



GRINDROD BANK LIMITED
ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020



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CERTIFICATE BY COMPANY SECRETARY

The company secretary hereby certifies that in terms of section 88(2) of the Companies Act, 71 of 2008, (the Companies Act), the Company has lodged with the Companies and Intellectual Property Commission of South Africa all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date in respect of the financial year ended 31 December 2020.



PW Bester

Company secretary

30 April 2021

DIRECTORS' RESPONSIBILITY AND APPROVAL OF FINANCIAL STATEMENTS

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

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

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

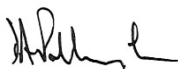
The directors have reviewed the Group and Company's cash flow forecast for the year to 31 December 2021 and, in the light of this review and the current/forecast financial and capital positions, they are satisfied that the Group and Company have access to adequate resources to continue in operational existence for the foreseeable future.

A sound corporate governance framework commits the Group and Company to high standards of business ethics. The framework guides the board, as the custodian of responsible corporate governance, in the formulation and implementation of the Group and Company strategy to achieve targeted performance and create sustainable value to the benefit of all stakeholders. The framework comprises appropriate policies, procedures and power of execution to ensure that governance objectives are properly implemented, managed, reviewed and adjusted. This ensures responsible corporate citizenship through regulatory and best practice adherence, effective and ethical leadership and sustainable value creation. Additional disclosure in this regard, including disclosures relating to the King Report on Corporate Governance™ for South Africa, 2016 (King IV)*, can be found in the Grindrod Financial Holdings Limited integrated annual report, published on the Bank's website at www.grindrodbank.co.za.

The consolidated and separate financial statements set out on pages 16 to 82, which have been prepared on the going concern basis, were approved by the board on 30 April 2021, and are signed on its behalf by:



Tyrone Soondarjee
Chairman



David Polkinghorne
Chief executive officer



Rakesh Garach
Chief financial officer

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DIRECTORS' REPORT

for the year ended 31 December 2020

The directors have pleasure in presenting their report which forms part of the annual financial statements of the Group and Company for the year ended 31 December 2020.

Nature of business

Grindrod Bank Limited is a registered specialist investment bank that provides bespoke financial services to private, corporate and institutional clients.

Review of financial results and activities

The operating results and state of affairs of the Group and Company are fully set out in the consolidated and separate financial statements and accompanying notes. In addition, the directors wish to highlight the following:

- » Due to a revised interpretation of IFRS 10, the assets (Preference shares linked to trust participatory contributions) and liabilities (Trust participatory contributions) of the vesting trusts Grindrod Investments Trust (GIT) and Grindrod Preference Share Investment Trust (GPSIT) were consolidated for the first time in 2019. The Group has taken steps towards relinquishing control over GIT, inter alia, the Group no longer appoints trustees to GIT, the Group no longer has a residual benefit in GIT and an independent third party has been appointed the manager of GIT. These steps have resulted in the Group losing significant power over GIT on 31 August 2020 and the ability to use such power to affect its returns. As such, the Group no longer has control over GIT and is not required to consolidate GIT under IFRS 10. This was effective from 1 September 2020;
- » The consolidation of GIT and GPSIT led to the Group having a large exposure as per section 73 (Concentration Risk) of the Banks Act. The large exposure led to an additional capital requirement for the Group which has resulted in the Group breaching its minimum capital adequacy ratio requirement in 2019. This was remediated when deconsolidation was achieved; and
- » Heightened credit stress in the economy, exacerbated by the COVID-19 pandemic, led to a further deterioration in the Group's credit performance. Impairment losses on financial assets increased in excess of 100% to R101.52 million. Stage 3 estimated credit losses amounted to R87.85 million whilst Stage 1 and 2 estimated credit losses amounted to R13.67 million.

Authorised and issued share capital

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

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

Dividends

No ordinary dividends were declared or paid for the 2020 financial reporting period. Preference share dividends paid and accrued are presented in the statement of changes in equity.

DIRECTORS' REPORT *continued*

Directors

At 31 December 2020, and the date of this report, the board comprised of the following members:

Name	Gender	Designation	Meeting attendance	Date of appointment	Date of resignation
DA Polkinghorne	M	Chief executive officer	6/6	January 1999	
WD Geach	M	Non-executive director	1/2	August 2010	February 2020
JH Beare	M	Non-executive director	6/6	December 2010	
ZN Malinga*	F	Lead independent non-executive director	5/6	April 2017	
MS Mbatha	F	Independent non-executive director	1/2	June 2018	February 2020
ASP Dambuza	F	Independent non-executive director	4/4	August 2018	July 2020
RS Garach	M	Chief financial officer	6/6	July 2019	
TD Soondarjee**	M	Independent non-executive director (Chairman)	6/6	September 2019	
S Barrett	F	Independent non-executive director	6/6	December 2019	
IZ Nyanga	F	Independent non-executive director	2/2	April 2020	August 2020
R Ramcharan	F	Independent non-executive director	1/1	September 2020	
GG Christopulo	M	Independent non-executive director	1/1	September 2020	
CR Howell	M	Independent non-executive director	1/1	September 2020	
MP Grindrod	M	Non-executive director	1/1	November 2020	

* Independent from January 2020. Appointed Lead independent non-executive director in September 2020.

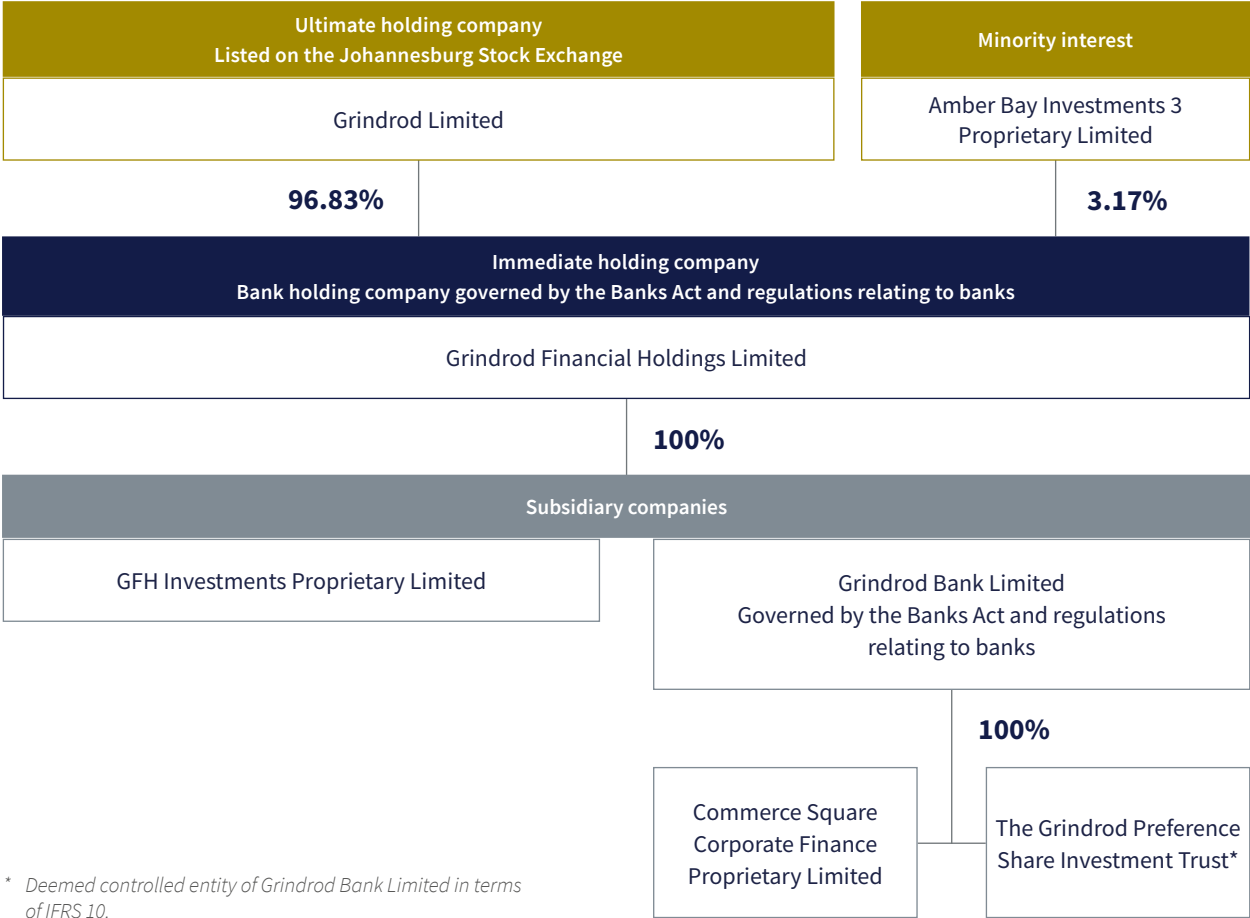
** Appointed Chairman in September 2020.

Company secretary	Date of appointment	Date of resignation
S Ashokumar	November 2018	September 2020
PW Bester	September 2020	

Country of incorporation

South Africa

Holding company and subsidiaries



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

DIRECTORS' REPORT *continued*

Going concern

The directors have reviewed the Group and Company's cash flow forecast for the year to 31 December 2021 and, in the light of this review and the current/forecast financial and capital positions, they are satisfied that the Group and Company have access to adequate resources to continue in operational existence for the foreseeable future.

Events after the reporting period

The directors are not aware of any matter or circumstance arising since the reporting period date, including events associated with the COVID-19 pandemic, that has a material impact on the financial statements.

Committee meetings

The financial director of Grindrod Limited, Fathima Ally, has been granted approval by the Prudential Authority (PA) to attend the committee meetings listed below:

- » Credit risk committee;
- » Assets and liability committee;
- » Audit and compliance committee;
- » Risk and capital management committee; and
- » Social and ethics committee.

Directors' interest

The directors and prescribed officers did not have any interest in the ordinary shares of the Group or Company nor in the preference shares of the Company, with the exception of David Polkinghorne, chief executive officer, who holds a minority interest in Grindrod Financial Holdings Limited via his shareholding in Amber Bay Investments 3 Proprietary Limited. The directors did not have an interest in any third party or company responsible for managing the business activities of the Group or Company. Transactions with directors and prescribed officers are entered into in the normal course of business under terms that are no more favourable than those with third parties.

Auditor

SNG Grant Thornton

Preparer of financial statements

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

Registered address

5 Arundel Close, Kingsmead Office Park, Durban, 4001

AUDIT AND COMPLIANCE COMMITTEE REPORT

for the year ended 31 December 2020

Role and key functions

The audit and compliance committee (the committee) is a statutory board committee that assists the board in its corporate governance supervision responsibilities, and is appointed by the board in terms of section 94 of the Companies Act read with section 64 of the Banks Act, 94 of 1990 (the Banks Act). The committee operates independently of management, is free of any organisational restraint or pressure and acts in accordance with its statutory duties and the delegated authority of the board, within formally approved terms of reference, which are reviewed and approved annually by the board.

Role of the committee

The overall objectives and role of the committee are to:

- » Provide oversight of the financial risk management function;
- » Ensure the operation of adequate systems and that effective control procedures and standards are in place;
- » Review the integrity of financial information and the presentation of accurate financial reports in compliance with the applicable regulations and accounting standards;
- » Oversee the internal and external audit appointments and functions; and
- » Ensure 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 information technology (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.

Composition of the committee

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

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

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

Name	Designation	Date of appointment	Date of resignation
WD Geach*	Non-executive chairman	August 2010	February 2020
ZN Malinga**	Non-executive chairman	April 2017	
TD Soondarjee	Non-executive director	September 2019	September 2020
S Barrett	Non-executive director	March 2020	
IZ Nyanga	Non-executive director	April 2020	August 2020
R Ramcharan	Non-executive director	October 2020	
GG Christopulo	Non-executive director	October 2020	

* Appointed to the board in August 2010 and as chairman in May 2015. Resigned as member and chairman in February 2020.

** Appointed as chairman in March 2020.

AUDIT AND COMPLIANCE COMMITTEE REPORT *continued*

Composition of the committee *continued*

Eleven meetings (four regular and seven ad-hoc) were held during the reporting period.

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

The company secretary serves as secretary to the committee.

The independence of the committee and performance of its members were evaluated by the directors' affairs committee during 2020.

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

The internal and external auditors have unrestricted access to the chairman and members of the committee. In 2020, the committee met with the auditors and external auditors without management being present.

During the reporting period, the finance and regulatory teams were strengthened with the appointment of additional human capital. The committee has satisfied itself that the finance and regulatory functions are effective.

Key activities

In terms of its mandate, matters considered by the committee based on its annual work plan for 2020 included:

- » Reviewing and recommending to the board publicly disclosed financial information;
- » Reviewing the consolidated and separate annual financial statements and integrated annual report for the year ended 31 December 2020 in line with applicable legislative and regulatory compliance and recommendation thereof for approval by the board;
- » Reviewing the combined assurance model and the effectiveness of the process for identifying, assessing and reporting on significant internal financial control, tax and fraud risks as related to financial reporting;
- » Assessing the suitability, expertise and experience of the chief financial officer; the expertise, experience and resources of the finance function; the appointment of a new chief internal auditor and evaluation of the independence, effectiveness and performance of the internal audit function;
- » Reviewing and approving the internal audit plan;
- » Recommending the independent external auditor and designated audit partner, including the approval of their terms of engagement and fees for audit services, for approval by shareholders at the AGM;
- » Reviewing the extent of non-audit services provided by the independent external auditor and other professional service providers and the approval of the related terms of engagement and fees;
- » Reviewing the external auditors' work plan, staffing, independence, effectiveness, audit findings, key audit risks and external audit report;
- » Reviewing legislative and statutory compliance within the scope of its mandate and reviewing compliance with the Group and Company's code of ethics and conduct;
- » Reviewing IT risks and evaluation of audit assessments of IT-related controls performed by the internal and external auditors together with the appropriateness of actions taken by management to address key issues identified, and reporting on its findings to the risk and capital management committee;
- » Considering the impact of and response to the COVID-19 pandemic in relation to risk of material misstatement presented by estimates required under IFRS 9 and IFRS 13;
- » Reviewing and confirming the going concern status; and
- » Approving this committee report for presentation to the shareholders.

External audit

SNG Grant Thornton served as the Group and Company's registered external auditors for the 2020 reporting period. The terms of engagement, independence, expertise, audit quality, objectivity and the appropriateness of key partners at SNG Grant Thornton as the external auditor are appraised by the committee, annually. The SNG Grant Thornton audit team includes relevant financial services experts.

In assessing the auditor's independence, the committee considered guidance contained in King IV as well as the Independent Regulatory Board for Auditors (IRBA) publications and the JSE Debt Listings Requirements and the related commentary thereon.

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

Key audit matters (KAM)

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

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

KAM: measurement of loans and advances: impairments

This is an area that is also reviewed by the credit risk committee. The committee considered whether the levels of provisioning and credit impairment were appropriate, noting a material increase in impairments year on year. Discussions were held with management and the credit risk committee to obtain comfort over the adequacy of Stage 1, 2 and 3 provisioning. The committee also had a specific discussion with the external auditors in order to satisfy itself in this regard.

KAM: measurement of loans and advances: fair value

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

KAM: loss of control assessment of underlying investment structures under IFRS 10

The committee obtained an understanding of the underlying investment structure, including its nature and purpose. The committee also reviewed and assessed management's assessment of the investment structures in terms of IFRS 10 *Consolidated Financial Statements*. The judgements applied by management were discussed at great length in order for the committee to satisfy itself as to the reasonableness of management's assessment. The committee also had a specific discussion with the external auditor in order to satisfy itself in this regard.

Key focus areas for the 2021 reporting period

In addition to the standard audit committee workplan, the committee has identified the following as key focus areas for the 2021 reporting period:

- » Further strengthen audit committee supervision of the Group and Company's regulatory reporting;
- » Review development and implementation of compliance business integration strategy (over and above the objective of ensuring compliance with laws and regulations);
- » Enhance systems of internal controls and processes over critical sources of information and models upon which estimates are based;
- » Review development and implementation of the Group and Company's tax planning;
- » Enhance the combined assurance model; and
- » Conduct an external quality assurance of the internal audit function.

AUDIT AND COMPLIANCE COMMITTEE REPORT *continued*

Financial statements

Following the committee's review of the consolidated and separate financial statements for the year ended 31 December 2020, it is of the opinion that, in all material respects, they comply with the Companies Act, Banks Act, JSE Debt Listings Requirements and IFRS as issued by the International Accounting Standards Board (IASB), and fairly present the results of operations, cash flows and financial position of the Group and Company, respectively.

Based on the results of the internal and external audit reviews of the Group and Company's internal controls and information technology general controls, no material weaknesses were identified to indicate that the internal financial controls were not operating effectively.

On this basis, the committee recommended that the board approves the consolidated and separate financial statements for the year ended 31 December 2020.



Zola Malinga

Audit and compliance committee chairman

30 April 2021

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Grindrod Bank Limited

Opinion

We have audited the consolidated and separate financial statements of Grindrod Bank Limited and its subsidiaries (the Group) set out on pages 16 to 82, which comprise the consolidated and separate statement of financial position as at 31 December 2020, and the consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

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

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

Key audit matters

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

Key audit matter	How the matter was addressed in the audit
<p>Measurement of loans and advances</p> <p>Loans and advances by the Group are either measured at amortised cost less impairments in terms of an expected credit loss (ECL) model, or at fair value through profit or loss (FVTPL). This is in accordance with IFRS 9: Financial Instruments (IFRS 9).</p> <p>Significant judgement is exercised by the directors in assessing these impairments and fair value measurements, and includes estimating:</p> <p>Impairments:</p> <ul style="list-style-type: none"> » whether there was a significant increase in credit risk since inception (SICR), which determines whether a loan or advance is classified as Stage 1, 2 or 3. Many collateralised loans and advances have no scheduled repayments until the end of the loan period, making it highly judgmental to identify a SICR. » the probability that a loan or advance will default (PD), either over a 12 month period or over the lifetime of the loan or advance, depending on staging; and » the loss given default (LGD). A key input into the LGD model is the expected realisable value of the collateral securing the loan or advance. <p>Fair value:</p> <ul style="list-style-type: none"> » changes in interest rates since inception (in the case of fixed rate loans and advances); » changes in credit risk of the counterparty since inception, as well as changes in general market credit spread levels for a given credit rating; » changes in general market liquidity spread levels since inception; and » the current and projected future value of the asset being financed, in the case of loans and advances where the total payoff depends on the value of such underlying asset. <p>Impairment of advances is disclosed in accounting policy note 1.7 and note 3, and fair value is disclosed in note 23 to the consolidated and separate financial statements.</p> <p>Due to the significant judgement applied by the directors, as disclosed in "Judgements made by management and key sources of estimation uncertainty" on page 22 of the consolidated and separate financial statements, the credit impairments against loans and advances measured at amortised cost and the fair value of loans and advances measured at FVTPL, are in aggregate considered to be a key audit matter.</p>	<p>With the assistance of auditor's and management's experts, we performed the following audit procedures on the ECL model:</p> <ul style="list-style-type: none"> » assessed the design and implementation of key internal controls relating to the model; » assessed the appropriateness of assumptions and variables used in determining the ECL in relation to current market conditions and forward-looking economic information; » assessed the completeness, accuracy and validity of data inputs used during the development and application of the credit impairment model; » considered the methodologies and assumptions applied in order to assess compliance with IFRS 9, including the determination of SICR, PD, EAD (exposure at default) and LGD; » assessed the appropriateness of management's stage allocation; » evaluated the methodology used to incorporate forward looking information in the calculation of expected credit losses; » performed substantive tests of details on a sample basis, relating to the estimated realisable value of the collateral securing loans and advances included in the ECL model and » considered and assessed the qualitative factors that influence the impairment, including the amount in arrears, period in arrears and the financial strength of the borrower. <p>We assessed the material disclosures made by management against the requirements of IFRS 7: Financial Instruments – Disclosures and IFRS 9.</p> <p>With the assistance of auditor's and management's experts, we performed the following audit procedures on the fair value models:</p> <ul style="list-style-type: none"> » assessed the valuation methodologies for compliance with IFRS 13: Fair Value Measurement (IFRS 13), financial instrument pricing theory and market practice; » evaluated the completeness, accuracy and validity of the contractual terms and conditions utilised as data inputs into the fair value models; and » assessed the appropriateness of the models and the reasonableness of the assumptions and market data variables used in the fair value calculations, against current market conditions and relevant forward-looking economic information. <p>We considered whether management had appropriately allowed for the increased credit risk introduced by the COVID-19 pandemic to the loan book, in their estimation process for determining both the ECL and fair value.</p>

Key audit matter**How the matter was addressed in the audit****Loss of control assessment of underlying investment structures under IFRS 10**

Significant judgement is applied by management in the determination of whether control is lost in certain entities in terms of IFRS 10: *Consolidated Financial Statements*.

Assessment of control in investees is disclosed in accounting policy note 4 to the consolidated and separate financial statements.

Due to the significant judgement applied by the directors, as disclosed in “Judgements made by management and key sources of estimation uncertainty” on page 22 of the consolidated and separate financial statements, the assessment of control of an investee, is in aggregate considered to be a key audit matter.

In evaluating the control assessment of underlying investment structures under IFRS 10, we performed the following procedures:

- » Obtained an understanding of the structured entity and its purpose.
- » Obtained an understanding of the terms of the related agreements, and where applicable, the nature and terms of the preference share issuing vehicle.
- » Reviewed and assessed management’s assessment of the underlying investee entities in terms of IFRS 10.
- » Reviewed the Trust Deeds of preference share issuing vehicles as well as preference share subscription agreements.
- » Engaged internal technical specialists to assist where significant judgement has been applied in the determination of whether control has been achieved.

Other information

The Group’s directors are responsible for the other information. The other information comprises the information included in the document titled “Grindrod Bank Limited Annual Financial Statements for the year ended 31 December 2020”, which includes the Directors’ Report, the Audit and Compliance Committee’s Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor’s reports thereon.

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

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

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Audit tenure

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc has been the auditor of the Group for 2 years.



Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.

Director
Registered Auditor

30 April 2021

20 Morris Street East
Woodmead, Gauteng
South Africa
2191

STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	Group		Company	
		31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
Assets					
Cash and short-term funds	1	923 536	3 572 496	923 536	3 572 496
Negotiable securities	2	2 469 396	2 478 941	2 469 396	2 482 109
Loans and advances	3	8 167 160	7 416 453	8 167 160	7 416 453
Preference shares linked to trust participatory contributions	4	–	1 727 444	–	–
Investment securities	5	9 198	9 177	9 198	9 177
Current tax asset		11 795	–	11 795	–
Other assets	6	75 332	94 071	75 332	79 853
Property and equipment	7	14 828	18 031	14 828	18 031
Deferred tax asset	8	47 931	24 947	47 931	24 947
Total assets		11 719 176	15 341 560	11 719 176	13 603 066
Liabilities					
Deposits and funding instruments	9	9 965 473	11 957 109	9 965 473	11 965 170
Trust participatory contributions	4	–	1 724 276	–	–
Derivative instruments	10	73 046	22 249	73 046	22 249
Current tax liability		–	206	–	206
Provisions	11.1	14 990	18 425	14 990	18 425
Other liabilities	11.2	54 459	64 085	54 459	41 806
Total liabilities		10 107 968	13 786 350	10 107 968	12 047 856
Equity					
Ordinary share capital	12	650	650	650	650
Share premium	13	347 929	347 929	347 929	347 929
Preference share capital	14	285 000	285 000	285 000	285 000
Retained earnings		977 629	921 631	977 629	921 631
Total equity		1 611 208	1 555 210	1 611 208	1 555 210
Total liabilities and equity		11 719 176	15 341 560	11 719 176	13 603 066

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	Group		Company	
		2020 R000	2019 R000	2020 R000	2019 R000
Interest and similar income	15	783 363	1 004 028	721 548	863 089
Interest and similar expense	16	(592 980)	(873 483)	(537 348)	(756 368)
Net interest and similar income		190 383	130 545	184 200	106 721
Non-interest revenue	17	250 866	266 177	257 049	290 001
Fee income	17.1	56 676	55 347	56 676	55 347
Gains and losses on financial instruments	17.2	194 190	210 830	194 190	122 334
Dividend income	17.3	–	–	6 183	112 320
Total revenue		441 249	396 722	441 249	396 722
Impairment losses on financial assets	18	(101 522)	(25 114)	(101 522)	(25 114)
Operating income		339 727	371 608	339 727	371 608
Operating expenses	19	(263 347)	(288 945)	(263 347)	(288 945)
Profit before tax		76 380	82 663	76 380	82 663
Income tax (expense)/benefit	20	(646)	3 883	(646)	3 883
Profit for the year		75 734	86 546	75 734	86 546
Other comprehensive income		–	–	–	–
Total comprehensive income for the year		75 734	86 546	75 734	86 546

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Ordinary share capital R000	Share premium R000	Preference share capital R000	Retained earnings R000	Total R000
Group					
Balance at 31 December 2018	650	247 929	285 000	847 832	1 381 411
Total comprehensive income for the year	-	-	-	86 546	86 546
Profit for the year	-	-	-	86 546	86 546
Issue of ordinary share capital	-	100 000	-	-	100 000
Preference share dividends	-	-	-	(12 747)	(12 747)
Balance at 31 December 2019	650	347 929	285 000	921 631	1 555 210
Total comprehensive income for the year	-	-	-	75 734	75 734
Profit for the year	-	-	-	75 734	75 734
Preference share dividends	-	-	-	(19 736)	(19 736)
Balance at 31 December 2020	650	347 929	285 000	977 629	1 611 208
Company					
Balance at 31 December 2018	650	247 929	285 000	847 832	1 381 411
Total comprehensive income for the year	-	-	-	86 546	86 546
Profit for the year	-	-	-	86 546	86 546
Issue of ordinary share capital	-	100 000	-	-	100 000
Preference share dividends	-	-	-	(12 747)	(12 747)
Balance at 31 December 2019	650	347 929	285 000	921 631	1 555 210
Total comprehensive income for the year	-	-	-	75 734	75 734
Profit for the year	-	-	-	75 734	75 734
Preference share dividends	-	-	-	(19 736)	(19 736)
Balance at 31 December 2020	650	347 929	285 000	977 629	1 611 208

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	Group		Company	
		2020 R000	2019 R000	2020 R000	2019 R000
Cash flows from operating activities					
Cash receipts from customers*		1 067 865	1 323 643	982 073	1 194 548
Cash paid to customers, employees and suppliers		(858 361)	(1 172 509)	(780 450)	(1 113 255)
Cash generated from operations*	21	209 504	151 134	201 623	81 293
(Increase)/decrease in operating assets:					
(Increase)/decrease in loans and advances to customers		(815 021)	176 103	(815 021)	(269 845)
Sale/(Purchase) of preference shares linked to trust participatory contributions		1 727 444	(336 444)	-	-
(Increase)/decrease in deposits held for regulatory purposes		(9 079)	55 562	(9 079)	55 562
Other negotiable securities		8 583	346 344	11 751	421 382
Increase/(decrease) in operating liabilities:					
(Decrease)/increase in deposits from customers		(1 991 636)	936 623	(1 999 697)	937 988
(Redemption)/raising of trust participatory contributions		(1 724 276)	10 152	-	-
Dividends paid on preference shares		(10 846)	(12 747)	(10 846)	(12 747)
Income tax paid		(35 632)	(22 213)	(35 632)	(22 213)
Net cash (used in)/from operating activities*		(2 640 959)	1 304 514	(2 656 901)	1 191 420
Cash flows from investing activities					
Acquisition of property and equipment		(3 879)	(2 042)	(3 879)	(2 042)
Proceeds from sale of property and equipment		5	-	5	-
Dividends income*		-	-	15 942	113 094
Acquisition of investment securities		(221)	(524)	(221)	(524)
Net cash (used in)/from investing activities*		(4 095)	(2 566)	11 847	110 528
Cash flows from financing activities					
Issue of ordinary share capital		-	100 000	-	100 000
Payment of lease liabilities	22.1	(12 839)	(12 681)	(12 839)	(12 681)
Net cash (used in)/from financing activities		(12 839)	87 319	(12 839)	87 319
Net (decrease)/increase in cash and short-term funds					
		(2 657 893)	1 389 267	(2 657 893)	1 389 267
Cash and short-term funds at 1 January		3 363 698	1 974 431	3 363 698	1 974 431
Cash and short-term funds at 31 December	22.2	705 805	3 363 698	705 805	3 363 698

* Limited reclassifications were made to improve disclosure.

ACCOUNTING POLICIES

For the year ended 31 December 2020

Reporting entity

Grindrod Bank Limited (the Company) is a company domiciled in South Africa. The registered address is 5 Arundel Close, Kingsmead Office Park, Durban, 4001. The consolidated financial statements comprise the Company and its subsidiaries (collectively, the Group). The Group is primarily involved in investment, corporate and retail banking.

Basis of preparation

The consolidated and separate financial statements (financial statements) of the Group and Company have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Debt Listing Requirements and the Companies Act. The financial statements have been prepared using the going concern principle and on the historical cost basis except for certain financial instruments which are measured at fair value. The financial statements are presented in South African Rand which is the Group's functional currency and all amounts are rounded to the nearest thousand.

Recent accounting developments

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

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

Pronouncement	Title and details
IFRS 3 amendments	<i>Definition of a Business</i> The amendment elaborates on the definition of a business and is aimed at providing further guidance to better distinguish between the acquisition of a business or a group of assets.
Updated references to the Conceptual Framework	<i>Changes to the references to the Conceptual Framework</i> When the IASB published the revised 'Conceptual Framework' in March 2018, it also issued 'Amendments to References to the Conceptual Framework in IFRS Standards'.
IAS 1 and IAS 8 amendments	<i>Updated materiality definition</i> The definition of "material" has been clarified and aligned with the definition used in the Conceptual Framework and in the various standards.
IFRS 9, IAS 39 and IFRS 7 – Phase 1 Amendments	<i>Interest Rate Benchmark Reform</i> These amendments address the potential effects from IBOR reform on financial reporting.
IFRS 16 Amendment	<i>COVID-19-Related Rent Concessions</i> Lessees are provided with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

Standards/Interpretations issued but not yet effective

There are new or revised accounting standards and interpretations in issue that are not yet effective for the year ended 31 December 2020, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated. These include the following standards and interpretations that have been issued, with an indication of the estimated impact on the future financial statements of the Group:

Pronouncement	Title and details	Effective date
IFRS 10 and IAS 28	<p><i>Sale or contribution of assets between an investor and its associate or joint venture</i></p> <p>The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a ‘business’ under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors’ interests in the associate or joint venture is recognised. The definition of business is key to determining the extent of the gain to be recognised.</p> <p>These amendments are not expected to have an impact on the Group.</p>	The effective date is deferred by the IASB pending the outcome of its research project on the equity method of accounting.
IFRS 17	<p><i>Insurance Contracts</i></p> <p>IFRS 17 replaces the current standard on insurance contracts, IFRS 4. It creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. Among others, IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows, taking into account any uncertainty relating to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. Insurance contracts are further required to be measured based only on the obligations created by the contracts. An entity will also be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums.</p> <p>These amendments are not expected to have an impact on the Group.</p>	Annual periods beginning on or after 1 January 2023.
IFRS 3 amendments	<p><i>Updating a reference to the Conceptual Framework</i></p> <p>An outdated reference in IFRS 3 to the Conceptual Framework has been updated without any significant changes to its requirements.</p> <p>This amendment is not expected to have an impact on the Group.</p>	Annual periods beginning on or after 1 January 2022.
IAS 37 amendments	<p><i>Onerous Contracts – Cost of Fulfilling a Contract</i></p> <p>This amendment indicates which costs an entity should include as the costs of fulfilling a contract when assessing whether a contract is onerous.</p> <p>This amendment is not expected to have an impact on the Group.</p>	Annual periods beginning on or after 1 January 2022.
2018 – 2020 annual improvements cycle	<p><i>Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41</i></p> <p>Changes were made to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 41, Agriculture, which will have no impact on the Group.</p> <p>An illustrative example has been removed from IFRS 16 to prevent potential confusion regarding the treatment of lease incentives. This amendment is not expected to have an impact on the Group.</p> <p>IFRS 9 has been amended to clarify the fees that an entity includes when determining whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.</p> <p>This amendment is not expected to have a material impact on the Group.</p>	Annual periods beginning on or after 1 January 2022.
IAS 16 amendments	<p><i>Proceeds before intended use</i></p> <p>This amendment prohibits an entity from reducing the cost of an item of property, plant and equipment through deducting the proceeds from the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items and the costs of producing them are to be recognised in profit or loss.</p> <p>This amendment is not expected to have an impact on the Group.</p>	Annual periods beginning on or after 1 January 2022.

ACCOUNTING POLICIES *continued*

Critical judgements and key sources of measurement uncertainty

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

	Judgement	Estimate	Accounting policy/Note
» Expected credit loss measurement	✓	✓	Refer to accounting policy 1.7 and note 3 to the financial statements for judgements and estimates made.
» Assessment of control of an investee	✓		Refer to accounting policy 4 for judgements made.
» Share-based incentive schemes		✓	Refer to accounting policy 9.3 and note 34 to the financial statements for estimates made.
» Revenue recognition	✓		Refer to accounting policy 11 and notes 15 and 17 to the financial statements for judgements made.
» Valuation of level 2 loans and advances*	✓	✓	Refer to accounting policy 1.6 and note 23 to the financial statements for judgements and estimates made.
» Valuation of level 3 loans and advances*	✓	✓	Refer to accounting policy 1.6 and note 23 to the financial statements for judgements and estimates made.

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

COVID-19 pandemic

Although the areas of judgement and estimation applied remained mostly the same as in the prior years, greater judgment had to be applied in the following areas.

COVID-19 consideration	Assessment
Going concern	Limited impact on going concern for the foreseeable future. Based on the projections of future results, cash flows, future commitments and assessment of the Group's potential deposits/borrowing facilities projected/available, no going concern risk has been identified.
Deferred tax asset recoverability	No material impact noted, deferred tax assets raised based on sufficient taxable profits and capital gains expected in the future.
Restructuring and retrenchment costs	The Group does not have future restructure or retrenchment plans.
Onerous contracts	The Group does not engage in services that may lead to material onerous contracts.
Net impairment losses on loans and advances (IFRS 9: ECL)	Due to increased credit risk and decline in the future economic outlook, ECLs increased in excess of 100%.
Modifications to contractual cash flows	Due to increased pressure on clients' cash flows, a number of payment holidays were granted and taken up by customers. This resulted in a net modification gain of R3.9 million being recognised.
Valuation of loans and advances and derivative instruments (IFRS 13: Fair value measurement)	Due to increased pressure on clients' operations, the Group's exposure to credit risk increased. This had a direct impact on the valuation of loans and advances at fair value as the Group had to adjust credit spreads accordingly. Furthermore, the decrease in the repo interest rate of 300 basis points during the financial year led to a favourable impact on the valuation of fixed rate loans and advances and an unfavourable impact on the valuation of derivative instruments.
Liquidity risk	The Group has prudent liquidity management strategies and holds sufficient amounts of surplus cash on call and in easily liquifiable assets. This served the Bank well during the COVID-19 pandemic as the Bank did not experience a liquidity strain.

Currently the Group is not managed or internally structured for management reporting purposes on a segmented basis and as a result no segmental information has been provided.

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

1. Financial instruments

1.1 Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price. Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability at FVTPL are recognised immediately in profit or loss.

1.2 Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost or FVTPL.

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

ACCOUNTING POLICIES *continued*

1. Financial instruments *continued*

1.2 Classification and subsequent measurement *continued*

Business model assessment *continued*

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

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

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

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

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

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

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

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

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

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

Reclassifications

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

Subsequent measurement

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

ACCOUNTING POLICIES *continued*

1. Financial instruments *continued*

1.2 Classification and subsequent measurement *continued*

Financial liabilities

Financial liabilities include deposits and funding instruments, derivative instruments, trust participatory contributions, accounts payable and sundry creditors.

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

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Financial liabilities subsequently measured at amortised cost using the effective interest method have the interest expense recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derivative financial instruments

Derivative instruments, which include interest rate swaps, are held in terms of asset management strategies, defined as economic hedging activities, or on a back to back basis. Derivative instruments are initially recognised at fair value and subsequently remeasured to FVTPL using market prices at each reporting date.

1.3 Derecognition

Financial assets

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

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

Financial liabilities

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

1.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

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

1.5 Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

1.6 Fair value measurement

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

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

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

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

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

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

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

ACCOUNTING POLICIES *continued*

1. Financial instruments *continued*

1.7 Impairment

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

- » Financial assets that are debt instruments;
- » Financial guarantee contracts issued; and
- » Loan commitments issued.

No impairment loss is recognised on equity investments.

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

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

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

- » Facility is in arrears;
- » Classification and appearance on a watch list; and
- » Significant decrease in value of collateral.

Clients are placed under managed accounts once default occurs or if any evidence comes to light affecting the recovery of the loan. When a loan cures it ceases to be classified as a managed account once the relevant period passes, being six consecutive payments paid on or before the due date. If a redefault happens to occur, the above process is once again followed.

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

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

Financial instruments for which lifetime ECLs are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Collateral

Collateral is measured at fair value at inception of a financial instrument and the valuation is reviewed periodically depending on the collateral type. Collateral held against Stage 2 financial instruments is reviewed when a SICR since initial recognition is identified and collateral held against Stage 3 financial instruments is monitored on an ongoing basis.

In instances where collateral consists of listed shares, sufficient regard is given to the level of liquidity available based on historic trading activity and current market conditions of similar instruments in determining whether a liquidity discount should be applied against the listed price of the share. This further informs the value of the collateral.

Measurement of ECLs

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

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

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

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

The Group measures ECLs using probability of default (PD), exposure at default (EAD) and loss-given default (LGD). These three components are multiplied together and adjusted for the likelihood of default. The calculated ECL is then discounted using the appropriate effective interest rate of the financial asset. The assessment of SICR and the calculation of ECL both incorporate forward looking information.

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

The period of exposure used in this model for all types of facilities, except for overdraft facilities, is the expiry date of the facility granted. For overdraft facilities, the period of exposure is the average rolling period. This is deemed appropriate for the Group since behavioural patterns of individual facilities cannot consistently reflect the average behavioural patterns across products. For example, overdrafts can be used for various purposes which include bridging facilities, working capital, purchase of share portfolios, etc. As such, the probability that the facility will be renewed varies significantly across the loan book. Furthermore, no open-ended rolling facilities are granted. All facilities are granted with a defined expiry date and with no guarantee of renewal. Renewals are subject to the normal credit evaluation process.

PD

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

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

<i>Product type</i>	2020 PD range %	2019 PD range %
Mortgage bonds	(0.14) – (1.73)	(0.12) – (1.44)
Invoice discounting, term loans and overdrafts	(0.34) – (3.43)	(0.31) – (3.12)
COVID-19 Guarantee scheme loans	(0.44) – (4.46)	–
Preference shares	(0.32) – (3.96)	(0.29) – (3.60)

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

<i>Stress scenario analysis</i>	2020		2019	
	+20% PD R000	-20% PD R000	+20% PD R000	-20% PD R000
Stage 1	4 134	(4 134)	5 824	(5 824)
Stage 2	503	(505)	1 375	(1 380)
Stage 3*	–	–	–	–
	4 637	(4 639)	7 199	(7 204)

* Subject to specific impairment and not model impairment.

EAD

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

- » Average utilisation;
- » Interest roll-up; and
- » Amortisation.

ACCOUNTING POLICIES *continued*

1. Financial instruments *continued*

1.7 Impairment *continued*

LGD

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

Where collateral is held to secure multiple facilities, the general practice of the Group is as follows:

- » Collateral is apportioned proportionately across facilities where multiple facilities are structured for a single lending transaction; and
- » Where collateral for a single lending transaction is used to later secure another transaction, the collateral is allocated to the original loan and thereafter allocated to the new loan.

Forward looking information

The LGD is adjusted for forward looking economic scenarios according to the industry applicable to the exposure. Three economic scenarios are utilised, i.e., poor, stable and good, and the applicable adjustment is based on judgement using freely available forecast economic indicators applicable to that industry.

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

Poor	Stable	Good
The projected industry performance based on the forecasted data is expected to decrease relative to the current market.	The projected industry performance based on the forecasted data is expected to be close to current market performance.	The projected industry performance based on the forecasted data is expected to have improved relative to the current market.
Based on forecasted data, there is an expected decline in income and an expected increase in costs within the industry.	Based on forecasted data, income and cost are expected to be minimally impacted by changes.	Based on forecasted data, there is expected to be increasing income and declining costs within the industry.
Cyclical industries are anticipated to perform worse in the best point in a cycle.	Cyclical industries are anticipated to perform as intended.	Cyclical industries are anticipated to perform better in the worst point of a cycle.
Rates are anticipated to have a significant movement that negatively impacts the industry.	Rates are anticipated to be stable over time.	Rates are anticipated to have a significant movement that positively impacts the industry.

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

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

Stress scenario analysis	2020		2019	
	+20% LGD R000	-20% LGD R000	+20% LGD R000	-20% LGD R000
Stage 1	4 134	(4 134)	5 824	(5 824)
Stage 2	510	(510)	1 390	(1 390)
Stage 3*	-	-	-	-
	4 644	(4 644)	7 214	(7 214)

* Subject to specific impairment and not model impairment.

Significant areas of judgement and key assumptions

Due to the Group's history of low credit default, limited numeric data is available to make reasonable assumptions regarding the various aspects required to determine forward looking information (FLI) and ECLs. Consequently, various elements of the model (key elements detailed below) require the use of experience and professional judgement, as follows:

- » Determining PD across all product types including when PDs are different;
- » Quantitative triggers for SICR which include significant decrease in value of collateral and a decline in credit risk scores, which in turn include:
 - Facility is in arrears;
 - Facility is in default;
 - Classification and appearance on watch-list;
 - Acts of insolvency;
 - Change in business and economic conditions; and
 - A rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition, when contractual payments are more than 30 days past due;
- » Security valuation methodology; and
- » FLI impact on LGD.

	12 month range %	Lifetime range %
2020		
<i>Key economic variables</i>		
Gross domestic product (GDP)	0.6 – 2.0	0.3 – 3.0
Inflation rate	2.6 – 4.6	2.7 – 6.7
Prime lending rate	5.0 – 9.0	8.0 – 12.0
Unemployment rate	28.4 – 32.4	28.3 – 32.3
2019		
<i>Key economic variables</i>		
Gross domestic product (GDP)	0.9 – 1.7	1.3 – 2.4
Inflation rate	4.0 – 7.0	4.0 – 7.0
Prime lending rate	9.5 – 10.5	9.5 – 11.2
Unemployment rate	26.0 – 30.0	26.0 – 31.0

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

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

Scenario analysis on staging

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

	Stage 1	Stage 2	Stage 3	Total
Base staging	20 670	14 026	133 203	167 899
5% transfer from Stage 1 to Stage 2	14 278	40 900	133 203	188 381
10% transfer from Stage 1 to Stage 2	11 746	57 264	133 203	202 213

ACCOUNTING POLICIES *continued*

1. Financial instruments *continued*

1.7 Impairment *continued*

Restructured financial assets

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

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

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

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

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

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

Financial guarantee contracts held

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether the guarantee is:

- » Implicitly part of the contractual terms of the debt instrument;
- » Required by laws and regulations that govern the contract of the debt instrument;
- » Entered into at the same time as and in contemplation of the debt instrument; and
- » Given by the parent of the borrower or another company within the borrower's group.

1.8 Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

2. Cash and short-term funds

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

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

3. Investment securities

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

Dividends are recognised in profit or loss.

4. Basis of consolidation

A subsidiary is an entity controlled by the Group.

The Group controls an entity if it:

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

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

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

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

Significant area of judgement

Unconsolidated structured entities

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

ACCOUNTING POLICIES *continued*

4. Basis of consolidation *continued*

Significant area of judgement *continued*

Unconsolidated structured entities *continued*

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

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

As the Group does not control the relevant activities referred to above or have a right to any residual interest, the Group does not have power over the investees and hence does not control the investees in terms of IFRS 10. Refer to note 37 for a summary of the financial information of the Group's interest in unconsolidated structured entities.

Deemed controlled entities

The Group enters into transactions from time to time with the Grindrod Investment Trust and Grindrod Preference Share Investment Trust (GPSIT), (collectively the Trusts).

The Trusts were consolidated based on the Group's assessment of the requirements of IFRS 10 in 2019. The arrangements in place for 2019 led to the conclusion that the Group has power over the Trusts and has exposure to variable returns from its involvement with the Trusts and that it has the ability to use that power to affect the amount of its returns based on the following:

- » There are contractual agreements that have been put into place to govern the Trusts;
- » The relevant activities of the Trusts comprise obtaining funding, investing in preference share capital of various companies and deriving income therefrom. This must be understood in the context that the trust deeds gave the Group the power to appoint trustees of the Trusts and the trustees have the power to remove the manager of the Trusts; and
- » The Group was exposed to returns from the Trusts in the form of residual benefit of profit margin and bore responsibility for managing the liquidity risk as well as reputational risk.

The Group has taken steps towards relinquishing control over GIT, notably the Group no longer appoints trustees to GIT, the Group no longer has a residual benefit in GIT and an independent third party has been appointed manager of GIT. These steps have resulted in the Group losing significant power over GIT on 31 August 2020 and the ability to use such power to affect its returns. As such, the Group no longer has control over GIT and is not required to consolidate GIT under IFRS 10. This was effective from 1 September 2020.

5. Property and equipment

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

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

	Years
Office equipment	5
Furniture & fittings	6
Motor vehicles	4
Computers and computer hardware	3

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

6. Taxation

Income tax

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

Current tax

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

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

Deferred tax

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

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

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

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

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

7. Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Group companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

8. Provisions

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

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

ACCOUNTING POLICIES *continued*

9. Employee benefits

9.1 Short-term employee benefits

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

9.2 Defined contribution scheme

Obligations for contributions to defined contribution schemes are expensed as the related service is provided and recognised in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

9.3 Share-based payment

Forfeitable share plan

Certain executive directors, senior executives and other employees have been granted equity settled share options in terms of the Grindrod Limited forfeitable share plan (FSP). These share options are classified as cash settled as they will not be settled in the Group's own equity instruments. The share options are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant and recognised in profit or loss on the straight-line basis over the vesting period with a corresponding increase in liabilities, based on the estimated number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Share appreciation rights

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

10. Leases

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

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

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

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

11. Revenue recognition

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

11.1 Interest

11.1.1 Effective interest rate

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

- » The gross carrying amount of the financial asset; and
- » The amortised cost of the financial liability.

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

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

11.1.2 Amortised cost and gross carrying amount

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

11.1.3 Calculation of interest income and expense

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

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

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

11.1.4 Presentation

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

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

ACCOUNTING POLICIES *continued*

11. Revenue recognition *continued*

11.2 Fee income

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

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

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

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

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

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

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

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

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

12. Impairment of non-financial assets

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

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

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

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

13. Share capital, other equity and reserves

13.1 Ordinary and preference share capital

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

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

13.2 Share issue costs

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

13.3 Share premium

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
1. Cash and short-term funds				
At amortised cost				
Regulatory deposits with the SARB	217 877	208 798	217 877	208 798
Other deposits with the SARB	51 469	1 146 750	51 469	1 146 750
Inter-bank deposits	654 336	2 216 948	654 336	2 216 948
ECL allowance against cash and short-term funds (ECL Stage 1)	(146)	–	(146)	–
	923 536	3 572 496	923 536	3 572 496
The carrying amount of cash and short-term funds approximates fair value due to its short-term nature.				
Analysis of ECL allowance (Stage 1)				
Allowance at 1 January	–	–	–	–
Net increase in allowance	146	–	146	–
Allowance at 31 December	146	–	146	–
ECL allowance analysis				
Stage 1 – 12-month ECLs	146	–	146	–
Total ECL allowance on cash and short-term funds	146	–	146	–
Stage 1 – 12-month ECLs				
Gross carrying amount	923 682	3 572 496	923 682	3 572 496
Less: ECL allowance	(146)	–	(146)	–
Net carrying amount at 31 December	923 536	3 572 496	923 536	3 572 496
ECL allowance at 1 January	–	–	–	–
Movements of allowance recognised in profit or loss				
Net impairment losses recognised	146	–	146	–
ECL allowance at 31 December	146	–	146	–

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
2. Negotiable securities				
At amortised cost				
Treasury bills	1 661 248	2 478 941	1 661 248	2 478 941
Money market investments	607 237	–	607 237	–
Government bonds	185 232	–	185 232	–
Preference shares	16 641	–	16 641	3 168
ECL allowance against negotiable securities (ECL Stage 1)	(962)	–	(962)	–
	2 469 396	2 478 941	2 469 396	2 482 109
The carrying amount of negotiable securities approximates fair value due to its short-term nature or its ability to be easily liquifiable.				
Analysis of ECL allowance (Stage 1)				
Allowance at 1 January	–	–	–	–
Net increase in allowance	962	–	962	–
Allowance at 31 December	962	–	962	–
ECL allowance analysis				
Stage 1 – 12-month ECLs	962	–	962	–
Total ECL allowance on negotiable securities	962	–	962	–
Stage 1 – 12-month ECLs				
Gross carrying amount	2 470 358	2 478 941	2 470 358	2 482 109
Less: ECL allowance	(962)	–	(962)	–
Net carrying amount at 31 December	2 469 396	2 478 941	2 469 396	2 482 109
ECL allowance at 1 January	–	–	–	–
Movements of allowance recognised in profit or loss				
Net impairment losses recognised	962	–	962	–
ECL allowance at 31 December	962	–	962	–

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
3. Loans and advances				
At amortised cost	5 951 392	5 352 939	5 951 392	5 352 939
At fair value through profit or loss	1 263 415	1 095 625	1 263 415	1 095 625
Designated at fair value through profit or loss	952 353	967 889	952 353	967 889
	8 167 160	7 416 453	8 167 160	7 416 453
Loans and advances – companies and close corporations	6 759 085	6 001 130	6 759 085	6 001 130
Loans and advances – unincorporated businesses and other	586 326	597 793	586 326	597 793
Loans and advances – households	35 685	72 813	35 685	72 813
Preference share financing	770 057	731 917	770 057	731 917
Accrued income	44 064	60 775	44 064	60 775
Revaluation of loans at fair value through profit or loss	139 842	41 949	139 842	41 949
ECL allowance against loans and advances (ECL Stages 1 and 2)	(34 696)	(22 129)	(34 696)	(22 129)
ECL allowance against loans and advances (ECL Stage 3)	(133 203)	(67 795)	(133 203)	(67 795)
	8 167 160	7 416 453	8 167 160	7 416 453
Mortgages	3 501 017	3 133 640	3 501 017	3 133 640
Corporate loans	3 230 484	2 686 010	3 230 484	2 686 010
Overdraft financing	641 857	721 020	641 857	721 020
Debtor financing	51 802	191 841	51 802	191 841
Preference share financing	770 057	731 917	770 057	731 917
Revaluation of loans at fair value through profit or loss	139 842	41 949	139 842	41 949
ECL allowance against loans and advances (ECL Stages 1 and 2)	(34 696)	(22 129)	(34 696)	(22 129)
ECL allowance against loans and advances (ECL Stage 3)	(133 203)	(67 795)	(133 203)	(67 795)
	8 167 160	7 416 453	8 167 160	7 416 453

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
3. Loans and advances <i>continued</i>				
Collateral				
Property	4 259 047	3 775 017	4 259 047	3 775 017
Listed shares	279 310	405 132	279 310	405 132
Unlisted shares	250 892	85 942	250 892	85 942
Debtors	52 771	168 732	52 771	168 732
Guarantee/Letter of undertaking	1 611 789	1 272 661	1 611 789	1 272 661
Other	126 264	167 685	126 264	167 685
Fair value of collateral held	6 580 073	5 875 169	6 580 073	5 875 169
Unsecured*	1 887 195	1 819 804	1 887 195	1 819 804
Revaluation of loans at fair value through profit or loss	139 842	41 949	139 842	41 949
ECL allowance against loans and advances (ECL Stages 1 and 2)	(34 696)	(22 129)	(34 696)	(22 129)
ECL allowance against loans and advances (ECL Stage 3)	(133 203)	(67 795)	(133 203)	(67 795)
Security for financing guarantees excluding cash- backed guarantees	(272 051)	(230 545)	(272 051)	(230 545)
	8 167 160	7 416 453	8 167 160	7 416 453
Sectoral analysis				
Agriculture, hunting, forestry and fishing	70 182	55 850	70 182	55 850
Mining and quarrying	21 112	34 298	21 112	34 298
Manufacturing	239 866	218 390	239 866	218 390
Electricity, gas and water supply	7 879	1 640	7 879	1 640
Construction	11 188	–	11 188	–
Wholesale and retail trade, repair of specified items, hotels and restaurants	483 848	305 453	483 848	305 453
Transport, storage and communication	53 943	52 325	53 943	52 325
Financial intermediation and insurance	286 428	399 299	286 428	399 299
Real estate	4 810 077	4 269 505	4 810 077	4 269 505
Business services	306 409	368 381	306 409	368 381
Community, social and personal services	41 861	38 117	41 861	38 117
Households	27 838	64 037	27 838	64 037
Other**	1 841 225	1 631 288	1 841 225	1 631 288
ECL allowance against loans and advances (ECL Stages 1 and 2)	(34 696)	(22 129)	(34 696)	(22 129)
	8 167 160	7 416 453	8 167 160	7 416 453
Geographical analysis				
South Africa	8 167 160	7 416 453	8 167 160	7 416 453

* Exposures are secured by counterparties' statement of financial position.

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
3. Loans and advances <i>continued</i>				
Modified loans and advances measured at amortised cost				
Information on loans and advances that were modified while they had loss allowances amounting to lifetime ECLs.				
Gross carrying amount before lifetime ECLs and modifications	21 291	–	21 291	–
Lifetime ECLs before modifications	(21 287)	–	(21 287)	–
Amortised cost before modifications	4	–	4	–
Modifications gain	21	–	21	–
Analysis of ECL allowance (Stages 1 and 2)				
Allowance at 1 January	22 129	20 831	22 129	20 831
Net increase in allowance	12 567	1 298	12 567	1 298
Allowance at 31 December	34 696	22 129	34 696	22 129
Analysis of ECL allowance (Stage 3)				
Allowance at 1 January	67 795	24 565	67 795	24 565
Net increase in allowance including suspended interest	92 391	43 230	92 391	43 230
Written off	(26 983)	–	(26 983)	–
Allowance at 31 December	133 203	67 795	133 203	67 795
ECL allowance analysis				
Stage 1 – 12-month ECLs	20 670	15 177	20 670	15 177
Stage 2 – lifetime ECLs	14 026	6 952	14 026	6 952
Stage 3 – lifetime ECLs	133 203	67 795	133 203	67 795
Total ECL allowance on loans and advances	167 899	89 924	167 899	89 924

	Stage 1 (12-month ECL allowance) R000	Stage 2 (Lifetime ECL allowance) R000	Stage 3 (Lifetime ECL allowance) R000	Total R000
3. Loans and advances <i>continued</i>				
Group and Company				
2020				
Gross carrying amount	4 026 488	974 006	1 118 797	6 119 291
Less: ECL allowance	(20 670)	(14 026)	(133 203)	(167 899)
Net carrying amount at 31 December 2020	4 005 818	959 980	985 594	5 951 392
ECL allowance at 1 January 2020	15 177	6 952	67 795	89 924
Transfers from Stage 1 to Stage 2	(25)	25	-	-
Movements of allowance recognised in profit or loss				
Impairment losses recognised including suspended interest	5 518	7 049	92 391	104 958
Written off	-	-	(26 983)	(26 983)
ECL allowance at 31 December 2020	20 670	14 026	133 203	167 899
2019				
Gross carrying amount	3 862 189	427 610	1 153 064	5 442 863
Less: ECL allowance	(15 177)	(6 952)	(67 795)	(89 924)
Net carrying amount at 31 December 2019	3 847 012	420 658	1 085 269	5 352 939
ECL allowance at 1 January 2019	14 384	6 447	24 565	45 396
Transfers from Stage 1 to Stage 2	(12 448)	12 448	-	-
Transfers from Stage 2 to Stage 1	6 410	(6 410)	-	-
Movements of allowance recognised in profit or loss				
Impairment losses recognised including suspended interest	6 831	(5 533)	43 230	44 528
ECL allowance at 31 December 2019	15 177	6 952	67 795	89 924
		Stress impact %	Stress impact R000	Total ECLs R000
Group and Company				
Stress scenarios based on forward looking information (FLI)				
Base FLI				167 899
Positive FLI		(3.8)	(6 325)	161 574
Negative FLI		2.6	4 336	172 235

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
3. Loans and advances <i>continued</i>				
Analysis of classified, impaired or non-performing loans and advances				
Advances classified as special mention	551 845	811 732	551 845	811 732
Advances classified as sub-standard	339 568	252 862	339 568	252 862
Advances displaying significant weakness	227 384	88 470	227 384	88 470
Carrying amount of classified, impaired or non-performing loans and advances	1 118 797	1 153 064	1 118 797	1 153 064
Collateral held against classified, impaired or non-performing loans and advances*	4 195 499	3 985 861	4 195 499	3 985 861
Age Analysis of classified, impaired or non-performing loans and advances				
Current	825 691	1 009 779	825 691	1 009 779
6 – 12 months overdue	179 339	65 775	179 339	65 775
> 12 months overdue	113 767	77 510	113 767	77 510
	1 118 797	1 153 064	1 118 797	1 153 064
Sectoral analysis of classified, impaired or non-performing loans and advances				
Manufacturing	–	7 839	–	7 839
Wholesale and retail trade, repair of specified items, hotels and restaurants	43 157	60 635	43 157	60 635
Financial intermediation and insurance	15 044	19 380	15 044	19 380
Real estate	626 832	522 833	626 832	522 833
Business services	236 386	210 193	236 386	210 193
Households	355	848	355	848
Community, social and personal services	6 726	–	6 726	–
Other	190 297	331 336	190 297	331 336
	1 118 797	1 153 064	1 118 797	1 153 064
Credit-impaired loans and advances (included in Stage 3)				
Carrying amount	279 008	109 950	279 008	109 950
ECL allowance (Stage 3)	(133 203)	(67 795)	(133 203)	(67 795)
Net carrying amount	145 805	42 155	145 805	42 155

* Overcollateralised in certain instances.

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
4. Preference shares linked to participatory contributions				
At amortised cost				
Preference share linked to trust participatory contributions	-	1 727 444	-	-
Trust participatory contributions	-	1 724 276	-	-

The Group sourced cumulative preference shares from a limited pool of credit suitable issuers via the Grindrod Investment Trust and the Grindrod Preference Share Investment Trust.

The Bank enters into transactions from time to time with the Grindrod Investment Trust (GIT) and Grindrod Preference Share Investment Trust (GPSIT), collectively the "Trusts".

The Trusts were consolidated based on the Group's assessment of the requirements of IFRS 10 in 2019. The arrangements in place for 2019 led to the conclusion that the Group has power over the Trusts and has exposure to variable returns from its involvement with the Trusts and that it has the ability to use that power to affect the amount of its returns.

The Group has taken steps towards relinquishing control over GIT, notably the Group no longer appoints trustees to GIT, the Group no longer has a residual benefit in GIT and an independent third party has been appointed manager of GIT. These steps have resulted in the Group losing power over GIT on 31 August 2020 and the ability to use such power to affect its returns. As such, the Group no longer has control over GIT and is not required to consolidate GIT under IFRS 10. This was effective from 1 September 2020. The loss of control did not result in a gain or loss.

The Grindrod Preference Share Investment Trust was dormant during 2020 and 2019.

5. Investment securities				
At fair value through profit or loss				
Private equity investments	6 398	6 177	6 398	6 177
Unit trust investments	2 800	3 000	2 800	3 000
	9 198	9 177	9 198	9 177
6. Other assets				
At amortised cost				
Receivables	75 332	94 071	75 332	79 853
Sundry receivables	9 370	8 306	9 370	8 306
Fee and dividend receivables	65 962	85 765	65 962	71 547
	75 332	94 071	75 332	79 853

The carrying amount of other assets approximates fair value due to its short-term nature.

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Furniture, fittings, office equipment and motor vehicles R000	Computers and computer hardware R000	Right-of-use asset* R000	Total R000
7. Property and equipment				
Group and Company				
2020				
Cost at 1 January	12 895	21 452	26 997	61 344
Additions	131	3 748	8 210	12 089
Disposals	–	(17)	–	(17)
Cost at 31 December	13 026	25 183	35 207	73 416
Accumulated depreciation at 1 January	10 827	18 862	13 624	43 313
Depreciation	757	1 701	12 832	15 290
Disposals	–	(15)	–	(15)
Accumulated depreciation at 31 December	11 584	20 548	26 456	58 588
Carrying amount at 1 January	2 068	2 590	13 373	18 031
Carrying amount at 31 December	1 442	4 635	8 751	14 828
Group and Company				
2019				
Cost at 1 January	12 895	22 066	–	34 961
Additions/IFRS 16 implementation	–	2 042	26 997	29 039
Disposals	–	(2 656)	–	(2 656)
Cost at 31 December	12 895	21 452	26 997	61 344
Accumulated depreciation at 1 January	9 077	19 371	–	28 448
Depreciation	1 750	2 147	13 624	17 521
Disposals	–	(2 656)	–	(2 656)
Accumulated depreciation at 31 December	10 827	18 862	13 624	43 313
Carrying amount at 1 January	3 818	2 695	–	6 513
Carrying amount at 31 December	2 068	2 590	13 373	18 031

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

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
8. Deferred tax asset				
Deferred tax asset	47 931	24 947	47 931	24 947

Deferred tax asset is attributable to the following:

Group and Company				
Loss allowance	13 237	6 387	13 237	6 387
Provisions	7 883	7 863	7 883	7 863
Income and sundry accruals	21 601	3 717	21 601	3 717
Capital loss*	5 210	6 980	5 210	6 980
	47 931	24 947	47 931	24 947

* Management is of the view that the deferred tax asset relating to the capital loss will reverse in the future periods and therefore the asset will be recovered through future capital taxable income.

	Balance at 1 January R000	Recognised in profit or loss R000	Balance at 31 December R000
Group and Company 2020			
Loss allowance	6 387	6 850	13 237
Provisions	7 863	20	7 883
Income and sundry accruals	3 717	17 884	21 601
Capital loss	6 980	(1 770)	5 210
	24 947	22 984	47 931
2019			
Loss allowance	6 985	(598)	6 387
Provisions	18 796	(10 933)	7 863
Income and sundry accruals	(30 720)	34 437	3 717
Capital loss	–	6 980	6 980
	(4 939)	29 886	24 947

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
9. Deposits and funding instruments				
At amortised cost				
Call deposits – Corporate banking	5 098 352	4 564 989	5 098 352	4 573 050
Call deposits – Retail banking	880 258	1 830 744	880 258	1 830 744
Notice and fixed deposits	3 399 610	4 676 784	3 399 610	4 676 784
Bonds – domestic medium-term note (DMTN)	513 000	753 000	513 000	753 000
Accrued interest	74 253	131 592	74 253	131 592
	9 965 473	11 957 109	9 965 473	11 965 170
Amounts owed to depositors	9 933 143	11 919 599	9 933 143	11 927 660
Amounts owed to banks	32 330	37 510	32 330	37 510
	9 965 473	11 957 109	9 965 473	11 965 170
Bond issue (DMTN programme)				
3-month Johannesburg Inter-bank Agreed Rate (JIBAR) plus 3.00%	–	240 000	–	240 000
3-month JIBAR plus 3.00%	263 000	263 000	263 000	263 000
3-month JIBAR plus 2.25%	250 000	250 000	250 000	250 000
Accrued interest expense	3 205	8 148	3 205	8 148
	516 205	761 148	516 205	761 148
A JSE listed 3-year bond was originally issued on 15 October 2012 with subsequent taps, rollovers and new issues.				
Interest is payable quarterly in arrears and is linked to the 3-month JIBAR rate plus a spread.				
Bonds to the value of R240 million matured in November 2020. No new bonds were issued during 2020.				
Sectoral analysis				
Banks	32 330	37 510	32 330	37 510
Government and public sector	742 482	809 755	742 482	809 755
Individuals*	1 627 841	2 635 488	1 627 841	2 635 488
Business sector*	7 562 820	8 474 356	7 562 820	8 482 417
	9 965 473	11 957 109	9 965 473	11 965 170
Geographical analysis				
South Africa	9 965 473	11 957 109	9 965 473	11 965 170

* Limited reclassifications were made to improve disclosure.

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
10. Derivative instruments				
At fair value through profit or loss				
Interest rate swaps				
Derivative liabilities	73 046	22 251	73 046	22 251
Derivative assets	-	(2)	-	(2)
Net derivative liabilities	73 046	22 249	73 046	22 249
Fair value adjustments for the period:				
Derivative liabilities	(50 795)	(14 338)	(50 795)	(14 338)
Derivative assets	(2)	-	(2)	-
Net fair value loss	(50 797)	(14 338)	(50 797)	(14 338)
Interest rate swaps (nominal value)				
Contracts with negative fair value (liabilities)	822 561	934 296	822 561	934 296
Contracts with positive fair value (assets)	-	1 580	-	1 580
	822 561	935 876	822 561	935 876

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
11. Provisions and other liabilities				
11.1 Provisions				
Leave pay provision	8 252	7 925	8 252	7 925
Bonus provision*	6 738	10 500	6 738	10 500
	14 990	18 425	14 990	18 425
11.2 Other liabilities				
Trade and other payables**	32 111	39 993	32 111	17 714
Preference share dividends payable	8 890	–	8 890	–
Lease liabilities	9 687	14 316	9 687	14 316
Share appreciation rights*	2 700	6 408	2 700	6 408
Forfeitable share plan*	1 071	3 368	1 071	3 368
	54 459	64 085	54 459	41 806
Analysis of leave pay provision				
Balance at 1 January	7 925	7 444	7 925	7 444
Utilised or reversed during the year	(4 315)	(324)	(4 315)	(324)
Recognised during the year	4 642	805	4 642	805
Balance at 31 December	8 252	7 925	8 252	7 925
Leave pay provision is contractual and the timing of cashflows is variable.				
Analysis of bonus scheme				
Balance at 1 January	10 500	40 000	10 500	40 000
Utilised or reversed during the year	(10 500)	(40 000)	(10 500)	(40 000)
Recognised during the year	6 738	10 500	6 738	10 500
Balance at 31 December	6 738	10 500	6 738	10 500
Analysis of share appreciation rights scheme				
Balance at 1 January	6 408	19 686	6 408	19 686
Utilised or reversed during the year	(2 352)	(6 773)	(2 352)	(6 773)
Recognised during the year	(1 356)	(6 505)	(1 356)	(6 505)
Balance at 31 December	2 700	6 408	2 700	6 408
Analysis of forfeiture share plan scheme				
Balance at 1 January	3 368	4 000	3 368	4 000
Utilised or reversed during the year	–	–	–	–
Recognised during the year	(2 297)	(632)	(2 297)	(632)
Balance at 31 December	1 071	3 368	1 071	3 368

* Refer to additional incentive scheme disclosure included in note 34.

** Trade and other payables are designated at amortised cost. The carrying amount of trade and other payables approximates fair value due to its short-term nature.

11. Provisions and other liabilities *continued*

11.2 Other liabilities *continued*

Analysis of lease liabilities

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

Interest expense on lease liabilities was R1 145 636, (2019: R1 531 323).

<i>Contractual maturity analysis</i>	>3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	Total R000
Group and Company					
31 December 2020					
Lease liabilities	2 628	2 717	3 695	1 072	10 112
31 December 2019					
Lease liabilities	3 787	3 788	4 920	2 636	15 131
	Group		Company		
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000	

12. Ordinary share capital

Authorised

500 000 000 (2019: 500 000 000) ordinary shares
of 1 cent each

5 000

5 000

5 000

5 000

Issued

65 000 003 (2019: 65 000 003) ordinary shares
of 1 cent each

650

650

650

650

Reconciliation of the number of shares issued

Balance at 1 January

65 000 003

65 000 002

65 000 003

65 000 002

Issue of shares

-

1

-

1

Balance at 31 December

65 000 003

65 000 003

65 000 003

65 000 003

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

13. Share premium

Arising on the issue of 65 000 003 (2019: 65 000 003)
ordinary shares of 1 cent each

347 929

347 929

347 929

347 929

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
14. Preference share capital				
Authorised 750 000 (2019: 750 000) non-cumulative, non-redeemable, non-participating and non-convertible par value shares of 1 cent each	–	–	–	–
Issued 245 000 (2019: 245 000) non-cumulative, non-redeemable, non-participating and non-convertible par value shares of 1 cent each	285 000	285 000	285 000	285 000
The preference share capital is held by Grindrod Limited. Dividends are payable bi-annually accruing at 88% of the prime interest rate and is subject to the Companies Act requirements with regards to adhering to the solvency and liquidity requirements. The preference shares qualify as additional Tier 1 regulatory capital.				
15. Interest and similar income Calculated using the effective interest method				
Advances	437 421	474 006	437 421	474 006
Preference share dividends, advances portfolio	16 362	45 430	16 362	795
Balances at banks and short-term funds	103 557	196 816	103 557	196 816
Other short-term securities	117 792	149 188	117 792	149 188
Preference share dividends, negotiable securities portfolio	603	–	4 538	1 458
Loan origination fees recognised over the expected life of advances	41 878	40 826	41 878	40 826
Preference shares linked to participatory contributions	65 750	97 762	–	–
	783 363	1 004 028	721 548	863 089
16. Interest and similar expense Calculated using the effective interest method				
Call deposits – Corporate banking	207 545	300 302	207 545	300 302
Call deposits – Retail banking	8 717	7 459	8 717	7 459
Notice and fixed deposits	265 281	395 220	265 281	395 220
Preference share funding	–	29 686	–	–
Bond – domestic medium-term note (DMTN)	54 659	52 152	54 659	52 152
Trust participatory contributions	55 632	86 404	–	–
Funding guarantee fees	1 146	2 260	1 146	1 235
	592 980	873 483	537 348	756 368

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
17. Non-interest income				
17.1 Fee income				
Corporate banking	6 814	9 634	6 814	9 634
Retail banking	41 408	32 806	41 408	32 806
Corporate finance	5 019	6 054	5 019	6 054
Other banking related*	3 435	6 853	3 435	6 853
	56 676	55 347	56 676	55 347
<i>* Other banking related fee income consists of administrative fee income.</i>				
17.2 Gains and losses on financial instruments				
Loans held at FVTPL	100 277	119 522	100 277	31 026
Loans designated at FVTPL	166 683	108 635	166 683	108 635
Modification of loans at amortised cost	3 855	–	3 855	–
Derivates held at FVTPL	(76 425)	(22 980)	(76 425)	(22 980)
Investment securities held at FVTPL	(200)	5 653	(200)	5 653
	194 190	210 830	194 190	122 334
17.3 Dividend income				
Grincap Proprietary Limited	–	–	–	102 420
Residual beneficiary distribution	–	–	6 183	9 900
	–	–	6 183	112 320
	250 866	266 177	257 049	290 001
18. Impairment losses on financial assets				
Increase in allowance for credit losses				
Stage 1 and 2 ECL allowance against loans and advances	12 567	1 298	12 567	1 298
Stage 1 ECL allowance against cash and short-term funds	146	–	146	–
Stage 1 ECL allowance against negotiable securities	962	–	962	–
Stage 3 ECL impairment losses against loans and advances	87 847	23 816	87 847	23 816
	101 522	25 114	101 522	25 114

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
19. Operating expenses				
Auditor's remuneration				
– audit fees	4 109	4 995	4 109	4 995
– other professional service providers	530	5 630	530	5 630
Banking and transactional-related costs	14 482	9 835	14 482	9 835
Computer-related costs	32 884	38 114	32 884	38 114
Depreciation	15 290	17 521	15 290	17 521
Employee expenses	147 547	157 454	147 547	157 454
Legal and professional fees	4 995	5 508	4 995	5 508
Marketing	2 117	9 511	2 117	9 511
Non-executive director emoluments	4 521	3 546	4 521	3 546
Premises				
– rental	1 148	–	1 148	–
– other premises-related costs	5 441	8 026	5 441	8 026
Travel	1 093	4 288	1 093	4 288
Other expenses*	12 164	12 939	12 164	12 939
Indirect tax	17 026	11 578	17 026	11 578
	263 347	288 945	263 347	288 945
* Other expenses consists of insurance, entertainment, corporate services, printing and stationery, telephone and subscriptions.				
<i>Included in employee expenses:</i>				
Key executive management remuneration (8 employees, 2019: 6)				
Managerial services – salaries	18 040	14 382	18 040	14 382
Managerial services – incentive schemes	3 082	10 579	3 082	10 579
Managerial services – cash-settled share-based payment expense	628	3 610	628	3 610
Defined contribution scheme expense	2 100	1 665	2 100	1 665
	23 850	30 236	23 850	30 236

	Services as directors R000	Salaries R000	Bonus incentive scheme R000	Cash settled share-based payment expense R000	Defined contribution scheme expense R000	Total R000
19. Operating expenses						
<i>continued</i>						
Directors' remuneration						
Group and Company						
31 December 2020						
Executive directors						
DA Polkinghorne**	–	5 607	–	357	290	6 254
RS Garach	–	3 177	–	–	478	3 655
Non-executive directors						
JH Beare	658	–	–	–	–	658
ASP Dambuza	453	–	–	–	–	453
WD Geach	76	–	–	–	–	76
ZN Malinga	725	–	–	–	–	725
MS Mbatha	49	–	–	–	–	49
TD Soondarjee	1 031	–	–	–	–	1 031
S Barrett	791	–	–	–	–	791
Z Nyanga	271	–	–	–	–	271
R Ramcharan	179	–	–	–	–	179
GG Christopulo	156	–	–	–	–	156
CR Howell	132	–	–	–	–	132
MP Grindrod	–	–	–	–	–	–
	4 521	8 784	–	357	768	14 430
31 December 2019						
Executive directors						
DA Polkinghorne***	–	5 275	4 353	503	290	10 421
SA Blades***	–	1 851	3 772	–	182	5 805
RS Garach	–	1 267	–	–	191	1 458
Non-executive directors						
JH Beare	797	–	–	–	–	797
ASP Dambuza	454	–	–	–	–	454
WD Geach	443	–	–	–	–	443
ZN Malinga	551	–	–	–	–	551
MS Mbatha	282	–	–	–	–	282
RSM Ndlovu*	780	–	–	–	–	780
PJ Uys*	54	–	–	–	–	54
M Hankinson	83	–	–	–	–	83
TD Soondarjee	94	–	–	–	–	94
S Barrett	8	–	–	–	–	8
	3 546	8 393	8 125	503	663	21 230

* Fees ceded to Remgro Limited.

** The cash settled share-based payment expense relates to options that vested.

*** Bonus incentive scheme expense relates to the 2018 reporting period but paid in the 2019 reporting period. The cash settled share-based payment expense relates to options that vested.

NOTES TO THE FINANCIAL STATEMENTS *continued*

19. Operating expenses *continued*

Director emoluments paid by the Grindrod Group to Company directors, excluding payments by the Company:

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
Executive directors of Grindrod Limited				
MJ Hankinson	–	1 680	–	1 680
AG Waller*	–	6 970	–	6 970
MP Grindrod**	583	–	583	–
Non-executive directors of Grindrod Limited				
ZN Malinga	–	657	–	657
RSM Ndlovu***	–	298	–	298
PJ Uys***	–	859	–	859
	583	10 464	583	10 464

* *Appointed and Resigned in 2019.*

** *MP Grindrod was appointed as a non-executive director of the Company in November 2020. He is not a director of Grindrod Limited, however he is on the board of directors of various entities within the Grindrod Group.*

*** *Fees ceded to Remgro Limited.*

Refer to Grindrod Limited financial statements, as disclosed on their website at www.grindrod.co.za, for full disclosure of total remuneration paid by Group companies to its directors.

20. Income tax expense/(benefit)

SA Normal tax				
Current Tax	23 631	26 003	23 631	26 003
Deferred Tax	(22 985)	(29 886)	(22 985)	(29 886)
Income tax expense/(benefit)	646	(3 883)	646	(3 883)
Reconciliation of the tax rate	%	%	%	%
Standard rate	28.0	28.0	28.0	28.0
Adjusted for:				
Non-taxable dividend income	(26.56)	(37.30)	(26.56)	(37.30)
Non-deductible differences	0.32	0.73	0.32	0.73
Non-taxable differences	(0.37)	0.00	(0.37)	0.00
Capital (gains)/losses on loans and advances	(0.46)	3.30	(0.46)	3.30
Prior year tax adjustments	(0.08)	0.55	(0.08)	0.55
Effective tax rate	0.85	(4.72)	0.85	(4.72)

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
21. Reconciliation of profit before tax to cash generated from operations				
Profit before taxation	76 380	82 663	76 380	82 663
Adjusted for:				
Unrealised loss on derivatives	50 797	14 338	50 797	14 338
Unrealised (profit)/loss on loans at FVTPL	(36 100)	42 738	(36 100)	42 738
Unrealised loss on investment securities	200	–	200	–
Depreciation	15 290	17 521	15 290	17 521
Profit on sale of property and equipment	(3)	–	(3)	–
Increase in Stage 3 ECL impairments allowance	87 847	23 816	87 847	23 816
Increase in Stage 1 and 2 ECL allowances	13 675	1 298	13 675	1 298
Dividend income*	–	–	(6 183)	(112 320)
Operating profit before working capital changes*	208 086	182 374	201 903	70 054
Changes in:				
(Increase)/decrease in sundry receivables	(1 064)	14 666	(1 064)	14 666
Decrease/(increase) in fee income*	19 803	39 051	(4 174)	73 182
(Decrease)/increase in trade and other payables	(17 321)	(84 957)	4 958	(76 609)
Cash generated from operations*	209 504	151 134	201 623	81 293
<i>* Limited reclassifications were made to improve disclosure.</i>				
22.1 Reconciliation of lease liabilities arising from financing activities				
Balance at 1 January	14 316	–	14 316	–
Adoption of IFRS 16	–	22 242	–	22 242
Additions	8 210	4 755	8 210	4 755
Payments	(12 839)	(12 681)	(12 839)	(12 681)
Balance at 31 December	9 687	14 316	9 687	14 316
22.2 Cash and short-term funds				
Cash and short-term funds	923 536	3 572 496	923 536	3 572 496
Deposits held with SARB for regulatory purposes	(217 877)	(208 798)	(217 877)	(208 798)
ECL allowance against cash and short-term funds (ECL Stage 1)	146	–	146	–
Cash and short-term funds at 31 December	705 805	3 363 698	705 805	3 363 698
Cash and short-term funds comprise:				
Current account balances	51 469	1 146 750	51 469	1 146 750
Inter-bank deposits	654 336	2 216 948	654 336	2 216 948
	705 805	3 363 698	705 805	3 363 698

NOTES TO THE FINANCIAL STATEMENTS *continued*

23. Financial instruments measured at fair value – hierarchy

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

	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
Group				
31 December 2020				
Assets				
Loans and advances	–	952 353	1 263 415	2 215 768
Investment securities	–	–	9 198	9 198
	–	952 353	1 272 613	2 224 966
Liabilities				
Derivative instruments	–	73 046	–	73 046
	–	73 046	–	73 046
Group				
31 December 2019				
Assets				
Loans and advances	–	967 889	1 095 625	2 063 514
Investment securities	–	–	9 177	9 177
	–	967 889	1 104 802	2 072 691
Liabilities				
Derivative instruments	–	22 249	–	22 249
	–	22 249	–	22 249
Company				
31 December 2020				
Assets				
Loans and advances	–	952 353	1 263 415	2 215 768
Investment securities	–	–	9 198	9 198
	–	952 353	1 272 613	2 224 966
Liabilities				
Derivative instruments	–	73 046	–	73 046
	–	73 046	–	73 046
Company				
31 December 2019				
Assets				
Loans and advances	–	967 889	1 095 625	2 063 514
Investment securities	–	–	9 177	9 177
	–	967 889	1 104 802	2 072 691
Liabilities				
Derivative instruments	–	22 249	–	22 249
	–	22 249	–	22 249

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

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

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

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

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

	31 December 2020		31 December 2019	
	Loans and advances R000	Investment securities R000	Loans and advances R000	Investment securities R000
Group				
Level 3 reconciliation				
Balance at 1 January	1 095 625	9 177	1 672 857	–
Total gains/(losses) recognised in profit or loss	100 277	(200)	119 522	5 653
Additions	202 019	221	750 694	3 524
Settlements	(134 506)	–	(1 447 448)	–
Balance at 31 December	1 263 415	9 198	1 095 625	9 177
Company				
Level 3 reconciliation				
Balance at 1 January	1 095 625	9 177	981 805	–
Total gains/(losses) recognised in profit or loss	100 277	(200)	31 026	5 653
Additions	202 019	221	750 694	3 524
Settlements	(134 506)	–	(667 900)	–
Balance at 31 December	1 263 415	9 198	1 095 625	9 177

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

Supplementary information

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

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

Level 3	Category	Valuation technique	Observable inputs	Unobservable inputs	Range for unobservable inputs
	Loans and advances	Discounted cash flow	Swap and prime curves	Credit spreads	2.0% – 17.2%
Investment securities	Earnings multiple	None	Future profit assumptions and earnings multiple	10.3x – 11.3x	

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

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

Sensitivity analysis of valuations using unobservable inputs

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

<i>Significant unobservable parameter</i>	Favourable/ (unfavourable) variance applied to parameters
31 December 2020	
Credit spread	100 – 150/(100) – (150) bps
Price earnings multiple	0.5x – (0.5x)
31 December 2019	
Credit spread	100 – 200/(100) – (200) bps
Price earnings multiple	0.5x – (0.5x)

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

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

<i>Financial instrument</i>	<i>Parameter</i>	31 December 2020 Potential effect on profit or loss favourable/ (unfavourable) R000	31 December 2019 Potential effect on profit or loss favourable/ (unfavourable) R000
Group			
Loans and advances	Credit spread – 100 bps (2019: 100 bps)	14 933/(14 460)	14 892/(14 465)
Loans and advances	Credit spread – 150 bps (2019: 200 bps)	22 584/(21 520)	30 229/(28 520)
Investment securities	Price earning multiple – 0.5x	3 154/(4 896)	5 443/(5 443)
Company			
Loans and advances	Credit spread – 100 bps (2019: 100 bps)	14 933/(14 460)	14 892/(14 465)
Loans and advances	Credit spread – 150 bps (2019: 200 bps)	22 584/(21 520)	30 229/(28 520)
Investment securities	Price earning multiple – 0.5x	3 154/(4 896)	5 443/(5 443)

NOTES TO THE FINANCIAL STATEMENTS *continued*

24. Fair value of financial instruments at amortised cost – hierarchy

The following tables analyse financial instruments measured at amortised cost at the reporting date, by the level in the fair value hierarchy.

	Total carrying amount R000	Total fair value R000	Level 1 R000	Level 2 R000	Level 3 R000
Group					
31 December 2020					
Assets					
Cash and short-term funds*	923 536	923 536	–	923 536	–
Negotiable securities*	2 469 396	2 469 396	–	2 469 396	–
Loans and advances	5 951 392	5 966 049	–	–	5 966 049
Other assets*	75 332	75 332	–	75 332	–
	9 419 656	9 434 313	–	3 468 264	5 966 049
Liabilities					
Deposits and funding instruments*	9 965 473	9 965 473	–	9 965 473	–
Trade and other payables*	32 111	32 111	–	32 111	–
	9 997 584	9 997 584	–	9 997 584	–
Group					
31 December 2019					
Assets					
Cash and short-term funds*	3 572 496	3 572 496	–	3 572 496	–
Negotiable securities*	2 478 941	2 478 941	–	2 478 941	–
Loans and advances	5 352 939	5 372 065	–	–	5 372 065
Preference shares linked to trust participatory contributions	1 727 444	1 728 926	–	–	1 728 926
Other assets*	94 071	94 071	–	94 071	–
	13 225 891	13 246 499	–	6 145 508	7 100 991
Liabilities					
Deposits and funding instruments*	11 957 109	11 957 109	–	11 957 109	–
Trust participatory contributions*	1 724 276	1 724 276	–	1 724 276	–
Trade and other payables*	39 993	39 993	–	39 993	–
	13 721 378	13 721 378	–	13 721 378	–

* For financial assets and financial liabilities that are liquid or have a short-term maturity (less than 12 months) it is assumed that the carrying amounts approximate their fair value.

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

	Total carrying amount R000	Total fair value R000	Level 1 R000	Level 2 R000	Level 3 R000
Company					
31 December 2020					
Assets					
Cash and short-term funds*	923 536	923 536	–	923 536	–
Negotiable securities*	2 469 396	2 469 396	–	2 469 396	–
Loans and advances	5 951 392	5 966 049	–	–	5 966 049
Other assets*	75 332	75 332	–	75 332	–
	9 419 656	9 434 313	–	3 468 264	5 966 049
Liabilities					
Deposits and funding instruments*	9 965 473	9 965 473	–	9 965 473	–
Trade and other payables*	32 111	32 111	–	32 111	–
	9 997 584	9 997 584	–	9 997 584	–
Company					
31 December 2019					
Assets					
Cash and short-term funds*	3 572 496	3 572 496	–	3 572 496	–
Negotiable securities*	2 482 109	2 482 109	–	2 482 109	–
Loans and advances	5 352 939	5 372 065	–	–	5 372 065
Other assets*	79 853	79 853	–	79 853	–
	11 487 397	11 506 523	–	6 134 458	5 372 065
Liabilities					
Deposits and funding instruments*	11 965 170	11 965 170	–	11 965 170	–
Trade and other payables*	17 714	17 714	–	17 714	–
	11 982 884	11 982 884	–	11 982 884	–

* For financial assets and financial liabilities that are liquid or have a short-term maturity (less than 12 months) it is assumed that the carrying amounts approximate their fair value.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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

Supplementary information

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

Level 2	Category	Valuation technique	Observable inputs
	Cash and short-term funds	Discounted cash flow	Interest rates and yield curves
	Negotiable securities	Discounted cash flow	Interest rates and yield curves
	Other assets	Discounted cash flow	Interest rates and yield curves
	Trade and other payables	Discounted cash flow	Interest rates and yield curves
	Deposits and funding instruments	Discounted cash flow	Interest rates and yield curves
	Trust participatory contributions	Discounted cash flow	Interest rates and yield curves

Level 3	Category	Valuation technique	Observable inputs	Unobservable inputs	Range for unobservable inputs
	Loans and advances	Discounted cash flow	Swap and prime curves	Credit spreads	1.35% – 7.17%
Preference shares linked to trust participatory contributions	Discounted cash flow	Swap and prime curves	Credit spreads	3.2% – 4.8%	

25. Financial instruments risk management: credit risk

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

Credit risk management

Sound credit risk management involves prudently managing the risk and reward relationship and controlling and minimising credit risks across a variety of dimensions, such as quality, concentration, maturity and security. The credit committee is responsible for ensuring that the credit approval processes are stringent and for monitoring large exposures, associated exposures, sectoral exposure and any irregular or problem loans. Credit risk is monitored at an individual and at an aggregated exposure level. The Group's target market typically includes SME businesses with a focused client-centric approach. New deal approval is subject to specified limits of authority which are aggregated at a client group level, i.e. credit (R10 million), credit exco (R50 million), credit risk committee (R100 million) and the board (above R100 million).

Maximum exposure to credit risk

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

Definitions

Past due

Exposures are considered past due when the amortising facility has expired and not settled per terms and conditions of the contractual agreement in place. Non-amortising facilities are considered past due as soon as they are called up. Generally, exposures are graded per regulations and once they are considered past due, a specific impairment loss is recognised taking into account the collateral held.

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

Credit risk mitigation

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

The Group values property assets on a periodical basis using a desktop approach and independent valuations are performed where appropriate or necessary. The value of listed assets is tracked on an ongoing basis and unlisted investments and other security assets are valued periodically where significant reliance is placed on the security.

Counterparty risk

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

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

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

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

Concentration risk

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

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

26. Financial instruments risk management: liquidity risk

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

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

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

Note	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non- contract- tual R000	Total R000
Group							
Contractual maturity analysis							
31 December 2020							
Assets (discounted maturity)							
Cash and short-term funds	1	923 682	–	–	–	(146)	923 536
Negotiable securities	2	1 063 120	1 010 878	195 787	15 340	(962)	2 469 396
Loans and advances*	3	2 634 941	143 267	672 847	3 036 411	(167 899)	8 167 160
Investment securities	5	–	–	–	–	9 198	9 198
Other assets	6	9 497	–	65 835	–	–	75 332
		4 631 240	1 154 145	868 634	3 117 586	(159 809)	11 644 622
31 December 2020							
Liabilities (undiscounted maturity)							
Deposits and funding instruments	9	8 041 568	863 372	631 621	549 568	–	10 086 129
Derivative instruments	10	–	–	–	28 565	44 481	73 046
Trade and other payables	11.2	27 366	–	–	2 141	2 604	32 111
Preference share dividends payable	11.2	8 890	–	–	–	–	8 890
		8 077 824	863 372	631 621	580 274	47 085	– 10 200 176
Financial guarantees	35	735 152	–	–	–	–	735 152
Irrevocable unutilised facilities	35	310 324	–	–	–	–	310 324
		9 123 300	863 372	631 621	580 274	47 085	– 11 245 652

26. Financial instruments risk management: liquidity risk *continued*

	Note	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non- contrac- tual R000	Total R000
Group								
31 December 2019								
Assets (discounted maturity)								
Cash and short-term funds	1	3 572 496	-	-	-	-	-	3 572 496
Negotiable securities	2	549 212	1 929 729	-	-	-	-	2 478 941
Loans and advances*	3	1 656 702	973 867	487 994	2 936 149	1 500 485	(138 744)	7 416 453
Preference shares linked to trust participatory contributions	4	359 544	75 000	373 000	919 900	-	-	1 727 444
Investment securities	5	-	-	-	-	-	9 177	9 177
Other assets	6	94 071	-	-	-	-	-	94 071
		6 232 025	2 978 596	860 994	3 856 049	1 500 485	(129 567)	15 298 582
31 December 2019								
Liabilities (undiscounted maturity)								
Trust participatory contributions	4	1 295 555	277 448	170 172	-	-	-	1 743 175
Deposits and funding instruments	9	9 763 279	827 061	598 801	953 383	-	-	12 142 524
Derivative instruments	10	-	303	2 317	4 629	15 000	-	22 249
Trade and other payables	11.2	39 993	-	-	-	-	-	39 993
		11 098 827	1 104 812	771 290	958 012	15 000	-	13 947 941
Financial guarantees	35	538 223	-	-	-	-	-	538 223
Irrevocable unutilised facilities	35	204 553	-	-	-	-	-	204 553
		11 841 603	1 104 812	771 290	958 012	15 000	-	14 690 717

NOTES TO THE FINANCIAL STATEMENTS *continued*

26. Financial instruments risk management: liquidity risk *continued*

	Note	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non- contractual R000	Total R000
Company								
31 December 2020								
Assets (discounted maturity)								
Cash and short-term funds	1	923 682	-	-	-	-	(146)	923 536
Negotiable securities	2	1 063 120	1 010 878	195 787	15 340	185 233	(962)	2 469 396
Loans and advances*	3	2 634 941	143 267	672 847	3 036 411	1 847 593	(167 899)	8 167 160
Investment securities	5	-	-	-	-	-	9 198	9 198
Other assets	6	9 497	-	-	65 835	-	-	75 332
		4 631 240	1 154 145	868 634	3 117 586	2 032 826	(159 809)	11 644 622
31 December 2020								
Liabilities (undiscounted maturity)								
Deposits and funding instruments	9	8 041 568	863 372	631 621	549 568	-	-	10 086 129
Derivative instruments	10	-	-	-	28 565	44 481	-	73 046
Trade and other payables	11.2	27 366	-	-	2 141	2 604	-	32 111
Preference share dividends payable	11.2	8 890	-	-	-	-	-	8 890
		8 077 824	863 372	631 621	580 274	47 085	-	10 200 176
Financial guarantees	35	735 152	-	-	-	-	-	735 152
Irrevocable unutilised facilities	35	310 324	-	-	-	-	-	310 324
		9 123 300	863 372	631 621	580 274	47 085	-	11 245 652

26. Financial instruments risk management: liquidity risk *continued*

	Note	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non- contrac- tual R000	Total R000
Company								
31 December 2019								
Assets (discounted maturity)								
Cash and short-term funds	1	3 572 496	-	-	-	-	-	3 572 496
Negotiable securities	2	552 380	1 929 729	-	-	-	-	2 482 109
Loans and advances*	3	1 656 702	973 867	487 994	2 936 149	1 500 485	(138 744)	7 416 453
Investment securities	5	-	-	-	-	-	9 177	9 177
Other assets	6	79 853	-	-	-	-	-	79 853
		5 861 431	2 903 596	487 994	2 936 149	1 500 485	(129 567)	13 560 088
31 December 2019								
Liabilities (undiscounted maturity)								
Deposits and funding instruments	9	9 771 340	827 061	598 801	953 383	-	-	12 150 585
Derivative instruments	10	-	303	2 317	4 629	15 000	-	22 249
Trade and other payables	11.2	17 714	-	-	-	-	-	17 714
		9 789 054	827 364	601 118	958 012	15 000	-	12 190 548
Financial guarantees	35	538 223	-	-	-	-	-	538 223
Irrevocable unutilised facilities	35	204 553	-	-	-	-	-	204 553
		10 531 830	827 364	601 118	958 012	15 000	-	12 933 324

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

27. Financial instruments risk management: interest rate risk

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

Traditional repricing gap analysis is used to measure interest rate exposure. The Group has a conservative policy on interest rate risk arising from repricing differentials 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 reviewed bi-monthly by the ALCO and the model assumes each asset class will reprice in full in the relevant repricing timeband.

<i>Interest rate repricing gap</i>	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non-rate sensitive R000	Total R000
Group							
31 December 2020							
Assets	9 203 014	1 010 879	215 809	312 415	769 101	207 958	11 719 176
Equity and liabilities	(9 574 364)	(152 658)	(289 175)	(234 276)	-	(1 468 703)	(11 719 176)
Interest rate hedging activities	801 769	-	-	(229 198)	(572 571)	-	-
Repricing profile	430 419	858 221	(73 366)	(151 059)	196 530	(1 260 745)	-
Cumulative repricing profile	430 419	1 288 640	1 215 274	1 064 215	1 260 745	-	-
Expressed as a percentage of total assets (%)	3.7%	11.0%	10.4%	9.1%	10.8%		
31 December 2019							
Assets	12 158 106	1 982 526	116 950	220 396	552 476	311 106	15 341 560
Equity and liabilities	(13 141 550)	(277 731)	(198 382)	(348 720)	-	(1 375 177)	(15 341 560)
Interest rate hedging activities	942 619	(52 797)	(116 950)	(220 396)	(552 476)	-	-
Repricing profile	(40 825)	1 651 998	(198 382)	(348 720)	-	(1 064 071)	-
Cumulative repricing profile	(40 825)	1 611 173	1 412 791	1 064 071	1 064 071	-	-
Expressed as a percentage of total assets (%)	(0.3%)	10.5%	9.2%	6.9%	6.9%		
Company							
31 December 2020							
Assets	9 203 014	1 010 879	215 809	312 415	769 101	207 958	11 719 176
Equity and liabilities	(9 574 364)	(152 658)	(289 175)	(234 276)	-	(1 468 703)	(11 719 176)
Interest rate hedging activities	801 769	-	-	(229 198)	(572 571)	-	-
Repricing profile	430 419	858 221	(73 366)	(151 059)	196 530	(1 260 745)	-
Cumulative repricing profile	430 419	1 288 640	1 215 274	1 064 215	1 260 745	-	-
Expressed as a percentage of total assets (%)	3.7%	11.0%	10.4%	9.1%	10.8%		
31 December 2019							
Assets	10 433 830	1 982 526	116 950	220 396	552 476	296 888	13 603 066
Equity and liabilities	(11 425 335)	(277 731)	(198 382)	(348 720)	-	(1 352 898)	(13 603 066)
Interest rate hedging activities	942 619	(52 797)	(116 950)	(220 396)	(552 476)	-	-
Repricing profile	(48 886)	1 651 998	(198 382)	(348 720)	-	(1 056 010)	-
Cumulative repricing profile	(48 886)	1 603 112	1 404 730	1 056 010	1 056 010	-	-
Expressed as a percentage of total assets (%)	(0.4%)	11.8%	10.3%	7.8%	7.8%		

27. Financial instruments risk management: interest rate risk *continued*

<i>Interest income sensitivity</i>	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	Cumulative impact on net interest income R000
Group				
31 December 2020				
2% interest rate increase	3 231	1 768	3 535	8 534
2% interest rate decrease	(3 231)	(1 768)	(3 535)	(8 534)
31 December 2019				
2% interest rate increase	3 270	3 033	6 066	12 369
2% interest rate decrease	(3 270)	(3 033)	(6 066)	(12 369)
Company				
31 December 2020				
2% interest rate increase	3 231	1 768	3 535	8 534
2% interest rate decrease	(3 231)	(1 768)	(3 535)	(8 534)
31 December 2019				
2% interest rate increase	3 254	3 017	6 034	12 305
2% interest rate decrease	(3 254)	(3 017)	(6 034)	(12 305)

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

Hedging

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

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

28. Financial instruments risk management: market risk

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

The Group does not have any regulatory market risk as a result of trading activities. Where marketable securities are held as investments, the market prices are monitored and reports are tabled at ALCO meetings.

29. Financial instruments risk management: investment risk

This is 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 or reputational issues).

Where the business is exposed to investment risk, reports are tabled at ALCO meetings. Exposures tend to be short-term in nature.

NOTES TO THE FINANCIAL STATEMENTS *continued*

30. Financial instruments risk management: equity investment risk

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

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

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

<i>Sensitivity analysis</i>	31 December 2020 R000	31 December 2019 R000
Group and Company		
10% increase in equity prices	92	92
10% decrease in equity prices	(92)	(92)

31. Financial instruments risk management: currency risk

Currency risk is the risk that changes in exchange rates will have an impact on profitability due to a mismatch between foreign receivables and foreign payables. The Group does not have any foreign receivables or payables at either reporting date.

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

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

Capital management

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

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

Key objectives include:

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

Regulatory capital

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

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

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

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

Regulatory capital *continued*

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

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

	Group		Company	
	2020 % Unaudited	2019 % Audited	2020 % Unaudited	2019 % Audited
Common equity Tier 1 capital	11.653	7.409	11.653	12.878
Additional Tier 1 capital	2.670	1.734	2.670	3.014
Total Tier 1 capital	14.323	9.143	14.323	15.892
Tier 2 capital	0.336	0.135	0.336	0.233
Total capital	14.659	9.278	14.659	16.125
Stakeholder capital adequacy ratio minimum requirements				
Regulator:				
- Notional common equity Tier 1	7.000	7.500	7.000	7.500
- Notional total Tier 1	8.500	9.250	8.500	9.250
- Total capital	10.500	11.500	10.500	11.500

The consolidation of GIT and GPSIT in the 2019 reporting period led to the Group having a large exposure as per section 73 (Concentration Risk) of the Banks Act. The large exposure led to an additional capital requirement for the Group which resulted in the Group breaching its minimum capital adequacy ratio requirement. The Group achieved deconsolidation on 1 September 2020, which resulted in the Group no longer being in breach of its minimum capital requirements as at 31 December 2020.

Retained earnings appropriation

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

Dividend policy

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

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

Restrictions or other major impediments on the transfer of funds or qualifying capital within the banking entities:

- » The only restriction on the transfer of funds or qualifying capital is in terms of the Banks Act.

Additional public disclosure as required in terms of the Banks Act can be found on the Group's website at <https://www.grindrodbank.co.za>.

33. Financial instruments risk management: operational risk

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

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

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

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

34. Incentive schemes

At 31 December 2020, the Group had the below bonus incentive schemes (refer note 11.1) and share-based payment arrangements (refer note 11.2):

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

Risk and compliance employees do not have specific incentive schemes linked to the performance of the business. However, they do share in the general short-term incentive/bonus pool should there be one, and they may be granted share options.

Bonus incentive schemes – variable short-term (refer to note 11.1)

Performance bonuses for key executives are based on the achievement of stretch profit targets and specified strategic and non-specified value-added objectives approved by the remuneration committee annually. Short-term performance incentives for executives are capped at 100% of total cost of employment. All other employees who have performed according to pre-determined criteria are incentivised where an incentive pool is justified and created.

Material key performance areas and risks taken into consideration when implementing remuneration measures are:

- » Business profitability;
- » Credit risk and credit losses;
- » Adequacy of liquidity;
- » Adequacy of capital;
- » New business generation and alignment with medium-term strategy;
- » Broad-based black economic empowerment (BBBEE) criteria;
- » Transformation;
- » Safety, health, environment, risk and quality (SHERQ);
- » Compliance with the Financial Intelligence Centre Act (FICA) and other applicable regulations;
- » Risk management; and
- » 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 during the reporting period.

Grindrod Financial Services Group cash-settled share-based incentive schemes (refer to note 11.2)

The Group has offered share appreciation rights (SARs) linked to the growth in the consolidated value of Grindrod Financial Holdings Limited. In terms of the plan, participants are allocated notional shares at an approved allocation price vesting in equal tranches after three, four and five years. The Group is required to pay a share appreciation bonus to each participant on each vesting date equal to the difference between the lower of the fair market and the capped value and the allocation price of the shares.

The fair market value of the shares is determined using the greater of:

- » The consolidated net asset value of Grindrod Financial Holdings Limited; or
- » Approximately seven times the consolidated sustainable after tax profits of Grindrod Financial Holdings Limited for the latest reporting period in respect of which audited financial results have been prepared.

34. Incentive schemes *continued*

Grindrod Financial Services Group cash-settled share-based incentive schemes (refer to note 11.2) *continued*

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

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

The Group has recognised liabilities of R2.70 million (2019: R6.41 million). Refer to note 11.2.

The Group has recognised expenses of R1.36 million (2019: R6.51 million). Refer to note 11.2.

The details of the SARs are as follows:

<i>Date granted</i>	Number of SARs	Issue price* R	Cancellations	Settlements	Restated	Vested	Net total**
2015	1 309 000	11.04	(146 334)	(288 000)	36 366	(911 032)	–
2016	945 000	13.21	(144 887)	(209 000)	62 342	(515 251)	138 204
2017	1 109 000	14.33	(351 623)	(226 000)	111 997	(310 269)	333 105
2018	1 194 000	15.20	(342 498)	(215 000)	132 476	(105 129)	663 849
2019	1 641 000	16.54	(465 253)	(295 000)	200 078	(138 204)	942 621
2020	2 262 000	15.01	(201 000)	–	–	–	2 061 000
	8 460 000		(1 651 595)	(1 233 000)	543 259	(1 979 885)	4 138 779

* The price reflects the market price on the dates of the awards.

** At 31 December 2020, the fair value of these SAR's based on a closing price of R15.57 was R2.70 million.

The vesting price for the 2015, 2016 and 2017 awards that vested during 2020 was R15.57. The 2018, 2019 and 2020 awards did not vest during the year.

The final vesting date for the 2020 options is March 2025.

Included in the net total SARs in issue is 968 945 made to DA Polkinghorne (chief executive officer) and 231 000 made to R Garach (chief financial officer).

Details of SARs outstanding during the year:

	Group		Company	
	31 December 2020 Number of SARs	31 December 2019 Number of SARs	31 December 2020 Number of SARs	31 December 2019 Number of SARs
Outstanding at 1 January	4 787 000	3 369 333	4 787 000	3 369 333
Granted during the year	2 262 000	1 641 000	2 262 000	1 641 000
Settled/Cancelled during the year	(3 593 480)	(223 333)	(3 593 480)	(223 333)
Restated during the year	683 259	–	683 259	–
Outstanding at 31 December	4 138 779	4 787 000	4 138 779	4 787 000

In addition to the above share option scheme, DA Polkinghorne is also a beneficiary of the Grindrod Limited share-price-linked option scheme with total SARs in issue of 1 582 286.

NOTES TO THE FINANCIAL STATEMENTS *continued*

34. Incentive schemes *continued*

Grindrod Limited forfeitable share plan (FSP) (refer to note 11.2)

In terms of the Grindrod Limited 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 equal tranches after three, four and five years. For the delivery conditions to be met, the participants are required to remain employed by the Group until the vesting date. There are no performance criteria in the vesting conditions. Employees terminating employment due to resignation or dismissal on grounds of misconduct, proven poor performance or proven dishonest or fraudulent conduct will forfeit all unvested awards. There were no issues in either the current or prior reporting periods.

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

The Group has recognised liabilities of R1.07 million (2019: R3.37 million). Refer to note 11.2.

The Group has recognised expenses of R2.29 million (2019: R0.63 million). Refer to note 11.2.

The details of the forfeitable share plan are as follows:

<i>Date granted</i>	Number of options granted	Price* R	Number of forfeitable shares vested	Number of forfeitable shares forfeited	Total forfeitable shares**
2015	153 996	17.97	(153 996)	–	–
2016	111 151	9.61	(74 100)	–	37 051
2017	651 697	13.87	(241 369)	(253 438)	156 890
	916 844		(469 465)	(253 438)	193 941

* The price reflects the market price on the dates of the awards.

** At 31 December 2020, the fair value of these options based on a closing share price of R5.05 was R1.07 million.

The vesting price for the 2015, 2016 and 2017 awards that vested during 2020 was R4.02, R3.06 and R3.19 respectively.

The final vesting date for the 2017 options is June 2022.

Included in the net total SARs in issue is 37 051 made to DA Polkinghorne (chief executive officer).

Details of options outstanding during the year:

	Group		Company	
	31 December 2020 Number of options	31 December 2019 Number of options	31 December 2020 Number of options	31 December 2019 Number of options
Outstanding at 1 January	659 411	883 512	659 411	883 512
Vested during the year	(338 751)	(97 382)	(338 751)	(97 382)
Forfeited during the year	(126 719)	(126 719)	(126 719)	(126 719)
Outstanding at 31 December	193 941	659 411	193 941	659 411

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
35. Commitments and financial guarantees				
Financial guarantees	735 152	538 223	735 152	538 223
Financial guarantees are provided where lending facilities have been approved and all the terms and conditions of the loan have been met.				
Irrevocable unutilised facilities	310 324	204 553	310 324	204 553
Irrevocable unutilised facilities are approved lending facilities which cannot be unconditionally withdrawn, prior to facility expiry, by the Bank.				
Maximum exposure to credit risk*	582 375	435 098	582 375	435 098
* Excludes cash-backed guarantees.				
36. Retirement benefit information				
Defined contribution scheme expense	15 130	16 482	15 130	16 482

The Group contributes to the Galaxy Umbrella Provident Fund, administered by GQM, a defined contribution scheme. The fund is registered under and governed by the Pension Funds Act, 1956.

At 31 December 2020, 183 employees (2019: 179 employees) of the Group were members of the Galaxy Umbrella Provident Fund.

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

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

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

	31 December 2020 R000	31 December 2019 R000
Statement of financial position		
Loans and advances – at FVTPL	586 828	606 412
Loans and advances – at amortised cost	164 198	127 604
Statement of comprehensive income		
Interest revenue	16 580	12 594
Fair value gains	73 362	41 780
Impairment losses on loans and advances	(5 154)	(2 281)

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

38. Related parties

The Group conducts business with various related parties.

Grindrod Group companies

- » Entities in the Grindrod Limited Group, other than all entities held directly or indirectly by the Bank holding company, Grindrod Financial Holdings Limited;
- » The grouping includes subsidiaries within the Grindrod Limited Group that invest in property and private equity:
 - Grindrod Property Private Equity Proprietary Limited; and
 - GFS Holdings Proprietary Limited (GFS).

Grindrod Group investee companies/entities

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

Directors and key management personnel (directly and indirectly)

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

- » Grindrod Group (excluding Grindrod Bank); and
- » Grindrod Bank.

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

Summary of related party transactions

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
2. Negotiable securities				
<i>Included in preference shares are assets held by related parties:</i>				
Grindrod Bank subsidiaries	–	–	–	3 168
3. Loans and advances				
<i>Related party loans and advances:</i>				
Grindrod Group companies	693 401	107 375	693 401	107 375
Grindrod Group investee companies/entities	1 225 499	1 875 255	1 225 499	1 875 255
<i>Directors and key management personnel (directly and indirectly)</i>				
Grindrod Bank	39 461	3 879	39 461	3 879
	1 958 361	1 986 509	1 958 361	1 986 509
4. Preference shares linked to trust participatory contributions				
<i>Preference share assets held by related parties:</i>				
Grindrod Group companies	–	600 000	–	–
6. Other assets				
<i>Included in other assets are amounts due from related parties, including overhead recoveries:</i>				
Grindrod Group companies	57 196	57 525	57 196	57 525
Grindrod Group investee companies/entities	909	–	909	–
	58 105	57 525	58 105	57 525

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
9. Deposits and funding instruments				
<i>Related party deposits from:</i>				
Grindrod Group companies	20 881	34 031	20 881	34 031
Grindrod Bank subsidiaries	72	8 133	72	8 133
Grindrod Group investee companies/entities	6 310	17 789	6 310	17 789
<i>Deposits from directors and key management personnel (directly and indirectly)</i>				
Grindrod Group (excluding Grindrod Bank)	152 226	113	152 226	113
Grindrod Bank	70 679	237	70 679	237
	250 168	60 303	250 168	60 303
11.2 Other liabilities				
<i>Trade and other payables owed to related parties:</i>				
Grindrod Group companies	–	5 734	–	5 734
15. Interest and similar income				
<i>Interest and similar income earned from related parties:</i>				
Grindrod Group companies	65 525	24 427	65 525	24 427
Grindrod Group investee companies/entities	101 533	186 400	101 533	186 400
<i>Interest and similar income earned from directors and key management personnel of:</i>				
Grindrod Bank	3 316	381	3 316	381
	170 374	211 208	170 374	211 208
16. Interest and similar expense				
<i>Interest and similar expenses paid to related parties:</i>				
Grindrod Group companies	2 062	6 131	2 062	6 131
Grindrod Group investee companies/entities	495	1 114	495	1 114
<i>Interest and similar expenses paid to directors and key management personnel of:</i>				
Grindrod Group (excluding Grindrod Bank)	4 703	–	4 703	–
Grindrod Bank	5 296	1	5 296	1
	12 556	7 246	12 556	7 246
17.1 Fee income				
<i>Fee income earned from related parties:</i>				
Grindrod Group companies	2 885	10 249	2 885	10 249
Grindrod Group investee companies/entities	1 026	5 146	1 026	5 146
<i>Fee income earned from directors and key management personnel of:</i>				
Grindrod Bank*	815	–	815	–
	4 726	15 395	4 726	15 395

* Generated fee income of R815 000 from Beare Properties Proprietary Limited, of which JH Beare is a director.

NOTES TO THE FINANCIAL STATEMENTS *continued*

	Group		Company	
	31 December 2020 R000	31 December 2019 R000	31 December 2020 R000	31 December 2019 R000
19. Operating expenses				
<i>Operating expenses paid to related parties:</i>				
Grindrod Group companies	6 774	5 935	6 774	5 935
<i>Operating expenses paid to directors and key management personnel of:</i>				
Grindrod Bank*	1 049	1 529	1 049	1 529
	7 823	7 464	7 823	7 464
* Paid R11 750 to SAPOA, of which Z Malinga is a non-executive director. Paid R100 000 to Travisiri Enterprises Proprietary Limited, of which T Soondarjee is a director. Paid R134 550 to Uyandiswa Project Management Services, of which ASP Dambuza is a director. Paid R802 631 to Dynamic Visual Technologies, of which ASP Dambuza is a non-executive director.				
35. Commitments and financial guarantees				
<i>Guarantees held by related parties subject to credit risk:</i>				
Grindrod Group companies	11 974	20 000	11 974	20 000
Grindrod Group investee companies/entities	902	79 558	902	79 558
<i>Directors and key management personnel (directly and indirectly)</i>				
Grindrod Bank	4 300	457	4 300	457
Grindrod Group (excluding Grindrod Bank)	95 382	–	95 382	–
	112 558	100 015	112 558	100 015

39. Events after reporting date

The directors are not aware of any matter or circumstance arising since the reporting period date, including events associated with the COVID-19 pandemic, that has a material impact on the financial statements.

CORPORATE DETAILS

Country of incorporation:	South Africa
Independent non-executive chairman:	Tyrone Soondarjee
Lead independent non-executive director:	Zola Malinga
Executive directors:	David Polkinghorne (chief executive officer) Rakesh Garach (chief financial officer)
Independent non-executive directors:	Sherry Barrett Zola Malinga Rekha Ramcharan Glen Christopulo Clive Howell
Non-executive directors:	Julian Beare Murray Grindrod
Company secretary:	Pieter Bester
Debt sponsor:	Nedbank Limited, acting through its Corporate and Investment Banking Division 135 Rivonia Road Fourth Floor, Block F 135 Rivonia Campus Sandown, Sandton, 2196
Transfer agent:	Nedbank Limited, acting through its Corporate and Investment Banking Division 135 Rivonia Road Fourth Floor, Block F 135 Rivonia Campus Sandown, Sandton, 2196
Auditor:	SizweNtsalubaGobodo Grant Thornton Incorporated
Registered office:	5 Arundel Close, Kingsmead Office Park, Durban, 4001
Postal address:	P O Box 3211, Durban, 4000
Website:	www.grindrodbank.co.za
Email:	enquiries@grindrodbank.co.za



www.grindrodbank.co.za