 069

The table below reflects the impairment impact of a change in the LGD% on exposures at:

	2022		2021	
Stress scenario analysis	+20% LGD R000	-20% LGD R000	+20% LGD R000	-20% LGD R000
Stage 1	**1 672**	**(1 672)**	4 237	(4 237)
Stage 2	**–**	**–**	274	(274)
Stage 3[1]	**–**	**–**	–	–
	1 672	**(1 672)**	4 511	(4 511)

Significant areas of judgement and key assumptions

Due to the Group's history of low credit defaults under normal economic conditions, limited numeric data is available to make reasonable assumptions regarding the various aspects required to determine the ECLs. In addition, historic defaults of clients have resulted from specific conditions and were not as a result of general triggers. Consequently, various elements of the model (key elements detailed below) require the use of experience and professional judgement as follows:

- Determining PD across all product types
- Appropriateness of qualitative staging criteria
- Security valuation methodology
- FLI impact on PDs and LGDs

The following are key economic variables used to determine the change in PDs and LGDs:

	12 month range %	Lifetime range %
2022		
Key economic variables		
Gross domestic product (GDP)	**0.7 – 2.3**	**0.2 – 1.8**
Inflation rate	**4.1 – 7.1**	**3.5 – 8.1**
Prime lending rate	**9.0 – 12.0**	**8.0 – 12.0**
Unemployment rate	**30.7 – 36.4**	**28.8 – 35.3**
2021		
Key economic variables		
Gross domestic product (GDP)	0.8 – 2.5	0.3 – 2.0
Inflation rate	2.9 – 5.6	3.0 – 7.7
Prime lending rate	6.0 – 10.0	7.0 – 11.0
Unemployment rate	28.4 – 34.4	28.3 – 34.3

Key economic variables beyond the three-year forecast period equate to a long-run average expectation.

[1] *Subject to specific impairment and not model impairment.*

1. Financial instruments *continued*

1.7 Credit impairment losses *continued*

Of the key economic variables, GDP and the inflation rate have the biggest impact. In addition, three other factors, namely producer price index, overall economic risk and construction output levels were used. Economic risk constitutes a weighted average of exchange risk, demand risk, cost risk, sovereign credit risk and trade credit risk resulting in a measurable figure of economic risk for a given country. The historical indicators and book performance as well as the current economic state were used to determine an acceptable range looking forward. Should the 12-month or lifetime values fall outside the threshold, the PDs are adjusted accordingly.

Scenario analysis on staging

The table below reflects the impact on ECLs by stress testing the loans and advances portfolio, specifically loans and advances moving from 12-month ECLs to lifetime ECLs.

	Stage 1 R000	Stage 2 R000	Stage 3 R000	Total R000
2022				
Base staging	**8 362**	**–**	**206 781**	**215 143**
5% transfer from Stage 1 to Stage 2	**7 041**	**2 212**	**206 781**	**216 034**
10% transfer from Stage 1 to Stage 2	**4 955**	**16 360**	**206 781**	**228 096**
	Stage 1 R000	**Stage 2 R000**	**Stage 3 R000**	**Total R000**
2021				
Base staging	21 187	17 081	179 619	217 887
5% transfer from Stage 1 to Stage 2	11 845	35 505	179 619	226 969
10% transfer from Stage 1 to Stage 2	10 113	39 846	179 619	229 578

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECLs are measured as follows:

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

The renegotiation of terms does not automatically mean a change in credit risk of the financial asset, hence management would assess whether there has been a significant increase in credit risk.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets measured at amortised cost are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

» Acts of insolvency, i.e., liquidation or business rescue proceedings
» Significant financial difficulty of the borrower
» A default event, which typically includes non-repayment according to contractual terms

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

» The market's assessment of creditworthiness as reflected in bond yields.
» The rating agencies' assessments of creditworthiness.
» The country's ability to access the capital markets for a new debt issuance.
» The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
» The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for ECLs are presented in the statement of financial position as follows:

» Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
» Loan commitments and financial guarantee contracts: generally, as a provision.
» Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECLs on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and advances and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments', in the statement of comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

1.8 Designation at fair value through profit or loss

Financial assets

On initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, that would otherwise arise.

Financial liabilities

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

» The liabilities are managed, evaluated and reported internally on a fair value basis
» The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise

2. Cash and short-term funds

Cash and short-term funds include notes and coins on hand, balances held with the South African Reserve Bank (SARB) and highly liquid financial assets, and are used by the Group in the management of its short-term commitments.

Cash and short-term funds are initially recognised at fair value and subsequently measured at amortised cost.

3. Investment securities

Investment securities includes equity investment securities mandatorily measured at FVTPL; these are at fair value with changes recognised immediately in profit or loss.

Dividends are recognised in profit or loss.

4. Basis of consolidation

A subsidiary is an entity controlled by the Group.

The Group controls an entity if it:

» Has power over the investee
» Is exposed, or has rights, to variable returns from its involvement with the investee
» Has the ability to use its power to affect its returns

The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Significant area of judgement

Unconsolidated structured entities

The Group currently holds preference shares in various entities as a result of its financing activities. Some of these financed entities have defined investment-related activities including holding shares in either listed or unlisted entities. The Group does not have any voting rights in these entities in the absence of a default event. In some instances, the preference share agreements in place with the issuers of the preference shares are structured to ensure the Group, as the preference share holder, has protective rights in the event of the preference share issuer defaulting. In accordance with IFRS 10, an assessment of the facts, circumstances, significant judgements and assumptions has been performed to ensure that there is no control over these entities.

Judgement is applied by management when determining whether the requirements of control as defined by IFRS 10 are met. These judgements include:

» The determination of relevant activities of the entity. Relevant activities have been identified as decisions surrounding the investment of funds, early redemption and/or repayment of funding
» How decisions surrounding relevant activities are made
» Assessment of the ability to direct these activities
» Whether rights defined in funding agreements are protective or substantive in nature
» The right of the Group to any residual interest

As the Group does not control the relevant activities referred to above or have a right to any residual interest, the Group does not have power over the investees and hence does not control the investees in terms of IFRS 10. Refer to note 38 for a summary of the financial information of the Group's interest in unconsolidated structured entities.

Deemed controlled entities

Based on management's assessment of the requirements of IFRS 10, the Group has power over the Grindrod Preference Share Investment Trust (the Trust), has exposure to variable returns from its involvement with the Trust and has the ability to use that power to affect the amount of its returns from the Trust. As all the requirements of control are met, it is deemed that the Group controls the Trust. The Trust is dormant and therefore does not have a financial impact on the Group's results.

5. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Depreciation is recognised in profit or loss and is calculated using the straight-line method, at rates estimated to write off each asset over the term of its useful life. The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date and adjusted if appropriate.

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

	Years
Office equipment	5
Furniture & fittings	6
Motor vehicles	5
Computers and computer hardware	3

Any gain or loss on disposal of an item of property and equipment is recognised within profit or loss.

6. Taxation

Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous periods. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

6. Taxation *continued*

Deferred tax *continued*

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

7. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which results in a probable outflow of economic benefits and can be reliably measured.

Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

8. Employee benefits

8.1 Short-term employee benefits

Short-term employee benefits consists of salaries, short-term incentives, leave pay, provident fund contributions, medical aid contributions and group life contributions.

Short-term employee benefits are expensed as the related service is provided and recognised in profit or loss. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

8.2 Defined contribution plan

The Group pays fixed contributions to a third party as part of a defined contribution provident fund plan for the benefit of its employees. The Group has no further legal or constructive obligation in terms of the defined contribution benefit plan beyond these contributions.

Defined contributions are recognised in profit or loss as they become due.

8.3 Share-based payment

Forfeitable share plan

Executive directors, senior executives and certain other employees have been granted equity settled share options in terms of the Grindrod Limited forfeitable share plan (FSP). These share options are classified as cash settled as they will not be settled in the Group's own equity instruments. The share options are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant and recognised in profit or loss on the straight-line basis over the vesting period with a corresponding increase in liabilities, based on the estimated number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The final vesting date of options in issue was June 2022. No new issuances were made in the current year.

Share appreciation rights

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, are recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the incentive schemes. Any changes in the liability are recognised in profit or loss.

9. Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability, where applicable.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

» Fixed payments, including in-substance fixed payments.
» The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured if the Group changes its assessment of whether it will exercise an extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' on the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of computers, small items of office furniture and equipment. The Group recognises the lease payments associated with these leases as an expense in the period that it relates to.

10. Revenue recognition

Revenue from financial instruments is recognised in terms of IFRS 9 and revenue from other service contracts is recognised in terms of IFRS 15.

10.1 Interest

10.1.1 Effective interest rate

Interest income and expenses are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

» The gross carrying amount of the financial asset
» The amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECLs.

The calculation of the effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

10.1.2 Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any ECL allowance.

10. Revenue recognition *continued*

10.1 Interest *continued*

10.1.3 Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

10.1.4 Presentation

Interest income calculated using the effective interest method presented in the statement of comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of comprehensive income includes financial liabilities measured at amortised cost.

10.2 Fee income

Fee income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see above).

Other fee income is recognised as the related services are performed. The Group provides banking services to retail and corporate clients, including administration and servicing fees, and advisory fees. Fees for ongoing account management are charged to the client's account on a monthly basis. Transaction-based fees are charged to the client's account when the transaction takes place. Servicing fees are charged on a monthly basis.

A contract with a client that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee expenses relate mainly to transaction and service fees, which are expensed as the services are received.

The description of fees earned by the Group from its clients is not necessarily indicative of the nature of the services provided, or of whether or not they are calculated using the effective interest rate. Accordingly, judgement is applied in categorising fees between those calculated using the effective interest rate to be accounted for in accordance with IFRS 9 and those to be accounted for in accordance with IFRS 15.

The following significant judgements are applied by management to distinguish whether fees are earned in accordance with IFRS 9 or IFRS 15:

- » Whether the fee directly relates to origination of a loan recognised in the statement of financial position. These fees are compensation for the loan origination process.
- » Whether the fee is compensation for the time value of money, such as when a lower rate of interest is charged together with an upfront or periodic fee to compensate for that lower interest rate.
- » Whether the fee is compensation for credit risk, such as when an additional fee is charged for credit risk not fully priced into the quoted interest rate. Such fees may be charged in advance, periodically or upon exit of the facility.
- » Whether the fee relates to basic lending risks and whether the fee forms part of the normal profit margin associated with basic lending.

The above fees are included in the calculation of the effective interest rate and recognised in accordance with IFRS 9. The effective interest method discounts the future cash flows over the expected life of the financial instrument to the carrying amount of the instrument. The effective interest rate is determined on initial recognition of the financial instrument and is not subsequently remeasured.

Dividend income from investments is recognised when the shareholder has a right to receive payment and is included as revenue of the Group.

11. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount.

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

12. Share capital, other equity and reserves

12.1 Ordinary and preference share capital

The Group classifies instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Ordinary shares are classified as equity.

The Group's preference share capital is not redeemable by holders and bears an entitlement to dividends at the sole discretion of the board of directors, subject to the Companies Act requirements. Accordingly, it is presented within equity. Distributions thereon are recognised in equity.

12.2 Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

12.3 Share premium

Share premium includes any premium received on the issue of share capital.

13. Foreign currency transactions and balances

At each statement of financial position date, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the reporting period or in previous financial statements are recognised in profit or loss in the period in which they arise.

14. Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenue and incurs expenses, the operating results of which are regularly reviewed by the Group's chief operating decision-makers, in the Group's case, executive management, to make decisions about resources to be allocated and to assess its performance, and for which financial information is available.

Identification and measurement of segmental results are based on the Group's internal management reporting as used for day-to-day decision-making and as reviewed by executive management. The segments have been identified according to the nature of their respective products and services and their related target markets.

The Group is divided into seven operating segments, each of which engages in business activities from which they earn revenue and incur expenses, including revenue and expenses between operating segments. The operating segments identified are property solutions, investment banking, SME banking, special projects, corporate finance, platform banking and treasury.

The operating segments identified are supported by corporate services, which assist in the areas of human resources, information technology, governance and compliance, risk management, legal services, credit management, marketing and finance. Costs from corporate services are allocated to the operating segments using an internally developed allocation methodology.

The Group accounts for intersegmental revenues and transfers on an arm's length basis at current market prices.

The Group was historically not managed or internally structured for management reporting purposes on a segmented basis and as a result no segmental information has been provided for the prior year.

14. Segmental reporting *continued*

Operating segments	Property solutions R000	Investment banking R000	SME banking R000	Special projects R000	Corporate finance R000	Platform banking R000	Treasury R000	Corporate services and eliminations R000	Total R000
2022									
Interest and similar income	341 556	110 853	114 178	95 885	–	51 276	868 230	(589 600)	992 378
Interest and similar expense	(278 688)	(122 419)	(65 877)	(72 002)	–	(4 811)	(700 770)	588 094	(656 473)
Net interest and similar income	62 868	(11 566)	48 301	23 883	–	46 465	167 460	(1 506)	335 905
Non-interest revenue	93 503	89 148	1 248	11 545	2 404	38 750	120	6 108	242 826
Net fee income	318	(65)	1 143	–	2 404	38 750	120	2 529	45 199
Fee income	1 234	2 117	2 631	291	2 404	171 816	120	2 529	183 142
Fee expenses	(916)	(2 182)	(1 488)	(291)	–	(133 066)	–	–	(137 943)
Gains and losses on financial instruments	82 967	87 988	105	9 770	–	–	–	–	180 830
Dividend income	–	1 225	–	1 775	–	–	–	33	3 033
Other non-interest revenue	10 218	–	–	–	–	–	–	3 546	13 764
Total revenue	156 371	77 582	49 549	35 428	2 404	85 215	167 580	4 602	578 731
Impairment losses on financial assets	(44 067)	6 676	4 046	5 901	–	–	327	–	(27 117)
Operating income	112 304	84 258	53 595	41 329	2 404	85 215	167 907	4 602	551 614
Direct operating expenses	(11 508)	(10 698)	(9 993)	(646)	(3 613)	(17 089)	(29 581)	–	(83 128)
Indirect operating expenses	(54 869)	(33 375)	(23 743)	(15 012)	(4 753)	(54 104)	(88 854)	(4 602)	(279 312)
Profit before tax	45 927	40 185	19 859	25 671	(5 962)	14 022	49 472	–	189 174
Income tax expense	(2 745)	22 843	(5 560)	(7 188)	1 669	(3 926)	(13 852)	–	(8 759)
Profit for the year	43 182	63 028	14 299	18 483	(4 293)	10 096	35 620	–	180 415
Segmental assets	4 506 043	1 682 451	1 227 641	1 141 515	–	991 607	14 009 829	(9 341 754)	14 217 332
Segmental liabilities	(4 437 630)	(1 638 304)	(1 334 549)	(1 117 970)	–	(965 027)	(12 339 285)	9 410 638	(12 422 127)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

	31 December 2022 R000	31 December 2021 R000
1. Cash and short-term funds		
At amortised cost		
Regulatory deposit with the SARB[1]	**298 300**	292 309
Other deposits with the SARB	**568 219**	51 616
Inter-bank deposits	**624 186**	773 938
ECL allowance against cash and short-term funds (ECLs Stage 1)	**(266)**	(200)
	1 490 439	1 117 663

The carrying amount of cash and short-term funds approximates fair value due to its short-term nature.

	31 December 2022 R000	31 December 2021 R000
Analysis of ECL allowance (Stage 1)		
Allowance at 1 January	**200**	146
Net increase in allowance	**66**	54
Allowance at 31 December	**266**	200
ECL allowance analysis		
Stage 1 – 12-month ECLs	**266**	200
Total ECL allowance on cash and short-term funds	**266**	200
Stage 1 – 12-month ECLs		
Gross carrying amount	**1 490 705**	1 117 863
Less: ECL allowance	**(266)**	(200)
Net carrying amount at 31 December	**1 490 439**	1 117 663
ECL allowance at 1 January	**200**	146
Movements of allowance recognised in profit or loss		
Net impairment losses recognised	**66**	54
ECL allowance at 31 December	**266**	200

[1] *The Regulatory deposit with the SARB is for minimum reserve requirements and is available for use subject to certain restrictions and limitations imposed by the SARB.*

	31 December 2022 R000	31 December 2021 R000
2. Negotiable securities		
At amortised cost		
Treasury bills	**3 501 337**	3 623 745
Government bonds[1]	**491 873**	312 958
Preference shares	**–**	290
ECL allowance against negotiable securities (ECLs Stage 1)	**(616)**	(1 009)
	3 992 594	3 935 984

The carrying amount of negotiable securities approximates fair value due to its short-term nature or its ability to be easily liquifiable.

	31 December 2022 R000	31 December 2021 R000
Analysis of ECL allowance (Stage 1)		
Allowance at 1 January	**1 009**	962
Net (decrease)/increase in allowance	**(393)**	47
Allowance at 31 December	**616**	1 009
ECL allowance analysis		
Stage 1 – 12-month ECLs	**616**	1 009
Total ECL allowance on negotiable securities	**616**	1 009
Stage 1 – 12-month ECLs		
Gross carrying amount	**3 993 210**	3 936 993
Less: ECL allowance	**(616)**	(1 009)
Net carrying amount at 31 December	**3 992 594**	3 935 984
ECL allowance at 1 January	**1 009**	962
Movements of allowance recognised in profit or loss		
Net (reversal)/recognition of impairment losses	**(393)**	47
ECL allowance at 31 December	**616**	1 009

[1] *Government bonds to the value of R196 million (2021: Rnil) have been pledged for the SARB refinancing auction. Refer to note 9.*

3. Loans and advances

	31 December 2022 R000	31 December 2021 R000
At amortised cost	**6 759 430**	6 650 577
At fair value through profit or loss	**1 319 421**	1 272 504
Designated at fair value through profit or loss	**469 068**	638 174
	8 547 919	8 561 255
Loans and advances – companies and close corporations[1]	**6 957 069**	6 895 035
Loans and advances – unincorporated businesses and other[1]	**1 005**	2 333
Loans and advances – households[1]	**567 284**	548 384
Preference share financing	**944 596**	1 076 569
Debtor financing	**214 050**	145 753
Remeasurement of loans and advances at fair value through profit or loss	**79 058**	111 068
ECL allowance against loans and advances (ECLs Stages 1 and 2)	**(8 362)**	(38 268)
ECL allowance against loans and advances (ECLs Stage 3)	**(206 781)**	(179 619)
	8 547 919	8 561 255
Mortgages	**3 869 734**	3 824 359
Corporate loans	**3 038 684**	3 174 576
Overdraft financing	**616 940**	446 817
Debtor financing	**214 050**	145 753
Preference share financing	**944 596**	1 076 569
Remeasurement of loans and advances at fair value through profit or loss	**79 058**	111 068
ECL allowance against loans and advances (ECLs Stages 1 and 2)	**(8 362)**	(38 268)
ECL allowance against loans and advances (ECLs Stage 3)	**(206 781)**	(179 619)
	8 547 919	8 561 255

[1] *Limited reclassifications were made to improve disclosure.*

	31 December 2022 R000	31 December 2021 R000
Collateral[1]		
Property	**4 888 835**	4 544 511
Listed shares	**590 752**	584 469
Unlisted shares	**365 953**	337 890
Debtors	**264 553**	155 636
Guarantee/Letter of undertaking	**2 005 799**	1 987 155
Other	**290 396**	160 665
Fair value of collateral held	**8 406 288**	7 770 326
Unsecured[2]	**680 585**	1 006 663
Remeasurement of loans and advances at fair value through profit or loss	**79 058**	111 068
ECL allowance against loans and advances (ECLs Stages 1 and 2)	**(8 362)**	(38 268)
ECL allowance against loans and advances (ECLs Stage 3)	**(206 781)**	(179 619)
Security for financing guarantees excluding cash backed guarantees	**(402 869)**	(108 915)
	8 547 919	8 561 255
Sectoral analysis		
Agriculture, hunting, forestry and fishing	**41 202**	44 098
Mining and quarrying	**80 785**	31 694
Manufacturing	**189 641**	124 882
Electricity, gas and water supply	**31 768**	10 628
Construction	**53 844**	45 045
Wholesale and retail trade, repair of specified items, hotels and restaurants	**598 016**	473 197
Transport, storage and communication[3]	**306 516**	340 691
Financial intermediation and insurance	**349 573**	207 087
Real estate[3]	**4 631 233**	4 644 103
Business services[3]	**487 061**	367 263
Community, social and personal services[3]	**–**	5
Households[3]	**567 284**	548 384
Other[3,4]	**1 219 358**	1 762 446
ECL allowance against loans and advances (ECLs Stages 1 and 2)	**(8 362)**	(38 268)
	8 547 919	8 561 255
Geographical analysis		
KwaZulu-Natal	**4 316 603**	4 375 769
Gauteng	**2 588 259**	2 431 694
Western Cape	**1 166 223**	1 226 588
Free State	**375 090**	427 872
Mpumalanga	**60 929**	86 915
Eastern Cape	**37 635**	8 592
Northern Cape	**3 180**	3 825
	8 547 919	8 561 255

1 *In addition to the collateral below, Grindrod Limited has provided warranties amounting to R300 million on specific loans and advances relating to the Group's KZN North Coast property portfolio as part of the share purchase agreement entered into between Grindrod Limited and African Bank.*

2 *Exposures are secured by counterparties' statement of financial position on which the Group does not place reliance for collateral valuation purposes.*

3 *Limited reclassifications were made to improve disclosure.*

4 *Other consists of loans and advances to investment holding entities with diverse investment portfolios therefore these loans and advances cannot be categorised into a specific industry.*

3. Loans and advances *continued*

Modified loans and advances measured at amortised cost

Information on loans and advances that were modified while they had loss allowances amounting to lifetime ECLs.

	31 December 2022 R000	31 December 2021 R000
Gross carrying amount before lifetime ECLs and modifications	**300 003**	157 498
Lifetime ECLs before modifications	**(44 010)**	(21 412)
Amortised cost before modifications	**255 993**	136 086
Modifications (loss)/gain	**(77)**	8
Analysis of ECL allowance (Stages 1 and 2)		
Allowance at 1 January	**38 268**	34 696
Net (decrease)/increase in allowance	**(29 906)**	3 572
Allowance at 31 December	**8 362**	38 268
Analysis of ECL allowance (Stage 3)		
Allowance at 1 January	**179 619**	133 203
Net increase in allowance	**74 819**	64 183
Written off	**(47 657)**	(17 767)
Allowance at 31 December	**206 781**	179 619
ECL allowance analysis		
Stage 1 – 12-month ECLs	**8 362**	21 187
Stage 2 – lifetime ECLs	**–**	17 081
Stage 3 – lifetime ECLs	**206 781**	179 619
Total ECL allowance on loans and advances	**215 143**	217 887

	Stage 1 (12-month ECL allowance) R000	Stage 2 (Lifetime ECL allowance) R000	Stage 3 (Lifetime ECL allowance) R000	Total R000
Loans and advances at amortised cost				
2022				
Gross carrying amount	**5 577 090**	**134 539**	**1 262 944**	**6 974 573**
Less: ECL allowance	**(8 362)**	**–**	**(206 781)**	**(215 143)**
Net carrying amount at 31 December 2022	**5 568 728**	**134 539**	**1 056 163**	**6 759 430**
ECL allowance at 1 January 2022	**21 187**	**17 081**	**179 619**	**217 887**
Transfers between stages	**790**	**(1 169)**	**379**	**–**
Transfers from Stage 2 and Stage 3 to Stage 1	**1 935**	**(92)**	**(1 843)**	**–**
Transfers from Stage 1 and Stage 3 to Stage 2	**(15)**	**15**	**–**	**–**
Transfers from Stage 1 and Stage 2 to Stage 3	**(1 130)**	**(1 092)**	**2 222**	**–**
Movements of allowance with a profit or loss impact	**(13 615)**	**(15 912)**	**26 783**	**(2 744)**
New ECLs raised	**1 873**	**–**	**–**	**1 873**
Subsequent changes in ECLs including derecognition	**(15 488)**	**(15 912)**	**74 440**	**43 040**
Write offs	**–**	**–**	**(47 657)**	**(47 657)**
ECL allowance at 31 December 2022	**8 362**	**–**	**206 781**	**215 143**
2021				
Gross carrying amount	5 359 790	243 536	1 265 138	6 868 464
Less: ECL allowance	(21 187)	(17 081)	(179 619)	(217 887)
Net carrying amount at 31 December 2021	5 338 603	226 455	1 085 519	6 650 577
ECL allowance at 1 January 2021	20 670	14 026	133 203	167 899
Transfers between stages	(1 683)	(1 337)	3 020	–
Transfers from Stage 1 to Stage 2	(231)	231	–	–
Transfers from Stage 1 to Stage 3	(1 452)	(1 568)	3 020	–
Movements of allowance with a profit or loss impact	2 200	4 392	43 396	49 988
New ECLs raised	1 239	3 383	1 842	6 464
Subsequent changes in ECLs including derecognition	961	1 009	59 321	61 291
Write offs	–	–	(17 767)	(17 767)
ECL allowance at 31 December 2021	21 187	17 081	179 619	217 887

3. Loans and advances *continued*

	31 December 2022 R000	31 December 2021 R000
Analysis of classified, impaired or non-performing loans and advances		
Loans and advances classified as special mention	**338 232**	420 552
Loans and advances classified as sub-standard	**906 486**	741 303
Loans and advances displaying significant weakness (doubtful and loss)	**194 330**	97 467
Carrying amount of classified, impaired or non-performing loans and advances[1]	**1 439 048**	1 259 322
Collateral held against classified, impaired or non-performing loans and advances[2]	**3 534 390**	3 013 819
Age Analysis of classified, impaired or non-performing loans and advances		
Current	**1 317 862**	1 130 154
6 – 12 months overdue	**39 000**	2 766
> 12 months overdue	**82 186**	126 402
	1 439 048	1 259 322
Sectoral analysis of classified, impaired or non-performing loans and advances		
Manufacturing	**17 984**	-
Electricity, gas and water supply	**6 815**	7 383
Construction	**17 125**	-
Wholesale and retail trade, repair of specified items, hotels and restaurants	**28 645**	35 299
Transport, storage and communication	**11 308**	-
Real estate[3]	**561 608**	405 212
Business services[3]	**288 126**	280 140
Households[3]	**442 688**	409 481
Other[3]	**64 749**	121 807
	1 439 048	1 259 322
Credit-impaired loans and advances (included in Stage 3)		
Carrying amount	**407 756**	326 815
ECL allowance (Stage 3)	**(206 781)**	(179 619)
Net carrying amount	**200 975**	147 196

[1] *Not all classified, impaired or non-performing loans and advances are categorised as stage 3 loans and advances.*
[2] *Overcollateralised in certain instances.*
[3] *Limited reclassifications were made to improve disclosure.*

	31 December 2022 R000	31 December 2021 R000
4. Investment securities		
At fair value through profit or loss		
Interest rate swaps		6 398
Derivative assets	**4 183**	926
Derivative liabilities	**(457)**	(25 203)
Net derivative assets/(liabilities)	**3 726**	(24 277)
Fair value adjustments for the period:		
Derivative assets	**3 257**	926
Derivative liabilities	**24 746**	47 843
Net fair value gain	**28 003**	48 769
Interest rate swaps (nominal value)		
Contracts with positive fair value (assets)	**342 733**	70 000
Contracts with negative fair value (liabilities)	**137 377**	544 598
	480 110	614 598

The nominal amount disclosed represents the gross value of total outstanding contracts at reporting period and does not reflect the amount receivable or payable under the contract. The nominal amount should be viewed only as a means of assessing the extent of exposure to the derivative contracts.

	31 December 2022 R000	31 December 2021 R000
5. Investment securities		
At fair value through profit or loss		
Private equity investments	**3 020**	6 398
Unit trust investments	**2 705**	2 720
	5 725	9 118
6. Other assets		
Financial assets at amortised cost		
Fees and other receivables[1]	**29 847**	15 109
Non-financial assets		
Prepayments[2]	**56 629**	5 717
	86 476	20 826

[1] *The carrying amount of fees and other receivables approximates fair value due to its short-term nature.*

[2] *The 2022 prepayments includes retention awards (R46.98 million) which were made to incentivise certain key employees to remain in the employ of the Group for 12 months post the acquisition of Grindrod Financial Holdings by African Bank. The awards will be recognised as an expense in the statement of comprehensive income at the end of the 12 month period, being 31 October 2023.*

7. Property and equipment

	Furniture, fittings, office equipment, motor vehicles and artwork R000	Computers and computer hardware R000	Right-of-use assets[1] R000	Total R000
2022				
Cost at 1 January	13 464	28 867	56 372	98 703
Additions	396	1 468	11 980	13 844
Disposals	(123)	(998)	(1 324)	(2 445)
Cost at 31 December	13 737	29 337	67 028	110 102
Accumulated depreciation at 1 January	12 252	23 464	38 240	73 956
Depreciation	611	3 053	12 175	15 839
Disposals	(123)	(983)	(1 324)	(2 430)
Accumulated depreciation at 31 December	12 740	25 534	49 091	87 365
Carrying amount at 1 January	1 212	5 403	18 132	24 747
Carrying amount at 31 December	997	3 803	17 937	22 737
2021				
Cost at 1 January	13 026	25 183	35 207	73 416
Additions	530	3 715	21 165	25 410
Disposals	(92)	(31)	–	(123)
Cost at 31 December	13 464	28 867	56 372	98 703
Accumulated depreciation at 1 January	11 584	20 548	26 456	58 588
Depreciation	715	2 947	11 784	15 446
Disposals	(47)	(31)	–	(78)
Accumulated depreciation at 31 December	12 252	23 464	38 240	73 956
Carrying amount at 1 January	1 442	4 635	8 751	14 828
Carrying amount at 31 December	1 212	5 403	18 132	24 747

[1] *Right-of-use assets comprise of office premises for business purposes.*

8. Deferred tax asset

	31 December 2022 R000	31 December 2021 R000
Deferred taxation asset	**65 787**	61 046
Deferred tax asset is attributable to the following:		
Right of use asset[1]	**(4 843)**	(5 077)
Lease liability[1]	**5 165**	5 398
Provisions[1]	**15 241**	15 985
Share-based payments[1]	**3 380**	1 333
Impairment losses[1]	**11 589**	15 661
Prepayments[1]	**(378)**	(587)
Fair value adjustments[1]	**–**	(15 825)
Deferred revenue[1]	**29 169**	35 760
Capital loss[2]	**6 464**	8 398
	65 787	61 046

	Balance at 1 January R000	Tax rate change effect[3] R000	Recognised in profit or loss R000	Balance at 31 December R000
2022				
Right of use asset	**(5 077)**	**179**	**55**	**(4 843)**
Lease liability	**5 398**	**(191)**	**(42)**	**5 165**
Provisions	**15 985**	**(566)**	**(178)**	**15 241**
Share-based payments	**1 333**	**(125)**	**2 172**	**3 380**
Impairment losses	**15 661**	**(429)**	**(3 643)**	**11 589**
Prepayments	**(587)**	**14**	**195**	**(378)**
Fair value adjustment	**(15 825)**	**–**	**15 825**	**–**
Deferred revenue	**35 760**	**(1 080)**	**(5 511)**	**29 169**
Capital loss	**8 398**	**(239)**	**(1 695)**	**6 464**
	61 046	**(2 437)**	**7 178**	**65 787**
2021				
Right of use asset	(2 450)	–	(2 627)	(5 077)
Lease liability	2 712	–	2 686	5 398
Provisions	6 828	–	9 157	15 985
Share-based payments	1 056	–	277	1 333
Impairment losses	13 236	–	2 425	15 661
Prepayments	(114)	–	(473)	(587)
Fair value adjustment	(14 673)	–	(1 152)	(15 825)
Deferred revenue	36 126	–	(366)	35 760
Capital loss	5 210	–	3 188	8 398
	47 931	–	13 115	61 046

[1] *The categories were expanded in the current year which resulted in reclassifications in the prior year.*

[2] *Management is of the view that the deferred tax asset relating to the capital loss will reverse in the future periods and therefore the asset will be recovered through future capital taxable income generated on realisation of the preference share financing and investment securities portfolio.*

[3] *During the year, the South African Government announced a decrease in the South African rate of corporation tax from 28% to 27% effective for years of assessment ending on or after 1 March 2023. As a result, the deferred tax balances at 31 December 2021 have been adjusted to reflect this rate change.*

	31 December 2022 R000	31 December 2021 R000
9. Deposits and funding instruments		
At amortised cost		
Call deposits – Corporate banking	**7 135 755**	5 914 414
Call deposits – Retail banking	**964 174**	957 544
Notice and fixed deposits	**3 448 990**	4 277 991
Funding under repurchase agreements[1]	**200 000**	–
SARB guaranteed loans	**31 438**	36 235
Domestic medium-term note (DMTN)	**400 000**	650 000
Accrued interest	**120 148**	86 448
	12 300 505	11 922 632
Amounts owed to depositors	**12 251 094**	11 897 421
Amounts owed to banks	**49 411**	25 211
	12 300 505	11 922 632
Sectoral analysis		
Banks	**49 411**	25 211
Government and public sector	**1 346 487**	874 192
Individuals	**3 010 571**	2 116 653
Business sector	**7 894 036**	8 906 576
	12 300 505	11 922 632
Geographical analysis		
South Africa	**12 201 236**	11 829 107
Outside of South Africa	**99 269**	93 525
	12 300 505	11 922 632
DMTN issuance:		
3-month JIBAR plus 2.25% (maturity date: November 2022)	**–**	250 000
3-month JIBAR plus 2.50% (maturity date: June 2024)	**400 000**	400 000
	400 000	650 000

A JSE listed 3-year note programme was originally issued on 15 October 2012 with subsequent taps, rollovers and new issues.

Interest is payable quarterly in arrears and is linked to the 3-month JIBAR rate plus a spread.

Notes to the value of R250 million at a rate of 3-month JIBAR plus 2.25% matured in November 2022.

No new notes were issued in the current year.

[1] *The Group participates in the SARB refinancing auction by tendering for cash against eligible collateral. Cash received from the tender is borrowed for a week at the repo rate.*

	31 December 2022 R000	31 December 2021 R000
10. Provisions		
Leave pay[1]	**8 837**	9 366
Short-term incentives[2]	**43 373**	38 196
Penalties[3]	**5 975**	–
	58 185	47 562
Analysis of leave pay provision		
Balance at 1 January	**9 366**	8 252
Utilised or reversed during the year	**(13 724)**	(9 553)
Recognised during the year	**13 195**	10 667
Balance at 31 December	**8 837**	9 366
Analysis of short-term incentive provision		
Balance at 1 January	**38 196**	6 738
Utilised or reversed during the year	**(32 909)**	(6 738)
Recognised during the year	**38 086**	38 196
Balance at 31 December	**43 373**	38 196
11. Other liabilities		
Trade and other payables[4]	**19 810**	31 772
Preference share dividends payable[4]	**11 977**	8 926
Share appreciation rights[5]	**12 520**	4 252
Forfeitable share plan[5]	**–**	507
Lease liabilities	**19 131**	19 277
	63 438	64 734
Analysis of share appreciation rights scheme		
Balance at 1 January	**4 252**	2 700
Utilised or reversed during the year	**(1 672)**	(810)
Recognised during the year	**9 940**	2 362
Balance at 31 December	**12 520**	4 252
Analysis of forfeiture share plan scheme		
Balance at 1 January	**507**	1 071
Utilised or reversed during the year	**(507)**	(564)
Balance at 31 December	**–**	507

1 *Leave pay provision is contractual and the timing of cash flows is variable.*
2 *Refer to additional disclosure on incentive schemes included in note 34.*
3 *Refer to additional disclosure on penalties included in note 40.*
4 *Trade and other payables and preference share dividends payable are designated at amortised cost. The carrying amount of trade and other payables and preference share dividends payable approximates fair value due to its short-term nature.*
5 *Refer to additional disclosure on incentive schemes included in note 34.*

11. Other liabilities *continued*

Analysis of lease liabilities

The Group leases office premises. The leases typically run for a period of 5 years, with an option to renew the lease. Certain premises contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Interest expense on lease liabilities was R1.50 million, (2021: R1.28 million). Refer to note 22 for additional disclosure.

Undiscounted contractual maturity analysis	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	Total R000
31 December 2022					
Lease liabilities	**3 297**	**3 346**	**6 740**	**6 913**	**20 296**
31 December 2021					
Lease liabilities	3 469	3 514	3 362	10 619	20 964

	31 December 2022 R000	31 December 2021 R000
12. Ordinary share capital		
Authorised		
10 000 000 (2021: 10 000 000) ordinary shares of 1 cent each	**100**	100
Issued		
15 239 (2021: 15 239) ordinary shares of 1 cent each	**–**	–
Reconciliation of the number of shares issued		
Balance at 1 January	**15 239**	15 239
Issue of shares[1]	**–**	483
Repurchase of shares[1]	**–**	(483)
Balance at 31 December	**15 239**	15 239

African Bank acquired 100% of the issued ordinary share capital from Grindrod Limited on 1 November 2022.

The directors do not have the authority to issue the remaining unissued shares unless a resolution is passed by the shareholders.

[1] *In August 2021 the Grindrod Financial Holdings repurchased 483 ordinary shares issued to Amber Bay Investments 3 Proprietary Limited, which represented 3.17% of the shares in issue. To finance the repurchase, an additional 483 shares were issued to Grindrod Limited, which were fully subscribed for.*

	31 December 2022 R000	31 December 2021 R000
13. Share premium		
Arising on the issue of 15 239 (2021: 15 239) ordinary shares of 1 cent each	**380 278**	380 278
Reconciliation of share premium		
Balance at 1 January	**380 278**	380 278
Issue of shares[1]	**–**	25 224
Repurchase of shares[1]	**–**	(25 224)
Balance at 31 December	**380 278**	380 278
14. Preference share capital		
Authorised 750 000 (2021: 750 000) non-cumulative, non-redeemable, non-participating and non-convertible par value shares of 1 cent each	**8**	8
Issued 245 000 (2021: 245 000) non-cumulative, non-redeemable, non-participating and non-convertible par value shares of 1 cent each	**285 000**	285 000

African Bank acquired 100% of the issued preference share capital from Grindrod Limited on 1 November 2022. Dividends are payable bi-annually accruing at 88% of the prime interest rate and is subject to the Companies Act requirements with regards to adhering to the solvency and liquidity requirements.

The preference shares qualify as additional Tier 1 regulatory capital.

	31 December 2022 R000	31 December 2021 R000
15. Interest and similar income		
Calculated using the effective interest method		
Loans and advances	**547 033**	465 090
Preference share dividends, advances portfolio	**39 329**	24 766
SARB guaranteed loans	**2 896**	2 728
Balances at banks and short-term funds	**54 134**	36 903
Other short-term securities	**275 773**	158 189
Preference share dividends, negotiable securities portfolio	**–**	2 042
Loan origination fees recognised over the expected life of loans and advances	**73 213**	57 068
	992 378	746 786

[1] *In August 2021 the Grindrod Financial Holdings repurchased 483 ordinary shares issued to Amber Bay Investments 3 Proprietary Limited, which represented 3.17% of the shares in issue. To finance the repurchase, an additional 483 shares were issued to Grindrod Limited, which were fully subscribed for.*

	31 December 2022 R000	31 December 2021 R000
16. Interest and similar expense		
Calculated using the effective interest method		
Call deposits – Corporate banking	**338 305**	200 306
Call deposits – Retail banking	**4 811**	5 362
Notice and fixed deposits	**255 477**	225 168
Funding under repurchase agreement	**9 874**	3 823
SARB guaranteed loans	**2 379**	1 017
Domestic medium-term note (DMTN)	**44 128**	35 336
Lease liabilities	**1 499**	1 278
	656 473	472 290
17. Non-interest revenue		
17.1 Net fee income		
Corporate banking	**1 396**	2 374
Corporate banking fee income	**6 273**	3 525
Corporate banking fee expense	**(4 877)**	(1 151)
Platform banking	**38 750**	36 767
Platform banking fee income	**171 816**	135 194
Platform banking fee expense	**(133 066)**	(98 427)
Corporate finance	**2 404**	5 744
Other banking related[1]	**2 649**	2 833
Net fee income	**45 199**	47 718
17.2 Gains and losses on financial instruments		
Loans and advances held at FVTPL – Fair value adjustments	**12 462**	36 337
Loans and advances held at FVTPL – Interest income	**109 047**	87 971
Loans and advances designated at FVTPL – Fair value adjustments	**(14 939)**	(37 426)
Loans and advances designated at FVTPL – Interest income	**53 022**	71 143
Modification of loans and advances at amortised cost	**(351)**	(2 073)
Derivates held at FVTPL – Fair value adjustments[2]	**28 003**	48 769
Derivates held at FVTPL – Interest expense[2]	**(13 412)**	(23 820)
Investment securities held at FVTPL	**6 998**	(80)
	180 830	180 821
17.3 Dividend income	**3 033**	–
17.4 Other non-interest revenue[3]	**13 764**	2 649
	242 826	231 188

[1] *Other banking related fee income consists of administrative fee income.*
[2] *Limited reclassifications were made to improve disclosure.*
[3] *Other non-interest revenue consists of distributions received from The Sirius 6 Trust, realisation of unallocated deposits, profit or loss on sale of property and equipment and foreign exchange gains or losses.*

	31 December 2022 R000	31 December 2021 R000
18. Impairment losses on financial assets		
Increase/(decrease) in allowance for credit losses		
Stage 1 ECL allowance against cash and short-term funds	**66**	54
Stage 1 ECL allowance against negotiable securities	**(393)**	46
Stage 1 and 2 ECL allowance against loans and advances	**(29 907)**	3 572
Stage 3 ECL impairment losses against loans and advances	**57 351**	48 241
	27 117	51 913

19. Operating expenses

	31 December 2022 R000	31 December 2021 R000
Audit fees	**4 251**	4 071
Advisory fees	**788**	655
Banking and transactional-related costs	**16 542**	13 403
Computer-related costs	**64 639**	53 614
Depreciation	**15 839**	15 446
Employee expenses	**202 324**	205 767
Remuneration and other employee expenses	**154 298**	154 521
Short-term incentives	**38 086**	48 884
Share-based payments expense	**9 940**	2 362
Fines and penalties[1]	**5 981**	6
Legal and professional fees	**15 075**	7 250
Licenses[1]	**1 286**	509
Marketing	**3 841**	3 586
Non-executive director emoluments	**6 991**	5 621
Premises	**5 165**	6 047
Rental	**21**	1 254
Other premises-related costs	**5 144**	4 793
Subscriptions[1]	**3 469**	2 160
Travel	**2 287**	911
Other expenses[1,2]	**10 877**	8 287
Indirect tax	**3 085**	292
	362 440	327 625
Included in employee expenses:		
Key executive management remuneration[3] (16 employees, 2021: 6 employees)		
Managerial services – salaries	**40 360**	18 888
Managerial services – short-term incentive expense[4]	**13 852**	5 315
Managerial services – share-based payment expense	**652**	910
Defined contribution plan expense	**3 907**	1 966
	58 771	27 079

[1] *Limited reclassifications were made to improve disclosure.*

[2] *Other expenses consists of insurance, entertainment, corporate services, stationery and telephone.*

[3] *The number of key executives increased from 6 members to 16 members after notification was received from the PA that certain permanent invitees to the executive committee should be made permanent members. The above disclosure does not include the remuneration of 3 members as they are remunerated by African Bank.*

[4] *Short-term incentive expense relates to 2021 awards paid in the 2022 reporting period. The 2022 short-term incentive provision has been raised but is yet to be awarded and is therefore not included in this amount.*

19. Operating expenses *continued*

Directors' remuneration

	Services as directors R000	Salaries R000	Short-term incentive expense[1] R000	Cash retention award paid[2] R000	Share-based payment expense[3] R000	Defined contribution plan expense R000	Total R000
31 December 2022							
Executive directors							
ZN Manyathi[4]	–	–	–	–	–	–	–
RS Garach	–	4 408	2 537	4 730	–	310	11 985
DA Polkinghorne	–	6 176	2 927	6 479	137	278	15 997
Non-executive directors							
T Dloti[5]	194	–	–	–	–	–	194
TD Soondarjee	1 156	–	–	–	–	–	1 156
S Barrett[6]	1 022	–	–	–	–	–	1 022
GG Christopulo	746	–	–	–	–	–	746
LA Dlamini[7]	68	–	–	–	–	–	68
CR Howell	809	–	–	–	–	–	809
RN Hutchinson-Keip[5]	97	–	–	–	–	–	97
RM Maleka	616	–	–	–	–	–	616
ZN Malinga	1 091	–	–	–	–	–	1 091
H Ralinala[5]	81	–	–	–	–	–	81
R Ramcharan	1 022	–	–	–	–	–	1 022
PJ Temple[7]	89	–	–	–	–	–	89
KG Bungane[4]	–	–	–	–	–	–	–
MP Grindrod[8]	–	–	–	–	–	–	–
	6 991	10 584	5 464	11 209	137	588	34 973
31 December 2021							
Executive directors							
DA Polkinghorne	–	5 864	1 836	–	483	279	8 462
RS Garach	–	3 971	1 304	–	–	384	5 659
Non-executive directors							
TD Soondarjee	1 050	–	–	–	–	–	1 050
S Barrett	1 072	–	–	–	–	–	1 072
JH Beare	252	–	–	–	–	–	252
GG Christopulo	695	–	–	–	–	–	695
CR Howell	722	–	–	–	–	–	722
RM Maleka	75	–	–	–	–	–	75
ZN Malinga	945	–	–	–	–	–	945
R Ramcharan	810	–	–	–	–	–	810
MP Grindrod	–	–	–	–	–	–	–
	5 621	9 835	3 140	–	483	663	19 742

[1] *Short-term incentive expense relates to 2021 awards paid in the 2022 reporting period. The 2022 incentive scheme provision has been raised but is yet to be awarded, therefore is not included in the above.*

[2] *Retention awards were made to incentivise certain key employees to remain in the employ of the Group for 12 months post the acquisition of Grindrod Financial Holdings by African Bank.*

[3] *The share-based payment expense relates to options that vested.*

[4] *Appointed in October 2022. ZN Manyathi and KG Bungane did not receive any remuneration/fees from the Grindrod Financial Holdings group of companies. Refer to below disclosure for remuneration/fees received from the African Bank Holdings group of companies.*

[5] *Appointed in October 2022. In addition to the fees received from the Grindrod Financial Holdings group of companies, these directors also received fees from the African Bank Holdings group of companies. Refer to below disclosure for fees received from the African Bank Holdings group of companies.*

[6] *It was noted that the director's fee for S Barrett was overstated by R26 125 in 2021. The overstatement is both quantitatively and qualitatively immaterial. The error was corrected in 2022.*

[7] *Appointed in November 2022. In addition to the fees received from the Grindrod Financial Holdings group of companies, these directors also received fees from the African Bank Holdings group of companies. Refer to below disclosure for fees received from the African Bank Holdings group of companies.*

[8] *MP Grindrod does not receive director's fees from the Grindrod Financial Holdings group of companies. Refer to below disclosure for remuneration received from the Grindrod Limited group of companies.*

Director emoluments paid by Holding Companies to Company directors, excluding payments by the Company:

	31 December 2022 R000	31 December 2021 R000
Executive directors of Grindrod Limited[1]		
MP Grindrod[2]	**3 574**	3 566
Executive directors of African Bank Holdings Limited[1]		
KG Bungane[3]	**12 799**	–
ZN Manyathi[3]	**8 054**	–
Non-executive directors of African Bank Holdings Limited[1]		
T Dloti[4]	**390**	–
LA Dlamini[4]	**140**	–
RN Hutchinson-Keip[4]	**179**	–
H Ralinala[4]	**145**	–
PJ Temple[4]	**163**	–

20. Income tax expense

	31 December 2022 R000	31 December 2021 R000
SA Normal taxation		
Current Tax	**13 500**	27 565
Current year[5]	**13 721**	32 024
Prior year[5]	**(221)**	(4 459)
Deferred Tax	**(4 741)**	(13 115)
Current year[5]	**7 024**	(18 333)
Change in tax rate	**2 437**	–
Prior year[5]	**(14 202)**	5 218
Foreign taxation	**–**	2 522
Income tax expense	**8 759**	16 972

	%	%
Reconciliation of the tax rate		
Standard rate	**28.00**	28.00
Adjusted for:		
Non-taxable dividend income	**(12.66)**	(16.02)
Non-taxable fair value adjustments	**(6.25)**	–
Non-deductible differences	**1.96**	0.24
Non-taxable differences	**(0.21)**	(0.12)
Capital losses/(gains) on loans and advances	**0.12**	0.75
Change in tax rate	**1.29**	–
Prior year tax adjustments	**(7.62)**	0.60
Effective tax rate	**4.63**	13.45

[1] *Refer to Directors' Report for Group Structure. Grindrod Limited was the Ultimate Holding Company of the Group until 31 October 2022. African Bank Holdings is the Ultimate Holding Company of the Group with effect from 1 November 2022.*
[2] *Resigned in November 2022. Remuneration disclosed is for the period 1 January 2022 - 31 October 2022.*
[3] *Appointed in November 2022. Remuneration disclosed is for the period 1 November 2022 - 31 December 2022.*
[4] *Fees disclosed are for the period 1 November 2022 - 31 December 2022.*
[5] *Limited reclassifications were made to improve disclosure.*

	31 December 2022 R000	31 December 2021 R000
21. Cash generated from operations		
Profit before taxation	**189 174**	126 146
Adjusted for:		
Unrealised profit on derivatives	**(28 003)**	(48 769)
Unrealised loss on loans and advances at FVTPL	**2 477**	1 089
Modification loss	**351**	2 073
Unrealised loss on investment securities	**16**	80
Realised profit on investment securities	**(7 014)**	–
Depreciation	**15 839**	15 446
Profit on sale of property and equipment	**(132)**	(22)
Foreign exchange loss	**115**	21
(Decrease)/Increase in Stage 1 and 2 ECL impairment allowances	**(30 234)**	3 672
Increase in Stage 3 ECL impairment allowances	**57 351**	48 241
Dividend income	**(3 033)**	–
Interest and similar income	**(992 378)**	(746 786)
Interest and similar expense	**656 473**	472 290
Operating profit before working capital changes	**(138 998)**	(126 519)
Changes in:		
(Increase)/decrease in fees and other receivables	**(14 738)**	50 853
(Increase)/decrease in prepayments	**(51 027)**	3 632
Increase in provisions and other liabilities	**7 921**	34 499
Cash generated from operations	**(196 842)**	(37 535)
22. Reconciliation of lease liabilities arising from financing activities		
Balance at 1 January	**19 277**	9 687
Additions	**11 980**	21 165
Interest expense	**1 499**	1 278
Payments	**(13 625)**	(12 853)
Balance at 31 December	**19 131**	19 277
23. Cash and short-term funds		
Cash and short-term funds	**1 490 439**	1 117 663
Deposits held with SARB for regulatory purposes	**(298 300)**	(292 309)
ECL allowance against cash and short-term funds (ECLs Stage 1)	**266**	200
Cash and short-term funds at 31 December	**1 192 405**	825 554
Cash and short-term funds comprise:		
Current account balances	**568 219**	51 616
Inter-bank deposits	**624 186**	773 938
	1 192 405	825 554

24. Financial instruments measured at fair value – hierarchy

The following tables analyse financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
31 December 2022				
Assets				
Loans and advances	**–**	**469 068**	**1 319 421**	**1 788 489**
Investment securities	**–**	**–**	**5 725**	**5 725**
Derivative instruments	**–**	**3 726**	**–**	**3 726**
	–	**472 794**	**1 325 146**	**1 797 940**
31 December 2021				
Assets				
Loans and advances	–	638 174	1 272 504	1 910 678
Investment securities	–	–	9 118	9 118
	–	638 174	1 281 622	1 919 796
Liabilities				
Derivative instruments	–	24 277	–	24 277
	–	24 277	–	24 277

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	31 December 2022		31 December 2021	
	Loans and advances R000	Investment securities R000	Loans and advances R000	Investment securities R000
Level 3 reconciliation				
Balance at 1 January	**1 272 504**	**9 118**	1 263 415	9 198
Total gains/(losses) recognised in profit or loss	**121 509**	**6 998**	124 308	(80)
Additions	**308 842**	**2 443**	386 303	–
Settlements/Disposals	**(383 434)**	**(12 834)**	(501 522)	–
Balance at 31 December	**1 319 421**	**5 725**	1 272 504	9 118

24. Financial instruments measured at fair value – hierarchy *continued*

Supplementary information

The table below reflects information about the valuation techniques and significant unobservable and observable inputs used in measuring financial assets categorised as Level 2 and 3 in the fair value hierarchy:

	Category	Valuation technique	Observable inputs
Level 2	Loans and advances	Discounted cash flow	Credit spreads, swap and prime curves
	Derivative instruments	Discounted cash flow and swaption methodology	Yield curves, credit default spreads and JIBAR curves

	Category	Valuation technique	Observable inputs	Unobservable inputs	Range for unobservable inputs
Level 3	Loans and advances	Discounted cash flow	Swap and prime curves	Credit spreads	1.8% – 74.9%
	Investment securities	Dividend yield method	Risk-free rate	Dividend growth rate	3.5x – 4.5x

The differentiation between level 2 and 3 financial instruments is that level 2 makes use of all observable inputs for the valuation, whereas level 3 includes unobservable inputs.

Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of alternative valuations. The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 financial instruments:

Significant unobservable parameter	Favourable/ (unfavourable) variance applied to parameters
31 December 2022	
Credit spread	**100 – 150/(100) – (150) bps**
Dividend growth rate	**100 – 150/(100) – (150) bps**
31 December 2021	
Credit spread	100 – 150/(100) – (150) bps
Price earnings multiple	0.5x – (0.5x)

A significant parameter has been deemed to be one which may affect profit or loss, or the fair value of the asset by more than 1%.

The following table presents the effects that the sensitivity analysis would have on Level 3 financial instruments:

Financial instrument	*Parameter*	**31 December 2022 Potential effect on profit or loss favourable/ (unfavourable) R000**	31 December 2021 Potential effect on profit or loss favourable/ (unfavourable) R000
Loans and advances	Credit spread – 100 bps	**18 366/(17 701)**	16 537/(15 995)
Loans and advances	Credit spread – 150 bps	**27 809/(26 312)**	25 017/(23 797)
Investment securities	Price earning multiple – 0.5x	**N/A**	3 154/(4 896)
Investment securities	Dividend growth rate – 100 bps	**169/(151)**	N/A
Investment securities	Dividend growth rate – 150 bps	**261/(221)**	N/A

25. Fair value of financial instruments measured at amortised cost – hierarchy

	Total carrying amount R000	**Total fair value R000**	**Level 1 R000**	**Level 2 R000**	**Level 3 R000**
31 December 2022					
Assets					
Cash and short-term funds	**1 490 439**	**1 490 439**	**–**	**1 490 439**	**–**
Negotiable securities	**3 992 594**	**3 981 945**	**3 981 945**	**–**	**–**
Loans and advances	**6 759 430**	**6 750 120**	**–**	**–**	**6 750 120**
Other assets – Fees and other receivables	**29 847**	**29 847**	**–**	**29 847**	**–**
	12 272 310	**12 252 351**	**3 981 945**	**1 520 286**	**6 750 120**
Liabilities					
Deposits and funding instruments	**12 300 505**	**12 300 505**	**–**	**12 300 505**	**–**
Trade and other payables	**19 810**	**19 810**	**–**	**19 810**	**–**
Preference share dividends payable	**11 977**	**11 977**	**–**	**11 977**	**–**
	12 332 292	**12 332 292**	**–**	**12 332 292**	**–**
31 December 2021					
Assets					
Cash and short-term funds	1 117 663	1 117 663	–	1 117 663	–
Negotiable securities	3 935 984	3 931 794	3 931 794	–	–
Loans and advances	6 650 577	6 655 400	–	–	6 655 400
Other assets – Fees and other receivables	15 109	15 109	–	15 109	–
	11 719 333	11 719 966	3 931 794	1 132 772	6 655 400
Liabilities					
Deposits and funding instruments	11 922 632	11 922 632	–	11 922 632	–
Trade and other payables	31 772	31 772	–	31 772	–
Preference share dividends payable	8 926	8 926	–	8 926	–
	11 963 330	11 963 330	–	11 963 330	–

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than 12 months) it is assumed that the carrying amounts approximate their fair value, except for treasury bills and government bonds within the negotiable securities portfolio. Fair values of treasury bills and government bonds are determined with reference to observable market prices for these instruments.

25. Fair value of financial instruments measured at amortised cost – hierarchy *continued*

Supplementary information

The table below reflects information about the valuation techniques and significant unobservable and observable inputs used in measuring financial instruments categorised as Level 2 and Level 3 in the fair value hierarchy:

	Category	Valuation technique	Observable inputs
Level 2	Cash and short-term funds	Discounted cash flow	Interest rates and yield curves
	Other assets – Fees and other receivables	Discounted cash flow	Interest rates and yield curves
	Deposits and funding instruments	Discounted cash flow	Interest rates and yield curves
	Trade and other payables	Discounted cash flow	Interest rates and yield curves
	Preference share dividends payable	Discounted cash flow	Interest rates and yield curves

	Category	Valuation technique	Observable inputs	Unobservable inputs	Range for unobservable inputs
Level 3	Loans and advances	Discounted cash flow	Swap and prime curves	Credit spreads	1.02% – 6.67%

26. Financial instruments risk management: credit risk

Credit risk is the risk of financial loss to the Group if a client or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to clients, other banks and investment debt securities.

Credit risk management

The board of directors has delegated responsibility for the management of credit risk to the credit and large exposure committee (CLEC).

Sound credit risk management involves prudently managing the risk and reward relationship which takes into account controlling and minimising credit risks across a variety of dimensions, such as financial performance, quality of lending, concentration, maturity, monitoring and security. The board has delegated responsibility for the management of credit risk to the CLEC who is responsible for the sustainability and health of the loan book by ensuring sound credit granting and for monitoring large exposures, associated exposures, sectoral exposure and any irregular or problem loans and advances. Credit risk is monitored at an individual and at an aggregated group exposure level. The Group's target market typically includes SME businesses with a focused client-centric approach. New deal approval is subject to specified limits of authority which are aggregated at a client or total group exposure level, i.e. credit department (R25 million), business banking credit committee (R50 million), executive credit management committee (R150 million), credit and large exposure committee (R300 million) and the board (above R400 million). CLEC monitors credit portfolios, risk procedures, policies and credit standards. The Group has tasked management to be more diligent and commence early interventions with clients in arrears. This has shown positive benefits in managing arrear accounts. The credit risk unit manages post-implementation credit risk in line with the Group's credit policies and board risk appetite. In addition the Group established a dedicated loan recovery unit to manage stage 2 and stage 3 loans and advances to maximise the amount of recoveries from distressed loans.

Maximum exposure to credit risk

Maximum exposure to credit risk at the reporting period is stated before taking into account any collateral or other credit enhancement and after taking into account impairments and netting where applicable. For financial assets recognised in the statement of financial position, the maximum exposure to credit risk equals the carrying amount. For financial commitments and guarantees, the maximum exposure to credit risk is the maximum amount the Group would have to pay to perform in terms of the contract.

Definitions

Past due

Exposures are considered past due when the facility has expired and not settled per terms and conditions of the contractual agreement. Generally, exposures are graded per the regulations and once they are considered past due, a stage 3 impairment loss is recognised taking into account the collateral held.

The Group has had a low default and credit loss history under normal economic conditions and as a result has limited internal statistics for the calculation of ECLs. The Group's ECL model includes various factors and key areas of professional judgement which are reviewed and approved by both the credit committee and risk and capital management committee.

Credit risk mitigation

The Group does not have material netting arrangements and it does not currently use credit derivatives to mitigate credit risk.

The Group values property collateral on a periodical basis using a desktop approach and independent valuations are performed where appropriate or necessary in terms of the Group's credit valuation policy. The value of listed financial instruments are tracked on an ongoing basis and unlisted investments and other security assets are valued periodically where significant reliance is placed on the security.

Counterparty risk

The risk that a counterparty to a transaction fails to perform in terms of the contract resulting in a potential cost to replace the cash flow or the risk that a counterparty fails to honour an undertaking for payment or delivery in terms of unsettled transactions.

The Group is extremely cautious when selecting counterparties to transactions and formal limits are established for counterparties.

The Group only enters into interest rate swaps with the major South African banks.

The Group has adopted the Basel III standardised approach for the measurement of its exposure to credit risk.

Concentration risk

The risk of an uneven distribution of loans and advances to individual borrowers, industries or sectors and geographical regions which could result in significant credit losses.

The Group monitors concentration risk on an ongoing basis and ensures adequate diversification of exposure at account and underlying security level. Sufficient regard is also given to section 73 (Concentration Risk) of the Banks Act.

27. Financial instruments risk management: liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

In the banking environment, liquidity risk may be defined as the risk of a bank not being able to repay its maturing deposits or meet its obligations under a loan agreement. Liquidity risk includes the risk of incurring excessively high interest costs or being forced to sell assets at a loss in order to meet obligations.

The Group has a prudent liquidity management policy and the asset liability committee (ALCO) is responsible for monitoring the stability of funding, surplus cash or near cash assets, anticipated cash outflows, exposure to large depositors and exposure to related parties. Liquidity risk arises from mismatches in the timing and amount of cash flows, which is inherent to the Group's operations and investments. The Group has been well-served by its prudent liquidity management policy, strong liquidity ratios, the stability of its deposit base and the quality of the advances book and intends to continue to adopt a conservative liquidity policy. In addition, the Group maintains a healthy level of easily liquefiable assets to adequately manage short-term liquidity requirements.

Contractual maturity analysis	Note	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non-contractual R000	Total R000
31 December 2022 Assets (discounted maturity)								
Cash and short-term funds	1	1 192 405	–	–	298 300	–	(266)	1 490 439
Negotiable securities	2	1 399 783	606 037	1 598 557	109 193	279 640	(616)	3 992 594
Loans and advances[1]	3	2 027 089	359 886	836 867	4 115 308	1 423 912	(215 143)	8 547 919
Derivative instruments	4	(57)	–	1 157	1 845	781	–	3 726
Investment securities	5	–	–	–	–	–	5 725	5 725
Other assets - Fees and other receivables	6	29 847	–	–	–	–	–	29 847
		4 649 067	965 923	2 436 581	4 524 646	1 704 333	(210 300)	14 070 250
31 December 2022 Liabilities (undiscounted maturity)								
Deposits and funding instruments	9	10 819 215	855 508	144 985	602 203	3 911	–	12 425 822
Other liabilities – Trade and other payables	11	19 810	–	–	–	–	–	19 810
Other liabilities – Preference share dividends payable	11	11 977	–	–	–	–	–	11 977
		10 851 002	855 508	144 985	602 203	3 911	–	12 457 609
Financial guarantees	36	663 213	–	–	–	–	–	663 213
Irrevocable unutilised facilities	36	250 486	–	–	–	–	–	250 486
		11 764 701	855 508	144 985	602 203	3 911	–	13 371 308

[1] *The contractual maturity analysis of loans and advances are based on the final contractual maturity of the exposure. In certain instances these loans and advances represent amortising exposures, however the Group adopted a conservative approach and reflected the cash inflows on amortising exposures based on the final expected repayment date.*

	Note	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non–contrac–tual R000	Total R000
31 December 2021 Assets (discounted maturity)								
Cash and short-term funds	1	344 279	-	771 691	-	1 893	(200)	1 117 663
Negotiable securities	2	918 047	1 232 230	1 473 758	217 114	95 844	(1 009)	3 935 984
Loans and advances[1]	3	2 211 179	160 766	828 982	3 973 320	1 604 895	(217 887)	8 561 255
Investment securities	5	-	-	-	-	-	9 118	9 118
Other assets - Fees and other receivables	6	15 109	-	-	-	-	-	15 109
		3 488 614	1 392 996	3 074 431	4 190 434	1 702 632	(209 978)	13 639 129
31 December 2021 Liabilities (undiscounted maturity)								
Deposits and funding instruments	9	9 592 432	1 116 108	627 342	739 347	9 847	–	12 085 076
Derivative instruments	4	–	–	1 072	20 889	2 316	–	24 277
Other liabilities – Trade and other payables	11	31 772	–	–	–	–	–	31 772
Other liabilities – Preference share dividends payable	11	8 926	–	–	–	–	–	8 926
		9 633 130	1 116 108	628 414	760 236	12 163	–	12 150 051
Financial guarantees	36	434 724	–	–	–	–	–	434 724
Irrevocable unutilised facilities	36	232 141	–	–	–	–	–	232 141
		10 299 995	1 116 108	628 414	760 236	12 163	–	12 816 916

[1] *The contractual maturity analysis of loans and advances are based on the final contractual maturity of the exposure. In certain instances these loans and advances represent amortising exposures, however the Group adopted a conservative approach and reflected the cash inflows on amortising exposures based on the final expected repayment date.*

28. Financial instruments risk management: interest rate risk

Interest rate risk is the risk that fluctuating interest rates will unfavourably affect an institution's earnings and the value of its assets, liabilities and capital. The risk is due to assets and liabilities repricing at different times, or against different base rates. The amount at risk is a function of the magnitude and direction of interest rate changes.

Traditional repricing gap analysis is used to measure interest rate exposure. The Group has a conservative policy on interest rate risk arising from repricing differentials. The static interest rate gap report is reviewed bi-monthly by ALCO and the model assumes that both assets and liabilities will reprice in the relevant maturity bucket.

Interest rate repricing gap	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non-rate sensitive R000	Total R000
31 December 2022							
Assets	**10 881 325**	**606 037**	**1 598 557**	**406 879**	**455 879**	**268 655**	**14 217 332**
Equity and liabilities	**(12 307 781)**	**(54 758)**	**(81 995)**	**(140 970)**	**–**	**(1 631 828)**	**(14 217 332)**
Interest rate hedging activities	**393 525**	**–**	**(70 000)**	**(278 224)**	**(45 301)**	**–**	**–**
Repricing profile	**(1 032 931)**	**551 279**	**1 446 562**	**(12 315)**	**410 578**	**(1 363 173)**	**–**
Cumulative repricing profile	**(1 032 931)**	**(481 652)**	**964 910**	**952 595**	**1 363 173**	**–**	**–**
Expressed as a percentage of total assets (%)	**(7.3%)**	**(3.4%)**	**6.8%**	**6.7%**	**9.6%**		
31 December 2021							
Assets	9 711 083	1 232 231	1 540 011	756 005	302 358	190 266	13 731 954
Equity and liabilities	(11 335 365)	(333 650)	(298 896)	(239 720)	–	(1 524 323)	(13 731 954)
Interest rate hedging activities	663 270	–	(66 254)	(403 781)	(193 235)	–	–
Repricing profile	(961 012)	898 581	1 174 861	112 504	109 123	(1 334 057)	–
Cumulative repricing profile	(961 012)	(62 431)	1 112 430	1 224 934	1 334 057	–	–
Expressed as a percentage of total assets (%)	(7.0%)	(0.5%)	8.1%	8.9%	9.7%		

Interest income sensitivity	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	Cumulative impact on net interest income R000
31 December 2022				
2% interest rate increase	**(7 605)**	**(8 134)**	**(16 269)**	**(32 008)**
2% interest rate decrease	**7 605**	**8 134**	**16 269**	**32 008**
31 December 2021				
2% interest rate increase	(4 866)	(5 677)	(11 355)	(21 898)
2% interest rate decrease	4 866	5 677	11 355	21 898

Interest rate sensitivity is based on the static repricing profile of assets and liabilities at the reporting date and determined by applying market-related interest rates and a parallel interest rate shock.

Equity impact is net of tax and amounts to (R23.05 million) (2021: (R15.77 million)) on a 2% interest rate increase and R23.05 million (2021: R15.77 million) on a 2% interest rate decrease.

Hedging

Hedging is a technique used to reduce risk by simultaneously entering into a transaction to be hedged and a transaction with equivalent characteristics in terms of size, duration and interest rate but with an opposite financial effect.

All individual fixed rate credit assets are required to be hedged, either within the funding book or synthetically with derivative instruments.

29. Financial instruments risk management: market risk

This is the risk that the market price of an asset may change, resulting in a loss on realisation of that asset.

The Group does not have any regulatory market risk from trading activities. Where marketable securities are held as investments, the market prices are observed and reported at bi-monthly ALCO meetings.

30. Financial instruments risk management: equity investment risk

Equity price risk is the risk that arises from security price volatility – the risk of a decline in the value of a security or a portfolio.

Listed investments are recognised on a settlement date basis and are initially measured at fair value and are remeasured to fair value through profit or loss using market closing prices.

Unlisted investments are recognised on a settlement date basis and are initially measured at fair value and are remeasured to fair value through profit or loss using either listed proxy entity share prices (adjusted for liquidity, marketability and operational scale), dividend yield model or a discounted cash flow model taking into account future maintainable earnings.

All unrealised gains/(losses) are recognised in profit or loss.

Sensitivity analysis	**31 December 2022 R000**	**31 December 2021 R000**
10% increase in equity prices	**573**	912
10% decrease in equity prices	**(573)**	(912)

Equity impact, net of tax, amounts to R0.44 million (2021: R0.71 million) on a 10% increase in equity prices and (R0.44 million) (2021: (R0.71 million)) on a 10% decrease in equity prices.

31. Financial instruments risk management: currency risk

Currency risk is the risk that changes in exchange rates will have an impact on profitability due to a mismatch between foreign receivables and foreign payables. The Group's exposure to currency risk is limited to an immaterial number of foreign debtors and foreign creditors. The Group does not deem the risk significant enough to warrant it taking out foreign exchange contracts to hedge itself against currency risk.

32. Financial instruments risk management: solvency/capital adequacy risk

Solvency risk is the risk that a bank will not have adequate capital and reserve funds to absorb losses, resulting in depositors having to absorb these losses which could result in depositors losing confidence in the Group.

Capital management

The Group manages its capital base to ensure an appropriate balance between maintaining adequate capital levels while still supporting business growth, maintaining depositor confidence and ensuring sustainable returns to stakeholders.

The Group's capital management policy objectives are to ensure the Group is adequately capitalised to support its risk profile and the development of robust risk management techniques and internal controls to manage and monitor the risks of the Group.

Key objectives include:

» Sufficiency of capital to meet regulatory requirements as set by the PA
» Adequacy of capital to meet the economic capital requirements of the Group
» Optimisation of returns on regulatory capital, thereby ensuring market-related returns to investors on a sustainable basis
» Ability to generate capital to support and maintain business growth
» Ability to withstand potential macro and/or micro stress events through the maintenance of an adequate capital buffer

32. Financial instruments risk management: solvency/capital adequacy risk *continued*

Regulatory capital

In terms of the requirements of the Banks Act, the Group has complied with the minimum capital requirements for the current reporting period.

The Group's regulatory capital is split into two tiers:

» Tier 1 capital is split into common equity Tier 1 capital and additional Tier 1 capital, which includes ordinary share capital, share premium, appropriated retained earnings and qualifying preference share capital
» Tier 2 capital includes qualifying Stage 1 and 2 impairments losses

The minimum capital requirements are defined by two ratios as follows:

» Tier 1 capital as a percentage of risk-weighted assets
» Total qualifying capital as a percentage of risk-weighted assets

	2022 % Unaudited	2021 % Audited
Common equity Tier 1 capital	**12.930**	12.498
Additional Tier 1 capital	**2.740**	2.777
Total Tier 1 capital	**15.670**	15.275
Tier 2 capital	**0.088**	0.384
Total capital	**15.758**	15.659
Stakeholder capital adequacy ratio minimum requirements		
Regulator:		
– Notional common equity Tier 1	**7.500**	7.000
– Notional total Tier 1	**9.250**	8.500
– Total capital	**11.500**	10.500

Retained earnings appropriation

The Group appropriates earnings retained after dividend distributions, as required, to ensure minimum required capital levels are maintained.

Dividend policy

The Group has a dividend policy of three times cover (33.33%) subject to the Companies Act requirements around solvency and liquidity. Dividends will only be distributed where moderate stress forecasting indicates no capital shortfall or where unappropriated reserves adequately cover dividends and any capital appropriation required to maintain capital levels.

33. Financial instruments risk management: operational risk

Operational risk is the risk that internal practices, policies and systems are not rigorous or sophisticated enough to cope with adverse market conditions or human or technological errors, including:

» Error, negligence or fraud
» Failure to correctly measure or report risk
» Lack of controls to prevent unauthorised or inappropriate transactions being made
» Lack of understanding by key employees

It is the responsibility of management and ultimately the risk and capital management committee to assess operational procedures and controls and to ensure the adequacy thereof. Management is assisted by internal audit in this regard.

The Group has adopted the Basel III basic indicator approach for the measurement of operational risk.

34. Incentive schemes

At 31 December 2022, the Group had the following short-term incentives (refer note 10) and share-based payment arrangements (refer note 11):

Risk, internal audit and compliance employees do not have specific incentives linked to the performance of the business. They do, however, share in the general short-term incentive pool should there be one, and they may be granted share options.

Short-term incentives (refer to note 10)

Short-term incentives are based on the achievement of agreed individual key performance indicators with employees, subject to the satisfactory performance of the Group and approval by the human capital and remuneration committee. Short-term incentives for executives and other key employees are based on the achievement of agreed individual key performance indicators and the achievement of the Group's business scorecard objectives based on final audited results, subject to the satisfactory performance of the Group and approval by the board of directors taking into account other qualitative factors. Short-term incentives for executives are capped at 100% of total cost of employment.

Share-based payment arrangements

The share option schemes have a deferral mechanism as a result of the vesting periods and are forfeited on resignation or dismissal from the Group. At this stage no clawbacks or long-term performance measures exist.

Grindrod Financial Services Group cash-settled share-based incentive schemes (refer to note 11)

The Group has offered share appreciation rights (SARs) linked to the growth in the consolidated value of Grindrod Financial Holdings. 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 Group 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 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
» Approximately seven times the consolidated sustainable after tax profits of Grindrod Financial Holdings for the latest reporting period in respect of which audited financial results have been prepared

The value of new shares issued is capped at 10% of retained earnings of Grindrod Financial Holdings for the latest reporting period in respect of which audited financial results have been prepared, taking into account shares in issue and notional shares in respect of dividends that have been capitalised into the entities.

An employee's right to participate in the scheme terminates upon leaving the employment of the Group. Vesting may, in exceptional circumstances and subject to the approval of the remuneration committee, occur earlier than the five-year vesting period.

The Group has recognised liabilities of R12.52 million (2021: R4.25 million). Refer to note 11.

The Group has recognised expenses of R9.94 million (2021: R2.36 million). Refer to note 11.

The details of the SARs are as follows:

Date granted	Number of SARs	Issue price[1] R	Cancellations	Settlements	Restated	Vested	Net total[2]
2017	1 109 000	14.33	(351 623)	(226 000)	111 997	(643 374)	–
2018	1 194 000	15.20	(342 498)	(255 555)	132 476	(547 695)	180 728
2019	1 641 000	16.54	(507 777)	(378 474)	200 078	(438 236)	516 591
2020	2 262 000	15.01	(359 000)	(142 000)	–	–	1 761 000
2021	1 890 000	15.51	(179 000)	(122 000)	–	–	1 589 000
2022	2 528 043	15.89	–	–	–	–	2 528 043
	10 624 043		(1 739 898)	(1 124 029)	444 551	(1 629 305)	6 575 362

[1] *The price reflects the market price on the date of the awards.*
[2] *At 31 December 2022, the fair value of these SARs based on a closing price of R16.73 was R8.32 million.*

34. Incentive schemes *continued*

The vesting price for the 2017, 2018 and 2019 awards that vested during 2022 was R15.89. The 2020, 2021 and 2022 awards did not vest during the year.

In addition an employee that was a scheme participant retired during the 2022 year. His outstanding options at retirement date amounted to 388 028 which vested at a price of R16.26.

The final vesting date for the 2022 options is 2027.

Included in the net total SARs in issue is 1 335 983 made to DA Polkinghorne (outgoing chief executive officer) and 868 000 made to RS Garach (chief financial officer).

Details of SARs outstanding during the year:

	31 December 2022 Number of SARs	31 December 2021 Number of SARs
Outstanding at 1 January	**5 302 216**	4 138 779
Granted during the year	**2 528 043**	1 890 000
Settled/Cancelled during the year	**(1 254 897)**	(726 563)
Outstanding at 31 December	**6 575 362**	5 302 216

In addition to the above share option scheme, DA Polkinghorne was also a beneficiary of the Grindrod Limited share-price linked scheme. The details of the scheme is as follows:

The options issued by Grindrod Limited requires a payment of the intrinsic value of the SARs at the date of exercise.

The fair values were calculated using a stochastic model based on the standard binomial options pricing model.

This model has been modified to take into account early exercise opportunities and expected employee behaviour.

Refer to Grindrod Limited financial statements, as disclosed on their website at www.grindrod.co.za, for full disclosure.

The final vesting date of the options were accelerated to 31 October 2022 due to the sale of Grindrod Financial Holdings by Grindrod Limited to African Bank.

The details of the SARs are as follows:

Date granted	Number of SARs	Issue price[3] R	Vested	Net total[4]
2017	**287 230**	**7.65**	**(287 230)**	**–**
2018	**351 193**	**7.40**	**(351 193)**	**–**
2019	**385 000**	**8.13**	**(385 000)**	**–**
2020	**406 800**	**3.67**	**(406 800)**	**–**
2021	**213 000**	**5.10**	**(213 000)**	**–**
2022	**209 000**	**5.73**	**(209 000)**	**–**
	1 852 223		**(1 852 223)**	**–**

The vesting price for the third and final tranche of the 2017 award, the second tranche of the 2018 award and the first tranche of the 2019 award was R5.73, R5.69 and R5.88 respectively. The vesting price of the remaining tranches was R9.92.

[3] *The price reflects the market price on the dates of the awards.*

[4] *The disposal of Grindrod Limited's shareholding in Grindrod Financial Holdings to African Bank triggered vesting of the share options under the Grindrod Limited share-price-linked option scheme in terms of the rules governing the scheme. An amount of R4.19 million is payable to DA Polkinghorne for the options that vested in 2022.*

Details of SARs outstanding during the year:

	31 December 2022 Number of SARs	31 December 2021 Number of SARs
Outstanding at 1 January	**1 382 545**	1 582 286
Granted during the year	**209 000**	213 000
Settled/Cancelled during the year	**(1 591 545)**	(412 741)
Outstanding at 31 December	**–**	1 382 545

Grindrod Limited forfeitable share plan (FSP) (refer to note 11)

In terms of the Grindrod Limited FSP, the participants are entitled to receive dividends and to vote in respect of the shares awarded. However, the forfeitable shares cannot be disposed of or otherwise encumbered and they are also subject to a risk of forfeiture until the delivery date. The shares vest in equal tranches after three, four and five years. For the delivery conditions to be met, the participants are required to remain employed by the Group until the vesting date. There are no performance criteria in the vesting conditions. Employees terminating employment due to resignation or dismissal on grounds of misconduct, proven poor performance or proven dishonest or fraudulent conduct will forfeit all unvested awards. There were no issues in either the current or prior reporting periods.

The fair value of the equity settled shares subject to non-market conditions is the average share price at grant date.

The final vesting date of the outstanding forfeitable shares vested in June 2022. The Group does not have a liability for the forfeitable share plan at 31 December 2022 (2021: R0.51 million). Refer to note 11.

The Group has not recognised an expense in the current or prior reporting periods. Refer to note 11.

The details of the forfeitable share plan are as follows:

Date granted	Number of options	Price[1] R	Number of forfeitable shares vested	Number of forfeitable shares forfeited	Total forfeitable shares[2]
2017	**78 445**	**13.87**	**(78 445)**	–	–

The vesting price for the 2017 awards that vested during 2022 was R8.87.

Details of options outstanding during the year:

	31 December 2022 Number of options	31 December 2021 Number of options
Outstanding at 1 January	**78 445**	193 941
Vested during the year	**(78 445)**	(115 496)
Outstanding at 31 December	**–**	78 445

[1] *The price reflects the market price on the dates of the awards.*
[2] *The final outstanding forfeitable shares vested in June 2022.*

35. Restatements

Change in presentation: Statement of Cash Flow

In the current financial year, management changed the cash from operating activities section of the Statement of Cash Flows. To better align the Statement of Cash Flows with the requirements of IFRS, interest paid and interest received which was previously presented in the line items "Cash generated from operations, Increase in loans and advances and Increase in deposits and funding instruments" has now been presented separately in the Statement of Cash Flows.

These changes were not made to correct prior period errors, however management were of the view that it would more appropriately reflect information that is used for decision making by investors and stakeholders and is better aligned to the requirements of IFRS.

Statement of Cash Flows (extract)	31 December 2021 R000	Increase/ (Decrease)	31 December 2021 R000 (Restated)
Cash generated from/(used in) operations	294 029	(331 564)	(37 535)
Interest received	–	638 067	638 067
Interest paid	–	(460 094)	(460 094)
Increase in loans and advances	(506 138)	165 787	(340 351)
Increase in deposits and funding instruments	1 957 159	(12 196)	1 944 963
Total	1 745 050	–	1 745 050

36. Commitments and financial guarantees

	31 December 2022 R000	31 December 2021 R000
Financial guarantees	663 213	434 724
Financial guarantees are provided where lending facilities have been approved and all the terms and conditions of the loan have been met.		
Irrevocable unutilised facilities	250 486	232 141
Irrevocable unutilised facilities are approved lending facilities which cannot be unconditionally withdrawn, prior to facility expiry, by Grindrod Bank.		
Maximum exposure to credit risk[1]	653 355	341 056

37. Retirement benefit information

Defined contribution plan expense	17 191	17 720

The Group contributes to the Galaxy Umbrella Provident Fund, administered by GQM Fund Administrators Proprietary Limited, a defined contribution plan. Alexander Forbes Financial Services Proprietary Limited is responsible for the admin functions of the fund. The fund is registered under and governed by the Pension Funds Act, 1956.

At 31 December 2022, 167 employees (2021: 182 employees) of the Group were members of the Galaxy Umbrella Provident Fund.

[1] *Excludes cash-backed guarantees.*

38. Analysis of the Group's interests in unconsolidated structured entities

The Group currently holds preference shares in various entities as a result of financing activities. Some of these financed entities have defined investment-related activities including holding shares in either listed or unlisted entities. The Group does not have any voting rights in these entities in the absence of a default event. In accordance with IFRS 10, an assessment of the facts, circumstances, significant judgements and assumptions has been performed to ensure that there is no control over these entities.

The following table summarises the carrying amounts, interest revenue, impairment losses and fair value adjustments recognised in the statement of financial position and statement of comprehensive income of the Group's interest in unconsolidated structured entities:

	31 December 2022 R000	31 December 2021 R000
Statement of financial position		
Loans and advances – at FVTPL	**648 938**	642 767
Loans and advances – at amortised cost	**351 868**	457 628
Statement of comprehensive income		
Loans and advances at amortised cost – Interest revenue	**39 329**	24 857
Loans and advances held at FVTPL – Fair value adjustments	**6 641**	26 800
Loans and advances held at FVTPL – Interest income	**50 955**	44 837
Impairment losses on loans and advances	**3 244**	(18 015)

The primary risk to which the Group is exposed is default risk. The Group has security in the form of limited guarantees in certain instances.

39. Related parties

The Group conducts business with various related parties. As of 1 November 2022, entities within the Grindrod Limited group are no longer related parties of the Grindrod Financial Holdings group, as African Bank acquired 100% of the ordinary shares in Grindrod Financial Holdings from Grindrod Limited on 1 November 2022. Outstanding balances between the Group and entities within the Grindrod Limited group are not disclosed for the year ended 31 December 2022. Transactions from 1 January 2022 to 31 October 2022 between the Group and entities within the Grindrod Limited group, however, are disclosed below.

African Bank Holdings Group companies

Entities in the African Bank Holdings group, other than all entities held directly or indirectly by the Group.

Grindrod Limited group companies

Entities in the Grindrod Limited group, other than all entities held directly or indirectly by the Group.

Grindrod Limited group investee entities

These entities form part of Grindrod Limited group's portfolio of equity investments. These investees are managed and operated by third party clients of the Group, but are classified as associate companies in accordance with IFRS due to the Grindrod Limited group holding between 20% and 50% of the shares in the entities thereby having significant influence over these companies. The investments are passive.

Directors and key management personnel (directly and indirectly)

Includes close family members and any entity controlled or jointly controlled by directors or key management personnel, split between:

- Grindrod Limited
- African Bank Holdings group
- Grindrod Financial Holdings group

Advances to and deposits from the above groups of related parties are all on normal business terms and at market-related interest rates.

39. Related parties *continued*

Summary of related party transactions

	31 December 2022 R000	31 December 2021 R000
1. Cash and short-term funds		
Inter-bank deposits with related parties:		
African Bank Holdings group companies (excluding Grindrod Financial Holdings group)	**352 081**	–
	352 081	–
3. Loans and advances		
Related party loans and advances to:		
Grindrod Group companies	–	554 324
Grindrod Group investee entities	–	821 259
Directors and key management personnel (directly and indirectly)		
Grindrod Financial Holdings group	**3 124**	7 025
	3 124	1 382 608
6. Other assets		
Included in other assets are amounts due from related parties:		
Grindrod Limited group companies	–	1 519
Grindrod Limited group investee entities	–	97
	–	1 616
9. Deposits and funding instruments		
Related party deposits from:		
Grindrod Limited group companies	–	15 167
Grindrod Limited group investee entities	–	1 549
Grindrod Bank subsidiaries	**72**	72
Deposits from directors and key management personnel (directly and indirectly)		
Grindrod Limited group (excluding Grindrod Financial Holdings group)	–	137 648
Grindrod Financial Holdings group	**7 485**	107 322
	7 557	261 758
11. Other liabilities		
Included in other liabilities are amounts due to related parties:		
African Bank Holdings group companies (excluding Grindrod Financial Holdings group)	**1 233**	–
	1 233	–
15. Interest and similar income		
Interest and similar income earned from related parties:		
African Bank Holdings group companies (excluding Grindrod Financial Holdings group)	**3 922**	–
Grindrod Limited group companies	**35 691**	39 217
Grindrod Limited group investee entities	**59 854**	84 538
Interest and similar income earned from directors and key management personnel of:		
Grindrod Financial Holdings group	**455**	4 028
	99 922	127 783

	31 December 2022 R000	31 December 2021 R000
16. Interest and similar expense		
Interest and similar expenses paid to related parties:		
Grindrod Limited group companies	**894**	890
Grindrod Limited group investee entities	**772**	121
Interest and similar expenses paid to directors and key management personnel of:		
Grindrod Limited group (excluding Grindrod Financial Holdings group)	**4 662**	5 536
Grindrod Financial Holdings group	**3 703**	4 324
	10 031	10 871
17.1 Fee income		
Fee income earned from related parties:		
Grindrod Limited group companies	**1 299**	4 398
Grindrod Limited group investee entities	**1 261**	11 955
Fee income earned from directors and key management personnel of:		
Grindrod Limited group (excluding Grindrod Financial Holdings group)	**71**	136
Grindrod Financial Holdings group	**487**	–
	3 118	16 489
19. Operating expenses		
Operating expenses paid to related parties:		
African Bank Holdings group companies (excluding Grindrod Financial Holdings group)	**1 233**	–
Grindrod Limited group companies	**6 019**	7 139
Operating expenses paid to directors and key management personnel of:		
Grindrod Financial Holdings group	**–**	69
	7 252	7 208
36. Commitments and financial guarantees		
Guarantees held by related parties subject to credit risk:		
Grindrod Limited group companies	**–**	11 974
Grindrod Limited group investee entities	**–**	30 812
Directors and key management personnel (directly and indirectly)		
Grindrod Limited group (excluding Grindrod Financial Holdings group)	**–**	14 865
Grindrod Financial Holdings group	**9 923**	19 742
	9 923	77 393

40. Contingent liabilities

The Group, in the ordinary course of business, enters into transactions that expose it to taxation, legal and business risks. Provisions are made for known liabilities that are expected to materialise. Possible obligations and known liabilities, where no reliable estimate can be made or it is considered improbable that an outflow would result, are reported as a contingent liability in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

FICA Non-Compliance

During 2020, the PA conducted a FICA inspection. The inspection revealed certain findings of non-compliance with the FIC Act. In July 2022, the PA issued a notification to the Group of its intention to impose an administrative sanction in terms of section 45C of the FIC Act to the amount of R11.90 million. The notification states that of the R11.90 million penalty, R5.92 million has been suspended for a period of 24 months from date of the final notice. The unsuspended penalty of R5.98 million is payable upon receipt of the final notice from the PA. The Group has not received the final notice from the PA at reporting date, hence a provision for the unsuspended penalty of R5.98 million was recognised in accordance with IAS 37.

Although procedures and controls are being put in place to ensure that non-compliance does not reoccur, it is possible that the Group could become liable for the suspended penalty of R5.92 million, however this is contingent on the occurrence of uncertain future events not wholly within control of the Group, hence a provision has not been recognised for the suspended penalty.

41. Going concern

Effective 1 November 2022, Grindrod Financial Holdings became a wholly owned subsidiary of African Bank. The consolidated banking group (African Bank and Grindrod Bank) are currently operating under two separate banking licenses. The intention of the board of directors of Grindrod Bank is to effect an amalgamation in terms of section 54 of the Banks Act, subject to regulatory approval, within 12 months from 31 December 2022 such that the assets and liabilities of Grindrod Bank will be transferred to African Bank and Grindrod Bank's banking license subsequently cancelled.

The purpose of the section 54 amalgamation is to drive operational efficiency whereby the consolidated banking group can operate under a single banking license. The amalgamation will not change the expected method of realisation of assets or settlement of liabilities that are transferred from Grindrod Bank to African Bank.

Given the above, the Group is expected to cease trading within 12 months from reporting date. The requirements of IFRS states that the financial statements cannot be prepared on the going concern basis, but on an alternate basis if an entity is expected to cease trading within the foreseeable future.

The IFRS is not prescriptive on the alternate basis for preparing financial statements if the entity is no longer deemed to be a going concern.

The Group has applied judgement and elected to be consistent in the application of its accounting policies to prior years given that the realisation of its assets and settlement of liabilities following the transfer to African Bank will remain unchanged.

42. Events after reporting date

The directors are not aware of any matter or circumstance arising since the reporting period date, other than noted above, that has a material impact on the financial statements.

STATEMENT OF FINANCIAL POSITION OF GRINDROD FINANCIAL HOLDINGS LIMITED

At 31 December 2022

	Notes	31 December 2022 R000	31 December 2021 R000
Assets			
Investment in subsidiaries	1	**380 278**	380 278
Total assets		**380 278**	380 278
Equity			
Ordinary share capital	2	**–**	–
Share premium	3	**380 278**	380 278
Total equity		**380 278**	380 278

STATEMENT OF COMPREHENSIVE INCOME OF GRINDROD FINANCIAL HOLDINGS LIMITED

For the year ended 31 December 2022

	2022 R000	2021 R000
Dividend income	**36 391**	30 000
Profit before tax	**36 391**	30 000
Income tax expense	**–**	–
Profit for the year	**36 391**	30 000
Other comprehensive income	**–**	–
Total comprehensive income for the year	**36 391**	30 000

STATEMENT OF CHANGES IN EQUITY OF GRINDROD FINANCIAL HOLDINGS LIMITED

For the year ended 31 December 2022

	Ordinary share capital R000	Share premium R000	Retained earnings R000	Total R000
Balance at 31 December 2020	–	380 278	–	380 278
Share issuance	–	25 224	–	25 224
Share repurchase	–	(25 224)	–	(25 224)
Total comprehensive income for the year	–	–	30 000	30 000
Profit for the year	–	–	30 000	30 000
Ordinary dividends	–	–	(30 000)	(30 000)
Balance at 31 December 2021	**–**	**380 278**	**–**	**380 278**
Total comprehensive income for the year	**–**	**–**	**36 391**	**36 391**
Profit for the year	**–**	**–**	**36 391**	**36 391**
Ordinary dividends	**–**	**–**	**(36 391)**	**(36 391)**
Balance at 31 December 2022	**–**	**380 278**	**–**	**380 278**

STATEMENT OF CASH FLOWS OF GRINDROD FINANCIAL HOLDINGS LIMITED

For the year ended 31 December 2022

	2022 R000	2021 R000
Cash flows from investing activities		
Dividends income	**36 391**	30 000
Net cash from investing activities	**36 391**	30 000
Cash flows from financing activities		
Dividends paid to ordinary shareholders	**(36 391)**	(30 000)
Issue of ordinary share capital	**–**	25 224
Repurchase of ordinary share capital	**–**	(25 224)
Net cash used in financing activities	**(36 391)**	(30 000)
Net increase/(decrease) in cash and short-term funds	**–**	–
Cash and short-term funds at 1 January	**–**	–
Cash and short-term funds at 31 December	**–**	–

NOTES TO THE FINANCIAL STATEMENTS OF GRINDROD FINANCIAL HOLDINGS LIMITED

For the year ended 31 December 2022

		31 December 2022 R000	31 December 2021 R000
1.	**Investment in subsidiaries**		
	Grindrod Bank (100%)		
	65 000 003 (2021: 65 000 003) ordinary shares of 1 cent each, at cost	**380 278**	380 278
	The principal place of business of this subsidiary is 5 Arundel Close, Kingsmead Office Park, Durban, 4001		
2.	**Ordinary share capital**		
	Authorised		
	10 000 000 (2021: 10 000 000) ordinary shares of 1 cent each	**100**	100
	Issued		
	15 239 (2021: 15 239) ordinary shares of 1 cent each	**–**	–
	Reconciliation of the number of shares issued		
	Balance at 1 January	**15 239**	15 239
	Issue of shares[1]	**–**	483
	Repurchase of shares[1]	**–**	(483)
	Balance at 31 December	**15 239**	15 239
	The directors do not have the authority to issue the remaining unissued shares unless a resolution is passed by the shareholders.		
3.	**Share premium**		
	Arising on the issue of 15 239 (2021: 15 239) ordinary shares of 1 cent each	**380 278**	380 278
	Reconciliation of share premium		
	Balance at 1 January	**380 278**	380 278
	Issue of shares[1]	**–**	25 224
	Repurchase of shares[1]	**–**	(25 224)
	Balance at 31 December	**380 278**	380 278

4. Financial instruments risk management: credit risk

Common with all other businesses, the Company is exposed to financial risks. These risks are managed as part of the normal operations of the Company. The more important financial risks to which the Company is exposed are described below:

Credit risk management

The risk of financial loss resulting from failure of a counterparty to an asset, for any reason, to fully honour its financial and contractual obligations.

The Company is exposed to credit risk indirectly through its investment in its subsidiary.

Capital management

The Company will raise additional capital as and when capital is required to support asset growth and to ensure that a prudent capital adequacy ratio is maintained.

[1] *In August 2021 Grindrod Financial Holdings repurchased 483 ordinary shares issued to Amber Bay Investments 3 Proprietary Limited, which represented 3.17% of the shares in issue. To finance the repurchase, an additional 483 shares were issued to Grindrod Limited, which were fully subscribed for.*

CORPORATE DETAILS

Country of incorporation:	South Africa
Independent non-executive chairman:	T Dloti
Executive directors:	ZN Manyathi (chief executive officer) RS Garach (chief financial officer) DA Polkinghorne (outgoing chief executive officer)[1]
Independent non-executive directors:	T Dloti LA Dlamini CR Howell RN Hutchinson-Keip RM Maleka ZN Malinga H Ralinala PJ Temple
Non-executive directors:	KG Bungane
Company secretary:	P Kasaven
Debt officer:	YJ Zimbler
Debt sponsor:	Nedbank Limited, acting through its Corporate and Investment Banking Division 135 Rivonia Road Fourth Floor, Block F 135 Rivonia Campus Sandown, Sandton, 2196
Transfer agent:	Nedbank Limited, acting through its Corporate and Investment Banking Division 135 Rivonia Road Fourth Floor, Block F 135 Rivonia Campus Sandown, Sandton, 2196
Auditor:	SNG Grant Thornton Incorporated
Registered office:	5 Arundel Close, Kingsmead Office Park, Durban, 4001
Postal address:	PO Box 3211, Durban, 4000
Website:	www.grindrodbank.co.za
Email:	enquiries@grindrodbank.co.za

[1] *DA Polkinghorne is being transitioned from chief executive officer of the Group to his new role as group executive of coverage and business development.*

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