



INTEGRATED ANNUAL REPORT 2019

WELCOME TO THE **GRINDROD BANK** INTEGRATED ANNUAL REPORT.



Our 2019 integrated annual report to our stakeholders explains how the Bank creates value for its stakeholders over the short-, medium- and long-term – as a provider of financial services, a taxpayer and an employer.

Navigate our report 

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

 Indicates alignment with the principles of King IV

Visit us www.grindrodbank.co.za

Feedback

Your feedback is important to us and we welcome your input to enhance the quality of our reporting. Please contact us at enquiries@grindrodbank.co.za.

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OUR BANK

For 25 years, we have grown through economic peaks and troughs. By creating wealth for our clients and lending to small and medium-sized businesses, we contribute to South Africa's economic growth.

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NAVIGATING OUR OPERATING ENVIRONMENT

We can respond strategically by understanding the challenges and opportunities in our operating environment, understanding our stakeholders' needs and analysing our risks and opportunities.

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GRINDROD BANK IS A COMPETITIVE SPECIALIST INVESTMENT BANK THAT PROVIDES BESPOKE FINANCIAL SERVICES TO PRIVATE, CORPORATE AND INSTITUTIONAL CLIENTS. OUR SERVICE EXCELLENCE IS UNDERPINNED BY OUR PERSONALISED RELATIONSHIPS WITH CLIENTS.

OUR VISION

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

OUR VALUES



OUR STRATEGY

To grow profit sustainably we will continue defending and extending the Bank's core operations and diversifying our income with new growth opportunities. We leverage our balance sheet with human intellect and a loyal client base to sustain competitive performance. Over the years, we have demonstrated our ability to act strategically in navigating the evolving financial services landscape.

 *Chief executive officer's review on page 16*

LEADERSHIP REVIEW

2019 was a defining year – it tested our resilience and compelled us to redefine our strategy to ensure we remain relevant to our clients and that we are able to create sustainable long-term value for our stakeholders.

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ABOUT THIS REPORT

5 *We are pleased to present our 2019 integrated annual report to our stakeholders.*

The report provides an overview of our business, our strategy, our performance and our governance. It should be read in conjunction with the Grindrod Bank Limited annual financial statements (AFS) for 2019.

OUR REPORTING SCOPE AND BOUNDARY

Grindrod Bank Limited (the Bank) is a 96.83% subsidiary of Grindrod Financial Holdings Limited. Our report provides an overview of the material aspects and activities of the Bank, and outlines how our strategy and governance position enables us to create long-term value for our stakeholders.

The report covers the period 1 January 2019 to 31 December 2019 with comparatives shown where applicable. Subsequent developments considered relevant between 31 December 2019 and the date of publication have been included.

Ultimate holding company	
Grindrod Limited (a company listed on the JSE)	
	96.83%
Immediate holding company	
Bank holding company governed by the Banks Act and regulations relating to banks Grindrod Financial Holdings Limited	
	100%
Subsidiary companies	
Governed by the Banks Act and regulations relating to banks Grindrod Bank Limited Grincap Proprietary Limited ¹ Commerce Square Corporate Finance Proprietary Limited ¹ The Grindrod Investments Trust (GIT) ² The Grindrod Preference Share Investment Trust (GPSIT) ²	

¹ *Subsidiaries of Grindrod Bank Limited.*

² *Deemed controlled entities of Grindrod Bank Limited in terms of IFRS 10.*

REPORTING FRAMEWORKS

The following frameworks informed the preparation of this report:

- o Companies Act No. 71 of 2008, as amended (the Companies Act)
- o Banks Act No. 94 of 1990 (the Banks Act) and associated Bank Act Regulations
- o King Report on Corporate Governance™ for South Africa, 2016¹ (King IV)
- o International Financial Reporting Standards (IFRS)

The Bank made further progress in its adoption of the International Integrated Reporting Council's Integrated Reporting Framework (<IR> Framework) in the preparation of this report.

ASSURANCE

The Bank's external auditor, SNG Grant Thornton, provided assurance on the consolidated AFS and expressed an unmodified audit opinion. Their audit opinion is available on page 3 of the AFS available online.

FORWARD LOOKING STATEMENTS

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

The financial information on which the forward looking statements are based was not audited or reported on by SNG Grant Thornton, the Bank's independent external auditors.

BOARD RESPONSIBILITY STATEMENT

The board has taken responsibility for ensuring the integrity and completeness of the integrated annual report. With the support of board committees, the board collectively assessed the content of the report and believes that it provides a fair and balanced representation of the Bank's integrated performance within the context of its risks and opportunities. The board approved the 2019 integrated annual report on 2 June 2020.



Julian Beare
Outgoing chairperson



Amanda Dambuza
Incoming chairperson



David Polkinghorne
Chief executive officer (CEO)

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OUR BANK



WHAT WE DO

Our purpose as a specialist investment bank is to help our private, corporate and institutional clients to achieve their financial goals by providing personalised service and bespoke products. We leverage our balance sheet, our skilled human capital and our client relationships to sustain competitive performance. By creating wealth for our clients and lending to small and medium-sized businesses, we contribute to economic growth.

SOLID FOUNDATION

R11.96 billion

deposits and funding instruments

R7.51 billion

gross loans and advances

STABLE BUSINESS

A- credit rating upgrade

R100 million capital injection

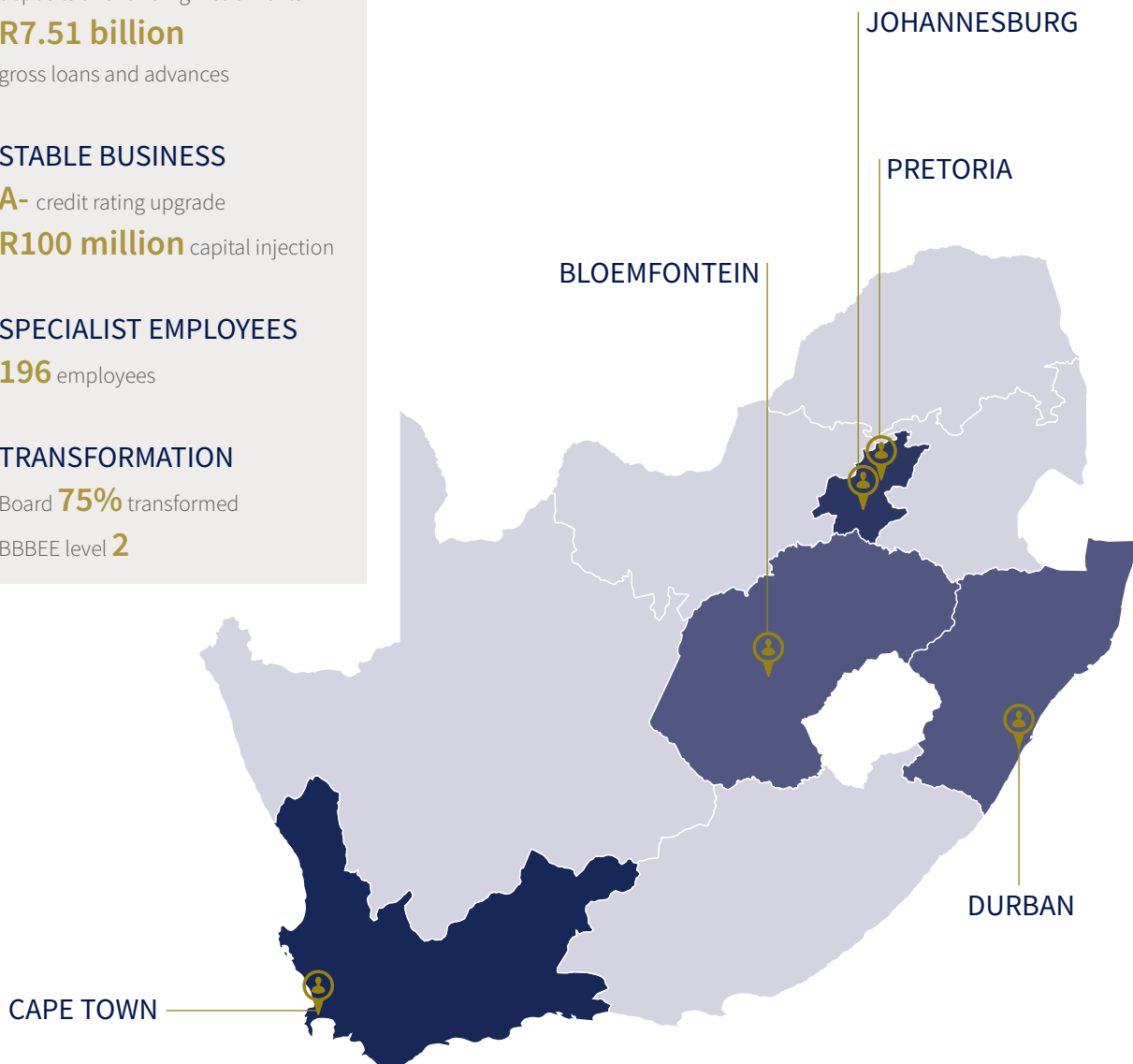
SPECIALIST EMPLOYEES

196 employees

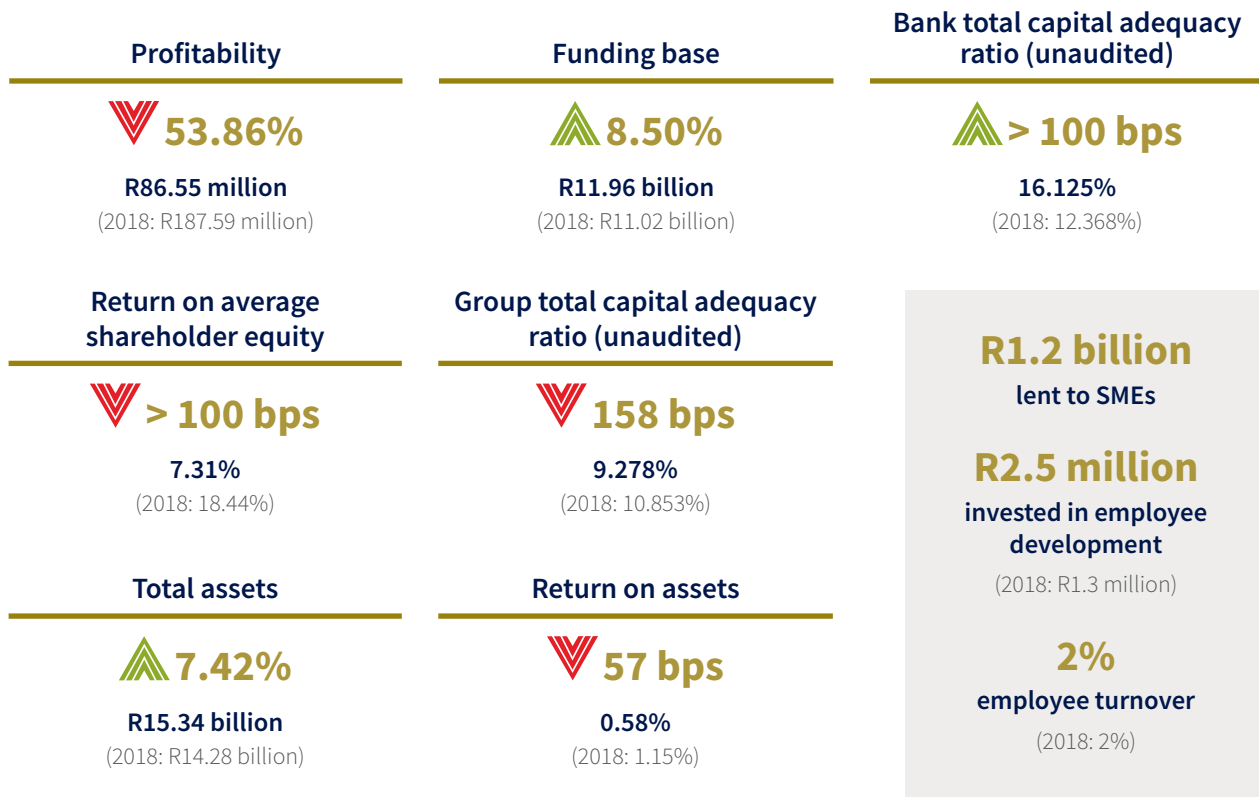
TRANSFORMATION

Board **75%** transformed

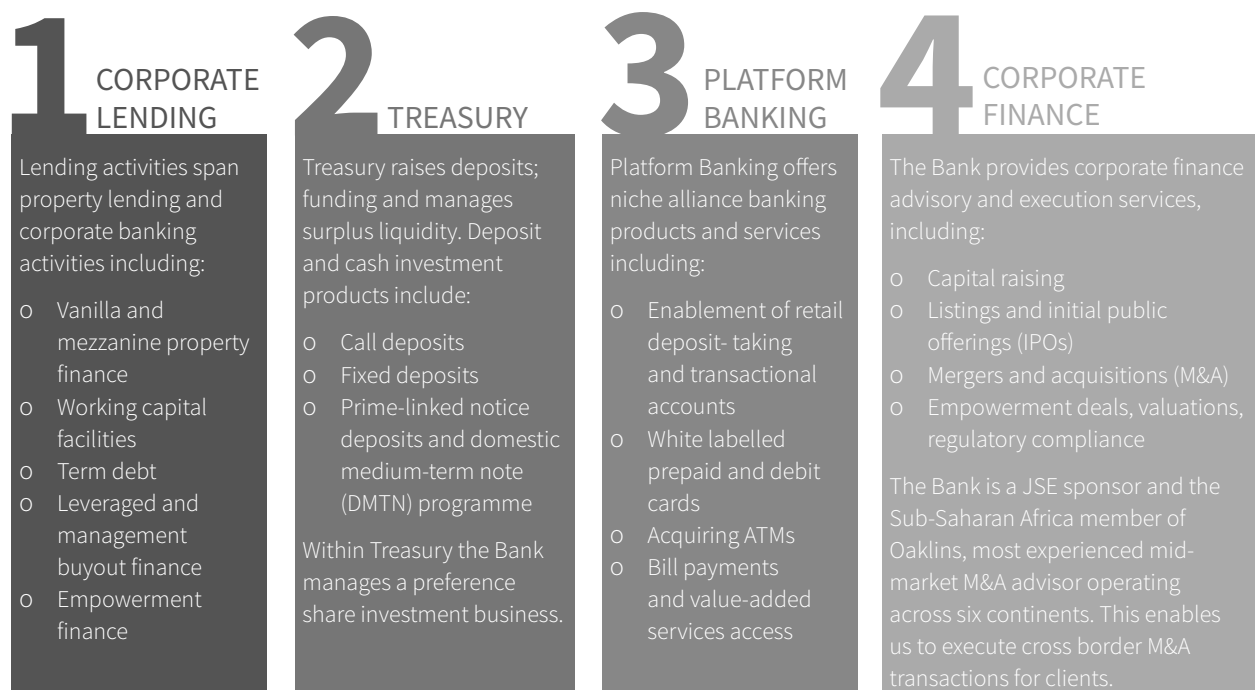
BBBEE level **2**



OUR PERFORMANCE



OUR BUSINESS ACTIVITIES

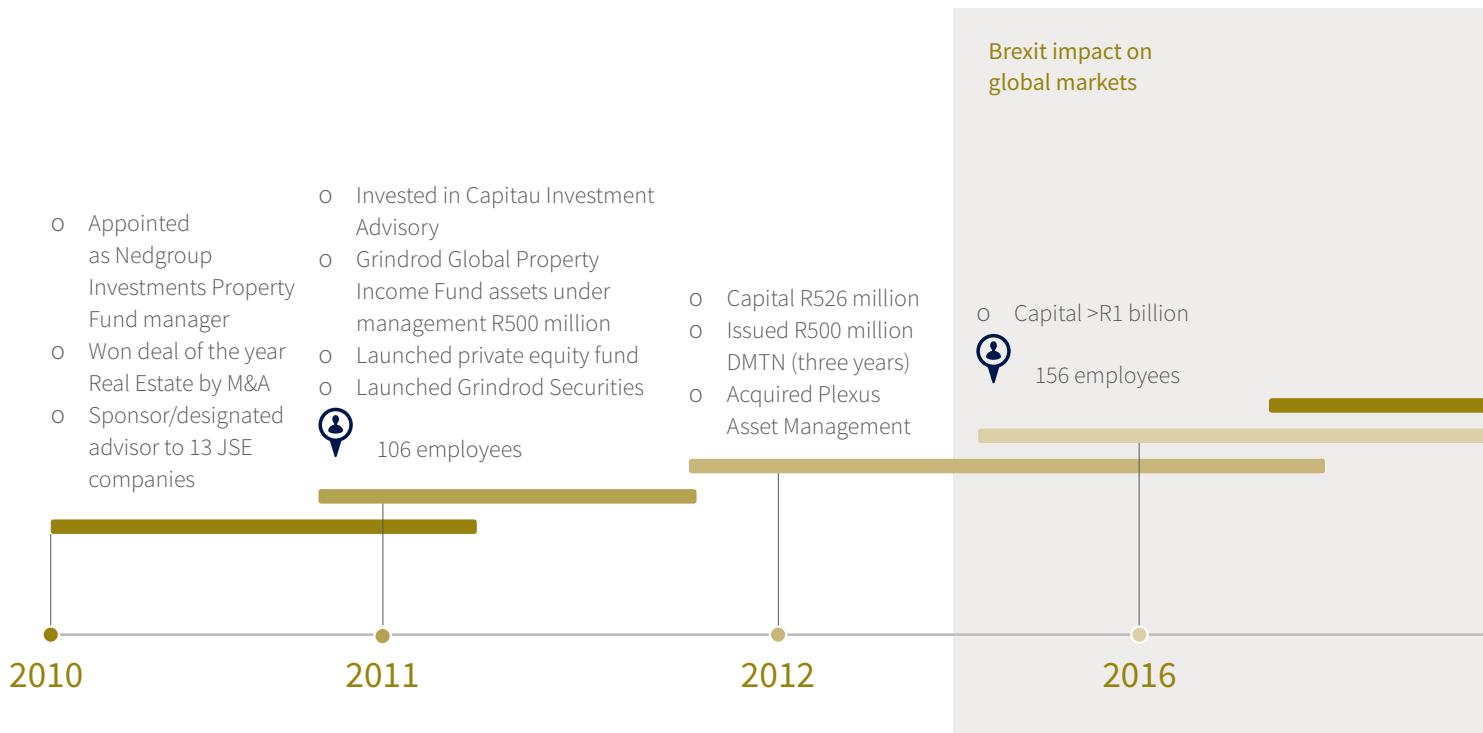
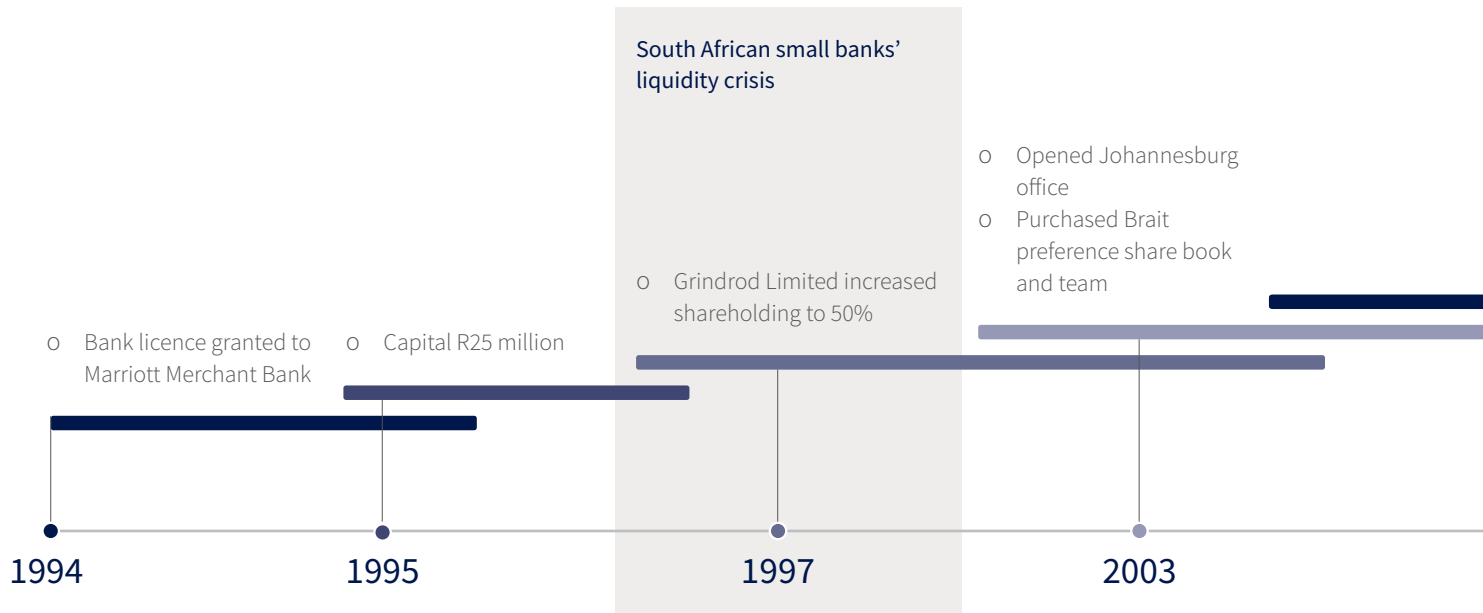


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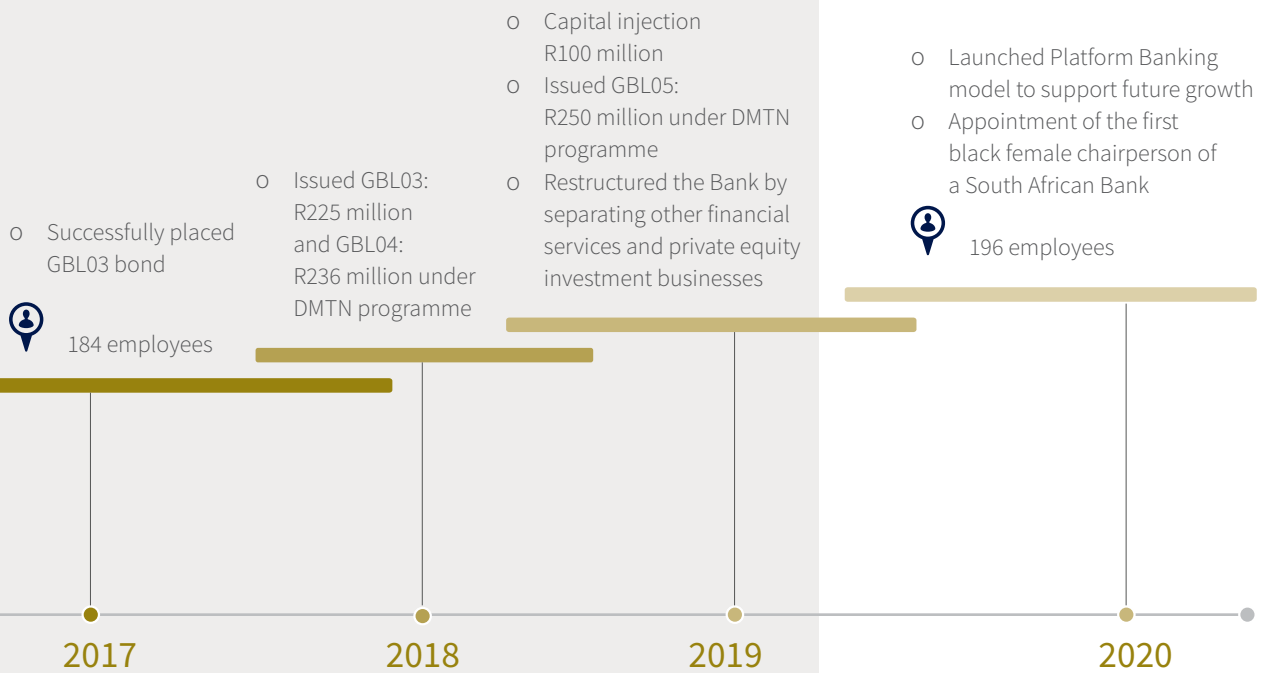
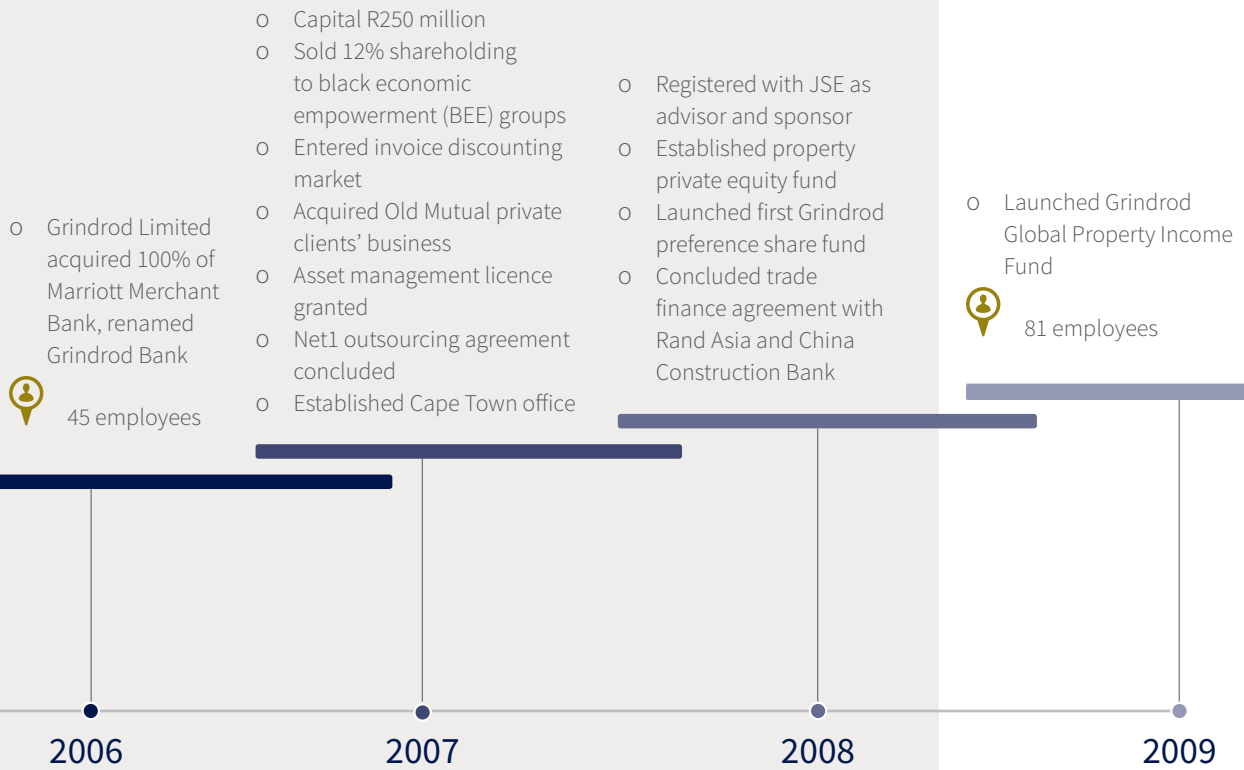
Human resources (HR)	Risk management	Internal audit	Compliance	Legal
Credit	Finance and administration	Information technology (IT)	Marketing	Special projects

OUR HISTORY

For 25 years, we have demonstrated our ability to grow through economic cycles and withstand extreme market turbulence. Over the past two decades, the Bank has grown significantly as demonstrated by the increase in deposit funding, capital and employees.



Global financial crisis



NAVIGATING OUR OPERATING ENVIRONMENT



Several external and internal trends in our operating environment influence our ability to maintain sustainable profitability. By understanding the challenges and opportunities in our operating environment, we can respond to them with our risk and opportunity management process.

1

Stagnant South African economy

2

Rapidly evolving regulatory environment

3

COVID-19

4

Competitive financial services sector

5

Specialist human capital

1 Stagnant South African economy

Context

- Sustained economic weakness has impacted clients' confidence and creditworthiness
- Increased vacancies, low economic growth and changing customer attitudes have subdued demand for industrial, commercial and retail property

South African gross domestic product (GDP) growth (%)

2016	2017	2018	2019
0.6	1.3	0.8	0.2

Source: South African Reserve Bank (SARB)

Our response

Our client-centric approach and competitive investment returns enable us to retain clients and gain valuable insight into their financial needs and positions. We offer appropriate lending to clients within our risk tolerance and maintain a prudent, asset-backed approach to lending.

2 Rapidly evolving regulatory environment

Context

- The Bank's operations are regulated by the SARB's Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA) (formerly the Financial Services Board) following the introduction of the Financial Sector Regulation Act (Twin Peaks)
- Rapid change in the financial services regulatory environment exposes banks to higher compliance costs and the risk of non-compliance
- Increased oversight has strengthened governance and controls throughout the Bank

New financial services legislation

- Financial Intelligence Centre Amendment Act (FIC Amendment Act)
- Conduct of Financial Institutions Bill
- Protection of Personal Information Act (POPIA)
- Promotion of Access to Information Act (PAIA)

Our response

The Bank maintains internal controls to ensure that it complies with relevant legislation and minimises the risk of non-compliance. We maintain constructive relationships with the regulators and participate with the Banking Association of South Africa to advance the interests of our industry with its regulators, legislators and stakeholders.

OPERATING ENVIRONMENT continued

3 COVID-19

Context

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time.

Measures taken to contain the spread of the virus have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

On 15 March 2020, the President of the Republic of South Africa, Cyril Ramaphosa declared a national state of disaster, due to the potential fatal and fast-spreading corona virus. This followed an announcement from the World Health Organization (WHO) declaring COVID-19 a pandemic.

Since this announcement, and the national lockdown that followed, the Bank has had to reconsider our ways of working to ensure that the health and safety of our employees, clients, service providers and all other stakeholders are protected from the spread of the virus.

Our response

The Bank implemented a Pandemic Plan which outlines our approach to preventing the spread of the disease in our workplace and our processes to continue to provide a full complement of services to our clients and address our stakeholders needs. These include:

- o Establishing a Grindrod Group task team to drive measures and communication within the Group
- o Educating our employees on precautions to prevent contracting the disease
- o Equipping all employees to work effectively from home, with an average of 93% of employees doing so during the lockdown period
- o Extending the employee wellness programme to assist employees experiencing emotional or other issues during these challenging times
- o Providing symptom screening for all employees, visitors and service providers who enter the Bank's offices
- o Hosting all client engagements using virtual channels
- o Enhancing hygiene measures in the Bank's offices, which include provision of high alcohol hand sanitisers and increased frequency of cleaning
- o Providing personal protective equipment to employees, including face masks and disposable gloves
- o Implementation of social distancing measures for employees who work from the office

Due to the pervasive nature of the virus, the Bank considered the potential impact that the virus could have on our clients, and how that would affect the Bank. We have taken a proactive approach to monitoring these impacts and conduct stress testing on an ongoing basis, driven by the requirements of the board of directors and executive management. The stress testing focuses on the impact of the virus on the Bank's credit and liquidity risks, while a holistic risk assessment has been undertaken to consider all risk types impacted.

In line with the relief being provided by the banking industry, the Bank has undertaken to provide financial relief to clients during this challenging time. This relief is determined on a case by case basis, following client engagement.

The Bank has actively engaged in discussion forums and working groups hosted by the Banking Association of South Africa relating to COVID-19.

The Bank endeavours to leverage any opportunities that may emerge during this challenging period. These include the role of technology in enabling collaborative work from geographically different locations, and the potential for flexible and confidential working arrangements.

4 Competitive financial services sector

Context

- o Socio-political and economic conditions in South Africa are reducing the risk appetite of financial services clients, increasing competition for levels of opportunity
- o The increasing adoption of digital technology is changing the retail and banking behaviours of many clients, compelling banks to digitise products and services

Our response

While continuing to defend and extend our mature core banking operations, we are leveraging our banking capacity and capability to develop innovative offerings in partnership with non-banking clients to broaden access to reliable, low-risk financial services.

5 Specialist human capital

Context

- o Experienced teams with specialist financial services skills are a key driver of growth
- o Established client networks and strong trust-based client relationships enable client retention

Employee turnover (%)

2015	2016	2017	2018	2019
4	5	4	2	2

Our response

We focus on employee satisfaction and development to retain key talent in a competitive human capital environment.

 *Chairperson's message on page 12; Chief executive officer's review on page 16*

LEADERSHIP REVIEW



CHAIRPERSON'S MESSAGE

“PARTNERSHIPS HAVE SHAPED THE BANK’S DNA SINCE ITS INCEPTION 25 YEARS AGO. AS WE ENTER A NEW PHASE OF THE BANK’S HISTORY, PARTNERSHIP WILL REMAIN OUR GUIDING PRINCIPLE.”


2019 was a watershed year for Grindrod Bank – it tested our track record of resilience in difficult operating conditions and compelled us to respond to change by charting a new course designed to ensure that the Bank remains relevant to its clients and able to create sustainable long-term value for its stakeholders.

Our operating environment presented both risk and opportunity. At a macro level, sustained economic weakness in South Africa impacted business and individual investor confidence, while property lending – one of our core operations – was impacted by lower demand for industrial, commercial and retail property and an increase in the risk profile of some loans. Both our lending and deposit-taking operations leveraged their strong client relationships and risk management to mitigate these external risks and achieve modest balance sheet growth.

The Bank operates in a financial services sector that is highly regulated to ensure that financial systems remain stable and clients are protected. Our Bank unreservedly supports regulation for this purpose and has policies, systems and compliance processes in place to ensure that we remain compliant. In 2019, the board focused on addressing matters raised by the PA of the SARB. Significant effort went into correcting these matters and we received condonation from the regulator. Our response required a high level of board and management attention and inflated our professional services costs, but it had the good effect of heightening our

awareness of the need to strengthen our risk and compliance management. We are currently in the application process for condonation for the breach resulting from the consolidation of GIT and GPSIT, as discussed in the CEO’s and chief financial officer’s (CFO’s) reviews.

Condonation – a process by which a relevant authority acknowledges and pardons a regulatory breach, usually because appropriate remedial action has been undertaken.

 *Risk and opportunity management on page 36; Governance on page 42; Compliance governance on page 60*

Grindrod Limited has been a supportive shareholder to Grindrod Bank, providing capital to the Bank or, if required, standing surety when we have issued bonds to fund periods of growth. This included a capital injection of R100 million provided during 2019.

As we enter a new era, the board is focusing on securing new equity and business partners that will support our strategy to reposition the Bank in order to secure new sources of revenue.

The board reviews the Bank’s strategy regularly and amends it in response to risk and opportunity in the Bank’s operating environment. In 2019, the board approved a redefined strategy formulated by the executive committee to support the Bank’s achievement of sustainable growth and value creation. I am satisfied that the board and executive management have the necessary capacity and capability to implement the strategy effectively and are aligned in supporting the Bank’s future direction.

 *Chief executive officer’s review on page 16*

2019 FOCUS AREAS

- o Strengthening governance
- o Addressing the board's composition to ensure independence and diversity

[2] STRENGTHENING GOVERNANCE

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

The Bank has undergone significant review and strengthening of its governance, regulatory compliance and risk management in 2019.

We conducted a gap analysis late in 2018 to determine the Bank's compliance with King IV and the results were tabled at the February 2019 board meeting. Considerable progress has been made in implementing remedial actions to address the gaps and the board will continue to monitor completion of the process within established deadlines in 2020.

SNG Grant Thornton was appointed as the Bank's registered external auditor in 2019, replacing Deloitte a year ahead of the mandatory firm rotation requirement.

[7] The board's composition changed fundamentally in 2019.

A number of board members resigned to facilitate the board's transformation and the regulator's requirement for independence. Sue Scott resigned as an executive director and Pieter Uys, a non-executive director of Grindrod Limited resigned as a non-executive director, both in February 2019. Michael Hankinson, executive chairperson of Grindrod Limited, resigned as a non-executive director, chairperson of the directors' affairs committee and member of the remuneration committee in March 2019. Andrew Waller, CEO of Grindrod Limited, resigned as a non-executive director in October 2019. Andrew Blades resigned as an executive director in August 2019. Raymond Ndlovu resigned as a non-executive director and chairperson of the asset and liability committee in December 2019.


After the year-end, Walter Geach resigned as a non-executive director and chairperson of the audit and compliance committee and Dr Martha Mbatha resigned as an independent non-executive director and chairperson of the social and ethics committee in February 2020.

On behalf of the board, I thank each of these directors for their services and counsel over their tenure and wish them well in their future endeavours.

The introduction of new board members improved the board's diversity and strengthened its financial, banking, banking regulatory compliance, IT, risk management and entrepreneurial expertise.

In July 2019 Rakesh Garach was appointed as an executive director and officially stepped into the role of CFO of the Bank. Tyrone Soondarjee and Sheherrezaad Barrett were appointed as independent non-executive directors in September and December 2019, respectively, and Tyrone was appointed as lead independent director in March 2020. Zola Malinga, a serving non-executive director since 2017 resigned from the Grindrod Limited board in December 2019 to become an independent non-executive director of the Bank. In April 2020, Zizipho Nyanga was appointed an independent non-executive director.

Amanda Dambuza, a serving independent non-executive director since August 2018, succeeded me as independent non-executive chairperson in March 2020 and, following nine years of service to the board, I will continue as a non-executive director until 31 December 2020. On behalf of the board, I welcome the new directors and look forward to working with them to achieve our shared goals.

 Further detail on the changes to our directorship and committee membership is provided in the governing our Bank chapter.

CHAIRPERSON'S MESSAGE continued

Considerable progress was made in transforming all levels of the Bank, but particularly the board and senior management in line with our goals for transformation and inclusion. At 31 December 2019, we achieved 67% black representation on the board and 44% female representation. Appointments post year-end have improved this further, with 75% black representation and 50% female representation at 30 April 2020. I appreciate the effort and change management this involves, but I am confident it will position the Bank for the future.

SUPPORTING OUR STAKEHOLDERS AND COMMUNITIES

Our values underpin our approach to business and are supported by sustainability measures to ensure the health and safety of stakeholders, respect for people and communities and to minimise the impact of our Bank on the environment.

Our commitment to social investment favours education and environmental projects and is implemented through our investments in a number of initiatives, including the Wildlands Conservation Trust Blue Fund, Star Saver Financial Education initiative and the Rally to Read project that provides books and teaching support for disadvantaged schools in remote areas. In addition to these social investments, our support of a number of small start-up businesses and small and medium-sized enterprises (SMEs) funding is a core component of our growth strategy.

Our stakeholder engagement policy aims to strengthen and maintain relationships with our stakeholders; identify the opportunities and threats arising from stakeholders' material issues; assist with strategic, sustainable decision-making; and to improve effective two-way communication.

To achieve these goals, in April the social and ethics committee approved the Bank's stakeholder management plan, from which a stakeholder management framework was created and rolled-out as a tool to manage engagement. This assessed the Bank's interaction with stakeholders, each stakeholder group's level of impact and importance to the Bank, their concerns, and our response.

 *Stakeholder engagement on page 48*

ACKNOWLEDGEMENT

Relationships have shaped the Bank's DNA since its inception 25 years ago. Grindrod Limited has been a supportive parent, funding our growth, but ensuring that we develop and maintain the independence required of a bank. Our early years as Marriott Merchant Bank defined our core focus on property lending. At the heart of our business are our clients and the mutually beneficial relationships we have built with them over many years. We have found that by engaging with our clients and understanding them, we are able to respond appropriately to their financial services needs, facilitating their growth, supporting them through economic cycles and knowing when to modify our support – as illustrated now during the COVID-19 pandemic. Our relationship with our employees and the expertise and personal commitment they offer our clients has been equally important in underpinning our growth. As we enter a new phase of the Bank's history, partnership will remain our guiding principle.

I wish to thank my colleagues on the board for their dedication and wise counsel. On behalf of the board I thank David Polkinghorne, his executive management team and all our employees for their resilience during a difficult year. The continuing support we receive from our service providers and alliance partners is greatly appreciated.

My final task as the outgoing chairperson is to welcome my successor, Amanda Dambuza. Amanda was the lead independent director until her appointment as chairperson. She has extensive experience in banking, business and IT and is well positioned to lead the Bank into the new era, in partnership with her board colleagues and executive management.

Julian Beare
Chairperson

MESSAGE FROM THE INCOMING CHAIRPERSON

I would like to acknowledge the experience and wisdom Julian Beare imparted to the Bank during his tenure as chairperson and am pleased that he will continue to serve as a non-executive director.

I am honoured and excited to take up this position at such a pivotal time in the Bank's history and worldwide. Although we are operating in a fast changing world, I am certain that our history of relationship banking, our ability to respond nimbly to change, and the work we have done over the past years to ensure that we maintain our ethical foundation, will position the Bank for a promising future.

The board considers governance, accountability and strategic direction as critical components that set the Bank up for

sustainable growth. I am ably supported in my role by a transformed board that combines valuable institutional knowledge with the fresh insights of several new directors. Our diverse opinions, experience, values and skills, together with the talent we retain in our executive management and employees, will unlock more opportunities that will set the Bank apart and take it to greater heights.

Although we are in uncharted waters as a result of the impact, and response to, the COVID-19 pandemic, I am confident that the board will continue to contribute significant value as we pursue our shared purpose to remain a trusted financial services organisation that helps our clients achieve their financial goals and contributes to economic growth in South Africa.



Chairperson JULIAN BEARE

Incoming chairperson AMANDA DAMBUZA

CHIEF EXECUTIVE OFFICER'S REVIEW

“IN FACING UP TO THE TURBULENT CONDITIONS THE BANK EXPERIENCED IN 2019, WE BELIEVE WE HAVE EMERGED MORE RESILIENT AND BETTER POSITIONED FOR THE FUTURE.”



OVERVIEW

Grindrod Bank operates in a constantly evolving financial services environment, where periods of economic weakness, the rapid pace of regulatory change and competition driven by continuous advances in technology make it necessary for businesses to keep adapting. In facing up to the turbulent conditions the Bank experienced in 2019, we believe we have emerged more resilient and better positioned for the future.

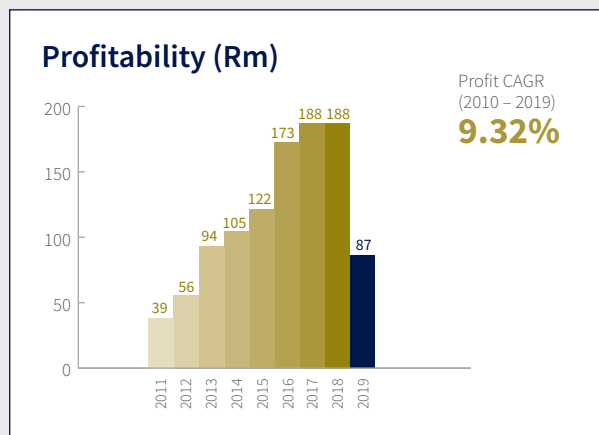
The Bank's financial performance was heavily impacted by fair value write-downs of loans, a lower net interest margin due to capital constraints that led to the deployment of surplus cash in lower yielding financial instruments, and credit losses. The anticipated decline in fee and commission income following the completion of the South African Security Agency (SASSA) contract in the prior year also impacted our results as did a large increase in our spend on technology. These items all contributed to a 53.86% decline in attributable profit to R86.55 million, interrupting a long-term trend of growth in earnings which is reflected in our 9.32% compound annual growth rate (CAGR) in earnings since 2011. The lower financial performance impacted the Bank's return on equity and assets, showing a drop to 7.31% (2018: 18.44%) and 0.58% (2018: 1.15%) respectively.

 *Chief financial officer's review on page 22*

CEO DAVID POLKINGHORNE

2019 FOCUS AREAS

- o Target growth and expansion in an enabling governance and funding structure
- o Explore potential M&A and Broad-Based Black Economic Empowerment (BBBEE) partnerships and product expansion into niche SME markets
- o Develop a platform banking strategy based on digital technology



Due to a revised interpretation of IFRS 10, the assets and liabilities of the vesting trusts, GIT and GPSIT were consolidated for the first time during the 2019 financial year. As a consequence of this consolidation, the Bank breached its large exposure threshold prescribed by section 73 (Concentration Risk) of the Banks Act, resulting in a breach in its minimum capital adequacy ratio. The Group is in the process of remediating the breach. The consolidation of GIT and GPSIT also impacted return on equity and return on assets.

[Chief financial officer's review on page 22](#)

The Bank's credit rating by GCR Ratings¹ was upgraded from BBB-(ZA) to A-(ZA) (long-term, national), A2(ZA) short-term, national) and B+ (long-term, international) with a stable outlook. GCR reported that the rating was based on the Bank's stable capital, liquidity and risk positions balanced against a weakened operating environment.

PERFORMANCE

The Bank's funding and liquidity remained stable in 2019, with deposits increasing by 4.74% to R9.37 billion, excluding retail funding. A R250 million increase in our bond issuance

in November 2019 brought the total DMTN programme to R753 million. We did not require a Grindrod Limited guarantee for the new issuance and our improved credit rating enabled the Bank to secure a more favourable rate on the bond.

Our loans and advances reduced by 3.26% to R7.42 billion, reflecting higher than usual loan attrition and a deliberate reduction in our risk appetite. This included the repayment/settlement of certain loans that represented higher risk in the current strained economic environment. Our conservative approach resulted in a large liquidity surplus at year-end which will enable the lending business units to adopt a more positive approach to client engagement after a constrained 2019.

The deterioration in our credit loss ratio to 33bps (2018: 29bps) follows four years of stable performance during which loan losses averaged less than 30 bps of total loans. We have sound levels of collateral against high lending concentrations in real estate and our loan loss reserves amount to 61.66% of non-performing loans. Loan impairments in the investment banking business resulted in a 175.98% increase in provisions to R67.79 million. There were no impairments in the property business, despite the challenging economic environment and systemic weakness in the property sector. A decision to settle higher risk property loans created new capacity and reduced the risk in our advances book.

As expected, the Bank's retail income decreased by 49.89% to R32.81 million following the conclusion of the contract to distribute pensions for SASSA and the migration of SASSA grant payments to the South African Post Office. The size of the remaining retail client base is not sufficient to achieve our future growth objectives and we have developed a new retail banking model, based on platform banking, which has been approved by the board. Further information on platform banking is provided in the strategy section of this report and the platform banking operational report.

[Platform Banking on page 32](#)

¹ GCR is licensed as a rating agency. In South Africa, GCR is registered as a Credit Rating Services Provider by the Financial Services Conduct Authority.

CHIEF EXECUTIVE OFFICER'S REVIEW continued

Technology is not only a differentiator for modern banks, but a necessity to effectively service our clients and compete in the market. Our approach is to ensure that our IT infrastructure can support the Bank's strategic objectives. We completed an upgrade of our network infrastructure in 2019 which increased its bandwidth capacity, redundancy and scalability improved the capability of our core banking systems and enhanced the resilience and stability of our IT network. The increased maturity of our IT governance ensures that the important linkages between technology, strategy and sustainable growth are embedded in the Bank, and that the risks of cyber crime, fraud and data breaches associated with digitisation are understood and managed.

With relatively limited resources, the Bank has implemented innovative technology solutions that have improved the experience of many of our clients. There has been increasing adoption of our Online Money Manager which offers professional managers and advisors in the legal, financial and deceased estate management sectors a secure and convenient online banking solution. Our Bank was an early adopter of open banking which allows third party service providers to access the banking systems of registered banks by using application programming interfaces (APIs).

APIs are the interfaces our alliance partners use to access our banking systems.

As we navigate all the external forces influencing the industry, our Bank is implementing extensive internal changes.

The rapid pace of regulatory change has heightened awareness of the need for absolute rigour in the way we govern our business, manage risk and opportunity and create sustainable value for our stakeholders. We have strengthened our governance, compliance and risk management functions and are restructuring the Bank to remain compliant and ensure we are positioned to capitalise on new opportunities. The restructuring includes the decentralisation of shared services such as IT to ensure that we are appropriately focused and independent.

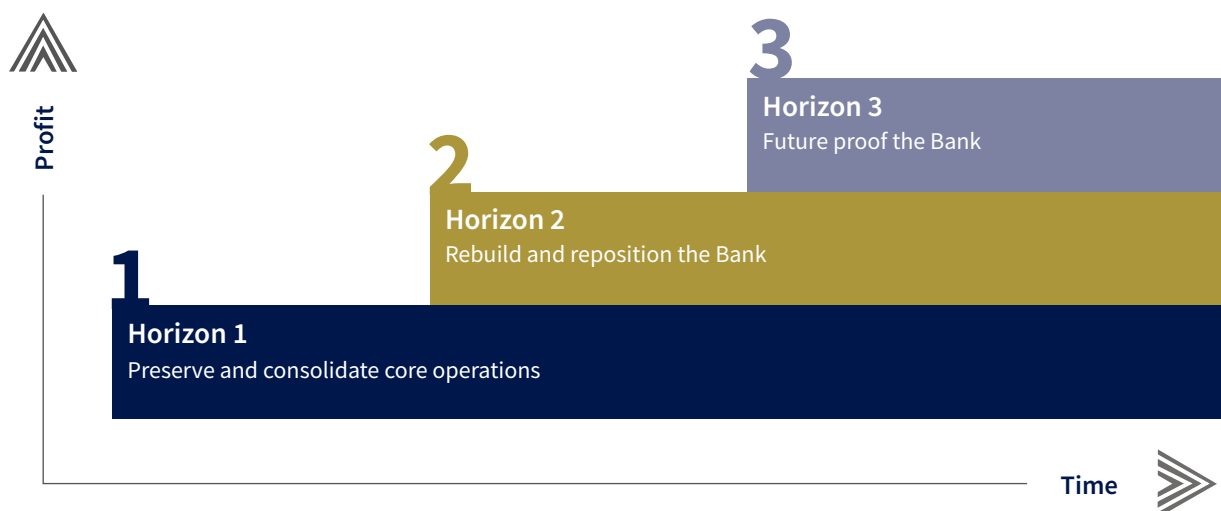
 *Chairperson's message on page 12; Performance on pages 28 to 33*

STRATEGY

To grow profit sustainably it is necessary for us to continue defending and growing the Bank's core operations, but also to diversify our income by generating new growth opportunities. In September 2019, we redefined our strategy to reflect this imperative and establish a clear roadmap for the achievement of sustainable future growth and value creation.

The strategy comprises three distinct horizons, all of which require active development and investment:

- Preserve and consolidate core operations
- Rebuild and reposition the Bank
- Future proof the Bank, thereby enhancing value



<p>HORIZON 1 Preserve and consolidate core operations</p>	<p>Our Corporate Lending and Treasury operations form the stable foundation of the Bank. The funding and income they generate and the specialist skills they employ provide resources for growth.</p> <p>However, as the core operations mature, it becomes more difficult to maintain the momentum of growth. Our approach is to optimise their performance to ensure that they remain stable, efficient and profitable.</p> <p> <i>Lending on page 28; Treasury on page 30</i></p>	<ul style="list-style-type: none"> ○ Consolidate all lending activities under one business unit ○ Achieve specified growth targets per lending product ○ Maintain core deposits ○ Introduce new strategic shareholders ○ Enhance regulatory and compliance capabilities to enable horizons 2 and 3
<p>HORIZON 2 Rebuild and reposition the Bank</p>	<p>While we continue to focus on preserving our core operations, we are repositioning the Bank to generate new sources of income that will reduce its dependence on the core operations and drive future growth.</p> <p>Our focus is on serving the funding needs of South African entrepreneurs and small to medium-sized (SME) businesses. The majority of our existing corporate lending clients are in this segment and we intend to grow from this established client base.</p> <p>We have reviewed this growth opportunity and determined our internal capacity and the capital required to support growth.</p>	<ul style="list-style-type: none"> ○ Define market offerings ○ Raise capital from new strategic shareholders
<p>HORIZON 3 Future proof the Bank</p>	<p>This involves the development of growth opportunities that will move to horizon 2 in time to support the Bank's longer-term sustainability.</p> <p>Our primary focus is on converting our existing retail operation into a platform banking offering that will enable new business growth with non-banking partners in the retail and SME markets.</p> <p>The Bank's banking licence, financial service provider status and regulatory track record (at scale), places it in an ideal situation to offer platform banking services to other partners.</p> <p>A strategic model has received board approval and supportive systems capabilities and requirements are being developed.</p> <p> <i>Platform Banking on page 32</i></p>	<ul style="list-style-type: none"> ○ Pursue new platform banking strategy ○ Develop robust product offerings ○ Engage with multiple potential alliance partners who have expressed interest in the offering

CHIEF EXECUTIVE **OFFICER'S REVIEW** continued

The Bank has key performance indicators (KPIs) based on individual, divisional and Bank strategic objectives to drive financial performance, regulatory compliance and strategy implementation.

LOOKING AHEAD

Political turbulence and a deteriorating fiscal position will continue to weigh heavily on the shrinking South African economy in 2020. The domestic economy will also remain sensitive to major global events, such as the COVID-19 pandemic. The duration and impact of the pandemic remains unclear at this time, and it is not possible to reliably estimate the severity of its impact on our future financial position and results, but it will place enormous pressure on our economy and ways of working in the short-to medium-term. We will continue to engage with and support our clients in this challenging time.

Against that background, we believe that we have emerged from the turbulence of 2019 in a good position to leverage the Bank's strengths. The implementation of our strategy will gain traction in 2020. We will continue to build on the significant interest generated by potential alliance partners in our platform banking offering. The Bank has sufficient liquidity to grow our core property lending book and increase our funding support for SME businesses.

THE CASE FOR SMALL, MEDIUM AND MICRO ENTERPRISES

Globally, small, medium and micro enterprises (SMMEs) are the backbone of the economy and a big source of employment, dwarfing the contribution large companies make to employment creation.

The Department of Trade and Industry estimates there are about 2.8 million SMMEs in South Africa contributing 52% - 57% to our GDP and 60% to employment. But, the government's National Development Programme estimates that by 2030 90% of new jobs could be generated by supporting and expanding the SMME sector.

Some of the policy interventions that must be implemented to stimulate SMME growth are indicated in the paper titled Economic transformation, inclusive growth and competitiveness: toward an economic strategy for SA released by Finance Minister, Tito Mboweni. Proposals include:

- Supporting SMMEs through public procurement.
- Ending late payment by government departments and institutions.
- Improving market access for small businesses by introducing tenders that give preferential access to small suppliers.
- Getting SMMEs into long-term contractual relationships as subcontractors to large companies, enabling them to enter global value chains and unlock credit they would not ordinarily access without these long-term contracts. The inclusion of SMMEs in global value chains will not only diversify these value chains, but it will also contribute to advancing innovation.

It is a fallacy that innovation is a domain of big business. Small businesses, including start-ups, have devised disruptive ideas that have turned industries upside down. This is hardly surprising given that small businesses are usually lean, nimble and driven by hungry and experienced founders. Some of the world's tech giants did not exist 10 or 15 years ago, but they dislodged old rivals from their positions as market leaders.

It is important to recognise that some SMMEs are hindered by lack of affordable finance. Another hurdle to SMME funding is the lack of credit information for SMMEs. There is a need to establish a central information repository, with the cooperation of commercial banks, where lenders can gain credit information for credit granting decisions.

By addressing these challenges, we could build champions that contribute to employment creation and tax revenue for the government to extend social services to the poor.

Excerpt of an article by David Polkinghorne, published in Business Day on 17 December 2019.





CHIEF FINANCIAL OFFICER'S REVIEW

“OUR FOCUS IN 2020 WILL BE TO RESTORE A CONSISTENT TREND IN PROFIT GROWTH AND SECURE NEW SOURCES OF REVENUE.”

PERFORMANCE OVERVIEW













Grindrod Bank delivered an unsatisfactory financial performance for the year ended 31 December 2019. Profit decreased by 53.86% to R86.55 million largely due to fair value write-downs of loans carried at fair value, a lower net interest margin due to capital constraints leading to the deployment of surplus cash in lower yielding financial instruments, increased credit losses and lower retail income following the migration of SASSA social grant payments to the South African Post Office. The Bank's cost base reduced by 6.11% mainly due to lower employee incentives as a result of the disappointing performance.



CFO RAKESH GARACH

2019 FOCUS AREAS

- o Regulatory compliance
- o Management of credit risk

<p>Total assets</p>  <p>7.42% R15.34 billion (2018: R14.28 billion)</p>	<p>Gross loans and advances</p>  <p>2.66% R7.51 billion (2018: R7.71 billion)</p>	<p>Funding base</p>  <p>8.50% R11.96 billion (2018: R11.02 billion)</p>	<p>Total equity</p>  <p>12.60% R1.56 billion (2018: R1.38 billion)</p>
<p>Return on average shareholder equity</p>  <p>> 100 bps 7.31% (2018: 18.44%)</p>	<p>Return on assets</p>  <p>57 bps 0.58% (2018: 1.15%)</p>	<p>Group total capital adequacy ratio (unaudited)</p>  <p>158 bps 9.278% (2018: 10.853%)</p>	<p>Bank total capital adequacy ratio (unaudited)</p>  <p>> 100 bps 16.125% (2018: 12.368%)</p>
<p>Profitability</p>  <p>53.86% R86.55 million (2018: R187.59 million)</p>	<p>Total income</p>  <p>27.26% R396.72 million (2018: R545.42 million)</p>	<p>Cost to income ratio</p>  <p>> 100 bps 72.83% (2018: 56.43%)</p>	<p>Credit loss ratio</p>  <p>4 bps 33 bps (2018: 29 bps)</p>

CHIEF FINANCIAL OFFICER'S REVIEW continued

Statement of comprehensive income

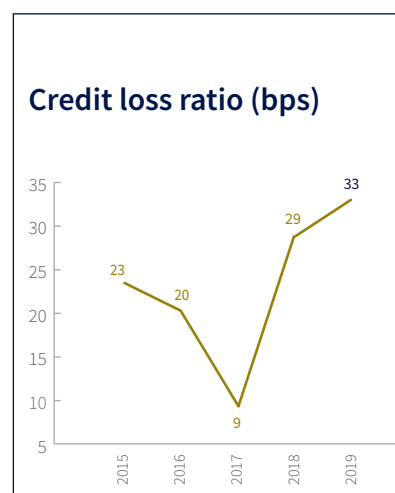
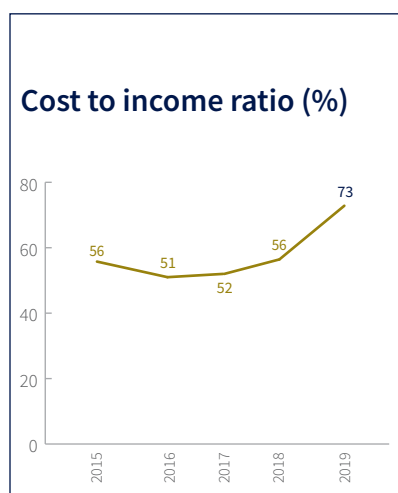
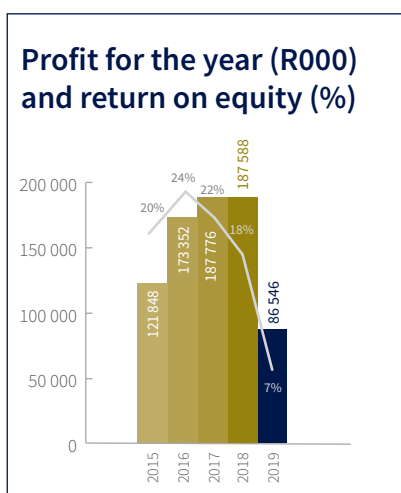
R000	2019	2018	% change	
Interest and similar income	1 004 028	996 955		
Interest and similar expense	(873 483)	(798 835)		
Net interest and similar income	130 545	198 120	34.11	▼
Non-interest income	266 177	347 302	23.36	▼
Total income	396 722	545 422	27.26	▼
Impairment charges on loans and advances	(25 114)	(21 099)	19.03	▲
Net income after impairments	371 608	524 323		
Operating expenditure	(288 945)	(307 762)	6.11	▼
Profit before taxation	82 663	216 561		
Taxation	3 883	(28 973)		
Profit after taxation	86 546	187 588	53.86	▼
Total comprehensive income	86 546	187 588		

Total income reduced by 27.26% to R396.72 million mainly due to a lower net interest margin as a result of the deployment of surplus cash in lower yielding capital light financial instruments, and higher than usual attrition on loans and advances which shrank by 3.26%. In addition, the Bank experienced significant fair value write-downs on loans and advances carried at fair value. This resulted in an increased cost to income ratio of 72.83% (2018: 56.43%).

Credit impairments increased by 19.03% to R25.11 million, indicative of a strained economy, and resulted in an increase in the credit loss ratio to 33 bps (2018: 29 bps).

Total operating expenditure reduced by 6.11% to R288.95 million (2018: R307.76 million) mainly due to lower employee incentives as a result of the disappointing performance. Employee costs decreased 13.91% to R161.00 million (2018: R187.01m). Other operating expenditure increased by 5.96% to R127.95 million (2018: R120.75 million). Certain once-off project related and professional services costs amounting to R21.00 million were included in the current year. Excluding these once-off costs, other operating expenditure decreased by 11.43% on a normalised basis.

As a result of the lower profitability, return on equity decreased to 7.31% (2018: 18.44%).



Statement of financial position

R000	2019	2018	% change	
Assets				
Intangible assets	–	–		
Property and equipment	18 031	6 513		
Investment securities	9 177	–		
Deferred taxation	24 947	–		
Loans and advances	7 416 453	7 666 062	3.26	▼
Preference shares – linked to trust participatory contributions	1 727 444	1 391 000		
Other assets	94 071	154 371		
Liquid assets and short-term negotiable securities	2 478 941	2 825 285	12.26	▼
Cash and short-term funds	3 572 496	2 238 791	59.57	▲
Total assets	15 341 560	14 282 022	7.42	▲
Equity and liabilities				
Ordinary share capital	–	–		
Ordinary share premium	380 278	280 278	35.68	▲
Preference share capital	285 000	285 000		
Distributable reserves	889 931	816 132		
Total equity	1 555 209	1 381 410	12.58	▲
Deposits and funding instruments	11 957 109	11 020 486	8.50	▲
Derivative instruments	22 249	7 911		
Provisions	28 201	71 130		
Other liabilities	54 310	82 023		
Trust participatory contributions	1 724 276	1 714 124		
Taxation	206	–		
Deferred taxation	–	4 938		
Total equity and liabilities	15 341 560	14 282 022	7.42	▲

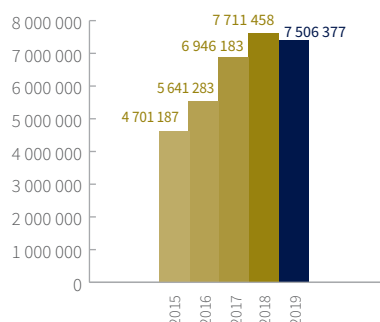
Loans and advances decreased by 3.26% to R7.42 billion (2018: R7.67 billion) as a result of a higher than usual attrition rate, fair value write-downs and increased impairments

Cash and short-term negotiable securities increased by 19.50% to R6.05 billion (2018: R5.06 billion), driven primarily by deposit book growth and an additional bond issuance under the DMTN Programme. The Bank continues to target a balance between holding easily liquefiable assets, while ensuring an adequate return on surplus cash, capital permitting.

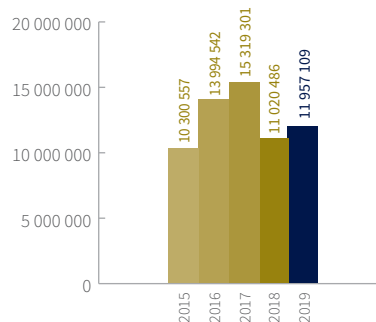
The Bank's funding base increased by 8.50% to R11.96 billion (2018: R11.02 billion), primarily due to deposit book growth and the additional bond issuance under the DMTN Programme. The Bank maintains a healthy split between call and notice/fixed deposits. Grindrod's liquidity coverage ratio and net stable funding ratio remain healthy, placing the Bank in a strong position to capitalise on opportunities.

The trust participatory contributions and preference shares linked to trust participatory contributions arose as a result of the consolidation of GIT and GPSIT for the first time in 2019 due to a revised interpretation of IFRS 10.

Gross loans and advances (R000)



Funding base (R000)

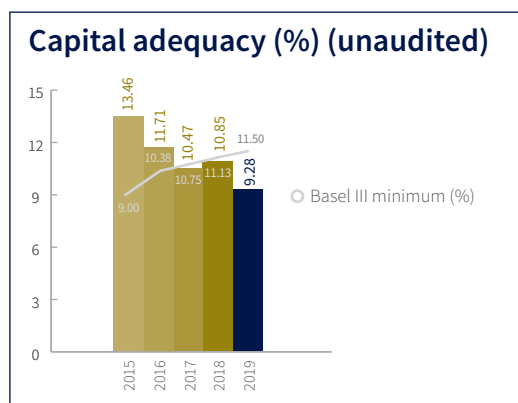


CHIEF FINANCIAL OFFICER'S REVIEW continued

CAPITAL

As a consequence of the consolidation of the GIT and GPSIT, the Bank breached its large exposure threshold prescribed by section 73 (Concentration Risk) of the Banks Act. This led to an additional capital requirement for the Bank which resulted in a capital adequacy ratio of 9.28% (2018: 10.85%) which breached the minimum capital adequacy ratio requirement of 11.50%. The consolidation of GIT and GPSIT was applied retrospectively as per the application of IFRS, which also resulted in breaches to the capital adequacy ratio requirement for 2018 and 2017. The Bank applied to the PA for condonation of the breach and is in the process of remediating the breach.

At a bank solo level, the Bank had a healthy capital adequacy ratio at 16.13%, comfortably above its regulatory minimum requirement.



LOOKING AHEAD

Relationship banking will remain our primary differentiator in the competitive financial services environment. We expect the constraining economic environment to persist. Our focus in 2020 will be to restore a consistent trend in profit growth and secure new sources of revenue. We will continue to strengthen our finance function with a focus on increasing our regulatory reporting and accounting technical skills. We will continue to automate our financial reporting to enhance regulatory compliance and risk management.

While it is anticipated that the COVID-19 pandemic will impact the Bank's profitability for the year ending 31 December 2020, it is not possible to make an accurate estimate of its full financial effect for the year ahead as the virus's infection rate and impact on macro-economic conditions are fluid.

COVID-19 RELIEF FOR BANKS – POST YEAR-END

To alleviate the liquidity pressure being felt throughout the economy as a result of COVID-19 and to provide relief for banks that are experiencing pressure in complying with the current liquidity coverage ratio requirements, the PA has reduced the required minimum to 80%, from 100%. Grindrod Bank is in the strong position of having a liquidity coverage ratio well in excess of this required minimum and a significant component of our large surplus cash reserves is deployed in easily liquefiable assets, notably inter-bank deposits and Treasury Bills. The Bank's core deposit book is also not materially exposed to the retail market where there is evidence of severe liquidity strain, evidenced by deposit levels having been maintained during the month of March and April 2020.

In addition, the PA has also granted capital relief by relaxing the Pillar 2A capital requirement resulting in the minimum capital adequacy ratio requirement dropping from 11.50% to 10.50%.



**GRINDROD
BANK**

RELATIONSHIP BANKING WILL REMAIN
OUR PRIMARY DIFFERENTIATOR IN THE
COMPETITIVE FINANCIAL SERVICES
ENVIRONMENT.

PERFORMANCE



LENDING

The Bank's lending business is an established niche market participant with a loyal, largely high net worth, client base. Clients are attracted and retained with tailored, excellent service and a fast and efficient loan approval process. A key differentiator is the ability to provide mezzanine lending which bridges the gap between debt and equity financing.

PROPERTY LENDING

The property lending division provides traditional vanilla and mezzanine funding solutions to investors and developers in the commercial and industrial property sectors. Mid-market sized properties in sound locations are targeted and loans average R20 million to R100 million. Property lending remains a core part of the Bank's business, accounting for a major component of the lending book.

CORPORATE, INVESTMENT AND SME BANKING

The Corporate and SME division provides short-term facilities aimed at improving and enhancing clients' cash flow management and working capital cycles. Investment banking services include mezzanine, empowerment and growth and acquisition finance for small-to-medium sized businesses with a track record of strong cash generation.

Loan sizes range between R30 million and R120 million.

LENDING PHILOSOPHY

The Bank adopts a moderate to conservative lending philosophy and focuses predominantly on asset-backed loans structured by specialist property and investment banking teams to suit clients' funding needs and the Bank's risk tolerance. The traditional vanilla lending provides long-term debt to mitigate risk in the loan book and support higher equity-type interest yielding mezzanine funding.

Strong client relationships improve the Bank's understanding of client risk and opportunity and enable fast, tailored and efficient loan processes. However, these always take account of the Bank's robust credit risk management procedures.

OUR FOCUS AREAS

During 2019 we supported the Bank's business objectives by:

- o Maintaining a conservative, asset-backed lending approach
- o Managing credit risk within the Bank's approved risk tolerance
- o Targeting SME businesses



Head of Lending **LOUIS SAVRIMUTHU**

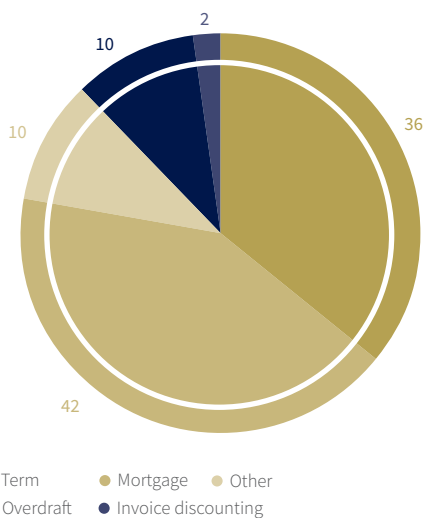


Head of Investment Banking **NISHLAN NAIDOO**

R7.4 billion lending base:

- o Mortgage and mezzanine property finance for the acquisition or development of medium-scale commercial and industrial properties
- o Empowerment finance
- o Working capital finance to SME businesses

Composition of loans – by product (%)



3 – 4 years
 average loan duration

HOW WE PERFORMED

The lending division performed satisfactorily, despite a challenging economic environment that impacted our primary property and business sectors.

Although gross lending was in line with targets, loans and advances decreased by 3.26% to R7.42 billion due to a higher than usual loan attrition and increased impairments.

Loan impairments, primarily in the investment banking business, resulted in a 19.03% increase in provisions and a 4bps increase in the credit loss ratio to 33 bps. There were no impairments in the property business, despite the challenging economic environment and systemic weakness in the property sector. Several property transactions were completed and the Bank facilitated a BEE property transaction.

The corporate, investment and SME banking business recognised healthy income as a result of new deals and the revaluation and renegotiation of existing exposures.

The settlement/repayment of certain higher risk loans created new capacity and reduced the risk in our advances book.

We focused on appropriate deal selection, mitigating risk by favouring quality deals over growth in advances, and reviewed portfolio cash flows and debt covenants regularly. Our strong client relationships continued to provide valuable insight into the financial position and needs of our clients.

LOOKING AHEAD

Our key focus areas in 2020 are:

HORIZON 1
Preserve and consolidate core operations

- Continue to nurture key client relationships
- Optimise the Bank’s surplus liquidity
- Maintain exposure to core property market and increase lending to small and medium-sized businesses within the Bank’s risk tolerance

HORIZON 2
Rebuild and reposition the Bank

- Focus on growing small and medium-sized businesses lending
- Target supply chain management and manufacturing businesses that invest in value-creating assets

HORIZON 3
Future proof the Bank

- Ensure client service remains a priority to ensure future and repeat business with loyal clients
- Use platform model to provide products and services to our existing and new clients

TREASURY

The role of Treasury is central to the Bank, raising the funds we lend, attracting and retaining loyal clients with personalised, trust-based relationships, and balancing the product mix, duration and pricing of deposits to ensure that the Bank functions optimally.

Treasury offers clients competitive rates by leveraging the Bank's substantial pool of investable funds to negotiate the highest wholesale banking rates available, and containing fixed costs.

The Bank's depositor base is comprised largely of SME businesses, high net worth individuals, asset managers and portfolio managers, procured either directly or through agents and supported individually by our dedicated portfolio managers in Durban, Pretoria, Johannesburg, Cape Town and Bloemfontein.

The Bank's Online Money Manager offers professional service providers in the legal, accounting, estate agency and deceased estate management sectors a safe and secure online banking solution that is fast and efficient with no administration or transaction fees. The Online Money Manager activates agent accounts within 48 hours and issues property guarantees within 24 hours.

Treasury secures relationships with fintechs and adopts API technology to facilitate its interface with fintechs which contributes to further diversification of the Bank's depositor base.

Within Treasury we manage a DMTN programme and a preference share business under capital markets.

OUR FOCUS AREAS

During 2019 we supported the Bank's business objectives by:

- o Retaining our existing depositor base with personalised, trust-based client relationships
- o Growing and diversifying our deposit book
- o Maintaining a stable deposit base by lengthening the duration of deposits and limiting call deposits to around 50% of the book



Head of Treasury **KIM HERTZBERGER**

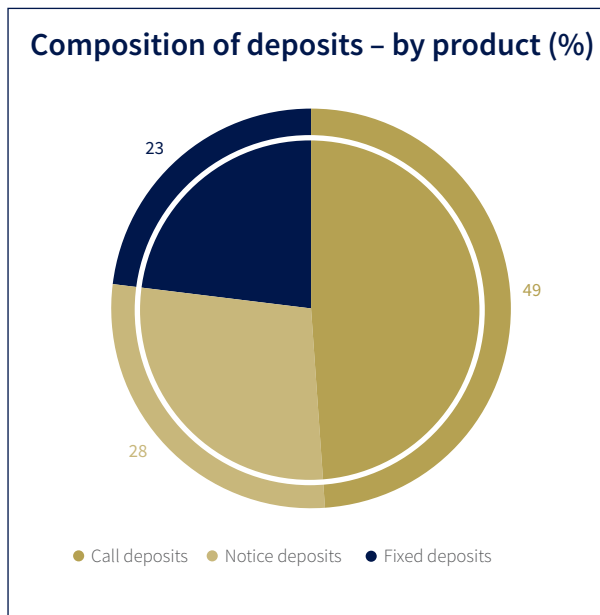
4.74%
growth in core deposits to R9.37 billion

8.50%
growth in funding base to R11.96 billion

486%
liquidity coverage ratio

160%
net stable funding ratio

>91 days – 18 months
average deposit duration



HOW WE PERFORMED

Treasury reported sound financial performance, despite the impact of South Africa’s sustained economic downturn.

We increased core deposits by 4.74% to R9.37 billion (excluding retail deposits). R250 million in new funding was raised through the DMTN programme at the Johannesburg average inter-bank rate (JIBAR) plus 225 points. Total bonds in issue amounted to R753 million, with the first maturing on 16 November 2020.

We maintained a stable deposit base by lengthening the average duration of the deposit book to between 91 days and 18 months and limiting our call deposits to 49% of the total book.

Our efforts to diversify the Bank’s depositor base were supported by increasing adoption of our Online Money Manager by existing clients and new clients in the legal and property sectors. The 139 new agents secured during 2019 increased the share of deposits attributable to fintech partners who act as intermediaries.

LOOKING AHEAD

Our key focus areas in 2020 are:

HORIZON 1

Preserve and consolidate core operations

- Maintain and optimise the Bank’s surplus liquidity
- Leverage the Bank’s rating upgrade to reduce the overall cost of funds
- Continue to lengthen the duration of the deposit book and funding base through fixed/notice deposits and new bond issuances (refinancing the maturity in November)

HORIZON 2

Rebuild and reposition the Bank

- Growing the existing client base and diversifying further into new business sectors

HORIZON 3

Future proof the Bank

- Continuing to improve the efficiency and reliability of our core banking system and Online Money Manager

PLATFORM BANKING

Following the conclusion of the SASSA grant payment service, the Bank is repositioning its retail banking operation to a platform banking model which offers significant future growth potential. With platform banking, the Bank forms alliances with non-banking businesses to co-develop innovative offerings that give more people access to reliable, low-risk financial services.

These partnerships enable non-banking businesses and fintech start-ups to provide digital transactional banking and payment solutions to their clients by integrating with our core banking systems using API channels. Our partners will benefit from our expertise and experience as a licensed, compliant financial services provider with fit-for-purpose scalable platform services.

The Bank gained valuable experience in platform banking through its SASSA partnership which will be applied to its new partnerships. Over time, we plan to become a fully fledged banking service provider to partners across our range of products.

The platform banking initiative has generated interest and the Bank is evaluating several potential partners in the retail, telecommunications and financial services sectors. Typical partners are retailers or fintechs with access to existing client bases and mature capability in digitised customer information systems, sales platforms or service support. Many plan to offer deposit-taking accounts, in-house card programmes, or increase their clients' ease of access to digitised products. All partners will undergo a rigorous due diligence process and be assessed by the SARB.

We are targeting a large and growing client base over the next three years which will diversify our revenue and contribute to the future-proofing of our business.

OUR FOCUS AREAS

During 2019 we supported the Bank's business objectives by:

- Concluding the SASSA arrangement and facilitating the transfer of SASSA accounts to new service providers
- Assessing business and technology architecture to support alliance banking
- Evaluating new potential partnerships



Head of Platform Banking **PIERRE LOUBSER**

Niche alliance banking products and services, including:

- Retail transactional and deposit-taking accounts
- Participation in payment system solutions
- White labelled prepaid and debit cards
- Acquiring ATMs

Why partner with us?

- Alliance banking and partnering expertise
- Regulatory track record
- Core banking systems

Market appetite

- Fintech and retailer demand for banking services
- Customer demand for digital services

Market opportunity

- Financial services enabler for fintech businesses and retailers
- Partnerships with new digital banking platform providers
- Ease of access to digital products

HOW WE PERFORMED

The conclusion of the SASSA contract reduced the Bank's retail income to a level that will not sustain future retail growth, hence the need to develop a new retail business model. An assessment of platform banking as a future growth opportunity was presented to the board and approved in 2019.

The repositioning of the Bank for platform banking is being implemented in phases, including the fast-tracked development of supportive HR capacity, investment in owned, shared or leased IT systems capability, and the evaluation and prioritisation of potential partners.

LOOKING AHEAD

Our key focus areas in 2020 are:

HORIZON 1

Preserve and consolidate core operations

- Leverage regulatory knowledge, established compliance frameworks and unique technology provider relationships to offer solutions to alliance banking relationships
- Review regulatory capabilities of third party partners or service providers
- Onboard and integrate new alliance relationships
- Ensure our API technology interface is fully functional for account opening and client payments

HORIZON 2

Rebuild and reposition the Bank

- Build self-owned services with a specific focus on the SME business sector

HORIZON 3

Future proof the Bank

- Become a world-class platform bank, enabling banking-as-a-service across all the Bank's products
- Participate in the platform economy with our own digital marketplace focused on providing services to SME businesses

THE POWER OF HUMAN CAPITAL

By developing and maintaining the trust-based relationships with clients that underpin our performance, our employees are one of our main competitive advantages.

EMPLOYEE ENGAGEMENT

Grindrod Bank engages regularly with employees at all levels to ensure open and transparent two-way lines of communication.

Employee engagement is conducted through several channels including performance reviews between employees and managers, and the Grindrod Engage platform through which the CEO and external speakers communicate face-to-face with employees. Management and the HR department have an open-door policy and employees are able to direct specific concerns to the Bank's employment equity committee or the board's social and ethics committee.

Late in 2019, the Bank implemented a change management programme to assist employees adapt to significant strategic changes underway. This will be fully adopted in 2020.

An internal employee engagement survey is conducted annually to measure employee satisfaction and engagement. The main issue raised was a request for more communication about the redefined strategy. The Bank has identified four themes which we will focus on in 2020, being, change, communication, mutual respect and leadership development.

The employee turnover rate in 2019 was 2% (2018: 2%), indicating a high level of employee satisfaction.

HEALTH AND SAFETY

The Bank's health and safety committee oversees health and safety management, training and compliance with the Occupational Health and Safety Act No. 85 of 1993.

No fatalities or lost time injuries were reported in 2019.

REMUNERATION

The Bank's employee proposition and entrepreneurial culture enables the attraction and retention of high calibre employees with specialist skills. The board's remuneration committee ensures that our remuneration is fair and appropriate. The Bank benchmarks its remuneration to ensure it is market-related and aims to pay salaries at the 50th percentile of the market, with a range of retention benefits:

- Provident fund and medical aid
- Employee wellness programme and wellness days
- Training and development opportunities
- Incentive schemes and cash bonuses for key positions – linked to KPIs

Employee value proposition

Our employee policies, procedures and regulatory compliance contribute to a healthy work environment. We remunerate and reward our employees fairly and invest in their development to ensure they remain engaged and equipped to deliver our strategy.

During 2019, we focused on:

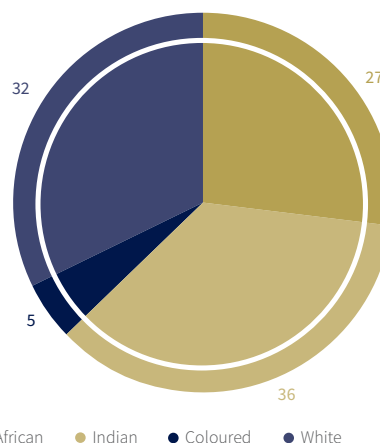
- Employee engagement
- Performance management
- Remuneration
- Investing in talent

Our focus areas for 2020 are:

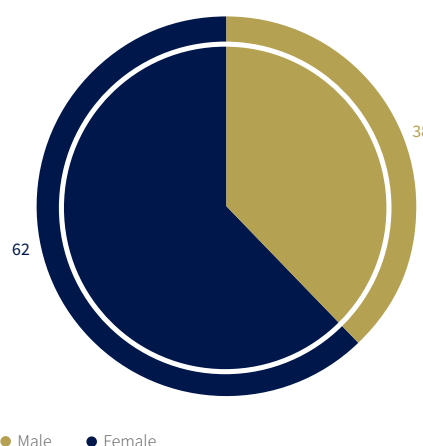
- Leadership development
- High performance and entrepreneurial culture
- Change management

A diverse workforce

Racial diversity (%)



Gender diversity (%)



R2.5 million
 invested in training and development

2%
 employee turnover rate

20%
 employees with over 10 years' service

Zero
 fatalities or lost time injuries

Ethical conduct

- o Code of ethics
- o 24-hour toll-free hotline
- o Ethics training

Empowerment

BBBEE level 2

Grindrod Bank's employee composition

	2019	2018	2017
African	53	51	47
Indian	71	66	62
Coloured	10	11	9
White	62	67	64
Total	196	195	182
Male	74	80	78
Female	122	115	104

Developing the power of our human capital

Our employee and corporate culture remain key competitive differentiators and we acknowledge the importance of positioning our business as an employer of choice. Our employee practices are evolving as we are executing against our business strategy in implementing new products and thus aligning this to our people strategy for 2020.

PERFORMANCE MANAGEMENT

The Bank instils a service-driven, high performance culture that encourages independent decision-making within risk tolerance levels.

Certain employees perform against a set of KPIs based on individual, divisional and Bank strategic objectives. The KPIs form part of these employees' personal development plans which are agreed at the beginning of each financial year, reviewed in June and scored at year-end.

LEADERSHIP

Our leadership development programmes are constantly evolving to align with the required organisational capabilities to execute the strategy. In 2019, 360 reviews were conducted and the aim in 2020 is to carry through with equipping leaders to lead in a high-performance environment.

INVESTING IN TALENT

The need to be proactive to ensure continuous right-fit talent, especially when new roles are introduced with scarce-skill requirements becomes imperative.

Grindrod Bank invested R2.5 million (2018: R1.3 million) in 76 (2018: 67) training interventions. The Bank hosts learnerships and internship programmes that provide a formal qualification and improve the job prospects of unemployed people. Employee's learning programmes form part of their personal development plan. During 2019, our training and development programme included three learnerships for 14 learners, comprising:

- o National Certificate in Banking NQF5 qualification for four learners
- o National Certificate in Retail and Foreign Exchange in Banking NQF5 for five learners
- o National Certificate in Financial Markets and Instruments NQF6 for five learners

A management development programme prepares future leaders for key roles in the Bank.

In addition to the many opportunities employees have to develop skills and expertise and be promoted within the Bank, we offer school fee bursaries to the children of employees in certain remuneration categories.

The Bank's succession programme identifies and develops candidates for critical senior management and key employee positions. Our 2019 succession exercise has resulted in solid succession pipelines and remediation plans were developed to address root causes and will be a key focus in 2020.

MANAGING RISK **AND OPPORTUNITY**

[11] *We instil a risk and opportunity culture throughout the Bank because we recognise that risk and opportunity management are integral to achieving our operational and strategic objectives.*

The board is responsible for the governance of risk. The board, through the relevant committees, routinely reviews risk and opportunity in the Bank's external and internal environments and ensures that appropriate internal controls are in place to manage and mitigate the impact of risks.

The main objective of the risk and capital management committee (the committee) is to assist the board by ensuring that processes are in place to identify, quantify and measure business risks. The committee ensures that appropriate policies, procedures and systems of internal control are established and implemented to facilitate risk reporting and management.

Risk and opportunity management is discharged by the risk management department which reports functionally to the board and the risk and capital management committee, and to the CEO. Internal and external audit play an important role in reviewing and assuring the adequacy of internal controls.

During 2019, the risk management department was strengthened by the appointment of a chief risk officer (CRO) who operates within a board-approved risk and opportunity framework and policy. Risk champions were appointed to support risk management across the Bank's operations.

The risk management department promotes a culture of ongoing training and conducts information sessions with senior management and the board to promote risk awareness.

To ensure that we comply with international best practice, our risk management approach is based on the ISO risk management standards, King IV and the Institute of Risk Management South Africa (IRMSA) guidelines.



CRO NIVASHEN NAICKER

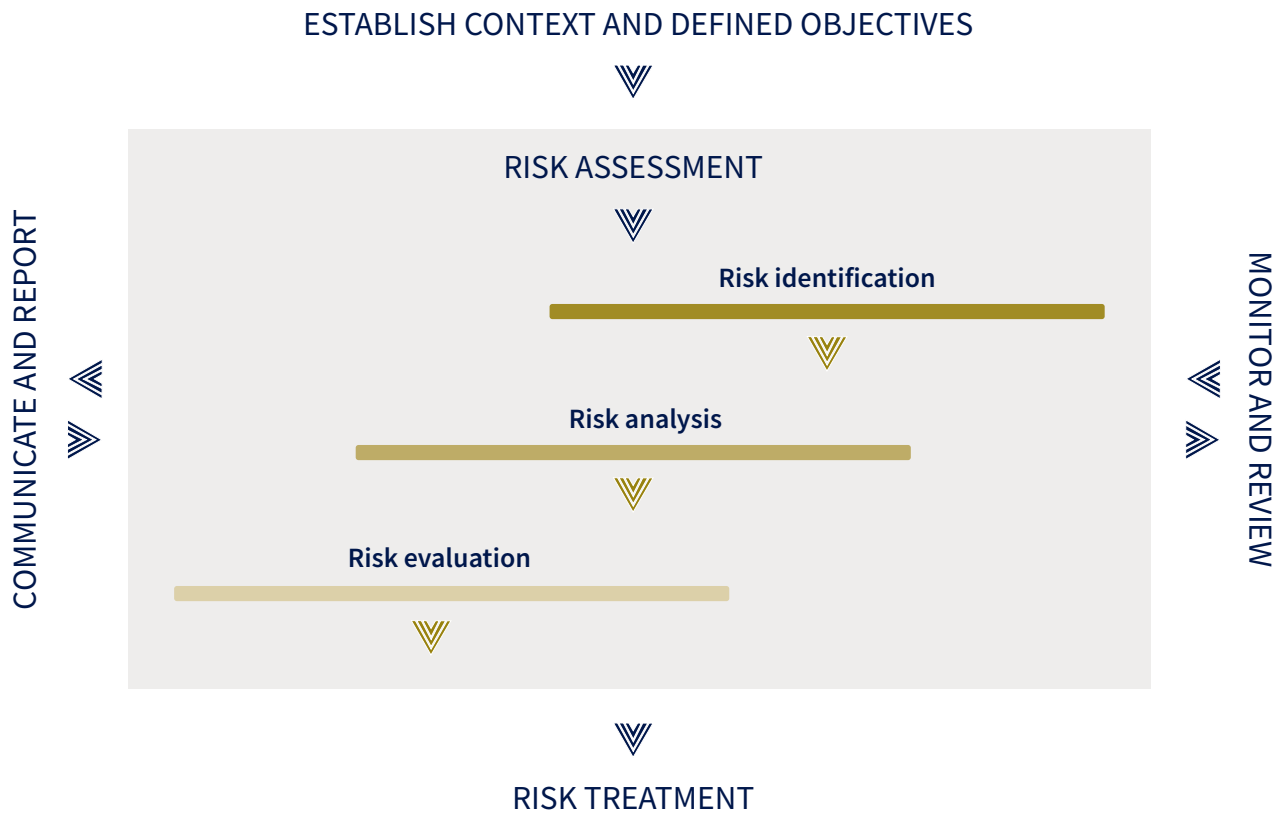
RISK PROCESS

The Bank's risk and opportunity management framework sets out how risk and opportunities are identified, managed and monitored. The framework allocates responsibility for management of specific risks to board committees. Each committee reports back to the board, ensuring that identified risks and opportunities are managed appropriately.

A risk tolerance framework sets tolerance levels to ensure that business is conducted within acceptable risk boundaries. Primary risk areas addressed by the risk tolerance framework include capital adequacy, non-performing loans and concentration risk in the Bank's deposit and advances books. Measures to address secondary risks are incorporated in the risk management process.

The Bank's management constantly monitors and assesses perceived risks and opportunities affecting its products or services. These are reported bi-annually to the committee. Strategic risk assessments are performed to identify risks impacting the Bank and mitigating actions are implemented, where necessary. It is the responsibility of executive management and the committee to ensure that all material risks are highlighted and appropriately managed.

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



Our risk management approach utilises a combined assurance model which provides four levels of assurance.



MANAGING RISK **AND OPPORTUNITY** continued

Board committee risk monitoring framework

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

Risk or opportunity	Asset and liability committee*	Audit and compliance committee	Bank IT strategy steering committee	Credit risk committee	Directors' affairs committee	Executive committee	Re-muneration committee	Risk and capital management committee	Social and ethics committee
Accounting including taxation		✓				✓		✓	
Business including new business	✓	✓	✓	✓	✓	✓	✓	✓	✓
Capital adequacy						✓		✓	
Corporate governance					✓	✓	✓	✓	✓
Credit including counterparty				✓		✓		✓	
Directorship including director succession					✓		✓	✓	✓
Insurance						✓		✓	
Investment	✓					✓		✓	✓
Liquidity	✓					✓		✓	
Market, Interest rate and currency including related hedging	✓					✓		✓	
Operational		✓	✓			✓		✓	
People						✓	✓	✓	✓
Regulatory risk, compliance and legal		✓			✓	✓	✓	✓	✓
Reputational		✓				✓		✓	✓
Solvency	✓	✓				✓		✓	✓
Strategic						✓		✓	
Technology		✓	✓			✓		✓	

* Asset and liability committee is a sub-committee of the risk and capital management committee.

TOP RISKS

The Bank's top risks, together with our controls and actions to manage or mitigate them, are set out in the following table.

Risk	Opportunity	Our treatment
<p>Regulatory compliance and governance</p> <p>Banks are required to comply with regulations that govern financial stability and conduct, protection of clients' data and prevention of financial crimes. Non-compliance by the Bank or our partners exposes us to sanctions, fines and reputational damage.</p>	<p>Strengthened governance and controls throughout the Bank and maintain a constructive relationship with regulators.</p>	<ul style="list-style-type: none"> ○ Audit findings of non-compliance are prioritised and addressed ○ Compliance controls ensure responsible employees receive regulatory updates ○ Risk-based approach ensures key legislation is continuously monitored ○ Employees are trained in anti-money laundering and counter terrorism regulations ○ Automating compliance risk management plans for key legislation in 2020 ○ Strengthening of the board in terms of relevant skills and experience
<p>Capital adequacy</p> <p>Capital adequacy regulations protect financial institutions and their clients from potential losses. Non-compliance with capital adequacy requirements exposes the Bank to regulatory sanctions and fines.</p>	<p>The risk weighting of assets encourages the Bank to consider the risk level of all assets and ensure they are adequately secured.</p>	<ul style="list-style-type: none"> ○ Capital adequacy is monitored monthly by the board's asset and liability committee ○ Regular stress testing is performed to ensure sufficient capital is maintained ○ Training is conducted to eliminate the use of incorrect risk weightings ○ Grindrod Limited is a supportive shareholder of reference and provides capital to support growth when required
<p>Liquidity</p> <p>Liquidity risk occurs when an imbalance between short-term funding and longer-term loans results in insufficient liquid assets to meet financial commitments or mandatory liquidity requirements.</p>	<p>Most effective use of the Bank's surplus cash while adhering to collateral and credit criteria and prudential ratios (including capital and liquidity) as required in terms of the Banks Act.</p> <p>The DMTN programme provides additional longer-term funding to assist the Bank in meeting its liquidity requirements.</p>	<ul style="list-style-type: none"> ○ Maintaining a prudent liquidity management approach ○ Complying with regulatory liquidity requirements ○ Diversifying the deposit and lending books to manage concentration risk
<p>Credit</p> <p>Credit risk poses the threat of financial loss when a counterparty to an asset fails to honour its financial and contractual obligations. This may also result in breaches of regulatory and bank limits.</p>	<p>Effective risk management enhances pricing of loans and can improve profitability.</p>	<ul style="list-style-type: none"> ○ Robust credit decision-making within the Bank's risk appetite and tolerance levels ○ Maintaining strong client relationships and understanding their financial positions ○ Exercising caution in selection of counterparties ○ Ongoing automation of credit processes to prevent human error and enhance decision-making

MANAGING RISK **AND OPPORTUNITY** continued

Risk	Opportunity	Our treatment
<p>Technology Inadequate system controls or system failures can result in financial loss, fraud and breaches of bank and client data. Outdated or ineffective technology can reduce the efficiency and competitiveness of business processes.</p>	<p>Appropriate investment in technology offers significant competitive advantage.</p>	<ul style="list-style-type: none"> ○ Measures are in place to protect our network and data from external threats, including a comprehensive disaster recovery plan ○ Critical systems and applications are tested routinely ○ Incidents are tracked, resolved and recorded to prevent reoccurrence ○ Technology is routinely upgraded

Emerging risks

We also review emerging risks and opportunities that may impact the Bank in future. These are considered during strategic planning and closely monitored.

Our top emerging risk is the short-, medium- and long-term impact of the COVID-19 pandemic.

Risk	Opportunity	Our treatment
<p>COVID-19 As a result of the lockdown, the following possible risks have been highlighted for the Bank:</p> <ul style="list-style-type: none"> ○ Cash flow pressures on clients which could lead to late or non-payment of loan commitments ○ An increase in provisions on the loans and advances portfolio due to inability of clients to meet debt obligations and security values being compromised ○ Fair value write-downs on the loan portfolio classified at fair value ○ Debt covenant breaches ○ Increased liquidity risk ○ Employee safety 	<p>Leveraging technology to allow employees to work remotely and the potential for flexible working arrangements.</p>	<p>Undertook a holistic risk assessment to consider all risk types impacted.</p> <p>Conducting ongoing stress testing on the impact of the virus on the Bank's credit and liquidity risks.</p> <p>Provide financial relief to clients on a case by case basis.</p> <p>Regular communication with all relevant stakeholders.</p> <p>Equipping all employees to work effectively from home.</p>

STAKEHOLDERS



The Bank has a range of stakeholders who have an interest in our business and may be impacted by it. We maintain continual engagement with each stakeholder group to understand the opportunities and risks associated with their material concerns and we respond to these in a manner that supports sustainable value creation for the Bank and our stakeholders.

The Bank's stakeholder engagement is guided by a board-approved stakeholder engagement policy. Key stakeholder groups are identified, and communication plans are implemented to facilitate transparent and reciprocal engagement, understand stakeholder concerns and respond to their legitimate concerns. Our engagement occurs primarily through email, face-to-face meetings where possible, video calls, telephone calls and informal events. Matters that are not resolved by the operations are escalated to the CEO.

The Bank's key stakeholders include:

Grindrod Limited, our shareholder	Service providers
Clients	Alliance partners
Regulators	Communities
Employees	Media

The most material stakeholder concerns and our response to them are described in the following table.

Stakeholder	Description and engagement	Key concerns and our response
Clients	<ul style="list-style-type: none"> Relationship-based approach Personalised 'high touch' engagement between banking clients and relationship managers High level of repeat work and client retention in deposit-taking and lending operations 	<p>Our clients expect reasonable returns on investments and fair pricing of loans</p> <ul style="list-style-type: none"> We strive for competitive investment returns and adopt a personalised risk-based approach to loans
Regulators, primarily the SARB	<ul style="list-style-type: none"> Increased engagement with the PA following the implementation of Twin Peaks regulations in 2018 Our relationship with the PA is constructive considering the increased oversight across the financial services industry 	<p>The Bank's capital adequacy and relevant skills and experience of independent directors were strengthened</p> <ul style="list-style-type: none"> Capital injection of R100 million  <i>Chairperson's message on page 12</i>  <i>AFS note 30</i> Majority of new board members are independent and non-executive
Employees	<ul style="list-style-type: none"> Open and transparent two-way lines of communication through a range of channels, including face-to-face Grindrod Engage platform, email, performance reviews Management and HR have open-door policy and concerns can be directed to an employment equity committee or the social and ethics committee Annual employee engagement/ satisfaction survey 	<p>Our employees raised concerns about the level of communication related to changes in the Bank</p> <ul style="list-style-type: none"> We implemented a change management process and increased communication about the Bank's redefined strategy
Shareholders	<ul style="list-style-type: none"> Expectation of consistent financial performance and return on investment Transparent and consistent reporting Robust corporate governance 	<ul style="list-style-type: none"> Unsatisfactory financial performance with a 53.86% decrease in profitability to R86.55 million ROE of 7.31% Management's focus for 2020 will be to restore a consistent trend in profit growth and secure new sources of revenue, thereby improving shareholders' return Majority of new board members are independent and non-executive leading to stronger corporate governance

GOVERNING OUR BANK



GOVERNANCE

Governance underpins the implementation of our strategy and the value we create for our stakeholders.

OUR APPROACH TO GOVERNANCE

Our commitment to good governance

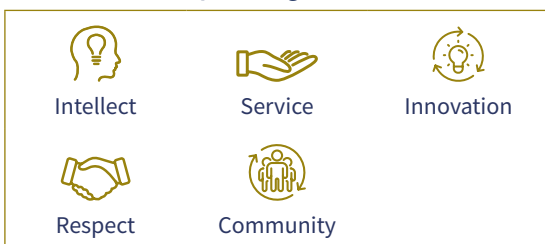
As the guardian of responsible governance, the board is committed to maintaining high standards of business ethics.

The board is guided by a sound corporate governance framework, based on the principles-driven King IV, Banks Act, Banks Act regulations, the Basel Committee on Banking Supervision (BCBS), relevant bank statutes, national and international financial services benchmarks and the JSE Listings Requirements, the latter related to the Bank's listed bonds managed through its DMTN Programme.

The framework informs the development and implementation of the Bank's strategy to achieve targeted performance and create sustainable value to the benefit of all stakeholders.

The framework contains appropriate policies, procedures and power of execution to ensure that governance objectives are properly implemented, managed, reviewed and adjusted.

Our values underpin our governance

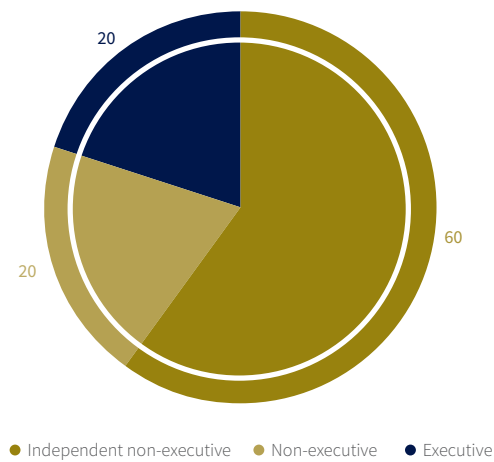


The framework is regularly reviewed to ensure responsible corporate citizenship through regulatory and best practice adherence, effective and ethical leadership and sustainable value creation. In 2019, the framework was enhanced with the appointment of an ethics forum chaired by the CEO who is the ethics officer.

King IV

The framework is aligned to the 16 King IV principles, targeting four governance outcomes – an ethical culture, good performance, effective control and legitimacy. Compliance with King IV is facilitated by a governance practice improvement framework.

Independence (%)



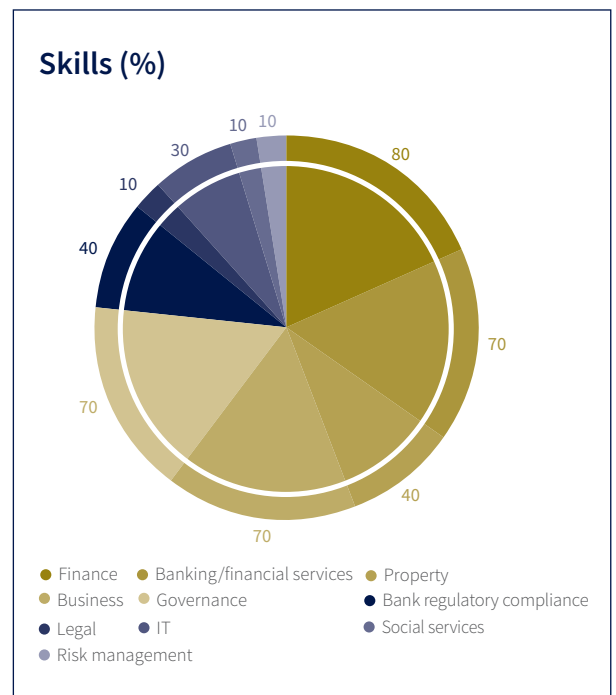
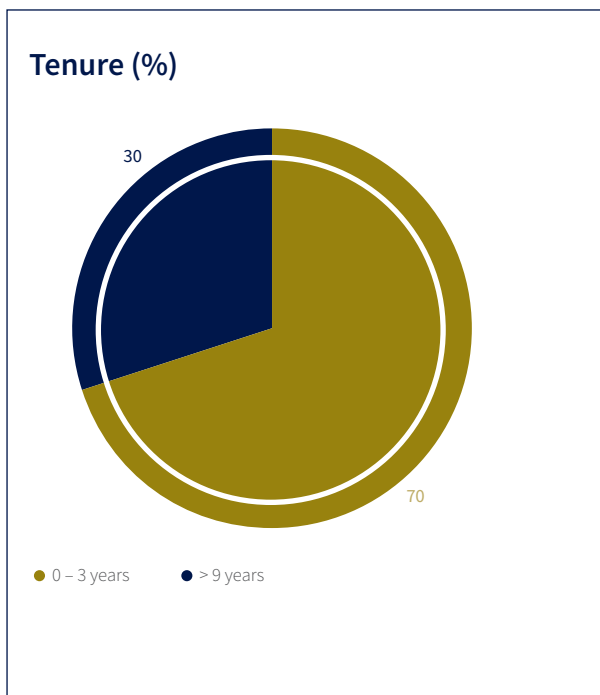
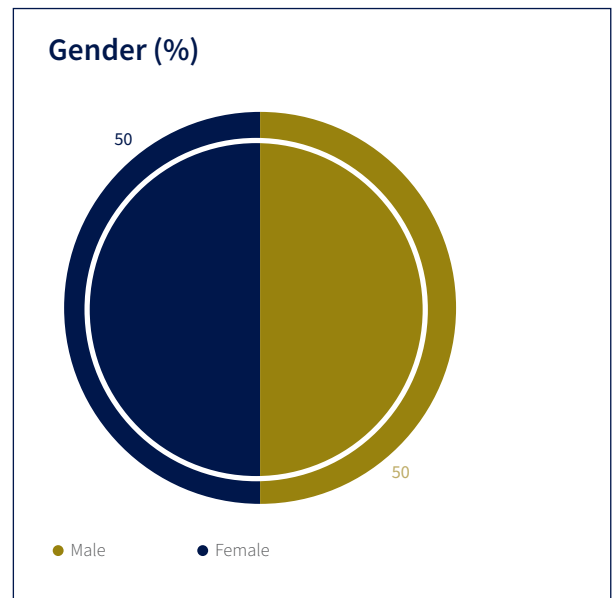
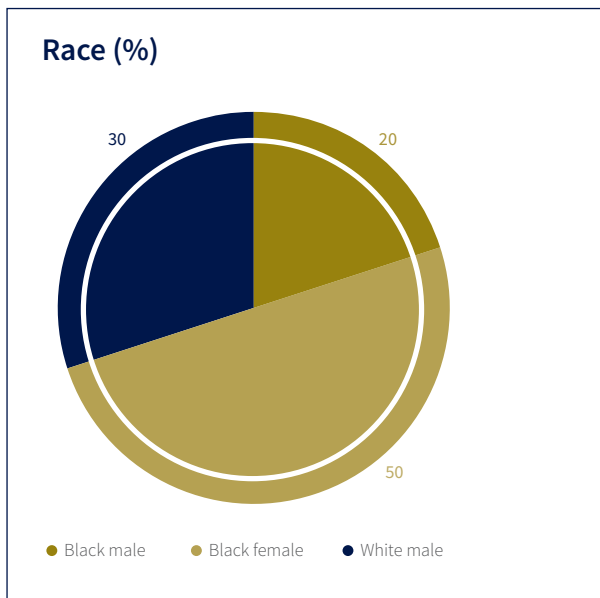
53
Average age of all directors

55
Average age of executive directors

38
Youngest director

65
Oldest director

Indicates alignment with the principles of King IV



GOVERNANCE continued

DIRECTORATE

Non-executive directors

Outgoing chairperson



Julian Beare¹ 65
Non-executive chairperson
CA(SA)

Appointed 2010

Appointed non-executive director
March 2020

43 years of financial, asset
management and business
experience

Other directorships include Beare
Holdings and its related entities

B CR DA R RC
C

Incoming chairperson



Amanda Dambuza 42
Independent non-executive director
BA Social Science

Appointed 2018

Appointed independent non-
executive chairperson March 2020

20 years of banking, business,
property, IT and governance
experience

Other directorships include
Uyandiswa Group and its related
entities and Redefine Properties

B DA R SE RC
C C

Lead independent director



Tyrone Soondarjee 58
Independent non-executive director
CA(SA)

Appointed 2019

Appointed lead independent director
March 2020

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

Other directorships include
Travsiri Enterprises

B AC AL RC DA R
C C



Sheherrezaad Barrett 48
Independent non-executive director
CA(SA)

Appointed 2019

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

B SE AC RC AL
C



Walter Geach² 65
Non-executive director
Advocate, BA LLB, MCom, CA(SA),
FCIS

Appointed 2010

28 years of financial and legal
services

Walter is a Senior Professor at
UWC and UKZN

B AC RC



Zola Malinga 42
Independent non-executive director
CA(SA)

Appointed 2017

17 years of financial services
experience including investment
banking, lending and investment
governance experience

Other directorships include Jade
Capital Partners and its investee
companies and SAPPI Limited

B AC CR DA
C

Non-executive directors continued



Dr Martha Mbatha³ 63
 Independent non-executive director
PhD (Brandeis), MSocSci, Master of City Planning (MIT)

Appointed 2018

28 years of experience in socio-economic development and 22 years of experience in governance of public entities

Dr Martha is also executive director of the Centre for Development Research Facilitation

B SE



Zizipho Nyanga⁴ 38
 Independent non-executive director
CA(SA), GEDP (GIBS)

Appointed 2020

16 years of experience in entrepreneurship development, deal making, financial management, and audit and risk management

Other directorships include CEO of Masisizane Fund, and non-executive director of Adapt IT

B AC CR R C

B	Board
AC	Audit and compliance committee
CR	Credit risk committee
DA	Directors' affairs committee
R	Remuneration committee
SE	Social and ethics committee
RC	Risk and capital management committee
AL	Asset and liability sub-committee
E	Executive committee
C	Chairperson

Executive directors



David Polkinghorne 56
 CEO
BCom, MA (Oxon)

Appointed 1999

Executive director of the Financial Services division Group companies

More than 27 years of financial services experience

B CR AL E SE



Rakesh Garach 55
 CFO
CA(SA)

Appointed 2019

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

B CR AL E

¹ Independent non-executive chairperson of the board until 31 December 2019 when he reached nine years of service. Resigned as chairperson with effect from 29 February 2020; remains a non-executive director.

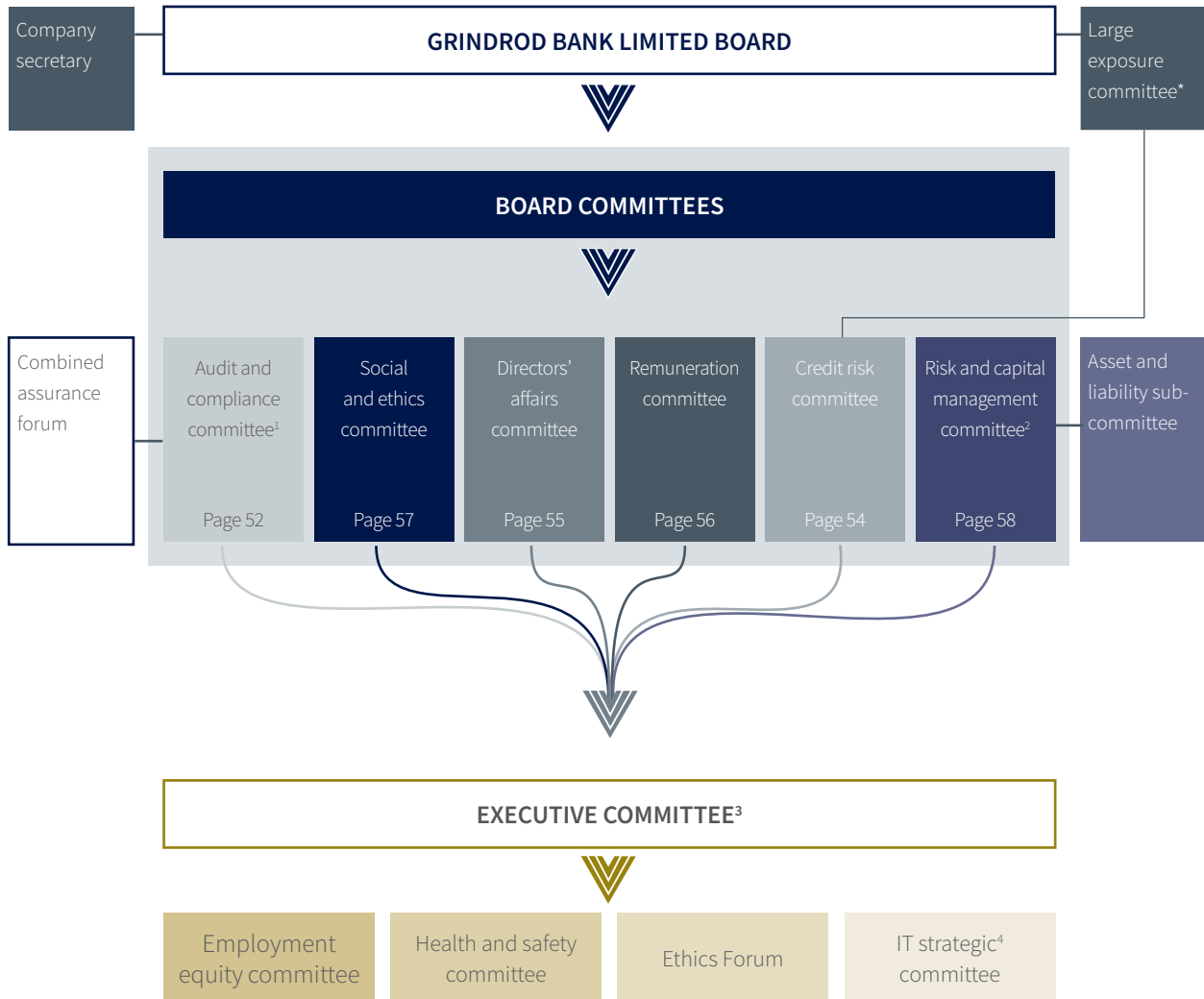
² Independent non-executive director until 30 August 2019 when he reached nine years of service; resigned as non-executive director with effect from 29 February 2020.

³ Resigned as non-executive director with effect from 29 February 2020.

⁴ Appointed independent non-executive director with effect from 1 April 2020.

GOVERNANCE continued

GOVERNANCE STRUCTURE



* The large exposure committee comprises the board and credit risk committee. It was formed in 2019 and serves to approve the granting of credit transactions classified as large exposures in accordance with the Banks Act.

¹ The head of compliance and head of internal audit report into the audit and compliance committee.

² The CRO reports into the risk and capital management committee.

³ The IT management committee (Manco) that reported into the executive committee was dissolved in October 2019.

⁴ The Manco reports into the IT strategic committee. The IT operational committee and Architecture review board report to the Manco.

[2] ETHICAL LEADERSHIP

The board is responsible for ensuring that the Bank operates with integrity, maintains appropriate levels of competence, assumes responsibility for the strategic direction and performance of the Bank, is accountable, fair and transparent and continuously entrenches an ethical culture. The board is assisted by the social and ethics committee to entrench the Bank's values.

The memorandum of incorporation (MOI) and board charter form the basis for directing the board. Control is exercised through the Bank's King IV-aligned governance framework, which includes a system of assurance on internal controls and detailed reporting to the board and its committees.

The board charter sets out the practices, processes and lines of authorities through which the board discharges its mandate and responsibilities. The charter provides for a clear division of responsibilities at board level to ensure a balance of power and authority, so that no one individual has unfettered powers of decision-making. The MOI, the board charter and the terms of reference of all board and statutory committees are available on request.

The board is responsible for the governance of ethics. Responsibility for the implementation of ethics codes and policies is delegated to management. The company secretary is the custodian of corporate governance and the CEO is the ethics officer.

Each board member has a fiduciary duty to act in the best interests of the Bank. In discharging such duty, the board ensures that the Bank performs in the best interests of its stakeholders, which include shareholders, clients, partners, employees, regulators and the societies within which the Bank operates. Board members are required to act with due care and skill in all dealings and to uphold the ethics and values of the Bank. Matters reserved for board decision-making and delegated authority in terms of the limits of authority are reviewed annually, based on recommendations made by the executive committee and board committees where appropriate.

Directors are not permitted to deal directly or indirectly in the shares of the ultimate holding company during prohibited periods.

Code of ethics

[1]

The Bank subscribes to the principles of ethical leadership, management and behaviour set out in the Grindrod Limited code of ethics and relevant Group policies. The code, which outlines the principles for ethical conduct based on our five core values is available on the Grindrod Limited website www.grindrod.co.za. The code is designed to raise ethical awareness, guide decision-making and entrench integrity during stakeholder interaction.

All employees are required to adhere to the code, which is communicated during employee induction and periodic Grindrod Engage sessions, and to acknowledge adherence to the code and related governance policies annually. This includes declaring gifts given and received that exceed R1 000. In addition, a conflict of interest management policy limits to R1 000 the value of gifts given to and received from financial services providers. Unethical behaviour can be reported to the ethics officer or an independent, toll-free fraud-reporting hotline managed through Deloitte. This provides an impartial and confidential facility for all stakeholders to anonymously report any fraud-related matters. In 2019, no Group-related incidents (2018: no incidents) were reported through the hotline or to the ethics officer.

Compliance with the code of ethics is monitored through internal audits to assess the adequacy and effectiveness of the internal control environment, which includes risks related to fraud and corruption. The executive committee, audit and compliance committee and social and ethics committee are provided with statistics of non-compliance to the code. All reported incidents are investigated and listed in a register, with confidentiality guaranteed. Incidents of corruption at management level are investigated internally and, if appropriate, referred to disciplinary proceedings or to law enforcement agencies. No material incidents of corruption were identified in 2019.

LEGITIMACY

The board, supported by its committees, is responsible for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards. The implementation and execution of compliance management is delegated to management and reviewed by the social and ethics committee bi-annually and by the audit and compliance committee as it applies to its mandate.

Compliance with laws and regulations is monitored. Incidents of non-compliance are identified and reported to the audit and compliance committee.

GOVERNANCE continued

The board and board committees review and monitor the Bank's performance, as relevant to their respective terms of reference, against measures and targets related to human capital and economic, social and environmental areas relevant to the Bank's business.

The Bank supports the objectives of economic empowerment, in compliance with the requirements of the Broad-Based Black Economic Empowerment Amendment Act No. 46 of 2013 (B-BBEE Act) and the Broad-Based Black Economic Empowerment Regulations 2016.

The Bank aims to comply fully and in a timely, accurate and professional manner with the tax laws and regulations, to fulfil its tax obligations by contributing fairly to the fiscus. Its moral and legal responsibilities are guided by a tax governance framework that deals with tax compliance and tax risk and is incorporated into the corporate governance framework of the board. The Bank seeks to achieve clarity, certainty and transparency in its tax affairs, thereby ensuring that tax planning is built on a sound commercial business activity.

As an accountable institution, the Bank is required to comply with the FIC Act No. 38 of 2001 (FICA), as amended by the FIC, for identifying money laundering and terrorist financing through its Client Due Diligence (CDD) process and report it to the FIC. Employees undertake training on FICA and anti-money laundering every two years.

The social and ethics committee maintains an exclusion list of business sectors with which the Bank should not conduct business. The list is included in the credit policy.

Instances of non-compliance identified in 2019 resulted in the Bank's capital adequacy ratio breaching the regulator's minimum requirements. Further non-compliance was identified in an outsourcing arrangement. With the exception of the breach resulting from the consolidation of the GIT and GPSIT which was currently in application process for condonation, the Bank received condonation from the PA for all other incidents of non-compliance. Internal controls were strengthened to prevent any future reoccurrence. In light of these issues, the Bank has initiated a project involving the compliance function and the broader Bank to assist in

achieving its commitment towards strengthening regulatory compliance with the Banks Act and Regulations relating to Banks.

With the exception of these matters for which condonation was applied, the board resolved that the Bank complies with all significant requirements of relevant legislation, regulations, international codes and best practices.

Stakeholder engagement

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

The Bank maintains continual engagement with its identified key stakeholder groups to promote the achievement of business objectives and support economically, socially and environmental sustainability.

PERFORMANCE AND VALUE CREATION [4]

The Group's vision of securing adequate funding to enable expansion of services and growth contributes to the creation of sustainable returns and long-term value for stakeholders. The strategy to achieve the vision is implemented against the norms, values and processes detailed in the governance framework.

The board, supported by the audit and compliance, the asset and liability, the credit risk, the risk and capital management and social and ethics committees, is responsible for approving and monitoring the Bank's short-, medium- and long-term strategy within the context of the risks, opportunities and other significant economic, social and environmental matters and their impact on the Bank's resources and relationships. Responsibility for formulating and implementing the short-, medium- and long-term strategy, policies and operational plans is delegated to management. The Bank's strategy is drafted by the executive committee for the board to review and approve. The Bank's business plan for the following year, including the annual budget, is finalised after the board's review of the strategy at its meeting in November.

THE BOARD

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

An internal assessment of adherence to the board charter was completed in 2019, and the board was satisfied that it fulfilled its responsibilities according to the charter.

[6] Board and board committee meeting attendance

	Board	Audit and compliance committee	Credit risk committee	Directors' affairs committee	Remuneration committee	Social and ethics committee	Risk and capital management committee	Asset and liability sub-committee
Director								
S Barrett ¹								
JH Beare <i>Non-executive chairperson</i>	8/8		8/9	4/4	3/3			
SA Blades ²	2/4		3/4					3/6
ASP Dambuza <i>Incoming independent non-executive chairperson</i>	7/8			3/3	2/2	2/2	2/2	
RS Garach <i>CFO</i>	5/5	*	5/5	*	*	*	*	4/4
WD Geach ³	8/8	4/4					2/2	
MJ Hankinson ⁴	1/1			1/1	1/1			
ZN Malinga	8/8	4/4	7/9					
Dr MS Mbatha ⁵	8/8					2/2		
RSM Ndlovu ⁶	7/8	4/4				1/2	2/2	7/10
IZ Nyanga ⁷								
DA Polkinghorne <i>CEO</i>	8/8	*	9/9	*	*	*	*	10/10
SP Scott ⁸	1/1		6/9					9/10
TD Soondarjee ⁹ <i>Lead independent director</i>	4/4	2/2						
PJ Uys ¹⁰	0/1			0/1	0/1			
AG Waller ¹¹	3/3		4/5	1/1	1/1			
Other members**								
K Hertzberger <i>Head: Treasury</i>								10/10
N Naicker ¹² CRO			7/8*					

* Standing invitee.

** In certain instances members of management and the financial director of Grindrod Limited are invited to these board and committee meetings.

¹ Appointed December 2019.

² Resigned August 2019.

³ Resigned February 2020.

⁴ Resigned March 2019.

⁵ Resigned February 2020.

⁶ Resigned December 2019.

⁷ Appointed April 2020.

⁸ Resigned February 2019.

⁹ Appointed September 2019.

¹⁰ Resigned February 2019.

¹¹ Resigned October 2019.

¹² Appointed as member of the credit risk committee February 2019 to include risk representative on the committee. Prior to this attended as an invitee.

GOVERNANCE continued

Board composition

Board members are appointed through a formal process, assisted by the directors' affairs committee to identify and review suitable candidates. The committee's nominations are submitted to the board for approval, provided the PA has no objections to the nominations for new appointments. Appointments to the board require shareholder confirmation at the following annual general meeting.

Board appointments are based on the corporate leadership skills, knowledge, experience and expertise required to advance the Bank's strategic direction. Gender and race diversity are also considered in terms of the Bank's gender diversity policy.

During 2019, the directors' affairs committee evaluated the independence of all serving board members based on the independence criteria set out in directive 4 of 2018 issued by the PA in October 2018. The independence criteria incorporated the nine indicators included in King IV and tenure in excess of nine years. Based on this assessment, four non-executive directors were deemed independent and the board, on the recommendation of the directors' affairs committee, passed a resolution confirming their independence. Further to this evaluation, the board undertook a rigorous process to transform the composition of the board with the view of enhancing its independence, race and gender diversity as well as banking regulatory skills and experience. This resulted in the resignation of majority of the non-independent directors and the appointment of two additional independent non-executive directors with significant bank knowledge which includes regulatory skills.

In the board's assessment, all directors have the relevant knowledge, skills and experience to make a meaningful contribution to and ensure effective leadership of the Bank. A lack of banking expertise that was highlighted for enhancement was addressed by the appointment of the additional directors. Executive directors are required to retire at age 60 and non-executive directors at age 70. The board has the discretion to allow a director to continue in office beyond the stipulated age.

At 31 December 2019 the board comprised ten directors, two of whom are executive directors.

Chairperson's message on page 12

The board charter sets out the following roles and responsibilities of the lead independent director, against which their performance is assessed:

- o To lead the board in the absence of the chairperson of the board
- o To serve as a sounding board for the chairperson
- o To act as an intermediary between the chairperson and board members, if necessary

- o To deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or where such contact is inappropriate
- o To chair discussions and decision-making by the board on matters where the chairperson has a conflict of interest
- o To lead the performance appraisal of the chairperson

Board evaluation

In February 2020 the board and its committees were evaluated for their performance during the 2019 financial year based on the King IV governance outcomes of an ethical culture, good performance, effective control and legitimacy. The evaluation was conducted via questionnaires compiled by the company secretary based on an IoDSA-accredited evaluation tool. Board members evaluated the performance and effectiveness of the chairperson, lead independent director and the performance of all board committees. The chairperson evaluated the performance of the individual board members. Remedial actions to address matters that arose are being implemented. The board is satisfied that the evaluation process was robust and effective in improving the performance and effectiveness of the board and its committees.

Rotation

One third of the non-executive directors are, in terms of the MOI, required to retire by rotation at the annual general meeting. Retiring directors may offer themselves for reappointment. The suitability of the directors retiring by rotation was assessed by the directors' affairs committee in February 2019, and the board recommended the re-election of these directors based on the recommendation of the committee. This was approved by the shareholders at the annual general meeting in August 2019. The suitability of the directors required to retire by rotation at the 2020 annual general meeting was assessed by the directors' affairs committee in February 2020, and recommended to the shareholders for approval.

Professional development

Members appointed to the board are inducted through a formal process involving an induction pack and face-to-face meetings with key board members and management, including assurance officials within the Bank. The company secretary provides guidance to directors on governance, compliance and fiduciary responsibilities and sustainability. The Bank conducts an annual director training programme to enhance the board's functioning. The programme covers topics relevant to the Bank's operational environment. The externally facilitated board annual training programme conducted in 2019 focused on topics relative to banking, including the internal capital adequacy assessment process (ICAAP), risk data aggregation and risk reporting (RDARR) and IFRS 9.

Directors' declarations

Board members are required to declare all directly and indirectly held financial, economic and other interests and any conflict of interest. Declarations are provided to the company secretary annually. Disclosure of conflicts of interest is prompted by a standing item on the agendas of the board and board committees. Declarations on specific transactions are minuted at board meetings.

Chairperson

The chairperson is responsible for the effective leadership of the board. The role, functions and responsibilities of the chairperson are documented in the board charter.

The limits of authority, in terms of which the board and management may act and bind the Bank, outline matters reserved for board decision-making and the delegation of authority to management in specified matters which are reviewed annually, based on recommendations by the executive committee. There were no material changes to the framework following the review conducted in 2019.

[10] Role clarity and effective exercise of authority and responsibilities

The board is responsible for appointing the CEO, an executive director whose role is separate from that of the chairperson, and the CFO. The executive committee assists the CEO in managing the business at an operational level. An annual evaluation of committee members is undertaken against KPIs in their performance scorecards. The evaluation is undertaken by the CEO and reviewed by the remuneration committee.

The board is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority.

CEO

The CEO, supported by the executive committee, is responsible for formulating and implementing strategies and policies, day-to-day operational management, the establishment of best management practices, functional standards, risk management and internal control systems, good governance, legal compliance, stakeholder engagement, the appointment and evaluation of senior management and guiding management and their teams in implementation of the business strategy, within the parameters of the board-approved delegation of authority framework.

David Polkinghorne was appointed CEO in January 1999 and the directors' affairs committee is satisfied that he possesses the requisite competence, qualifications and experience and is suitably qualified, competent and experienced to hold the position. The CEO's employment contract governs his appointment and termination and a notice period of six months is stipulated in his contract. David is an executive director of the Grindrod Limited board and chairperson of the Group Pension and Provident Funds.

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

CFO

The CFO is responsible for the Bank's financial management, all aspects of its financial strategy, due and proper preparation of financial statements as per IFRS requirements and Banks Act regulatory returns and other regulations relating to banks and providing financial leadership through financial planning and organisationally aligned strategies. Rakesh Garach was appointed as an executive director in July 2019 and assumed his role as CFO in August 2019. The audit and compliance committee is satisfied that his expertise, resources and experience of the finance function are appropriate to support the Bank's business.

Company secretary

The company secretary ensures corporate governance and compliance within the Bank. She does not fulfil an executive management function and is not a director of the board. The company secretary is responsible for preparing meeting agendas in advance and in consultation with the CEO and CFO and chairperson of the board or committees, and for recording minutes. She provides material, accurate, concise and relevant information to the board in a timely manner to enable the board to take informed decisions and to monitor the progress and performance of management against the approved business strategy and ensures accurate external disclosure including this integrated annual report.

The board considered the interactions between the company secretary and the board during the past year and is satisfied that there is an arms-length relationship between the board and the company secretary. Based on a formal assessment, which included a review of the company secretary's qualifications, experience and demonstration of competence in execution of her functions, the board is of the opinion that Shana Ashokumar, the company secretary, appointed in November 2018, possesses the requisite competence, qualifications and experience and has confirmed that she is suitably qualified, competent and experienced to hold the position of company secretary. She is a registered member of the Chartered Institute of Secretaries and holds a Chartered Secretaries Southern Africa (CSSA) Professional Post-graduate Qualification: Company Secretarial and Governance practice. The company secretary has tendered her resignation to further her future career aspirations. We are in the process of appointing her replacement.

GOVERNANCE continued

BOARD COMMITTEE FEEDBACK

The board is assisted in its responsibility to manage the Bank and identify, oversee and manage economic, environmental and social risk and opportunities by management, executives and the following board committees.

Each committee is satisfied that it has fulfilled its responsibilities in accordance with their terms of reference for the reporting period.

8] AUDIT AND COMPLIANCE COMMITTEE

AC

Role: The audit and compliance committee is appointed in terms of section 60A of the Banks Act and the board charter. The committee guides the board to ensure that the Bank's risk philosophy, strategies and policies are appropriate to the business, that there is due compliance with risk-related policies, procedures and standards, that internal operational and financial controls are effectively maintained and reviewed where necessary and that there is an effective, risk-based internal audit. The committee has decision-making authority in terms of its statutory duties and is accountable to the board and shareholders. In adherence with the requirements of the Banks Act, the committee comprises three suitably qualified independent non-executive directors and the board chairperson does not serve as a member of the committee.

The committee is required to meet at scheduled meetings at least four times a year.

Composition	Skills
ZN Malinga ¹ (chairperson)	Finance, banking/financial services, business, property, governance
WD Geach ²	Finance, legal, governance
RSM Ndlovu ³	Finance, financial services, business, governance
IZ Nyanga ⁴	Entrepreneurship development, deal making, financial management, and audit and risk management.
TD Soondarjee ⁵	Finance, banking/financial services, bank regulatory compliance, IT
S Barrett ⁶	Finance, banking/financial services, audit and risk management, governance

¹ Appointed as chairperson effective 1 March 2020.

² Resigned as chairperson and member February 2020.

³ Resigned December 2019.

⁴ Appointed April 2020.

⁵ Appointed September 2019.

⁶ Appointed December 2019.

Summarised terms of reference

The committee is responsible for:

- Providing oversight of the financial risk management function
- Ensuring the operation of adequate systems and that effective control procedures and standards are in place
- Reviewing the integrity of financial information and the presentation of accurate financial reports in compliance with the applicable regulations and accounting standards
- Overseeing the internal and external audit appointments and functions
- Ensuring appropriate corporate governance and compliance within the scope of its mandate, with a specific focus on the potential risks to the Group and Company within the framework of a combined assurance model, and for IT governance as related to financial reporting and the going concern of the Group and Company

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.

External auditor

SNG Grant Thornton served as the Group and Company's registered external auditor for the 2019 financial year following approval by the PA and replaced Deloitte in the 2019 financial year. The change to SNG Grant Thornton is due to early adoption of the mandatory audit firm rotation rule issued by the IRBA and is made in the interest of promoting transformation of the sector. 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, which includes an annual evaluation. The SNG Grant Thornton audit team includes relevant financial services experts.

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

The committee is satisfied that the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefits from the Group and Company. External audit fees approved for the 2019 financial year to SNG Grant Thornton amounted to R3.25 million (2018: Rnil). No non-audit services were performed.

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

Key focus area in 2019	Planned areas of focus 2020
<ul style="list-style-type: none"> ○ Reviewed and recommending to the board publicly disclosed financial information ○ Reviewed the AFS and results for the year ended 31 December 2019 in line with applicable legislative and regulatory compliance and recommendation thereof for approval by the board ○ Reviewed the combined assurance model and the effectiveness of the process for identifying, assessing and reporting on significant internal financial control and tax and fraud risks as related to financial reporting ○ Assessed the suitability, expertise and experience of the CFO and the expertise, experience and resources of the Group and Company's finance function ○ Evaluated of the independence, effectiveness and performance of the internal audit function ○ Reviewed and approving the internal audit plan ○ Recommended the independent external auditor and designated audit partner and the approval of their terms of engagement and fees for audit services, for approval by shareholders at the AGM ○ Reviewed the extent of non-audit services provided by the independent external auditor and other auditors and the approval of the related terms of engagement and fees ○ Reviewed the external auditor's work plan, staffing, independence, effectiveness, audit findings, key audit risks and external audit report ○ Reviewed legislative and statutory compliance within the scope of its mandate ○ Reviewed compliance with the Group and Company's code of ethics and conduct ○ Reviewed 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 ○ Reviewed and confirmed the going concern status ○ Approved its annual work plan for 2020 ○ Approved the committee report provided in the AFS for presentation to the shareholders 	<ul style="list-style-type: none"> ○ Oversight of the 2019 financial and regulatory reporting processes ensuring integrity of the AFS and BA returns submissions and the audit thereof, monitoring the impact of the COVID-19 pandemic on the timely publication of financial results and submission of the BA returns. ○ Monitor prior period BA resubmissions. ○ Monitor external auditors' audit quality, and consider key audit matters reported in final external audit report to the committee. ○ Approve fees payable to external auditors for audit and non-audit services. ○ Review and approve external auditors' 2020 plan and scope of work. ○ Review, approve and monitor progress on the internal auditors' 2020 annual plan. ○ Consider distribution of dividends to the board for approval, taking into consideration the Bank's capital adequacy requirements and that the Bank meets the solvency and liquidity test. ○ Assess the effectiveness of the internal audit function, including the performance of the head of internal audit, skills, staffing, overall performance and position within the organisation. ○ Monitor effectiveness and independence of compliance function. Continue to review outcomes of compliance reviews and management actions to remedy adverse findings. Monitor implementation of changes in legislation. <p>In addition to the standard audit committee workplan, the committee has identified the following as key focus areas for the 2020 financial year:</p> <ul style="list-style-type: none"> ○ Further strengthen the finance function with a focus on regulatory reporting and accounting technical skills ○ Improve audit committee supervision on the Group's regulatory reporting ○ Review development and implementation of the Group's tax strategy ○ Enhance the combined assurance model
<p> <i>Chairperson's message on page 12;</i> <i>Chief financial officer's review on page 22</i></p>	

* The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility. One unscheduled meeting was held in 2019.

** Fees paid to committee members during the year are included in note 5 of the consolidated AFS.

GOVERNANCE continued

8 CREDIT RISK COMMITTEE

CR

Role: The credit risk committee is responsible for the development and recommendation to the board of oversight processes that assist the board in fulfilling its responsibilities related to the Bank's credit risk and risk management practices. The committee oversees processes to mitigate the risk of financial loss resulting from counterparty and concentration risk. The committee meets at scheduled meetings once a month, except in January.

Composition	Skills
JH Beare (chairperson)	Finance, financial services, business, property, governance
SA Blades ¹	Banking, legal
RS Garach ²	Finance, banking/financial services, bank regulatory compliance, business, IT, governance
ZN Malinga	Finance, banking/financial services, business, property, governance
IZ Nyanga ³	Entrepreneurship development, deal making, financial management, and audit and risk management.
DA Polkinghorne	Finance, banking/financial services, property, governance
SP Scott ⁴	Finance
AG Waller ⁵	Finance, business
N Naicker	Finance, risk, credit risk

¹ Resigned August 2019.

² Appointed August 2019.

³ Appointed April 2020.

⁴ Resigned April 2020.

⁵ Resigned October 2019.

Summarised terms of reference

The committee is responsible for:

- Managing the risk-reward relationship and controlling and minimising credit risks across several dimensions, such as quality, concentration, maturity and security
- Ensuring that credit approval processes are stringent
- Monitoring large exposures, associated exposures, sectoral exposure and any irregular or problematic loans
- Continually tracking the value of property, listed, unlisted and security assets

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

Key focus area in 2019

- Continuously reviewed and monitored compliance of credit risk management policies.
- Monitored Banks' capital adequacy relative to risk.
- Tracked and monitored implementation of IFRS 9, particularly impairment methodology, systems, data, governance, disclosure and independent assurance to ensure successful transition to new impairment standard.
- Continuously managed distressed portfolios, key watchlist clients and industry-specific concentration risks. Reviewed trends in credit portfolio quality and confirmed adequacy of provision for bad and doubtful debts. Approved write-off of bad debts. Continuously monitored quality and adequacy of security.
- Monitored insurance risks in property portfolio.
- Maintained oversight of development and implementation of guidelines for risk weighting of private equity loans versus equity loans.

 *Managing risk and opportunity on page 36*

Planned areas of focus 2020

- Review and implement enhanced credit risk management policies and practices.
- Monitor and manage counterparty credit risk in light of the COVID-19 pandemic through stress testing on the loan book, and granting of concessions in terms of directive issued by the PA.
- Monitor the Bank's capital adequacy relative to risk.
- Ensure credit activities are subject to adequate internal controls and appropriate internal audit coverage.
- Oversee appointment of Head of Credit, with the suitable skills and expertise; monitor onboarding and transition into the role.
- Review scope and monitor effectiveness of credit risk management process.
- Continue to monitor distressed portfolios, key watchlist clients and industry-specific concentration risks; confirm the adequacy of provision for bad and doubtful debts; approve write-off of bad debts. Continuously monitor quality and adequacy of security.
- Monitor insurance risks in property portfolio.

* The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility. No unscheduled meetings were held in 2019.

** Fees paid to committee members during the year are included in note 5 of the consolidated AFS.

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DIRECTORS' AFFAIRS COMMITTEE

DA

Role: The committee assists the board in discharging its duties of corporate governance, directors' training, succession planning and board and director evaluations.

The committee is required to meet at scheduled meetings at least twice a year.

Composition	Skills
ASP Dambuza (chairperson) ¹	Banking/financial services, business, property, IT, governance
JH Beare ²	Finance, financial services, business, property, governance
MJ Hankinson ³	Finance, banking/financial services, business
ZN Malinga ⁴	Finance, banking/financial services, business, property, governance
TD Soondarjee ⁵	Finance, banking/financial services, bank regulatory compliance, IT
PJ Uys ⁶	Finance, banking/financial services, IT, governance
AG Waller ⁷	Finance, business

¹ Appointed member March 2019 and chairperson March 2020.

² Appointed chairperson February 2019, resigned as chairperson March 2020.

³ Resigned March 2019.

⁴ Appointed February 2020.

⁵ Appointed February 2020.

⁶ Resigned February 2019.

⁷ Resigned October 2019.

Summarised terms of reference

The committee is responsible for:

- Assisting the board in determining and evaluating governance structures against King IV, regulations 39 and 43 of the Banks Act, applicable laws, regulations and codes of conduct and practices
- Fulfilling the duties of a nominations committee
- Ensuring succession planning for board members, the CEO and key executives
- Evaluating the performance of the board and its committees and make recommendations to ensure proper governance

Key focus area in 2019

- Assessed Bank's compliance with directive 4 of 2018 issued by the PA, and developed a plan to address gaps. The Bank is now fully compliant with this directive, following the board appointment and changes to the composition of the committees that had taken place post year-end.
- Recruited new directors to strengthen board's independence and banking skills.
- Approved revised employee structure and monitored implementation.
- Recruited a CFO, with involvement of audit and compliance committee.
- Recommended annual re-election of audit and compliance committee for board approval, based on prior year performance, skills, expertise and independence.
- Recommended reappointment of directors retiring by rotation, for shareholder approval at annual general meeting, based on prior year performance.
- Reviewed succession plans for CEO, chairperson and individual board members.
- Oversight of induction and continual training of board members.
- Oversight of performance evaluations of board, board committees and board members.
- Assessed performance of CEO and company secretary.

 [Chairperson's message on page 12](#)

Planned areas of focus 2020

- Continuously assess composition of board and board committees to ensure diversity of skills and expertise, independence, gender and race
- Recommend annual re-election of audit and compliance committee for board approval, based on prior year performance, skills, expertise and independence
- Recommend reappointment of directors retiring by rotation, for shareholder approval at annual general meeting, based on prior year performance
- Oversight of induction and continual training of the board members
- Oversight of performance evaluations of board, board committees and board members
- Assess performance of CEO and company secretary

* The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility. One unscheduled meeting was held in 2019.

** Fees paid to committee members during the year are included in note 5 of the consolidated AFS.

GOVERNANCE continued

8 REMUNERATION COMMITTEE

R

Role: The committee provides assurance to the board that the remuneration and employment practices promote the achievement of the strategic objectives of the Bank and encourage individual and team performance.

The committee meets at scheduled meetings at least twice a year.

Composition	Skills
IZ Nyanga (chairperson) ¹	Entrepreneurship development, deal making, financial management, and audit and risk management.
JH Beare ²	Finance, financial services, business, property, governance
MJ Hankinson ³	Finance, banking/financial services, business
ASP Dambuza ⁴	Banking/financial services, business, property, IT, governance
TD Soondarjee ⁵	Finance, banking/financial services, bank regulatory compliance, IT
PJ Uys ⁶	Finance, banking/financial services, IT, governance
A G Waller ⁷	Finance, business

¹ Appointed chairperson April 2020.

² Resigned as chairperson March 2020.

³ Resigned March 2019.

⁴ Appointed March 2019.

⁵ Appointed February 2020.

⁶ Resigned February 2019.

⁷ Resigned October 2019.

Summarised terms of reference

The committee is responsible for:

- Ensuring that the Bank remunerates fairly, competitively, responsibly and transparently to facilitate the achievement of business objectives and attract and retain employees in a competitive service industry
- Monitoring the performance of and remuneration packages for executive directors and employees, including basic salary, performance-based short- and long-term incentives and benefits such as pension and provident funds and medical aid
- Evaluating and recommending fees for non-executive directors based on industry benchmarks

Key focus area in 2019

- Approved 2019 salary increases
- Reviewed and recommended senior management performance bonuses for board approval, following review of individual's key performance assessment (KPA)
- Recommended granting of share incentive awards and payment of vesting options
- Reviewed remuneration policy and implementation report to recommend to the shareholders for non-binding advisory vote
- Reviewed the succession plan for key roles
- Recommended fee increases for non-executive directors for shareholder approval, having benchmarked against fees paid by banks in our peer group

 *The power of human capital on page 34*

Planned areas of focus 2020

- Approve 2020 salary increases
- Consider and approve remuneration of CRO following promotion
- Review and recommend senior management contractual performance bonuses for board approval, following review of individual's KPAs
- Recommend granting of share incentive awards and payment of vesting options
- Review remuneration policy and implementation report to recommend to the shareholders for non-binding advisory vote
- Monitor succession plan for key roles to ensure sufficient coverage
- Benchmark non-executive director fees; recommend a fee increase for the 2020/2021 fees cycle for shareholder approval

* The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility. No unscheduled meetings were held in 2019.

** Fees paid to committee members during the year are included in note 5 of the consolidated AFS.

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8

SOCIAL AND ETHICS COMMITTEE

SE

Role: The social and ethics committee assists the board in fulfilling its duties in terms of section 72 of the Companies Act and regulation 43 of the Banks Act regulations. The committee monitors the activities of the Bank within a framework of legislative compliance and codes of best practice, to ensure the Bank's good standing and responsible corporate citizenship.

The committee meets at scheduled meetings at least twice a year.

Composition	Skills
S Barrett (chairperson) ¹	Finance, banking/financial services, audit and risk management, governance
RSM Ndlovu ²	Finance, banking/financial services, business
ASP Dambuza ³	Banking/financial services, business, property, IT, governance
Dr MS Mbatha ⁴	Governance, business, social services
DA Polkinghorne ⁵	Finance, banking/financial services, property, governance

¹ Appointed member February 2020 and chairperson March 2020.

² Resigned December 2019.

³ Appointed March 2019.

⁴ Resigned February 2020.

⁵ Appointed March 2020.

Summarised terms of reference

The committee monitors and reviews the Bank's corporate citizenship responsibilities to ensure that:

- Principles of sound corporate governance are adhered to
- The Bank complies with relevant laws, regulations and codes
- Organisational ethics promote embedding integrity, competence, responsibility, accountability, fairness and transparency
- Sustainable development promotes stakeholder value creation
- Stakeholder engagement is constructive, interactive and in support of business objectives
- Employee health and workplace safety are proactively managed to achieve workforce wellbeing
- The impacts of the Bank's operations on the environment are managed to minimise negative outcomes
- Human capital is managed to improve people's ability to achieve their objectives
- Transformation and BBBEE objectives are met in a constructive manner to establish a culture that reflects and supports all facets of the environments within which the Bank operates

Key focus area in 2019

- Maintained oversight of implementation of focus areas identified at the committee's inaugural meeting in October 2018. These include social and environmental impact, BBBEE and stakeholder engagement.
- Monitor application of the BBBEE codes and oversee development of strategy to improve ratings.
- Monitor of management of human capital risks by reinforcing the Bank's culture and reviewing employee turnover rates, sick leave trends and results from employee surveys.
- Monitor reputational risks and proactively develop strategies to mitigate potential risks.
- Oversee compliance with relevant legislation, in terms of the Banks compliance management programme.

 Chairperson's message on page 12;
Our social impact on page 66

Planned areas of focus 2020

- Monitor and manage social and sustainability risks in relation to COVID-19 pandemic
- Monitor implementation plan for International Finance Corporation (IFC) diagnostic analysis conducted on environmental and social impact
- Oversee proactive identification of key stakeholders and ensure constant and constructive engagement that may be required to deliver the Bank's strategy or mitigate potential risks
- Monitor BBBEE rating and employment equity plan
- Continue to monitor management of human capital risks, in the context of current market conditions
- Continue to proactively monitor reputational risks
- Oversee compliance with relevant legislation, in terms of the Banks compliance management programme

* The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility. No unscheduled meetings were held in 2019.

** Fees paid to committee members during the year are included in note 5 of the consolidated AFS.

GOVERNANCE continued

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RISK AND CAPITAL MANAGEMENT COMMITTEE

RC

Role: The committee is appointed in terms of section 64A of the Banks Act and is primarily responsible for the governance of risks and opportunities to support the Bank in setting and achieving its strategic objectives.

The committee meets at scheduled meetings at least twice a year.

Composition	Skills
TD Soondarjee (chairperson) ¹	Finance, banking/financial services, bank regulatory compliance, IT
S Barrett ²	Finance, banking/financial services, audit and risk management, governance
ASP Dambuza ³	Banking/financial services, business, property, IT, governance
JH Beare ⁴	Finance, financial services, business, property, governance
WD Geach ⁵	Finance, legal, governance
RSM Ndlovu ⁶	Finance, banking/financial services, business
Standing invitees: DA Polkinghorne; N Naicker	

¹ Appointment March 2020.

² Appointment February 2020.

³ Appointed March 2019 resigned as chairperson March 2020.

⁴ Resigned February 2019.

⁵ Resigned February 2020.

⁶ Resigned December 2019.

Summarised terms of reference

The committee is responsible for assisting the board:

- o In its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied in the day-to-day management of its business
- o To establish an independent risk management function
- o To ensure that a risk policy and plan addressing risk governance and the process of risk management is developed, implemented, continuously reviewed and monitored
- o To implement risk governance to include both the opportunities and associated risk to be considered when setting strategy
- o To identify the build-up and concentration of the various risks to which the Bank is exposed in performing functions as prescribed by the regulator
- o To ensure that feedback is provided by the audit and compliance committee on internal financial controls and financial reporting, fraud and IT risks
- o To ensure that a formal risk assessment is undertaken at least annually, that a risk-mitigation strategy is developed and that a process of internal controls and reviews are established and implemented to ensure the integrity of the overall risk and capital management process
- o To oversee responsibilities related to risk data aggregation and risk reporting (RDARR)
- o To review its performance, terms of reference and annual work plan annually

Key focus area in 2019

- o Approved appointment of CRO and ensured the risk management function is adequately skilled and resourced to act independently and effectively
- o Maintained oversight of implementation of RDARR
- o Reviewed and approved IFRS 9 impairment model
- o Identified key risk indicators and set and monitored the risk appetite and tolerance levels
- o Monitored top 10 risks and the consolidated divisional risk registers
- o Reviewed risk and opportunity management framework and recommended changes to the board
- o Monitor compliance with capital adequacy requirements and that condonation were applied to the PA in instances where minimum targets were breached
- o Approved business continuity and disaster recovery plan and monitored testing conducted by business

 *Managing risk and opportunity on page 36*

Planned areas of focus 2020

- o Oversight of management of risks relating to the COVID-19 pandemic to minimise impact on the Bank's operations, staffing, capital and liquidity
- o Conduct risk workshops with divisional risk champions, the executive team and board to develop a consolidated view on the top 10 risks, and risk tolerance levels as contained in the risk tolerance framework, having due consideration to current and emerging risks
- o Conduct comprehensive risk reviews on each of the divisional risk registers at the quarterly committee meetings
- o Review the Bank's risk management framework for the oversight over the various types of risks across the Bank's committees, to improve the effectiveness of risk monitoring.
- o Monitor and manage capital adequacy requirements to ensure it remains well above the Bank's internal PA targets
- o Implement and enhance capital management policies and capital planning activities
- o Continue to oversee implementation of RDARR
- o Assess the CRO's performance and adequacy of skills and expertise of the risk management function, and overall performance and position within the organisation

* The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility. No unscheduled meetings were held in 2019.

** Fees paid to committee members during the year are included in note 5 of the consolidated AFS.

8] ASSET AND LIABILITY SUB-COMMITTEE

AL

Role: The asset and liability committee, a sub-committee of the risk and capital management committee, is responsible for overseeing the establishment of capital adequacy and all other liquidity management strategies, policies and procedures. The committee comprises at least one non-executive director, one executive director and a member of Treasury, Corporate Banking and Finance who are qualified to contribute to relevant forecasts. The committee meets at scheduled meetings once a month, except in January.

Composition	Skills
TD Soondarjee ¹ (Chairperson)	Finance, banking/financial services, bank regulatory compliance, IT
S Barrett ²	Finance, banking/financial services, audit and risk management, governance
SA Blades ³	Banking, legal
RS Garach ⁴	Finance, banking/financial services, bank regulatory compliance, business, IT, governance
RSM Ndlovu ⁵	Finance, financial services, business, governance
DA Polkinghorne	Finance, banking/financial services, property, governance
SP Scott ⁶	Finance
K Hertzberger	Banking/financial services, treasury, proprietary trading

¹ Appointed February 2020.

² Appointed August 2020.

³ Resigned August 2019.

⁴ Appointed August 2019.

⁵ Resigned December 2019.

⁶ Resigned April 2020.

Summarised terms of reference

The committee is responsible for:

- Monitoring risks relating to: Liquidity; Interest rate; Hedging; Market; Solvency; Capital Adequacy; Currency; and Investment, including as defined in the Banks Act
- Ensuring that the Bank has implemented policies and plans for management of these risks, that will enhance the Group's ability to achieve its strategic objectives; and
- The disclosure regarding the risks that fall within the committee's mandate is comprehensive, timely and relevant

Key focus area in 2019

- Continuously reviewed and ensured compliance with policies to manage liquidity, interest rate, hedging, market, solvency, capital adequacy, currency and investment risks
- Monitored internal and external trends to manage liquidity, interest rate, hedging, market, solvency, capital adequacy, currency, concentration and investment risks
- Recommended changes in existing processes or implementation of new processes to mitigate these risks
- Monitored capital adequacy ratio and recommended appropriation of retained earnings as deemed necessary, and condonation were applied to the PA in instances where minimum targets were breached.
- Reviewed ICAAP document and recommended a capital buffer to risk and capital management committee and board for approval
- Recommended the declaration of preference share dividends for board approval, after considering Companies Act solvency and liquidity test and the Bank's capital adequacy requirements

 Chief financial officer's review on page 22

Planned areas of focus 2020

- Continuously review and ensure compliance with asset and liability sub-committee policies
- Monitor and manage liquidity risks in light of the COVID-19 pandemic through stress testing on the Treasury book and Bond programme
- Monitor internal and external trends to manage liquidity, interest rate, hedging, market, solvency, capital adequacy, currency, concentration and investment risks
- Recommend changes to existing processes or implementation of new processes to mitigate these risks
- Monitor capital adequacy ratio and recommend the appropriation of retained earnings if necessary
- Review the ICAAP document and recommended a capital buffer to the risk and capital management committee and board for approval
- Recommend distribution dividends to the board for approval, taking into consideration the Bank's capital adequacy requirements and that the Bank meets the solvency and liquidity test
- Management of appropriate mix of assets and liabilities
- Enhancing the funding strategy of the Bank

* The committee meets at unscheduled meetings when required to address urgent matters in its scope of responsibility. No unscheduled meetings were held in 2019

** Fees paid to committee members during the year are included in note 5 of the consolidated AFS.

GOVERNANCE continued

11 RISK GOVERNANCE

The board, supported by the risk and capital management committee, is ultimately responsible for governing risk management processes in accordance with governance requirements to support the setting and achievement of strategic objectives. Executive management encourage a risk-conscious business culture by embedding agreed internal controls and mitigating actions through all levels of management and supervisory employees.

The risk and capital management committee reviews the Bank's risk appetite and tolerance levels relative to specific risks and risk management policy and processes for each ensuing year. Enhanced oversight is provided through the assignment of specific risks to relevant board committees, as more fully set out on page 38. Further to the inputs of its committees, the board monitors, reviews and assesses all aspects related to the appropriate management of economic, social and environmental risk and opportunity at each quarterly board meeting. Pervasive risks are also identified and reported on for review by the risk and capital management committee.

 *Managing risk and opportunity on page 36*

12 IT GOVERNANCE, RISK AND COMPLIANCE

The board, supported by the risk and capital and the IT strategic committees, is responsible for oversight and governance of IT and its strategic alignment to the objectives and priorities of the Bank. The Bank's IT governance function is responsible for and oversees IT governance, IT risk and IT compliance. This function provides monthly reporting to the IT management committee and quarterly reporting to the IT strategic, risk and capital, combined assurance, social and ethics committees and the board.

IT governance is aligned to the Information Systems Audit and Control Association's (ISACA's) Control Objectives for Information Technology (COBIT) framework and the implementation of the five COBIT domains is integral to achieving improved maturity in the overall Bank landscape. The IT strategy is therefore aligned to the Bank's strategic initiatives. The IT governance framework and charter is approved by the board and managed through the IT management and strategic committees. The IT strategic committee meets quarterly to ensure that IT remains relevant and fit for purpose in terms of people, process and technology.

Well-defined decision-making structures and a reporting framework are in place. Based on quarterly reporting, the audit and compliance committee reviews and evaluates 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. Independent assessments are conducted as and when required.

In 2019, the Bank experienced two cyber security phishing incidents. These occurrences were adequately mitigated and did not increase the risk profile of the Bank. The IT division followed a co-ordinated approach in accordance with the cyber security incident response plan. This was carefully monitored, and adequate mitigations were applied. The integrity of the Bank's data was not compromised.

COMPLIANCE GOVERNANCE

13

The board, supported by its committees and an independent compliance function, is responsible for the governance of compliance with applicable laws and adopted, non-binding rules, codes and standards. The implementation and execution of compliance management is delegated to management.

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

Compliance with applicable laws and consideration to non-binding rules, codes and standards is reviewed by the social and ethics committee bi-annually and by the audit and compliance committee as it applies to its mandate.

The audit and compliance committee guides the board to ensure that the Bank's risk philosophy, strategies and policies are appropriate to the business, that there is due compliance with all risk-related policies, procedures and standards, that internal operational and financial controls are effectively maintained and reviewed where necessary and that there is an effective, risk-based internal audit. The committee has decision-making authority in terms of its statutory duties and is accountable to the board and shareholders.

Internal audit ensures the effectiveness of the risk management framework and compliance mechanisms, which are crucial pillars in the sustainability of the business. This includes the risk-based audit plan, based on combined assurance and informed by the top strategic risks.

Compliance officer's report

Approach to compliance

Compliance risk is exposure to penalties and loss of earnings, capital and reputation should an organisation fail to act in accordance with laws, regulations, supervisory requirements, prescribed best practices and internal policies and ethical standards.

The Bank has an independent compliance function, which forms part of its risk management framework and governance structure to ensure that it continuously manages its regulatory and supervisory risks.

Compliance-related governance and operational structures

Compliance forms part of the Bank's combined assurance framework and the compliance function identifies, assesses and monitors the Bank's statutory and regulatory risks. Compliance reports directly to the audit and compliance committee and administratively to the CEO and has unrestricted access to the chairperson of the board and the chairperson of the audit and compliance committee. Identified compliance risks are communicated to the risk and capital management committee.

Compliance-related policies and standards

A compliance charter and compliance manual are reviewed annually by the audit and compliance committee. A monitoring plan which outlines focus areas and defines reviews is submitted to the committee. The regulatory universe, which indicates legislation applicable to the Bank, is risk-rated and reviewed annually. The regulatory universe is submitted to the combined assurance forum and the audit and compliance committee.

An effective compliance function relies on the relationships with employees, senior management, committees, the board and external stakeholders such as industry bodies and the regulators.

Primary regulators

Primary regulators in respect of the Bank's area of business are the PA, FIC, the National Credit Regulator, the FSCA, and the Information Regulator.

Laws, regulations and guidelines

An important focus area for the Bank is the implementation of the FIC Amendment Act, which introduces the concept of a risk-based approach. The risk management and compliance programme was approved by the board and implemented in April 2019.

The Bank uses an automated system to monitor transactional activity against parameters that may indicate potentially suspicious and unusual transactions. Screening is based on various sanction lists, including UN Security Council lists to detect terrorist financing. The risk status and identity verification of clients are continually reviewed. Regulatory reporting is to the FIC, as required by legislation, and employees have been trained to shift to a risk-based mindset.

The Financial Sector Regulation Act, (the Act) which was implemented from 1 April 2018 introduces a major transformation of the regulatory and risk management framework by introducing the Twin Peaks approach to legislation. The Act separates the regulation of prudential and conduct risk into two regulatory bodies, the PA, housed in the SARB and responsible for protecting, maintaining and

enhancing financial stability, and the FSCA, responsible for regulating conduct activities. The dual approach strengthens the country's approach to consumer protection and market conduct in financial services and creates a more resilient and stable financial system.

The proposed Conduct of Financial Institutions Bill published in 2018 aims to strengthen the regulations for customer treatment by the financial services industry. The bill is the result of a review of the financial sector laws to develop a single legal framework for market conduct regulation. The proposed bill aims to:

- o Protect financial customers and promote their fair treatment by financial institutions
- o Support fair and efficient financial markets
- o Promote innovation and the development of and investment in innovative technologies, processes and practices
- o Promote competition, financial inclusion and transformation of the financial services sector
- o Assist the SARB in maintaining financial stability

A further key focus for compliance was, and continues to be, POPIA which aims to promote the protection of personal information processed by public and private bodies and introduces minimum requirements for the processing of personal information. A framework to address the requirements of POPIA has been initiated by the POPIA steering group and an information officer has been appointed, subject to the approval of the Information Regulator. Employee awareness has been raised through a #DataPrivacy campaign.

PAIA is in draft form and has been redrafted in line with changes made by POPIA.

An applied focus was made on the compliance requirements necessary to obtain a foreign exchange dealer licence.

Compliance addressed the alignment of financial services legislation with the Bank's platform banking strategy in 2019, with a particular focus on the conduct of third parties engaged by the Bank.

COMBINED ASSURANCE

[15]

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

GOVERNANCE continued

The internal control systems and governance structures are subject to independent review by internal audit and external assurance providers.

A combined assurance model is in place to optimise assurance coverage by management and internal and external assurance providers. Collectively, they provide the board with assurances on the effectiveness of controls that mitigate the risks identified during risk assessments. The model, aligned with key legislative requirements and the principles and supporting practices of King IV, was developed by identifying risks, control measures and assurance providers.

The audit of risks is assigned to appropriate assurance providers, who monitor the effectiveness of the action plans developed and implemented by management to mitigate the risks. This model gives the board the assurance, through the audit and compliance and the risk and capital management committees, that all significant risks and associated opportunities are adequately managed.

Internal audit

The Bank's internal audit function is central to its governance processes, internal control framework and risk governance. All internal audit activities are performed in compliance with International Internal Audit Practice and the methodology and standards required by the South African Institute of Internal Auditors. The effectiveness of the internal audit function and scope restrictions are monitored and reviewed by the audit and compliance committee together with the head of internal audit's appointment and performance. The committee ensures that the internal audit function is subject to an independent quality review when deemed appropriate. The head of internal audit reports functionally to the audit and compliance committee and administratively to the CEO and has unrestricted access to the chairperson and members of the audit and compliance committee.

The audit and compliance committee approves the internal audit charter, internal audit plan and the budget of internal audit to ensure it operates independently of management. The internal audit charter, aligned with King IV, regulation 48 of the Banks Act and International Auditing and Assurance Standards Board (IAASB) Standards and reviewed annually, outlines the role of the internal audit function.

The role of internal audit is to:

- Review significant business, strategic and control risks to assist management to develop and embed internal financial control frameworks
- Identify financial reporting risks and ensure the adequacy of controls to address the risk of material misstatements of financial results
- Provide the audit and compliance committee with an assessment on the level of assurance that can be placed on governance and control across the Bank

The annual audit plan is based on an assessment of identified internal and external risk areas. It is amended to ensure it remains responsive to changes in the business. In terms of the committee annual work plan, a comprehensive report on material internal audit findings and matters of significance is submitted to the audit and compliance committee at each of the four meetings to be held annually.



REMUNERATION REPORT

14 INTRODUCTION

Grindrod Bank sets out the policies and procedures relating to employees and directors' remuneration. The policy targets attracting, retaining and appropriately rewarding key employees at senior levels of the organisation and has been designed in line with the recommendations of King IV. We are working to enhance our remuneration reporting in line with King IV. This remuneration report is supplemented by further disclosure in our AFS.

Key components of the remuneration philosophy are that we act fairly and responsibly in our approach to employee remuneration and benefits at all times thus ensuring that our actions are sustainable. Grindrod Bank prioritises the employment of black candidates for all positions, with 68% of employees being black (2018: 65%). We regard rigorous internal training as key to success within the business. Emphasis is placed on finding individuals with the potential to excel. Their progress is fast-tracked within the Bank to ensure career satisfaction and retention.

A number of internship programmes have been put in place over the years. The internships are used to train junior employees and, over time, identify skilled individuals who are then retained by the business.

New starters are subject to thorough on-the-job training within their divisions, as well as a corporate engage programme aimed at ensuring that they are immersed in the values and the performance-oriented culture of the business as quickly as possible.

Employees are encouraged and financially supported to pursue further training in the areas relevant to financial services and systems development.

EMPLOYEES REMUNERATION

Responsibility and approval

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

The remuneration committee reviews the policy at least annually and reports on its appropriateness to the board of directors of Grindrod Bank. The board approves the policy and any material changes to the policy on an annual basis.

The remuneration of the non-executive directors of Grindrod Bank must be approved by a special resolution of the shareholders of Grindrod Bank annually.

Objectives

In developing the policy, the following objectives were taken into account:

- The strategy and business objectives of the Bank
- The need to create sustainable value for all stakeholders
- The need to attract and retain employees with the requisite skills
- Prevailing market conditions and market-related remuneration levels
- A fair and equitable treatment of all employees
- Ensuring that key employees share in the success of the Bank
- Compliance with all relevant applicable laws or regulatory provisions

The Bank applies the following remuneration framework for employees:

- Market-related salaries reflective of the individual's expertise, experience and skills
- Performance-related, variable and non-guaranteed bonuses paid to qualifying employees, according to the Bank's and the individual's performance
- Internal equity and market benchmarking using independent verification (Remchannel)

The Bank applies the following principles in rewarding non-executive directors:

- Market-related fees reflective of the individual's expertise, experience and skills, as well as the time required to execute their required duties and obligations
- Fees paid by other financial services companies for similar services

EMPLOYEE REMUNERATION COMPONENTS

Basic salary

Grindrod Bank pays market-related salaries reflective of the individual's expertise, experience and skills. Salaries are paid on a total cost-to-company basis, incorporating basic salaries, payment of Bank risk benefits and contributions to the Bank provident fund and a medical aid scheme.

Grindrod Bank aims to pay basic salaries between the midpoint and the first quartile of those paid by competing organisations for similar positions, with a minimum and maximum of the range informed by the lower and upper market quartile. Only in special circumstances of particularly scarce skills or experience shortages may an individual be compensated beyond the maximum of the range.

The market-related remuneration levels are determined by reference to Remchannel, which is an independent market survey, as well as by monitoring salary levels published in job advertisements and gleaned from interviews of potential candidates and through discussions with recruitment agents.

Performance-related bonuses

The Bank uses discretionary bonuses. Scored performance appraisals are used as a guideline.

Annual performance bonuses are paid in February of each calendar year. Performance bonuses are fully discretionary, and are recommended by department and division heads, based on bi-annual performance appraisals.

The following ranges normally apply to all employees other than key employees:

- o Below-expectations performance: nil bonus
- o Performance in line with expectations: 15%
- o Performance above expectations: up to 40%
- o Performance driven by income as per KPAs set-up to 100%

The bonuses require individual motivations to be submitted to HR, who reviews the motivations and standardises the rewards to ensure internal equality.

Key employees are defined as all employees, whose contribution to the Bank is strategic in nature and/or who would be difficult to replace due to their specific skill set, expertise and experience.

In terms of discretionary performance bonuses payable to key employees, the following factors are taken into account:

- o Market-related remuneration as determined by independent remuneration surveys and market reviews
- o Individual performance and experience
- o Bank's financial performance
- o Sustainable value creation, including economic, social and environmental factors

Annual increases

Annual increases are granted on 1 March of each calendar year and are based on external factors, such as the prevailing rate of inflation and market forces, as well as on individual's performance, skills, experience and effort.

Long-term incentives

In terms of longer-term incentives, eligible employees are rewarded through share options. The long-term incentives are granted and reviewed annually.

Benefits and allowances

All permanent employees contribute to the Galaxy Umbrella Fund in terms of the rules of the fund.

The Bank does not provide post-retirement benefits.

Medical Aid

The Bank facilitates the contribution by employees to a Group-determined medical aid scheme on a salary-sacrifice basis. The membership of the scheme is not compulsory; however, the employee has to prove that they belong to a medical aid.

Life and Disability Insurance

All permanent employees contribute to a life and disability insurance cover, which is a multiple of the basic salary. In addition, the Bank introduced additional cover in the form of funeral benefits, which has added an important component to the Bank risk benefits.

Relocation Allowances

A fixed discretionary allowance may be granted to employees who are required to relocate from one location to another for business purposes. The allowance covers the cost of relocation only.

Progression increases

An individual promoted to a particular position, entering the appropriate range for that position, typically receives a salary toward the minimum of a market-related range for the position. Over time as they approach full competency, they move toward the midpoint through annual salary awards. Individuals approaching the maximum of their range would usually be candidates for promotion or are considered to be exceptionally competent and performing at a consistently high level over long periods or have identified scarce skills.

Further detail on key executive management and directors' remuneration and incentives is found in our AFS.

 *AFS, notes 5 and 32.*

OUR SOCIAL IMPACT

Grindrod Bank recognises its responsibility toward the communities in which it operates and its broader commitment to contribute to sustainable economic growth in South Africa.

The Bank has adopted the following six of the 17 United Nations Sustainable Development Goals (SDGs) based on our ability to have an impact in these areas.



A programme was implemented to create awareness of the SDGs among our employees and to align them with our operations and socio-economic investment programmes.

ENVIRONMENTAL AND SOCIAL IMPACT

Climate change, water scarcity and load shedding are potential threats to the Bank, our clients and the communities where we operate. We are conscious of the need to improve energy efficiency across the Bank and have implemented a series of initiatives across our business to reduce our direct carbon footprint through energy and water management measures.

In July 2019, the IFC conducted a diagnostic assessment of the Bank's current economic and social (E&S) practices, focusing on the lending operation. Environmental risks are considered highest in businesses operating in the manufacturing, agriculture and fishing industries, while the construction element of property development is considered medium to high risk. Social risks are associated with the management of relationships the Bank has with its employees, suppliers, clients and the communities where it operates.

The IFC found that E&S matters are considered informally during lending decision-making processes. Due to this finding, the Bank initiated a process to measure and standardise the assessment, reporting and monitoring of E&S risks associated with clients' operations in order to manage the Bank's impact on society and reduce its exposure to associated credit, liability or reputational risks.

The Bank is working with the IFC to develop an E&S management system and to train specific operational teams, senior management and the board in E&S risk monitoring and management.

CORPORATE SOCIAL RESPONSIBILITY

Over the past five years, the Bank has invested R10.7 million in a range of social corporate investment and socio-economic development programmes. These include:



The Blue Fund, a conservation fund established by Grindrod Bank, in partnership with the Wildlands Conservation Trust (WILDTRUST), to develop sustainable solutions for coastal communities affected by polluted and damaged coastlines and marine life. The Bank endowed R1 million annually over five years to the project and WILDTRUST contributed matched funding.



Star Saver Financial Education, an initiative to promote a culture of saving and foster good financial management principles at an early age. It supports underprivileged schools in coastal areas of Kwa-Zulu Natal and provided financial management training to nearly 3 000 learners in 2019.



Rally to Read, a long running educational initiative that provides books and teaching support for disadvantaged schools in remote areas. In 2019, the Bank sponsored a team to participate in the rally that delivers books to the schools. The Bank also supported Rufaro Garments, an SME focused on making school uniforms for low cost private schools.



The Umngazi Pondo Pedal and Berg and Bush, annual mountain biking events that raise funds for surrounding local communities, with a focus on upgrading schools and providing employment opportunities.



Rhino Ride, an annual cycling event at Manyoni Private Game Reserve to raise funds for rhino conservation projects of the Zululand Conservation Trust.



Hilton Arts Festival, an annual event aimed at promoting and preserving the Arts by bringing South African performing arts to KwaZulu-Natal.

In addition, the Bank supports and provides SME funding for a range of small business development and empowerment projects, including:

- o The Kingsmead Café, a one-year incubation project that is currently operating under the guidance of a consultant
- o Kingsmead Car Wash, an enterprise development project that has grown from inception in 2017
- o The Food Vault, a Johannesburg-based woman-owned café with three employees that the Bank has funded from inception

KING IV APPLICATION SUMMARY

Principle	Further reading	Alignment
<p>Principle 1 The governing body should lead ethically and effectively.</p>	<p>Ethical leadership, page 47 Board evaluation, page 50</p>	✓
<p>Principle 2 The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p>	<p>Chairperson's message, page 12 Ethical leadership, page 47 Social and ethics committee, page 57</p>	✓
<p>Principle 3 The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.</p>	<p>Chairperson's message, page 12 Chief executive officer's review, page 16 Our social impact, page 66 Social and ethics committee, page 57</p>	✓
<p>Principle 4 The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.</p>	<p>Performance and value creation, page 48</p>	✓
<p>Principle 5 The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects.</p>	<p>About this report, page 2</p>	✓
<p>Principle 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation.</p>	<p>The board, page 49</p>	✓
<p>Principle 7 The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	<p>Chairperson's message, page 12 Board diversity, page 43 Directorate, pages 44 and 45 Directors' affairs committee, page 55</p>	✓
<p>Principle 8 The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.</p>	<p>Board committee feedback, 52 to 59 AFS, page 8</p>	✓
<p>Principle 9 The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, supports continued improvement in its performance and effectiveness.</p>	<p>Board evaluation, page 50</p>	✓

Principle	Further reading	Alignment
<p>Principle 10 The governing body should ensure that the appointment of, and delegation to, management contributes to role clarity and the effective exercise of authority and responsibilities.</p>	Role clarity and effective exercise of authority and responsibilities, page 51	✓
<p>Principle 11 The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.</p>	Managing risk and opportunity, page 36 Risk and capital management committee, page 58 Risk governance, page 60	✓
<p>Principle 12 The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives. Note: We are still aligning ourselves to POPIA regulations still to come into effect.</p>	IT governance, risk and compliance, page 60	•
<p>Principle 13 The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</p>	Compliance governance, page 60	✓
<p>Principle 14 The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. Note: All remuneration policies are in place. We are working to enhance the detail of our remuneration disclosures.</p>	Remuneration report, page 64 Notes 5 and 32, AFS pages 31 and 57	•
<p>Principle 15 The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.</p>	Combined assurance, page 61	✓
<p>Principle 16 In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.</p>	Stakeholders, page 41 Supporting our stakeholders and communities, page 14	✓

- ✓ Aligned
- Partial alignment

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GLOSSARY

AFS	Annual financial statements
API	Application programming interface
BA	Banks Act
BBBEE	Broad-Based Black Economic Empowerment
BCBS	Basel Committee on Banking Supervision
Companies Act	Companies Act No. 71 of 2008, as amended
CAGR	Compound annual growth rate
CEO	Chief executive officer
CDD	Client Due Diligence
CFO	Chief financial officer
COBIT	Control Objectives for Information Technology
CRO	Chief risk officer
CSSA	Chartered Secretaries Southern Africa
DMTN	Domestic medium-term note
E&S	Economic and social
FIC Amendment Act	Financial Intelligence Centre Amendment Act
FICA	FIC Act No. 38 of 2001
FSCA	Financial Sector Conduct Authority
GDP	Gross domestic product
GIT	Grindrod Investments Trust
GPSIT	Grindrod Preference Share Investment Trust
HR	Human resources
ICAAP	Internal capital adequacy assessment process
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IPO	Initial public offering
IRMSA	Institute of Risk Management South Africa
ISACA	Information Systems Audit and Control Association
ISACA COBIT framework	ISACA Control Objectives for Information Technology
IT	Information technology
JIBAR	Johannesburg average inter-bank rate
King IV	King Report on Corporate Governance™ for South Africa, 2016
KPA	Key performance assessment
KPI	Key performance indicator
Manco	Management committee
M&A	mergers and acquisitions
MOI	Memorandum of incorporation
PA	Prudential Authority
PAIA	Promotion of Access to Information Act
POPIA	Protection of Personal Information Act
RDARR	Risk data aggregation and risk reporting
SARB	South African Reserve Bank
SASSA	South African Social Security Agency
SDGs	Sustainable Development Goals
SME	Small and medium-sized enterprises
SMME	Small, medium and micro-enterprises
Twin Peaks	Combined Prudential Authority and Financial Services Conduct Authority approach to regulatory supervision
WHO	World Health Organization



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