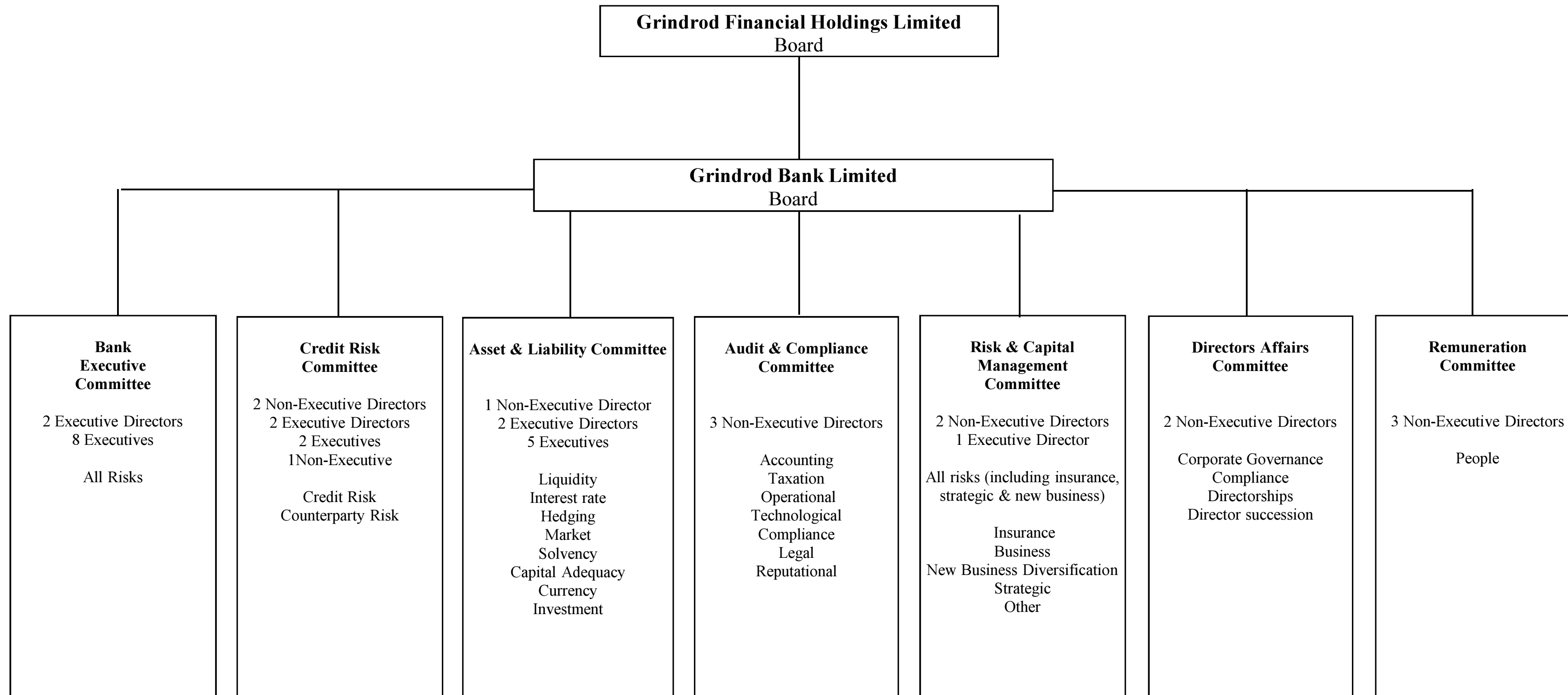
GRINDROD BANK LIMITED
Registration No. 1994/007994/06

AUDITED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2013

GRINDROD BANK LIMITED
RISK MANAGEMENT FRAMEWORK
31 December 2013



CREDIT COMMITTEE

Credit Risk
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.

Credit Risk Management
Sound credit risk management involves prudently managing the risk and reward relationship and controlling and minimising credit risks across a variety of dimensions, such as quality, concentration, maturity and security. The Credit Committee is responsible for ensuring that credit approval processes are stringent and for monitoring large exposures, associated exposures, sectoral exposure and any irregular or problem loans.

Maximum exposure to credit risk
Maximum exposure to credit risk at the year end is stated before taking into account any collateral or other credit enhancement and after taking in account impairments and netting where applicable. For financial assets recognised on the statement of financial position the maximum exposure to credit risk equals the carrying amount as per the coresponding note. For financial commitments and guarantees the maximum credit risk is the maximum amount the company would have to pay to perform in terms of the commitment.

Definitions
Past Due
Exposures are considered past due where the facility has expired and the Bank is not considering renewal of the facility or where expected cashflows on the facility are more than one month in arrear. Past due exposures are considered impaired and a specific impairment is raised based on the carrying amount less the expected realisable value of the security held, but as a minimum the impairment is equivalent to any regulatory requirement.
Impaired Exposure
Advances are assessed for indicators of impairment and impairments are accounted for when there is objective evidence that the estimated future cash flows from the investment have been negatively impacted by events occurring subsequent to initial recognition. The amount of the impairment is the difference been the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Advances considered to be irrecoverable are written off to the extent that the loss can be reliably measured.

The Bank has had a low default and bad debt history and as a result does not have adequate internal statistics for the calculation of a portfolio impairment.

Credit Risk Mitigation
The Bank does not have material netting arrangements.

The Bank values property assets on an cyclical basis using a desk-top approach and physical valuations are performed where appropriate or necessary. The value of listed assets is tracked on an on-going basis and unlisted investments and other security assets are valued periodically where possible.

The Bank actively manages and monitors risk concentrations resulting from credit mitigation activities and these tend to arise where guarantees have been taken in addition to other classes of security. The Bank tends to deal with small to medium size corporates and guarantees and suretyships tend to come from similar types of entities.

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 Bank is extremely cautious when selecting counterparties to transactions and formal limits are established for counterparties to asset or hedging transactions.

The Bank does not hold collateral for interest rate swaps all which have been entered into with the major South African Banks.

The Bank has adopted the Basel III simplified standardised approach for the measurement of it's exposure to credit risk.

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

GRINDROD BANK LIMITED
RISK MANAGEMENT
31 December 2013

ASSET AND LIABILITY COMMITTEE (ALCO)

Liquidity Risk

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 in a bank includes the risk of incurring excessively high interest costs or being forced to sell assets at a loss in order to meet obligations.

Liquidity Risk Management
The Bank 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 connected parties. The Bank is exposed to a maturity mismatch due to the duration of the lending book when compared against the duration of the funding book. The Bank has been well served by its prudent liquidity management policy, the stability of its deposit base and the high quality of the advances book. The Bank intends to continue to adopt a conservative liquidity policy in the future.

Contractual maturity analysis

31 Dec 2013	**< 3 months**	**> 3 months < 6 months**	**> 6 months < 1 year**	**> 1 year < 5 years**	**> 5 years**	**Non-contractual**	**Total**
	R	**R**	**R**	**R**	**R**	**R**	**R**
Liabilities							
Derivative Instruments	-	-	-	7,247,640	2,951,176	-	10,198,816
Deposits	7,311,116,741	567,051,174	224,156,805	532,470,590	-	-	8,634,795,310
Other liabilities	-	-	-	-	-	81,474,386	81,474,386
Taxation	-	-	-	-	-	16,525,474	16,525,474
	7,311,116,741	**567,051,174**	**224,156,805**	**539,718,230**	**2,951,176**	**97,999,860**	**8,742,993,986**
Operating lease commitments	1,705,005	1,682,015	3,454,628	15,921,569	-	-	22,763,217
Financing guarantees	55,695,929	-	-	-	-	-	55,695,929
Irrevocable unutilised facilities	163,540,904	-	-	-	-	-	163,540,904
	7,532,058,579	**568,733,189**	**227,611,433**	**555,639,799**	**2,951,176**	**97,999,860**	**8,984,994,036**

31 Dec 2012	**< 3 months**	**> 3 months < 6 months**	**> 6 months < 1 year**	**> 1 year < 5 years**	**> 5 years**	**Non-contractual**	**Total**
Liabilities							
Derivative Instruments	1,002,276	-	-	13,807,942	7,286,364	-	22,096,582
Deposits	4,314,553,231	400,600,651	48,243,690	598,500,000	-	-	5,361,897,572
Other liabilities	-	-	-	-	-	58,975,062	58,975,062
Taxation	-	-	-	-	-	19,677,849	19,677,849
	4,315,555,507	**400,600,651**	**48,243,690**	**612,307,942**	**7,286,364**	**78,652,911**	**5,462,647,065**
Operating lease commitments	1,654,353	1,475,959	2,323,309	7,760,287	-	-	13,213,908
Financing guarantees	179,798,522	-	-	-	-	-	179,798,522
Irrevocable unutilised facilities	108,800,858	-	-	-	-	-	108,800,858
	4,605,809,240	**402,076,610**	**50,566,999**	**620,068,229**	**7,286,364**	**78,652,911**	**5,764,460,353**

The liquidity gap is prepared on a contractual maturity basis.

GRINDROD BANK LIMITED
RISK MANAGEMENT
31 December 2013

Interest Rate Risk
The risk that fluctuating interest rates will unfavourably affect a financial institution's earnings and the value of its assets, liabilities and capital. The risk is due to assets and liabilities maturing or 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, and the size and maturity structure of the mismatch position.

Interest Rate Risk Management

Traditional gap analysis is used to measure interest rate exposure. The Bank has a conservative policy on interest rate risk arising from gapping and the duration of this exposure is limited to three months for material aggregated positions or hedged using derivative instruments. The static interest rate gap report is prepared monthly for review by the Asset and Liability Committee (ALCO) and the model assumes each asset class will reprice in full in the relevant repricing timeband.

Interest Rate Repricing Gap

31 Dec 2013	**< 3 months**	**> 3 months < 6 months**	**> 6 months < 1 year**	**> 1 year < 5 years**	**> 5 years**	**Non-rate sensitive**	**Total**
	R	**R**	**R**	**R**	**R**	**R**	**R**
Assets	8,889,228,413	-	-	107,110,227	58,614,281	284,828,811	9,339,781,732
Equity and liabilities	(7,321,315,557)	(567,051,174)	(224,156,805)	(532,470,590)	-	(694,787,606)	(9,339,781,732)
Interest rate hedging activities	164,177,019	-	-	(106,298,057)	(57,878,963)	-	(0)
Repricing profile	1,732,089,875	(567,051,174)	(224,156,805)	(531,658,420)	735,318	(409,958,795)	-
Cummulative repricing profile	1,732,089,875	1,165,038,701	940,881,896	409,223,477	409,958,795	-	
Expressed as a percentage of total assets	18.5%	12.5%	10.1%	4.4%	4.4%		

31 Dec 2012	**< 3 months**	**> 3 months < 6 months**	**> 6 months < 1 year**	**> 1 year < 5 years**	**> 5 years**	**Non-rate sensitive**	**Total**
Assets	5,575,212,074	-	-	122,593,559	66,269,178	224,831,334	5,988,906,145
Equity and liabilities	(4,336,649,813)	(400,600,651)	(48,243,690)	(598,500,000)	-	(604,911,991)	(5,988,906,145)
Interest rate hedging activities	187,073,759	-	-	(121,709,910)	(65,363,849)	-	-
Repricing profile	1,425,636,020	(400,600,651)	(48,243,690)	(597,616,351)	905,329	(380,080,657)	-
Cummulative repricing profile	1,425,636,020	1,025,035,369	976,791,679	379,175,328	380,080,657	-	
Expressed as a percentage of total assets	23.8%	17.1%	16.3%	6.3%	6.3%		

Interest Income Sensitivity

31 Dec 2013	**< 3 months**	**> 3 months < 6 months**	**> 6 months < 1 year**	**Cumulative impact on net interest income**
	R	**R**	**R**	**R**
2% interest rate increase	4,814,000	4,674,000	10,659,000	20,147,000
2% interest rate decrease	(4,767,000)	(4,572,000)	(10,176,000)	(19,515,000)
31 Dec 2012				
2% interest rate increase	3,260,000	4,218,000	9,769,000	17,247,000
2% interest rate decrease	(3,230,000)	(4,149,000)	(9,456,000)	(16,835,000)

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 opposite financial effect.

All fixed rate transactions are required to be hedged, either within the book or synthetically with derivative instruments, whenever a 1% parallel shift in the yield curve could result in a loss exceeding the amounts specified in the policy matrix (maximum loss tolerance R200,000).

GRINDROD BANK LIMITED
RISK MANAGEMENT
31 December 2013

Market Risk (Position Risk)
The risk that the market price of an asset may change, resulting in a loss on realisation of that asset.

The Bank is not a trading bank and does not have any regulatory market risk. Where marketable securities are held as investments the market prices are monitored and reports are tabled at the monthly Asset and Liability Committee (ALCO) meetings.

Investment Risk
The risk that investment values may fluctuate due to changes in market prices or investment specific factors (e.g global influences, business cycle, industry, management, reputational issues).

Equity Investment Risk
Listed investments are recognised on a settlement date basis and are initially measured at cost, including transaction costs, and are remeasured to fair value through profit and loss using market closing prices at each subsequent reporting date. Unlisted investments are measured at amortised cost.

All unrealised gains/(losses) are recognised in the statement of profit or loss and other comprehensive income and included in the equity of the Bank.

Unlisted equity investments tend to be yield enhancing investments with an interest rate linked to prime or money market rates.

Sensitivity analysis	**31 Dec 2013**	**31 Dec 2012**
	R	**R**
10% increase in listed equity prices	-	20,520
10% decrease in listed equity prices	-	(20,520)

The Bank has adopted the Basel III standardised approach for the measurement of it's exposure to equity risk.

Currency Risk
The risk that changes in exchange rates will have a negative impact on profitability due to a mismatch between foreign receivables and foreign payables.

All foreign currency exposures are approved and monitored by the Asset and Liability Committee.

	31 Dec 2013	**31 Dec 2012**
	R	**R**
Foreign currency exposure	**-**	**-**

Sensitivity analysis
10% increase in listed equity prices
10% decrease in listed equity prices

GRINDROD BANK LIMITED
RISK MANAGEMENT
31 December 2013

Solvency Risk
Capital Adequacy
The risk that a bank will not have adequate capital and reserve funds to absorb losses, resulting in depositors having to absorb these losses and losing confidence in the bank and/or the banking sector.

		31 Dec 2013	31 Dec 2012
		R	R
Ordinary share capital	*Common Equity Tier I capital*	650,000	650,000
Ordinary share premium	*Common Equity Tier I capital*	247,929,000	247,929,000
Preference share capital	*Additional Tier I capital*	120,000,000	120,000,000
		368,579,000	**368,579,000**
Distributable reserves - formally appropriated	*Common Equity Tier I capital*	217,379,963	133,455,000
Distributable reserves - unappropriated		10,828,783	24,225,080
Total Equity		**596,787,746**	**526,259,080**
Less: Retained earnings (unappropriated)		(10,828,783)	(24,225,080)
Prescribed deductions against capital and reserve funds		(160,000)	(218,000)
Total qualifying tier 1 capital and reserve funds		**585,798,963**	**501,816,000**
Tier 2 capital and unimpaired reserve funds			
General allowance for credit impairment	*Tier 2 capital*	9,182,691	6,878,277
Total qualifying capital and reserve funds		**594,981,654**	**508,694,277**
Risk weighted exposure		4,538,709,500	3,790,816,900
Minimum required capital and reserve funds		442,524,176	369,604,648
Tier 1 Capital Adequacy Ratio		12.91%	13.24%
Total Capital Adequacy Ratio		13.11%	13.42%
Minimum regulatory capital adequacy ratio		9.50%	9.50%
Additional bank specific regulatory capital requirement		0.25%	0.25%
		9.75%	9.75%

The Bank has complied with the minimum regulatory capital requirement at all times during the period.

Capital Management
The Bank projects balance sheet growth on a monthly basis in order to assess liquidity and capital adequacy. The shareholders of the Bank have undertaken to inject capital as required in order to grow the banking business and to ensure that a prudent risk asset ratio is maintained.

Retained earnings appropriation
The Bank intends appropriating earnings retained after dividend distributions as required to ensure minimum capital levels are maintained.

Dividend policy
The Bank has a biannual dividend payment policy of 3.2 times cover (31.25%). 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 restore capital levels.

No specific items that are subject to rapid or material change have been identified at this stage.

Restrictions or other major impediments on the transfer of funds or qualifying capital within the banking group
The only restriction on the transfer of funds or qualifying capital is in terms of the Banks Act.

AUDIT AND COMPLIANCE COMMITTEE

Accounting Risk
The risk that inappropriate accounting policies are adopted and/or decisions are based on inappropriate accounting information resulting in inadequate returns or loss.

Taxation Risk
The risk of loss to a company as a result of inappropriate tax planning and strategy, new tax legislation or non-compliance with or incorrect interpretation and application of taxation legislation.

Operational Risk
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 staff

It is the responsibility of management and ultimately the Audit and Compliance Committee to assess operational procedures and controls and to ensure the adequacy thereof. Management are assisted by internal audit in this regard.

The Bank has adopted the Basel III basic indicator approach for the measurement of it's exposure to operational risk.

Technological Risk
The risk of loss or fraud due to inadequate system controls or systems failure. Technological risk is also the risk that business processes become inefficient and less competitive due to out-dated or inappropriate technology.

A comprehensive disaster recovery plan is in place for the Bank. Technological upgrade is seen to be an ongoing process.

Legal Risk
The risk of loss to a company as a result of non-compliance with laws and regulations or the risk that a counterparty to a transaction will not be liable to meet its obligations under law.

Compliance Risk
The risk that a company does not comply with applicable laws and regulations or supervisory requirements.

The compliance function is an independent function within the Bank which is responsible for monitoring regulatory and reputational risk processes.

Reputational Risk
The risk that an activity, action or stance performed or taken by the company, its officials or associates will impair its image and/or the long-term trust placed in the organisation by its stakeholders, resulting in the loss of business and/or legal action.

RISK AND CAPITAL MANAGEMENT COMMITTEE

The Risk and Capital Management Committee is responsible for identifying all risks to which the Bank is exposed and for ensuring the risks are adequately managed and monitored.

Insurance Risk
The risk of loss to a company as a result of inadequate insurance cover for insurable business risks.

New Business Risk
The risk of new business generating low returns or losses due to inadequate assessment of strategic, pricing, regulatory, legal, tax, accounting and any other relevant risks.

Diversification Risk
The risk of loss and process failure due to inadequate business synergies and resources to support new products and businesses.

Strategic Risk
The risk to earnings and capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment with respect to: the economy (business cycle); the political landscape; law and regulation; technology; social mores; and the actions of competitors.

DIRECTORS AFFAIRS COMMITTEE

The Directors Affairs Committee is responsible for identifying all corporate governance and directorship risks to which the Bank is exposed and for ensuring the risks are adequately managed and monitored.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for identifying all people related risks to which the Bank is exposed and for ensuring the risks are adequately managed and monitored.

The Remuneration Committee meets twice per annum and its primary function is to
- ensure market-related remuneration packages are paid to both management and other personnel within the Bank
- review criteria for measurement of key executives performance
- review short-term incentives that reward executive directors and management for achieving targets and/or exceptional performance
- review long-term share incentive schemes that serve as a retention and motivational mechanism for management and align them with shareholders' interests
- review and recommend fees payable to non-executive directors

No material changes were made to the Bank's remuneration policy during the past year. The Bank has a relatively flat reporting structure with very little diversification in terms of remuneration practices.

Risk and compliance staff do not have specific incentive schemes linked to the performance of the business however they do share in the general incentive/bonus pool should there be one and they may be granted share options.

No employees of the Bank are considered to be material risk takers and the main business areas of the Bank are:
- Corporate Banking
- Treasury (activities limited to deposit taking and investment of surplus liquidity)
- Corporate Finance
- Retail Banking

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

Variable Incentive Schemes
All employees who have performed according to predetermined criteria are incentivised if such a pool is justified and created. Variable incentive schemes for key executives are linked to key performance areas with metrics that vary between executives depending on their area of responsibility.
Material key performancce areas and risks accounted for when implementing remuneration measures are
- Business profitability
- Divisional profitability
- Credit risk and bad debts
- Adequacy of liquidity
- New business generation
- Compliance with FICA and other applicable regulations
- BEE criteria
- Risk management
- Implementation and maintenance of internal controls

Not all of the measures are quantifiable and variable incentive payments have a subjective element. There has been no significant change to the approach over the past year.

Share incentive schemes
The issue of share options is subjective and seen as a retention scheme and employees are exposed to share price volatility.

Cash-settled share based payments
The Company has offered two types of share appreciation rights linked to the growth in value of
- Grindrod Limited
- Grindrod Financial Holdings Limited and GFS Holdings Proprietary Limited

In terms of the plans participants are allocated notional shares at an approved allocation price and the Company is required to pay a share appreciation bonus equal to the difference between the fair market value and the allocation price of the shares to the participant at each vesting date. The share appreciation rights vest in equal tranches after 3, 4 and 5 years. An employee's right to participate in the scheme terminates upon leaving the employment of the Bank.

Forfeitable share plan
In terms of the FSP, the participants are entitled to receive dividends paid 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 three equal tranches ending on 31 May 2015, 31 May 2016 and 31 May 2017 respectively. 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 be classified as bad leavers and will forfeit all unvested awards.