GRINDROD BANK LIMITED
Registration No. 1994/007994/06

ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2011

GRINDROD BANK LIMITED
CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL
31 December 2011

The directors are responsible for ensuring Company's system of internal control and risk management, which includes internal financial control, provides reasonable assurance against material misstatement and loss.

The Company maintains internal financial controls which provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability of the Company's assets.

The system of internal control includes an organisational structure and reasonable division of responsibilities, with defined limits of authority, together with established policies and procedures, including a code of conduct to foster a strong ethical climate. The system of internal control is strengthened through the careful selection, retention, training and development of our employees.

Procedures are in place to identify key business risks timeously and to determine their likelihood and impact on the business. These procedures include the functioning of the following committees:

Bank executive committee
Credit risk committee
Asset and liability committee
Audit and compliance committee
Risk and capital management committee
Asset management investment committee
Directors affairs committee
Remuneration committee

The internal audit function has the objective of assisting executive management and the audit committee in the discharge of their responsibilities. This includes monitoring the effectiveness of the accounting system and related internal financial controls on a continuing basis. The internal audit function performs a critical examination of the integrity and reliability of the financial and operating information for management and reports its findings and its recommendations to management and the audit committee.

The Audit and Compliance Committee of the board of directors meets regularly with management, the internal auditors and external auditors, to review specific accounting, reporting and internal control matters, and to satisfy itself that the system of internal control and risk management is operating effectively. Both the internal auditor and the external auditors have access to the audit committee. The committee also reviews the annual results of the Company prior to approval by the board of directors.

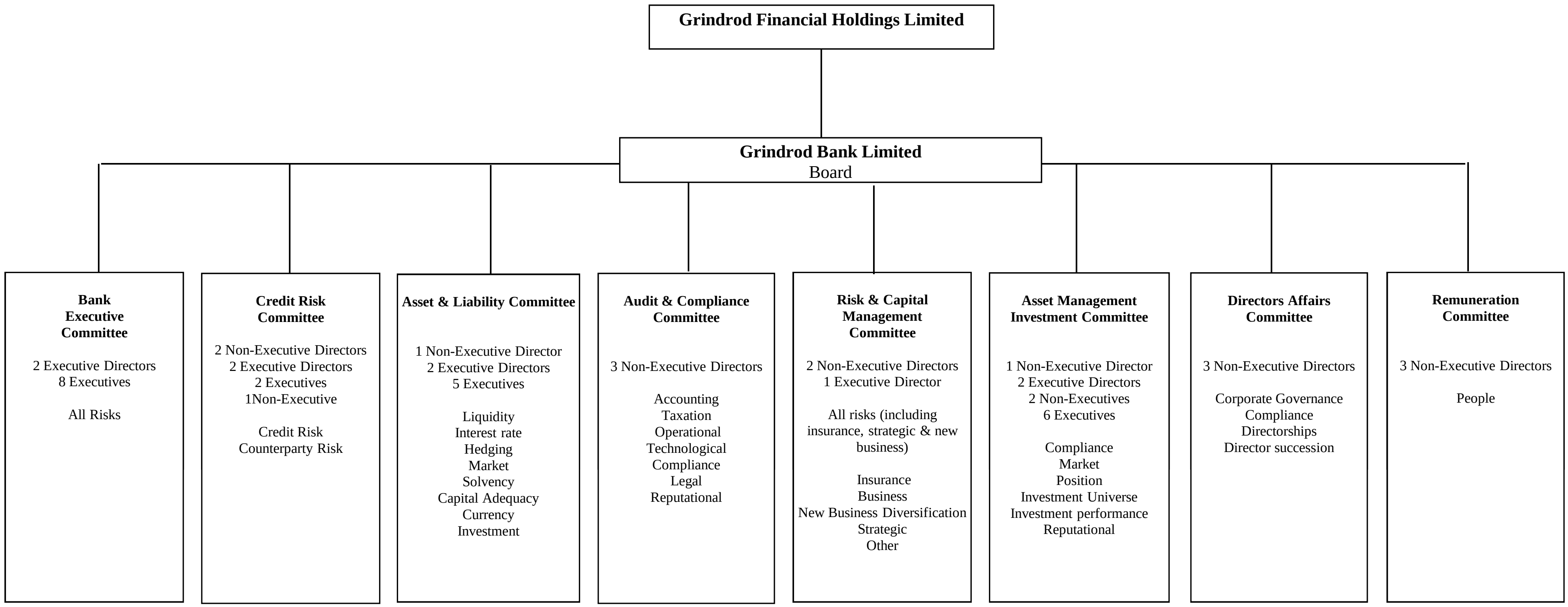
The compliance function is an independent function within the Company which is responsible for monitoring regulatory and reputational risk processes.

The Company has adopted an employment equity policy that promotes equal opportunity and fair treatment in the workplace. Reports have been submitted in accordance with the Employment Equity Act No.55 of 1998.

Nothing has come to the attention of the board of directors to indicate any material break down, as defined by the board of directors, in the functioning of the system of internal controls during the year ended 31 December 2011.

The directors, having made the necessary enquiries, have no reason to believe that Grindrod Bank Limited will not be a going concern in the year ahead.

GRINDROD BANK LIMITED
RISK MANAGEMENT FRAMEWORK
31 December 2011



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.

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.

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

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.

The Company 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 Company is exposed to a maturity mismatch due to the duration of the lending book when compared against the duration of the funding book. To date the Company 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 Company intends to continue to adopt a conservative liquidity policy in the future.

Contractual maturity analysis

31 Dec 2011	**< 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	958,399	-	206,504	10,051,974	7,971,234	-	19,188,111
Deposits	2,781,767,177	39,729,298	111,336,656	28,345,624	-	-	2,961,178,755
Other liabilities	-	-	-	-	-	42,849,621	42,849,621
Taxation	-	-	-	-	-	9,392,132	9,392,132
	2,782,725,576	**39,729,298**	**111,543,160**	**38,397,598**	**7,971,234**	**52,241,753**	**3,032,608,619**
Operating lease commitments	1,010,591	889,493	1,819,642	9,155,713	-	-	12,875,439
Financing guarantees	132,302,082	-	-	-	-	-	132,302,082
Irrevocable unutilised facilities	148,228,299	-	-	-	-	-	148,228,299
	3,064,266,548	**40,618,791**	**113,362,802**	**47,553,311**	**7,971,234**	**52,241,753**	**3,326,014,439**

31 Dec 2010	**< 3 months**	**> 3 months < 6 months**	**> 6 months < 1 year**	**> 1 year < 5 years**	**> 5 years**	**Non-contractual**	**Total**
Liabilities							
Derivative Instruments	817,752	135,221	1,204,567	9,101,117	6,273,185	-	17,531,842
Deposits	1,857,936,365	36,162,774	106,556,332	29,345,624	-	-	2,030,001,095
Other liabilities	-	-	-	-	-	31,734,474	31,734,474
Taxation	-	-	-	-	-	8,118,111	8,118,111
	1,858,754,117	**36,297,995**	**107,760,899**	**38,446,741**	**6,273,185**	**39,852,585**	**2,087,385,522**
Operating lease commitments	722,199	749,853	1,403,043	9,265,424	-	-	12,140,519
Financing guarantees	138,868,420	-	-	-	-	-	138,868,420
Irrevocable unutilised facilities	94,795,823	-	-	-	-	-	94,795,823
	2,093,140,559	**37,047,848**	**109,163,942**	**47,712,165**	**6,273,185**	**39,852,585**	**2,333,190,284**

The liquidity gap is prepared on a contractual maturity basis.

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.

Traditional gap analysis is used to measure interest rate exposure. The Company 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.

Interest Rate Repricing Gap

31 Dec 2011	**< 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	3,101,388,286	-	-	96,470,533	80,684,049	178,575,407	3,457,118,275
Equity and liabilities	(2,900,955,288)	(39,729,298)	(11,336,656)	(28,345,624)	-	(476,751,409)	(3,457,118,275)
Interest rate hedging activities	175,652,264	-	-	(95,725,929)	(79,926,335)	-	0
Repricing profile	376,085,262	(39,729,298)	(11,336,656)	(27,601,020)	757,714	(298,176,002)	-
Cummulative repricing profile	376,085,262	336,355,964	325,019,308	297,418,288	298,176,002	-	
Expressed as a percentage of total assets	10.9%	9.7%	9.4%	8.6%	8.6%		

31 Dec 2010	**< 3 months**	**> 3 months < 6 months**	**> 6 months < 1 year**	**> 1 year < 5 years**	**> 5 years**	**Non-rate sensitive**	**Total**
Assets	2,120,431,816	3,559,544	27,550,971	78,794,048	55,589,420	154,412,780	2,440,338,579
Equity and liabilities	(1,975,468,207)	(36,162,774)	(6,556,332)	(29,345,624)	-	(392,805,642)	(2,440,338,579)
Interest rate hedging activities	171,753,511	(11,800,453)	(54,550,411)	(56,974,285)	(48,428,361)	-	-
Repricing profile	316,717,120	(44,403,683)	(33,555,772)	(7,525,861)	7,161,059	(238,392,862)	-
Cummulative repricing profile	316,717,120	272,313,437	238,757,664	231,231,803	238,392,862	-	
Expressed as a percentage of total assets	13.0%	11.2%	9.8%	9.5%	9.8%		

Interest Income Sensitivity

31 Dec 2011	**< 3 months**	**> 3 months < 6 months**	**> 6 months < 1 year**	**Cumulative impact on net interest income**
	R	**R**	**R**	**R**
2% interest rate increase	2,647,000	3,155,000	6,955,000	12,757,000
2% interest rate decrease	(2,633,000)	(3,114,000)	(6,754,000)	(12,501,000)
31 Dec 2010				
2% interest rate increase	2,005,000	2,510,000	5,703,000	10,218,000
2% interest rate decrease	(1,982,000)	(2,477,000)	(5,535,000)	(9,994,000)

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 lending is required to be hedged, as is fixed rate funding, whenever a 1% parallel shift in the yield curve could result in a loss exceeding R100,000.

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 Company does not intend trading in financial instruments for the foreseeable future. However, where marketable securities are held as investments the market prices are monitored and reports are tabled at ALCO meetings.

Sensitivity analysis	**31 Dec 2011**	**31 Dec 2010**
	R	**R**
10% increase in listed equity prices	31,920	752,723
10% decrease in listed equity prices	(31,920)	(752,723)

GRINDROD BANK LIMITED
RISK MANAGEMENT
31 December 2011

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 2011	31 Dec 2010
	R	R
Ordinary share capital	650,000	650,000
Ordinary share premium	225,850,000	225,850,000
Preference share capital	50,000,000	-
	276,500,000	**226,500,000**
Distributable reserves - formally appropriated by board resolution	113,455,000	100,500,000
Distributable reserves - unappropriated	34,554,655	25,953,057
Primary share capital	**389,955,000**	**327,000,000**
Primary share capital ratio	98.5%	99.0%
General allowance for credit impairment	5,750,996	3,424,421
Secondary share capital	**5,750,996**	**3,424,421**
Secondary share capital ratio	1.5%	1.0%
Total Capital	**395,705,996**	**330,424,421**
Prescribed deductions against capital and reserve funds	34,000	91,000
Aggregate amount of qualifying capital and reserve funds	**395,671,996**	**330,333,421**
Risk weighted exposure	3,068,738,000	2,462,591,000
Minimum required capital and reserve funds	299,201,955	240,102,623
Capital adequacy ratio	12.89%	13.41%
Primary capital adequacy ratio	12.71%	13.28%
Minimum regulatory capital adequacy ratio	9.50%	9.50%
Additional bank specific regulatory capital requirement	0.25%	0.25%
	9.75%	9.75%

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

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

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 2011	31 Dec 2010
	R	R
Foreign currency exposure	-	-

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).

GRINDROD BANK LIMITED
RISK MANAGEMENT
31 December 2011

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. in this regard. Management are assisted by internal audit.

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.

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

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.

The compliance function is an independent function within the Company 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 Company 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.

ASSET MANAGEMENT INVESTMENT COMMITTEE

The Asset Management Investment Committee is responsible for reviewing and advising on the investment performance of assets managed by the Company on behalf of clients, identifying specific risks associated with the business and ensuring systems are in place to monitor compliance with internal investment guidelines, client mandates and applicable laws and regulations.

DIRECTORS AFFAIRS COMMITTEE

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