GRINDROD BANK LIMITED

ADDITIONAL PUBLIC DISCLOSURE REQUIREMENTS IN TERMS OF REGULATION 43 (2)
30 June 2015

THE POWER OF HUMAN CAPITAL

GRINDROD BANK

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Qualitative disclosure
This diclosure should be read in conjunction with the annual financial statements of Grindrod Bank Limited which elaborate on the various risk functions, accounting policies and the terms and conditions of the capital instruments in issue.

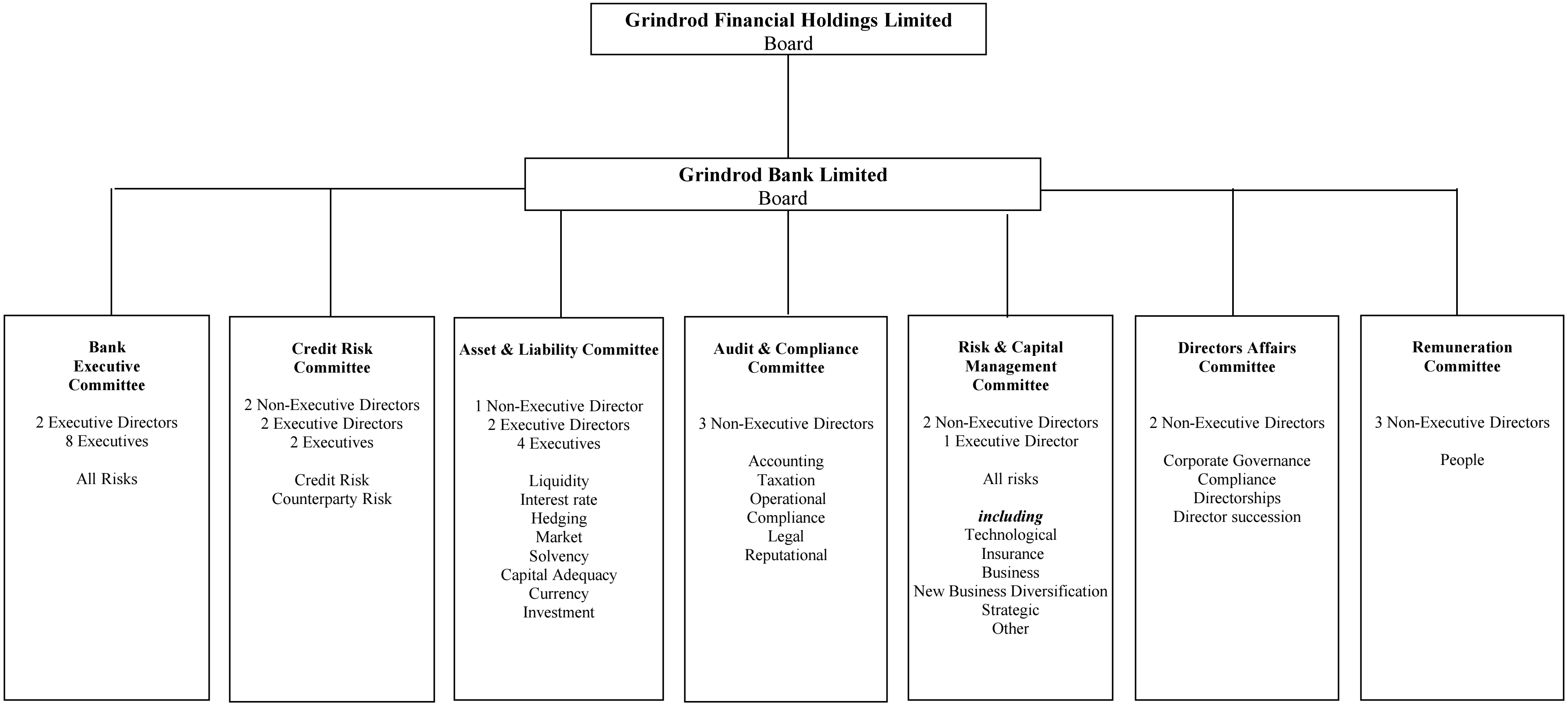
Bank controlling company:	Grindrod Financial Holdings Limited	
Entities within the group:	**Interest held**	
Commerce Square Corporate Finance (Pty) Ltd	100	*(i)*
Grincap (Pty) Ltd	100	*(i)*

(i) fully consolidated
(ii) pro-rata consolidated
(iii) subject to a deduction approach
(iv) surplus capital is recognised as qualifying capital and reserve funds
(v) neither consolidated nor deducted, that is, the bank's investment in the entity is risk-weighted
The method of consolidation is consistent from an accounting and a regulatory perspective

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

	Grindrod Bank Limited
Financial performance	
Income Statement (key regulatory items)	**R'000**
Net Interest Income	78,244
Net fee and commission income	86,355
Operating expenses	79,487
Profit / (loss) before income tax	88,833
Profit / (loss) for the year	72,790
Return on qualifying primary share capital and reserve funds	19.09
Financial position	
Balance Sheet (key regulatory items)	**R'000**
Cash and balances with central bank	560,257
Short term negotiable securities	1,166,162
Gross loans and advances	6,002,790
Investment and trading securities	18
Other assets	327,183
TOTAL ASSETS	**8,056,410**
Deposits, current accounts and other creditors	6,552,336
Term debt instruments (total of items 70 and 71)	592,405
Total equity attributable to equity holders of the parent	622,615
Preference shareholders	185,000
Other liabilities	104,054
TOTAL EQUITY AND LIABILITIES	**8,056,410**
Liquidity	
Liquid assets held (including regulatory assets)	**R'000**
Mandatory reserve deposits with central bank	150,855
Other balances with central bank	409,402
Short term negotiable securities	1,166,162
Amounts owing by banks, branches and mutual banks in the Republic	1,422,148

GRINDROD BANK LIMITED
RISK MANAGEMENT FRAMEWORK
30 June 2015



Capital adequacy & capital management

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

Retained earnings appropriation

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

Dividend policy

The Bank has a biannual dividend payment policy of 3.2 times cover (31.25%). Dividends will only be distributed where moderate stress forecasting indicates no capital shortfall or where unappropriated reserves adequately cover dividends and any capital appropriation required to restore capital levels.

Credit Risk

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

Credit Risk Management Policy

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

Definitions

Past Due

Exposures are considered past due where the facility has expired and the Bank is not considering renewal of the facility or where expected cashflows on the facility are more than one month in arrear. Past due exposures are considered impaired and a specific impairment is raised based on the carrying amount less the expected realisable value of the security held, but as a minimum the impairment is equivalent to any regulatory requirement.

Impaired Exposure

Advances are assessed for indicators of impairment and impairments are accounted for when there is objective evidence that the estimated future cash flows from the investment have been negatively impacted by events occurring subsequent to initial recognition. The amount of the impairment is the difference been the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Advances considered to be irrecoverable are written off to the extent that the loss can be reliably measured.

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

Credit Risk Mitigation

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

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

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

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Credit Risk Analysis	**R'000**
Gross Credit exposure	7,927,909
Average gross exposure during the reporting period	***7,927,909***
Corporate	674,455
SME corporate	5,093,929
Public sector entities	-
Local government and municipalities	-
Sovereign (including central government and central bank)	532,937
Banks	1,600,584
Securities firms	-
Retail	26,004
SME retail	-
Securitisation exposure	-

	Average gross exposure during the reporting period	*Impaired Loans*	*Past due loans*	*specific credit impairment*	*portfolio credit impairment*	*Ageing of past due loans*
	R'000	**R'000**	**R'000**	**R'000**		
Geographical distribution						
South Africa	7,929,375	6,677	116,863	6,677	-	
Exposure by Industry						
Agriculture, hunting, forestry and fishing	49,792	476	476	476	-	> 60 days
Mining and quarrying	29,116	-	-	-	-	_
Manufacturing	411,726	4,883	44,050	4,883	-	> 60 days
Electricity, gas and water supply	-	-	-	-	-	_
Construction	48,813	-	-	-	-	_
Wholesale and retail trade, repair of specified items, hotels and restaurants	129,517	-	281	-	-	> 60 days
Transport, storage and communication	49,089	-	-	-	-	_
Financial intermediation and insurance	2,657,986	-	-	-	-	_
Real estate	2,181,572	400	29,108	400	-	> 60 days
Business services	111,636	-	-	-	-	_
Community, social and personal services	15,004	-	5,833	-	-	> 60 days
Private households	128,317	318	318	318	-	> 60 days
Other	2,116,807	600	36,797	600	-	> 60 days
	7,929,375	**6,677**	**116,863**	**6,677**	-	> 60 days

	Gross Credit exposure	**Less than 6 months**	**More than 6 months to 1 year**	**More than 1 year**	**Non contractual**
Contractual maturity profile of credit portfolio	**6,002,792**	3,264,900	263,750	2,472,969	1,173

	Specific credit impairment	*Portfolio credit impairment*
Credit impairments: balance at beginning of period	6,309	12,925
Income statement charge	368	-
Amounts written off against credit impairments	-	-
Acquisition / disposal of subsidiary	-	-
Credit impairments: balance at end of period	6,677	12,925

Counterparty Credit Risk

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

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

OTC interest rate swaps used to hedge fixed rate loans	**R'000**
Notional gross amounts relating to underlying asset	172,745
Gross positive fair value	314
Adjusted exposure amount	1,441

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

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

Concentration Risk

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

Market Risk

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

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

Investment Risk

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

Equity Investment Risk

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

	R'000
Equities - listed	-
Equities - unlisted	18

Cumulative realised gain/(loss) on sales during the reporting period	-

All unrealised gains/(losses) are recognised in the income statement and included in primary capital and reserve funds of the Bank.

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

Sensitivity analysis	**R'000**
10% increase in listed equity prices	-
10% decrease in listed equity prices	-

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

Liquidity Risk

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

The Bank has a prudent liquidity management policy and the Asset & Liability Committee (ALCO) is responsible for monitoring the stability of funding, surplus cash or near cash assets, anticipated cash outflows, exposure to large depositors and exposure to connected parties. The Bank is exposed to a maturity mismatch due to the duration of the lending book when compared against the duration of the funding book. The Bank has been well served by its prudent liquidity management policy, the stability of its deposit base and the high quality of the advances book. The Bank intends to continue to adopt a conservative liquidity policy in the future.

	1 month	3 months	6 months	12 months
	R'000	R'000	R'000	R'000
Cumulative contractual maturity of liabilities	4,620,367	6,083,963	6,818,633	7,082,895
Cumulative BaU liability mismatch	930,243	1,283,950	1,830,991	1,893,147

Interest Rate Risk

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

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

Interest Income Sensitivity - 12 month cumulative impact on net interest	R'000
2% interest rate increase	27,332
2% interest rate decrease	-26,715

Operational Risk

The risk that internal practices, policies and systems are not rigorous or sophisticated enough to cope with adverse market conditions or human or technological errors.
Including:
- error, negligence or fraud
- failure to correctly measure or report risk
- lack of controls to prevent unauthorised or inappropriate transactions being made
- lack of understanding by key staff

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

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

Technological Risk

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

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

Remuneration

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

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

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

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

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

Incentive schemes

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

Variable Incentive Schemes

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

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

Share incentive schemes

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

Cash-settled share based payments

The Company has offered two types of share appreciation rights linked to the growth in value of

- Grindrod Limited
- Grindrod Financial Holdings Limited and GFS Holdings Proprietary Limited

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

Forfeitable share plan

In terms of the FSP, the participants are entitled to receive dividends paid and to vote in respect of the shares awarded. However, the forfeitable shares cannot be disposed of or otherwise encumbered and they are also subject to a risk of forfeiture until the delivery date. The shares vest in three equal tranches ending in May 2015/16/17 and February 2017/18/19 respectively. For the delivery conditions to be met the participants are required to remain employed by the group until the vesting date. There are no performance criteria in the vesting conditions. Employees terminating employment due to resignation or dismissal on grounds of misconduct, proven poor performance or proven dishonest or fraudulent conduct will be classified as bad leavers and will forfeit all unvested awards.

Executive Management Remuneration (10 staff members)

	Jun 2015 R'000	Dec 2014 R'000
Managerial services - salaries	9,971	18,562
Managerial services - incentive schemes	12,235	13,149
Managerial services - cash-settled share based payments	6,024	5,109
Sign-on and severance payments	-	-
	28,230	36,820

Incentive Provisions	Dec 2014 R'000	Payments R'000	Accruals R'000	Jun 2015 R'000
** Bonus provision	25,065	-22,695	10,494	12,864
Cash-settled share based payments	27,869	-7,222	769	21,416
Forfeitable share plan	1,381	-	405	1,786
	54,315	(29,917)	11,668	36,066
** bonus provision payment deferred until cash settlement under a profit share transaction	2,765			2,765