



**GRINDROD BANK LIMITED**  
**Registration No. 1994/007994/06**

**AUDITED ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2015**

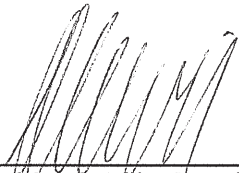


**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

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**CERTIFICATE BY COMPANY SECRETARY**

Grindrod South Africa Proprietary Limited, in its capacity as Company Secretary of Grindrod Bank Limited, hereby certifies that to the best of its knowledge and belief, all returns required by a public company, in terms of the Companies Act, 2008 for the year ended 31 December 2015 have been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.



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Grindrod South Africa Proprietary Limited  
(Company Secretary)  
18 March 2016

**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2015**

**DIRECTORS' RESPONSIBILITY AND APPROVAL OF ANNUAL FINANCIAL STATEMENTS**

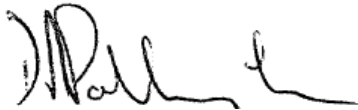
The directors of the Company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The annual financial statements have been prepared in accordance with International Financial Reporting Standards. The Company's independent external auditors, Deloitte & Touche, have audited the financial statements and their report appears on pages 3 - 4.

The directors of the Company are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The directors endorse the Code of Corporate Practices and Conduct as set out in the King III Report issued in September 2009. By supporting the code, the directors recognise the need to conduct the affairs of the Company with integrity and accountability.

The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for the foreseeable future.

The annual financial statements set out on pages 5 - 45 were approved by the board of directors on 18 March 2016, and are signed on its behalf by:-



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D A Polkinghorne  
DIRECTOR

## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF GRINDROD BANK LIMITED

### Report on the Financial Statements

We have audited the financial statements of Grindrod Bank Limited set out on pages 8 to 45, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grindrod Bank Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

INDEPENDENT AUDITOR'S REPORT (continued)  
TO THE SHAREHOLDER OF GRINDROD BANK LIMITED

**Other reports required by the Companies Act**

As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Directors' Report, the Audit and Compliance Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

**Report on Other Legal and Regulatory Requirements**

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Grindrod Bank Limited for 17 years.



**Deloitte & Touche**  
Registered Auditors

Per: Gavin Kruger CA(SA), RA  
Partner  
14 April 2016

**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2015**

**AUDIT AND COMPLIANCE COMMITTEE REPORT**

The Audit and Compliance Committee is an independent statutory committee appointed by the shareholders in terms of Section 94(2) of the Companies Act and Section 64A of the Banks Act.

The committee has adopted formal terms of reference that has been approved by the board of directors. The committee has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities contained therein.

The committee consists of three independent, non-executive directors. The members of the committee during the year were:

WD Geach (Chairman)  
JH Beare  
T Fubu

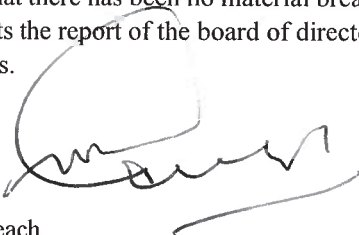
Two meetings were held during the year and the committee met formally with the South African Reserve Bank.

The committee has satisfied itself that the external auditor was independent of the company, as set out in section 94(8) of the Companies Act, 2008. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

The committee ensured that the appointment of the auditor complied with the Companies Act, 2008, and any other legislation relating to the appointment of auditors. The committee has nominated, for election at the annual general meeting, Deloitte & Touche as the external audit firm and Gavin Kruger as the designated auditor responsible for performing the functions of auditor, for the 2016 year.

The committee has reviewed the accounting policies and the financial statements of the company and is satisfied that they are appropriate and comply with International Financial Reporting Standards.

Based on reports submitted and discussions with the internal and external auditors, the committee has satisfied itself that there has been no material breakdown in controls during the year. The committee recommends and supports the report of the board of directors to the South African Reserve Bank confirming the status of internal controls.



WD Geach  
Audit And Compliance Committee Chairman  
18 March 2016

**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

**DIRECTORS' REPORT**

The directors have pleasure in presenting their report which forms part of the financial statements of the company for the year ended 31 December 2015.

**NATURE OF BUSINESS**

Banking, financial services and investment holdings.

The operating results and state of affairs of the company are fully set out in the attached financial statements and do not in our opinion require any further comment.

**AUTHORISED AND ISSUED SHARE CAPITAL**

Details of the authorised and issued ordinary share capital are shown in note 14.

Details of the authorised and issued preference share capital are shown in note 16.

**DIVIDENDS**

Ordinary dividends paid during the year are disclosed in note 24 and in the statement of changes in equity. Preference share dividends accrued are disclosed in the statement of changes in equity.

**DIRECTORS**

At 31 December 2015, and the date of this report, the board of directors comprised the following:

A K Olivier	(Chairman)	*
D A Polkinghorne		
S A Blades		
J H Beare		*
W D Geach		*
I M Groves		* (retired 21 May 2015)
B Ntuli		*
PJ Uys		*
T Nyoka (previously Fubu)		* (appointed 21 May 2015)
		* Non Executive

**COMPANY SECRETARY**

Grindrod South Africa Proprietary Limited

**COUNTRY OF INCORPORATION**

South Africa

**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

DIRECTORS' REPORT (continued)

RELATED PARTIES

ULTIMATE HOLDING COMPANY

Grindrod Limited

IMMEDIATE HOLDING COMPANY (Bank holding company governed by the Banks Act)

Grindrod Financial Holdings Limited

SUBSIDIARY COMPANIES (governed by the Banks Act)

Grincap Proprietary Limited

Commerce Square Corporate Finance Proprietary Limited

INDIRECT MINORITY SHAREHOLDERS

Amber Bay Investments 3 Proprietary Limited - 3.45% (483 shares) (shareholders are members of management)

AUDITORS

Deloitte & Touche

PREPARER OF ANNUAL FINANCIAL STATEMENTS

Susan Scott, Head of Finance & Administration

REGISTERED OFFICE

Company, its holding company and its subsidiaries

5 Arundel Close, Kingsmead Office Park, Durban, 4001

Ultimate holding company producing group consolidated annual financial statements

Quadrant House, 115 Margaret Mncadi Avenue, Durban, 4001

SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year that has a material impact on the annual financial statements.



**GRINDROD BANK LIMITED**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**For the year ended 31 December 2015**

	<u>Notes</u>	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
		<u>R</u>	<u>R</u>
Interest income	1	592,586,158	492,952,104
Interest expense	2	(413,222,408)	(356,922,805)
NET INTEREST INCOME		<u>179,363,750</u>	<u>136,029,299</u>
Other operating income	3	165,831,934	164,074,217
Operating expenditure	4	(192,330,529)	(169,234,845)
Provision for credit losses	5	(10,191,983)	(3,988,017)
PROFIT BEFORE TAXATION		<u>142,673,172</u>	<u>126,880,654</u>
Taxation	6	(20,825,317)	(21,872,621)
PROFIT AFTER TAXATION		<u>121,847,855</u>	<u>105,008,033</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>121,847,855</u></u>	<u><u>105,008,033</u></u>

**GRINDROD BANK LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**At 31 December 2015**

	<u>Notes</u>	<u>31 Dec 2015</u> <u>R</u>	<u>31 Dec 2014</u> <u>R</u>
<b>ASSETS</b>			
PROPERTY AND EQUIPMENT	7	11,463,674	11,498,518
INVESTMENT IN SUBSIDIARIES	8	1	1
INVESTMENTS	9	18,309	18,309
LOANS AND ADVANCES	10	4,672,441,190	3,957,633,059
DERIVATIVE INSTRUMENTS	19	3,426,898	-
OTHER ASSETS	11	314,041,329	265,643,940
LIQUID ASSETS AND SHORT TERM NEGOTIABLE SECURITIES	12	1,065,729,507	990,023,880
CASH AND SHORT TERM FUNDS	13	5,163,657,902	4,031,337,538
<b>TOTAL ASSETS</b>		<u>11,230,778,810</u>	<u>9,256,155,245</u>
<b>EQUITY AND LIABILITIES</b>			
Ordinary share capital	14	650,000	650,000
Ordinary share premium	15	247,929,000	247,929,000
Preference share capital	16	185,000,000	145,000,000
Distributable reserves		402,031,897	307,458,160
<b>TOTAL EQUITY</b>		<u>835,610,897</u>	<u>701,037,160</u>
DEFERRED TAXATION	17	1,037,408	11,446,875
DEPOSITS AND FUNDING INSTRUMENTS	18	10,300,556,981	8,457,289,867
DERIVATIVE INSTRUMENTS	19	-	5,412,624
OTHER LIABILITIES	20	88,113,808	77,248,372
TAXATION		5,459,716	3,720,347
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>11,230,778,810</u>	<u>9,256,155,245</u>

**GRINDROD BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2015**

	<u>Notes</u>	<u>Ordinary Share Capital</u> <u>R</u>	<u>Ordinary Share Premium</u> <u>R</u>	<u>Preference Share Capital</u> <u>R</u>	<u>Distributable Reserves</u> <u>R</u>	<u>Total</u> <u>R</u>
Balance at 31 December 2013		650,000	247,929,000	120,000,000	228,208,746	596,787,746
Total comprehensive income for the year		-	-	-	105,008,033	105,008,033
Ordinary dividends declared and paid	24	-	-	-	(15,674,000)	(15,674,000)
Preference share dividends		-	-	-	(10,084,619)	(10,084,619)
Issue of preference share capital	16.	-	-	25,000,000	-	25,000,000
Balance at 31 December 2014		650,000	247,929,000	145,000,000	307,458,160	701,037,160
Total comprehensive income for the year		-	-	-	121,847,855	121,847,855
Ordinary dividends declared and paid	24	-	-	-	(13,309,000)	(13,309,000)
Preference share dividends		-	-	-	(13,965,118)	(13,965,118)
Issue of preference share capital	16.	-	-	40,000,000	-	40,000,000
Balance at 31 December 2015		<u>650,000</u>	<u>247,929,000</u>	<u>185,000,000</u>	<u>402,031,897</u>	<u>835,610,897</u>

*Issue of share capital  
40,000 non-cumulative, non-redeemable,  
non-participating, non-convertible no par  
value shares*

40,000,000

**GRINDROD BANK LIMITED**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2015**

	<u>Notes</u>	<u>31 Dec 2015</u> <u>R</u>	<u>31 Dec 2014</u> <u>R</u>
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>			
Interest income		592,586,158	492,952,104
Interest expense		(413,222,408)	(356,922,805)
Fee and other income		116,795,772	172,423,102
Cash payments to employees and suppliers		(179,647,233)	(170,796,471)
Cash generated from / (utilised by) operations	A	<u>116,512,289</u>	<u>137,655,930</u>
<b><i>(Increase)/decrease in operating assets:</i></b>			
Loans and advances to customers		(733,200,863)	(618,582,748)
Deposits held for regulatory purposes		(259,342,912)	(62,078,702)
Other short term negotiable securities		160,571,286	103,047,091
<b><i>Increase/(decrease) in operating liabilities:</i></b>			
Deposits from customers		1,843,267,114	(177,505,443)
Dividends paid - ordinary shares		(13,309,000)	(15,674,000)
Dividends paid - preference shares		(11,561,000)	(9,195,880)
Normal tax paid		(29,495,415)	(23,230,873)
Net cash inflow/(outflow) from operating activities		<u>1,073,441,499</u>	<u>(665,564,625)</u>
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(4,187,135)	(4,328,780)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>			
Issue of preference share capital		40,000,000	25,000,000
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<u>1,109,254,364</u>	<u>(644,893,405)</u>
Cash and cash equivalents at the beginning of the year		3,881,003,538	4,525,896,943
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>B</b>	<u><u>4,990,257,902</u></u>	<u><u>3,881,003,538</u></u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>A. RECONCILIATION OF NET PROFIT BEFORE TAXATION TO CASH (UTILISED) / GENERATED FROM OPERATIONS</b>		
Profit/(loss) before taxation	142,673,172	126,880,654
Adjusted for:		
Unrealised (profit)/loss on derivatives	(8,839,522)	(4,786,192)
Unrealised (profit)/loss on loans designated as at fair value	8,200,749	4,691,381
Depreciation	4,221,979	3,553,126
Increase/(decrease) in impairments against advances	4,987,437	3,817,182
Increase/(decrease) in portfolio provision against advances	5,204,546	170,835
Operating profit before working capital changes	<u>156,448,361</u>	<u>134,326,986</u>
Working capital changes		
(Increase)/decrease in accounts receivable	(165,230)	710,669
(Increase)/decrease in fee debtors	(48,232,159)	7,733,027
Increase/(decrease) in accounts payable	8,461,317	(5,114,752)
Cash generated from/(utilised by) operations	<u><u>116,512,289</u></u>	<u><u>137,655,930</u></u>
<b>B. RECONCILIATION OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		
Cash and short term funds at the end of the year	5,163,657,902	4,031,337,538
Deposits held with SARB for regulatory purposes	(173,400,000)	(150,334,000)
Cash and cash equivalents	<u><u>4,990,257,902</u></u>	<u><u>3,881,003,538</u></u>
Cash and cash equivalents comprise:		
Current account balances	625,676,779	430,209,992
Interbank call deposits	4,364,581,123	3,450,793,546
	<u><u>4,990,257,902</u></u>	<u><u>3,881,003,538</u></u>

**GRINDROD BANK LIMITED**  
**ACCOUNTING POLICIES**  
**31 December 2015**

The annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act of South Africa and have been prepared using the going concern principle and on the historical cost basis except for the revaluation of certain financial instruments.

At the date of authorisation of the financial statements the following applicable standards and interpretations were in issue but not yet effective:

*IFRS 9 - Financial Instruments: Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition - Applies to annual periods beginning on or after 1 January 2018*

*IFRS 14 - Regulatory deferral accounts - Applies to annual periods beginning on or after 1 January 2016*

*IFRS 15 - Revenue from contracts with customers - Applies to annual periods beginning on or after 1 January 2018*

*IFRS 10 - Investment Entities, IAS 28 – Investments in Associates and Joint Ventures - Applicable to annual periods beginning on or after 1 January 2016*

*IFRS 11 – Joint Arrangements: Accounting for acquisitions of interests in joint operations - Applicable to annual periods beginning on or after 1 January 2016*

*IFRS 16 - Leases - Applicable to annual periods beginning on or after 1 January 2016*

*IAS 12 – Disclosure of Interests in Other Entities for applying the consolidation exception - Applicable to annual periods beginning on or after 1 January 2016*

*IAS 27 -Equity Method in Separate Financial Statements - Applicable to annual periods beginning on or after 1 January 2016*

*IAS 16 - Property, Plant and Equipment: clarification of acceptable methods of depreciation and amortisation - Applicable to annual periods beginning on or after 1 January 2016*

*IAS 38 - Intangible Assets: clarification of acceptable methods of depreciation and amortisation - Applicable to annual periods beginning on or after 1 January 2016*

*IAS 1 - Presentation of Financial Statements - Applicable to annual periods beginning on or after 1 January 2016*

The directors anticipate that the adoption of applicable standards and interpretations in future periods will have no material impact on the financial statements of the Company. The Standards and Amendments adopted in the current year have had no material impact on the financial statements of the Company.

All monetary information and figures in the annual financial statements are presented in Rands.

**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 accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**GRINDROD BANK LIMITED**  
**ACCOUNTING POLICIES**  
**31 December 2015**

The following principal accounting policies have been consistently applied in all material respects:

1. Associated companies and joint ventures

An associated company is one in which the company holds a long-term investment through which it exercises significant influence with respect to financial and operating policies. A joint venture is a contractual arrangement in which the parties exercise joint control with respect to financial and operating policies.

2. Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the company becomes party to the contractual provisions of the instrument and are classified as either:

*Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Financial assets and liabilities at fair value through profit or loss (FVTPL)*

Financial assets and liabilities are classified as at FVTPL where the financial asset or liability is either held for trading or it is designated as at FVTPL.

A financial asset or liability is classified as held for trading if:

- it has been incurred principally for the purpose of sale/repurchase in the near future; or
- it is a part of an identified portfolio of financial instruments that is managed together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or liability other than a financial asset or liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets or liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined with reference to market related interest rate yield curves for the reporting period.

**GRINDROD BANK LIMITED**  
**ACCOUNTING POLICIES**  
**31 December 2015**

3. Investments

*Investment banking portfolio*

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

*Investments in subsidiaries and associates*

Investments in subsidiaries and associates are recorded at cost. Provision is made where, in the opinion of the directors, a permanent diminution in the value of an investment has occurred.

4. Loans and advances

Loans and advances designated as loans and receivables are recognised at amortised cost using the effective interest rate method less any impairment. Fixed rate advances which have been economically hedged are designated held at fair value through profit and loss and are remeasured to fair value through the statement of profit or loss at each subsequent reporting date.

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

*Impairments*

Loans and advances are assessed for indicators of impairment which include signs of liquidity and servicing problems, difficulty in obtaining financial data, collateral deterioration, adverse economic or industry specific trends, adverse management changes or litigation issues. Impairments are accounted for when there is objective evidence that the estimated future cash flows from the asset(s) have been negatively impacted by events occurring subsequent to initial recognition. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cashflow estimates are sensitive to interest rate and specific business risk changes. Loans and advances considered to be irrecoverable are written off to the extent that the loss can be reliably measured.

The carrying amount of the financial asset is reduced by the impairment loss directly. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Portfolio provision*

A portfolio provision is raised against loans and advances where adverse economic conditions which may impact future cash flows exist at the reporting date. In raising the provision the Company considers the impact of macro economic factors on the portfolio geographically, by industry and product group taking into consideration concentration risk and interest rate risk.

5. Property in possession

Assets taken in to protect loans and advances are classified as loans and receivables. These properties will be realised through sale rather than continued use and are measured at the lower of cost or fair value less cost to sell. Related expenditure is separately disclosed in operating expenditure.



**GRINDROD BANK LIMITED**  
**ACCOUNTING POLICIES**  
**31 December 2015**

6. Derivative instruments

It is not the policy of the company to trade in derivative instruments. Derivatives instruments are held either in terms of asset and liability management strategies, defined as economic hedging activities, or on a back-to-back basis. Derivative instruments are originally recorded at cost and remeasured to fair value through profit or loss using market prices at each subsequent reporting date.

7. Property and equipment

Fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation 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 method are reviewed each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

	years
Office equipment	5
Furniture & fittings	5
Motor vehicles	4
Computers and software	3

8. Intangible assets

Intangible assets are recognised at cost less accumulated amortisation and any impairment. The estimated useful life and amortisation method are reviewed at each year end, with the effect of changes in estimate being accounted for on a prospective basis.

9. Deferred taxation

Deferred taxation is provided on the comprehensive basis at current tax rates using the statement of financial position liability method in respect of taxation on temporary differences between the carrying value and tax base of items on the statement of financial position. Where the effect of temporary differences results in a deferred tax asset, the amount of such asset is brought to account where it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

10. Foreign currencies

Foreign currency transactions are recorded at the exchange rate ruling on the transaction date. Assets and liabilities designated in foreign currencies are translated at rates of exchange ruling at the statement of financial position date.

11. Provisions

Provisions are recognised when the company 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.

12. Cash/share settled share based incentive schemes

Share appreciation rights granted to employees for services rendered are raised as a liability and recognised in profit or loss immediately or, if vesting requirements are applicable, over the vesting period. The liability is remeasured annually until settled and any changes in value are recognised in profit or loss.

**GRINDROD BANK LIMITED**  
**ACCOUNTING POLICIES**  
**31 December 2015**

13. Retirement benefits

Current contributions to the defined contribution retirement benefit plans are the current service costs and are charged against income as incurred.

14. Operating leases

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease or another basis if more representative of the time pattern of the Company's benefit. Contingent rentals are recognised in profit or loss as they accrue.

15. Gross revenue

Gross revenue is not a concept relevant to the business of a financial institution. Income derived from services rendered is recognised where it is probable that economic benefits will flow to the entity and the stage of completion and the amount can be reliably measured.

16. Revenue recognition

Interest income is recognised on a time proportion basis which takes into account the effective yield on the asset. Interest income includes the amount of amortisation of any discount or premium.

Profit share or fee income earned on origination of advances is deferred and recognised on a yield to maturity basis over the average life of the relevant advances. Where the receipt of knowledge based fee income is deferred by contractual agreement the present value of the fee income is recognised upfront and the accretion is recognised over the duration to contractual or estimated receipt.

Dividend revenue from investments is recognised when the shareholder has a right to receive payment.

17. Impairment

The carrying amounts of tangible and intangible assets are assessed at each reporting date to determine whether any assets are impaired. Where there is evidence of impairment the asset value is written down to the recoverable amount and the loss is recognised in net profit or loss for the period. If in subsequent periods the impairment loss reverses the carrying value of the asset is increased but limited to the original carrying value prior to impairment. The revaluation is recognised in profit or loss for the period.

18. Taxation

The charge for current taxation is based on the results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to taxable income.

Deferred taxation is recognised in profit or loss except when it relates to items credited or charged directly to equity, in which case it is also recognised in equity.

19. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. The company enters into various related party transactions in the ordinary course of business. The terms and conditions of related party transactions are no more favourable than those granted to third parties in arm's length transactions.

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>1. INTEREST INCOME</b>		
<i>Loans and receivables (effective interest method)</i>	584,198,808	480,832,036
<i>Loans held at fair value through profit or loss</i>	8,387,350	12,120,068
	<u>592,586,158</u>	<u>492,952,104</u>
Advances	355,672,696	313,200,819
Preference share dividends, advances portfolio	58,353,759	33,169,798
Balances at banks and short term funds	145,989,996	125,547,001
Other short term securities	29,728,179	17,949,222
Preference share dividends, negotiable securities portfolio	6,787,659	8,949,796
Interest income received\ (paid) on derivative hedges	(3,946,131)	(5,864,532)
	<u>592,586,158</u>	<u>492,952,104</u>
Interest income from related parties:		
Grindrod Group companies	12,469,364	5,870,596
Directors (directly and indirectly)	510,111	3,727,941
	<u>12,979,475</u>	<u>9,598,537</u>
Interest income on impaired loans	<u>1,523,238</u>	<u>616,506</u>
<b>2. INTEREST EXPENSE</b>		
<i>Calculated using the effective interest method</i>		
Call deposits - corporate banking	146,872,840	100,898,400
Call deposits - retail banking	31,419,889	26,128,817
Notice and fixed deposits	76,679,946	62,868,756
Prime linked notice deposits	111,752,674	116,847,872
Preference share funding	6,482,645	6,076,782
Bond issue	34,065,784	37,452,178
Funding guarantee fees	5,948,630	6,650,000
	<u>413,222,408</u>	<u>356,922,805</u>
Interest paid to related parties:		
Grindrod Group companies	8,632,251	5,718,952
Directors (directly and indirectly)	758,039	459,190
	<u>9,390,290</u>	<u>6,178,142</u>
Guarantee fees paid to related parties:		
Grindrod Group companies	<u>5,948,630</u>	<u>6,650,000</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
3. OTHER OPERATING INCOME		
Fee income		
Retail Banking	69,403,673	64,534,378
Corporate Banking	30,471,250	28,541,578
Corporate Banking (property)	31,719,515	27,372,448
Fee debtor accretion	3,173,022	3,249,223
Corporate Finance	12,564,106	12,774,780
Other banking related	8,192,656	14,881,399
Investment income		
Dividends received - other preference	-	3,480,000
Residual beneficiary distribution	9,857,153	9,429,385
Fair Value gains on FVTPL financial instruments		
Mark-to-market of derivatives	8,651,308	4,502,407
Mark-to-market of loans held at fair value through profit or loss	(8,200,749)	(4,691,381)
	<u>165,831,934</u>	<u>164,074,217</u>
Included in fee income are fees from related parties:		
Grindrod Bank subsidiaries	324,081	299,203
Grindrod Group companies	12,795,528	1,584,991
Directors (directly and indirectly)	11,694	-
	<u>13,135,303</u>	<u>1,884,194</u>
Included in dividends are dividends from related parties:		
Grindrod Group companies	599,425	-
	<u>599,425</u>	<u>-</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>4. OPERATING EXPENDITURE</b>		
Auditors remuneration		
- audit fees	2,448,800	2,309,999
- other services	18,000	-
Audit fees - Pricewaterhouse Coopers/Other	41,452	23,897
Banking and transactional related costs	4,703,723	5,249,991
Computer related costs	11,626,478	11,613,545
Depreciation	4,221,979	3,553,126
Legal and professional fees	3,514,031	4,626,597
Marketing	9,736,464	7,509,415
Premises		
- rental	8,784,085	7,821,362
- other premises related costs	3,663,278	3,032,465
Staff expenses		
- salaries	86,918,404	69,503,858
- leave pay		
- incentive schemes	31,825,749	21,862,094
- cash-settled share based schemes	3,740,728	15,149,683
- sign-on and severance payments	-	-
- other	982,018	839,284
Travel	3,718,929	3,106,818
Other expenses	11,748,951	8,853,674
Indirect taxation	4,637,460	4,179,037
	<u>192,330,529</u>	<u>169,234,845</u>
<i>Included in staff expenses:</i>		
Key Executive Management Remuneration (10 staff members)		
Managerial services - salaries	17,169,527	15,974,500
Managerial services - incentive schemes	12,234,579	13,148,605
Managerial services - cash-settled share based payments	6,024,370	5,109,220
Post retirement benefits	2,839,168	2,587,885
	<u>38,267,644</u>	<u>36,820,210</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
Executive director remuneration	Salary	Post retirement benefits
		Bonus & Incentive Schemes
<i>Current year</i>		
D A Polkinghorne	3,255,089	479,116
SA Blades	2,266,726	452,289
	<u>5,521,815</u>	<u>931,405</u>
<i>Prior year</i>		
D A Polkinghorne	3,131,083	400,599
SA Blades	2,122,428	425,670
	<u>5,253,511</u>	<u>826,269</u>

The managing director has a service contract with a six month notice period and no predetermined compensation on termination.

Directors' Emoluments

Non-executive - directors fees	460,705	938,138
Executive - managerial services	11,957,232	12,494,103
Executive - post retirement benefits	931,405	826,269
	<u>13,349,342</u>	<u>14,258,510</u>

Non-executive director emoluments paid by the Company

I A J Clark	-	367,010
J H Beare	235,335	209,742
W D Geach	162,153	141,974
I M Groves	-	219,412
T Nyoka (previously Fubu)	63,217	-
	<u>460,705</u>	<u>938,138</u>

Director emoluments paid by the Grindrod Group, inclusive of the Company:

*Executive directors*

A K Olivier	9,464,000	11,052,000
B Ntuli	4,850,000	4,762,000

*Non-executive directors*

I A J Clark	-	434,000
W D Geach	522,000	478,000
I M Groves	-	722,000
P J Uys *	69,000	-
T Nyoka (previously Fubu)	424,000	32,000
	<u>15,329,000</u>	<u>17,480,000</u>

\* Fees ceded to Remgro Limited

Refer to Grindrod Limited annual financial statements for full disclosure on total remuneration paid by all Group companies to directors.

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
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	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
5. PROVISION FOR CREDIT LOSSES		
Increase/(decrease) in impairments against advances	4,987,437	3,817,182
Increase/(decrease) in portfolio provision	5,204,546	170,835
	<u>10,191,983</u>	<u>3,988,017</u>
6. TAXATION		
SA Normal taxation		
Current Tax	31,234,785	21,077,526
Deferred Tax	(10,409,468)	795,095
	<u>20,825,317</u>	<u>21,872,621</u>
RECONCILIATION OF RATE OF TAXATION	%	%
Standard rate	28.0	28.0
Adjusted for:		
Dividends	(13.4)	(10.8)
Effective rate	<u>14.6</u>	<u>17.2</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
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	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>7. PROPERTY AND EQUIPMENT</b>		
Furniture, fittings, office vehicles and equipment		
Cost	10,492,313	10,143,838
Accumulated depreciation	(5,122,150)	(3,779,909)
	<u>5,370,163</u>	<u>6,363,929</u>
Computer software and hardware		
Cost	19,253,610	15,414,950
Accumulated depreciation	(13,160,099)	(10,280,361)
	<u>6,093,511</u>	<u>5,134,589</u>
Total assets	29,745,923	25,558,788
Total accumulated depreciation	(18,282,249)	(14,060,270)
	<u>11,463,674</u>	<u>11,498,518</u>

MOVEMENT IN PROPERTY AND EQUIPMENT			
	Vehicles, furniture, fittings and office equipment	Computer software and hardware	Total
<i>Current year</i>			
Net book value at beginning of year	6,363,929	5,134,589	11,498,518
Purchases	348,475	3,838,660	4,187,135
Depreciation	1,342,241	2,879,738	4,221,979
Net book value at end of year	<u>5,370,163</u>	<u>6,093,511</u>	<u>11,463,674</u>
<i>Prior year</i>			
Net book value at beginning of year	6,586,567	4,136,297	10,722,864
Purchases	1,119,862	3,208,918	4,328,780
Depreciation	1,342,500	2,210,626	3,553,126
Net book value at end of year	<u>6,363,929</u>	<u>5,134,589</u>	<u>11,498,518</u>

**8. INVESTMENT IN SUBSIDIARIES**

*Measured at cost*

Commerce Square Corporate Finance Proprietary Limited

- wholly owned 462,298 shares of R1 each at cost

-

-

Grincap Proprietary Limited

- wholly owned 2,600 shares of R1 each at cost

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1



**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
9. INVESTMENTS		
Investment banking portfolio		
<i>Unlisted Investments</i>		
<i>Held at fair value through profit or loss using year end market prices provided by issuers</i>		
Opening balance	18,309	18,309
Fair value adjustments	-	-
Closing balance	<u>18,309</u>	<u>18,309</u>
 <i>Portfolio analysis</i>		
Investment portfolio	<u>18,309</u>	<u>18,309</u>

The register of listed investments is available for inspection at the registered office of the company.

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>10. LOANS AND ADVANCES</b>		
At amortised cost	4,364,484,044	3,819,868,953
Designated at fair value through profit or loss using year end market related interest rate yield curves to discount expected future cash flows	307,957,146	137,764,106
	<u>4,672,441,190</u>	<u>3,957,633,059</u>
Loans and advances - companies and close corporations	3,455,826,600	2,994,382,494
Loans and advances - unincorporated businesses and other	228,334,658	288,329,757
Loans and advances - household	110,790,423	118,911,211
Preference shares	869,616,249	536,684,753
Interest accrued	39,631,980	32,690,831
Revaluation of loans designated at fair value through profit or loss	(3,012,401)	5,188,349
Less portfolio provision against advances	(18,129,119)	(12,924,573)
Less impairments against advances	(10,617,200)	(5,629,763)
	<u>4,672,441,190</u>	<u>3,957,633,059</u>
Maximum exposure to credit risk	<u>4,701,187,509</u>	<u>3,976,187,395</u>

Advances are made at market related rates of interest and are secured with various types of collateral such as cash, mortgage bonds, cession of leases, shares, discounted invoices, guarantees and suretyships. The book is considered to be well secured and impairments have been raised where impairment indicators exist.

*Contractual maturity analysis*

Maturity on demand	624,147,319	621,383,340
Maturing within one month	420,689,186	251,562,181
Maturing after one month but within three months	47,752,013	373,852,345
Maturing after three months but within six months	236,947,483	335,117,289
Maturing after six months but within one year	210,230,111	281,521,953
Maturing after one year but within three years	1,371,299,151	887,494,203
Maturing after three years but within five years	950,692,651	633,425,175
Maturing after five years but within ten years	756,364,373	525,020,630
Maturing after ten years	46,445,643	28,931,099
Interest accrued	39,631,980	32,690,831
Revaluation of loans held at fair value through profit or loss	(3,012,401)	5,188,349
Less portfolio provision against advances	(18,129,119)	(12,924,573)
Less impairments against advances	(10,617,200)	(5,629,763)
	<u>4,672,441,190</u>	<u>3,957,633,059</u>

The maturity analysis of advances is based on the remaining contractual periods to maturity from the statement of financial position date and does not take repayment profiles into account.

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<i>Sectoral analysis</i>		
Agriculture, hunting, forestry and fishing	29,116,762	42,441,007
Mining and quarrying	29,135,800	29,123,553
Manufacturing	201,149,158	281,307,631
Electricity, gas and water supply	-	-
Construction	39,419,419	-
Wholesale and retail trade, repair of specified items, hotels and restaurants	91,114,466	96,229,880
Transport, storage and communication	166,781,042	156,995,024
Financial intermediation and insurance	354,151,842	307,343,296
Real estate	2,106,223,388	1,511,163,118
Business services	89,753,172	119,925,258
Community, social and personal services	13,104,318	16,121,575
Private households	101,153,031	98,960,280
Other	1,469,467,911	1,310,947,010
Less portfolio provision against advances	(18,129,119)	(12,924,573)
	<u>4,672,441,190</u>	<u>3,957,633,059</u>
<i>Geographical analysis</i>		
South Africa	<u>4,672,441,190</u>	<u>3,957,633,059</u>

Included in advances are fixed rate loans held at fair value through profit or loss:

Net book value of loans held at fair value through profit or loss	310,969,547	132,575,757
Revaluation of loans held at fair value through profit or loss	(3,012,401)	5,188,349
Fair value of loans held at fair value through profit or loss	<u>307,957,146</u>	<u>137,764,106</u>

The above loans and advances have been hedged with derivative instruments and may include forward start fixed rate loans (see note 19).

*Revaluation of loans held at fair value through profit or loss*

Changes in fair value during the period attributable to changes in:

Market risk	<u>(3,012,401)</u>	<u>5,188,349</u>
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Related party loans and advances:

Grindrod Group companies - advances	151,127,501	53,455,011
Directors (directly and indirectly)	6,971,916	2,617,268
	<u>158,099,417</u>	<u>56,072,279</u>

Loans are made to related parties on normal business terms and at market related rates of interest.

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	R	R
Analysis of impairments		
Impairments at the beginning of the year	5,629,763	1,812,581
Net increase/(decrease) in impairments	4,987,437	3,817,182
Impairments at the end of the year	<u>10,617,200</u>	<u>5,629,763</u>
Analysis of impaired or non-performing loans and advances		
Advances classified as special mention	81,002,312	56,518,253
Advances classified as sub-standard	11,902,281	17,698,137
Advances displaying significant weakness	5,673,890	4,629,763
Carrying amount of impaired advances	<u>98,578,483</u>	<u>78,846,153</u>
Collateral held against impaired or non-performing loans and advances	<u>87,961,283</u>	<u>73,216,390</u>
Age Analysis of impaired or non-performing loans and advances		
Current	40,145,944	-
< 3 months overdue	21,295,880	36,017,266
6 - 12 months overdue	-	20,500,987
> 12 months overdue	37,136,659	22,327,900
	<u>98,578,483</u>	<u>78,846,153</u>
<i>Sectoral analysis of impaired or non-performing loans and advances</i>		
Agriculture, hunting, forestry and fishing	501,717	452,412
Manufacturing	22,000,530	10,624,900
Wholesale and retail trade, repair of specified items, hotels and restaurants	-	481,389
Real estate	30,851,977	25,518,839
Community, social and personal services	5,987,976	5,041,954
Private households	272,804	2,074,922
Other	38,963,479	34,651,737
	<u>98,578,483</u>	<u>78,846,153</u>
<i>Geographical analysis of impaired or non-performing loans and advances</i>		
South Africa	<u>98,578,483</u>	<u>78,846,153</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>11. OTHER ASSETS</b>		
<i>Debtors measured at amortised cost</i>	272,003,055	233,796,445
<i>Present value recognised at inception and accreted on a straightline basis</i>	42,038,274	31,847,495
	<u>314,041,329</u>	<u>265,643,940</u>
Sundry debtors	15,707,526	15,542,296
Fee debtors	298,333,803	250,101,644
	<u>314,041,329</u>	<u>265,643,940</u>
Maturity analysis of fee debtors		
Maturing within one year	214,143,563	200,245,185
Maturing after one year	84,190,240	49,856,459
	<u>298,333,803</u>	<u>250,101,644</u>
Included in fee debtors are amounts with contractually deferred receipt dates:		
Deferred fee debtors	<u>159,190,240</u>	<u>154,719,585</u>
Included in fee debtors are amounts due from related parties, including overhead recoveries:		
Grindrod Bank subsidiaries	2,309,049	2,474,967
Grindrod Group companies	9,367,354	13,018,860
	<u>11,676,403</u>	<u>15,493,827</u>
<b>12. LIQUID ASSETS AND SHORT TERM NEGOTIABLE SECURITIES</b>		
<i>Held at fair value through profit or loss using year end market prices provided by issuers</i>		
Money Market Investments	472,097,061	467,334,064
<i>Measured at amortised cost</i>		
Preference shares	27,528,289	192,862,571
<i>Statutory Liquid Assets at amortised cost</i>		
Treasury bills	460,476,047	284,668,546
SARB Debentures	105,628,110	45,158,699
	<u>1,065,729,507</u>	<u>990,023,880</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>13. CASH AND SHORT TERM FUNDS</b>		
<i>Measured at amortised cost</i>		
Regulatory deposits with the S A Reserve Bank	173,400,000	150,334,000
Other deposits with the S A Reserve Bank	580,055,289	378,422,028
Current account balances	45,621,490	51,787,964
Interbank call deposits	4,364,581,123	3,450,793,546
	<u>5,163,657,902</u>	<u>4,031,337,538</u>
<b>14. ORDINARY SHARE CAPITAL</b>		
Authorised		
150,000,000 (2014: 150,000,000) ordinary shares of 1 cent each	<u>1,500,000</u>	<u>1,500,000</u>
Issued		
65,000,002 (2014: 65,000,002) ordinary shares of 1 cent each	<u>650,000</u>	<u>650,000</u>
<b>15. ORDINARY SHARE PREMIUM</b>		
Arising on the issue of 65,000,002 (2014: 65,000,002) ordinary shares of 1 cent each	<u>247,929,000</u>	<u>247,929,000</u>
<b>16. PREFERENCE SHARE CAPITAL</b>		
Authorised		
250,000 (2014: 250,000) non-cumulative, non-redeemable, non-participating, non-convertible no par value shares		
Issued		
185,000 (2014: 145,000) non-cumulative, non-redeemable, non-participating, non-convertible no par value shares	<u>185,000,000</u>	<u>145,000,000</u>

Preference share dividends are payable bi-annually and are accrued at 88% of the prime rate of interest as quoted by First National Bank.

The preference shares qualify as additional tier 1 regulatory capital in terms of The Banks Act and accordingly shall, at the discretion of the relevant authority, be written off upon the occurrence of a “trigger event” rendering the Bank non-viable, as envisaged in Regulations 38 (13)(b)(i) and Guidance Note 7/2013 (paragraphs 2, 4 and 6).

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>17. DEFERRED TAXATION</b>		
Temporary Differences		
	Deferred Tax Income/(Expense) R	
Deferred Tax Asset/(Liability) on Derivatives	(872,762)	872,762
Deferred Tax Asset/(Liability) on Loans designated at fair value through profit or loss	2,296,209	843,472
Deferred Tax Liability on Operating leases	945,505	2,390,268
Deferred Tax Asset on Portfolio provision	1,457,273	5,076,153
Deferred Tax Asset on Leave pay provision	518,996	1,723,604
Deferred Tax Asset/(Liability) on Income accruals	6,064,247	(11,943,667)
	<u>10,409,468</u>	<u>(1,037,408)</u>
		<u>(11,446,875)</u>
<i>Reconciliation</i>		
Current charge per income statement	10,409,468	

<b>ANALYSIS OF TEMPORARY DIFFERENCES</b>			
	Carrying Amount	Tax Base	Temporary Differences
<b>PRIOR YEAR</b>			
Derivative mark-to-market	6,234,016	-	6,234,016
Mark-to-market of loans designated at fair value through profit or loss	(5,188,348)	-	(5,188,348)
Operating leases	5,159,869	-	5,159,869
Portfolio provision	12,924,572	-	12,924,572
Leave pay provision	4,302,170	-	4,302,170
Income accruals	(64,313,977)	-	(64,313,977)
Balance at 1 January 2015	<u>(40,881,698)</u>	-	<u>(40,881,698)</u>
Deferred Tax Asset/(Liability) at 28%			<u>(11,446,875)</u>
<b>CURRENT YEAR</b>			
Derivative mark-to-market	3,117,008	-	3,117,008
Mark-to-market of loans designated at fair value through profit or loss	3,012,401	-	3,012,401
Operating leases	8,536,672	-	8,536,672
Portfolio provision	18,129,118	-	18,129,118
Leave pay provision	6,155,727	-	6,155,727
Income accruals	(42,655,953)	-	(42,655,953)
Balance at 31 December 2015	<u>(3,705,027)</u>	-	<u>(3,705,027)</u>
Deferred Tax Asset/(Liability) at 28%			<u>(1,037,408)</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>18. DEPOSITS AND FUNDING INSTRUMENTS</b>		
<i>Measured at amortised cost</i>		
Call deposits - corporate banking	2,631,876,377	1,946,078,982
Call deposits - retail banking	4,389,635,863	3,136,629,257
Notice and fixed deposits	1,228,792,047	1,012,550,637
Prime linked notice deposits	1,741,200,372	1,726,701,647
Preference share funding	99,400,000	91,450,000
Bond issue (DMTN Programme)	160,000,000	500,000,000
Interest accrued	49,652,322	43,879,344
	<u>10,300,556,981</u>	<u>8,457,289,867</u>
Amounts owed to depositors	10,059,769,124	8,222,220,742
Amounts owed to banks	240,787,857	235,069,125
	<u>10,300,556,981</u>	<u>8,457,289,867</u>
Contractual maturity analysis		
Withdrawable on demand	7,038,438,460	5,095,163,671
Maturing within one month	542,664,647	602,208,879
Maturing after one month but within three months	1,695,713,992	1,505,968,007
Maturing after three months but within six months	406,553,234	440,251,740
Maturing after six months but within one year	290,270,090	754,377,102
Maturing after one year	326,916,558	59,320,467
	<u>10,300,556,981</u>	<u>8,457,289,867</u>
The maturity analysis of deposits is based on their remaining contractual periods to maturity from the statement of financial position date.		
<i>Preference share funding</i>		
100 000 000 variable rate, cumulative, redeemable, no par value preference shares		
<i>Bond issue (DMTN Programme)</i>		
The JSE listed three year bond was originally issued on 15 October 2012, partially rolled over on 15 October 2015 and expires on 15 October 2018. Interest is payable quarterly and is linked to the three-month JIBAR rate plus a spread of 2.20% (originally 1.80%) and is guaranteed by Grindrod Limited.		
<i>Sectoral analysis</i>		
Banks	240,787,857	235,069,125
Government and public sector	62,952,406	107,123,152
Individuals	5,364,511,476	3,912,776,968
Business sector and other	4,632,305,242	4,202,320,622
	<u>10,300,556,981</u>	<u>8,457,289,867</u>
<i>Geographical analysis</i>		
South Africa	<u>10,300,556,981</u>	<u>8,457,289,867</u>
Related party deposits:		
Grindrod Group	129,681,331	92,712,291
Grindrod Bank subsidiaries	108,491	108,491
Directors (directly and indirectly)	8,208,298	11,171,962
Deposits from related parties earn market related rates of interest		



**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>19. DERIVATIVE INSTRUMENTS</b>		
<i>At fair value through profit or loss using year end market related interest rate yield curves to discount expected future cash flows</i>		
Interest rate swaps (market valuation)		
Mark-to-market (liability)	841,852	5,670,823
Mark-to-market (asset)	(4,268,750)	(258,199)
Net mark-to-market (asset)/ liability	<u>(3,426,898)</u>	<u>5,412,624</u>
Current year movements		
Mark-to-market (liability)	(4,828,971)	(4,875,718)
Mark-to-market (asset)	(4,010,551)	89,526
Net mark-to-market liability	<u>(8,839,522)</u>	<u>(4,786,192)</u>
Interest rate swaps (market valuation)		
Contracts economically hedging fixed rate loans and advances (note 10)	(3,426,898)	5,412,624
	<u>(3,426,898)</u>	<u>5,412,624</u>
Interest rate swaps (nominal value)		
Contracts with negative mark-to-market value (liability)	29,626,643	117,571,140
Contracts with positive mark-to-market value (asset)	280,053,223	13,948,802
	<u>309,679,866</u>	<u>131,519,942</u>

All derivatives are entered into either in terms of asset and liability management strategies, defined as hedging activities, or on a back-to-back basis.

The nominal amount disclosed represents the gross value of total outstanding contracts at the year end and will 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 involvement of the Company in derivative contracts.

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
<b>20. OTHER LIABILITIES</b>		
<i>Measured at amortised cost</i>		
Accounts payable	12,379,753	13,217,608
Leave pay provision	6,155,727	4,302,170
Bonus provision	29,793,554	25,064,994
Cash-settled share based incentive schemes	24,497,219	27,868,858
Cash/share-settled share based incentive scheme	5,978,130	-
Forfeitable share plan	1,491,680	1,381,116
Preference share dividends payable	7,817,745	5,413,627
	<u>88,113,808</u>	<u>77,248,373</u>
Analysis of provisions		
Provisions at the beginning of the year	58,617,138	50,527,483
Utilised or reversed during year	(29,726,146)	(29,330,378)
New provision raised	39,025,318	37,420,033
Provisions at the end of the year	<u>67,916,310</u>	<u>58,617,138</u>
Related party accounts payable:	<u>1,889,497</u>	<u>2,492,669</u>
<i>Cash-settled share based incentive schemes</i>		
The Company has offered share appreciation rights linked to the growth in the combined consolidated value of Grindrod Financial Holdings Limited and GFS Holdings Proprietary Limited. In terms of the plan participants are allocated notional shares at an approved allocation price and the Company is required to pay a share appreciation bonus equal to the difference between the fair market value and the allocation price of the shares to the participant at each vesting date. The share appreciation rights vest in equal tranches after 3, 4 and 5 years. An employee's right to participate in the scheme terminates upon leaving the employment of the Company.	<u>24,497,219</u>	<u>27,868,858</u>
The fair market value of shares is determined using the greater of: <i>the</i> combined consolidated net asset values of the Grindrod Financial Holdings Limited and GFS Holdings <i>approximately</i> seven times the combined consolidated sustainable after tax profits of Grindrod Financial Holdings Limited and GFS Holdings Proprietary Limited for the latest year in respect of which annual financial statements have been issued. and takes into account shares in issue and notional shares in respect of dividends that have been recapitalised into the Company.		
<i>Cash/share-settled share based incentive scheme</i>		
In terms of the plan participants are allocated notional shares at an approved allocation price in Select Industrial Real Estate UK Fund Limited (SIRE). Grindrod Property Private Equity (Pty) Ltd, a co-subsiary, has agreed subject to exchange control regulations prevailing in March 2018 to facilitate delivery of the shares to the participants. Where the latter is not possible the Company will pay a share appreciation bonus equal to the difference between the allocation price of the shares and the fair market value at vesting date in March 2018. An employee's right to participate in the scheme terminates upon leaving the employment of the Company.	<u>5,978,130</u>	<u>-</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>		<u>31 Dec 2014</u>	
	R		R	
<b>21. FINANCIAL INSTRUMENT FAIR VALUE HIERARCHY</b>				
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>31 Dec 2015</b>				
<b>Assets</b>				
Unlisted investments	18,309	-	-	18,309
Loans and receivables	307,957,146	-	307,957,146	-
Derivative instruments	3,426,898	-	3,426,898	-
	<u>311,402,353</u>	-	<u>311,384,044</u>	<u>18,309</u>
<b>31 Dec 2014</b>				
<b>Assets</b>				
Unlisted investments	18,309	-	-	18,309
Loans and receivables	137,764,106	-	137,764,106	-
	<u>137,782,415</u>	-	<u>137,764,106</u>	<u>18,309</u>
<b>Liabilities</b>				
Derivative instruments	5,412,624	-	5,412,624	-
	<u>5,412,624</u>	-	<u>5,412,624</u>	-

There were no transfers between the levels during the year.

Refer to note 10 for a description of the valuation processes used by the entity for level 2 financial assets.

Refer to note 9 for movement in the level 3 financial assets and a description of the valuation processes used by the entity.

Level 1 = quoted prices in active markets for identical assets / liabilities

Level 2 = inputs other than quoted prices that are observable either directly or indirectly

Level 3 = inputs for the asset or liability that are not based on observable market data

**22. COMMITMENTS AND GUARANTEES**

Financing guarantees	<u>47,466,675</u>	<u>14,784,129</u>
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Financing guarantees are provided where lending facilities have been approved and all the terms and conditions of the loan have been met.

Irrevocable unutilised facilities	<u>149,610,683</u>	<u>146,076,036</u>
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Irrevocable unutilised facilities are approved lending facilities which cannot be unconditionally withdrawn, prior to facility expiry, by the Company.

Maximum exposure to credit risk	<u>197,077,358</u>	<u>160,860,165</u>
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Related party guarantees: Grindrod Group companies - guarantees	<u>451,654</u>	<u>451,654</u>
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**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**31 December 2015**

	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	<u>R</u>	<u>R</u>
23. RETIREMENT BENEFIT INFORMATION		
Contributions to provident fund	<u>10,222,851</u>	<u>8,036,899</u>

The company contributes to the Grindrod Provident Fund and the Grindrod Unicorn Provident Fund, defined contribution plans. The funds are registered under and governed by the Pension Funds Act, 1956.

As at 31 December 2015 135 employees (2014:113 employees) of the company were members of either the Grindrod Provident Fund or Grindrod Unicorn Provident Fund.

The company does not have any obligation to provide post retirement medical aid benefits.

24. ORDINARY DIVIDENDS DECLARED AND PAID

Dividends declared/paid	<u>13,309,000</u>	<u>15,674,000</u>
	Cents per share	Cents per share
Dividend No. 37	-	24.114
Dividend No. 38	20.475	-
Total Dividend	<u>20.475</u>	<u>24.114</u>

25. SUBSEQUENT EVENTS

The Company is not aware of any matter or circumstance arising since the end of the financial year that have a material impact on the annual financial statements.

**GRINDROD BANK LIMITED**  
**CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL**  
**31 December 2015**

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

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

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

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

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

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

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

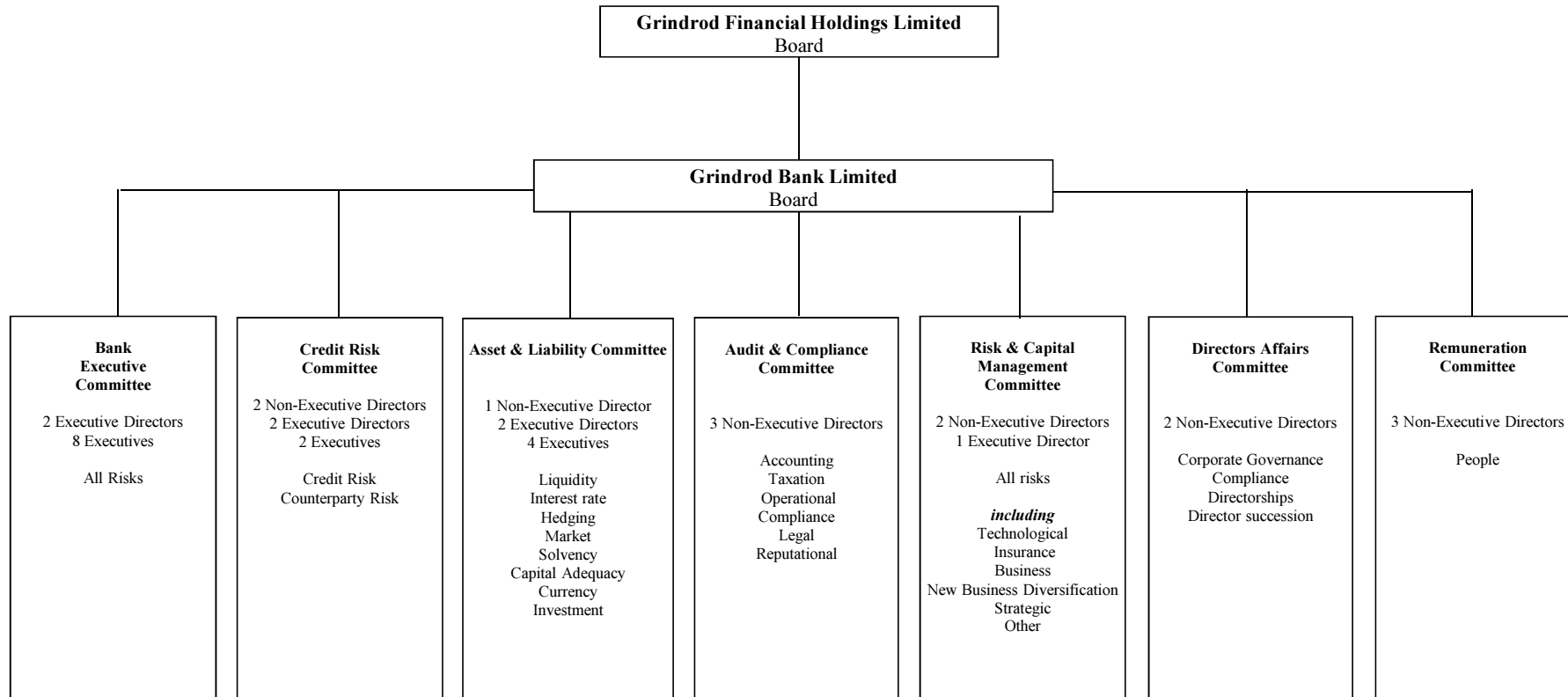
The compliance function is an independent function within the Company which is responsible for monitoring regulatory and reputational risk processes.

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

Nothing has come to the attention of the board of directors to indicate any material break down, as defined by the board of directors, in the functioning of the system of internal controls during the year ended 31 December 2015.

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

**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT FRAMEWORK**  
**31 December 2015**



## **CREDIT COMMITTEE**

### **Credit Risk**

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

#### *Credit Risk Management*

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

#### *Maximum exposure to credit risk*

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

#### *Definitions*

##### **Past Due**

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

##### **Impaired Exposure**

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

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

#### *Credit Risk Mitigation*

The Bank does not have material netting arrangements.

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

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

### **Counterparty Risk**

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

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

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

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

### **Concentration Risk**

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

**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**31 December 2015**

**ASSET AND LIABILITY COMMITTEE (ALCO)**

**Liquidity Risk**

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

*Liquidity Risk Management*

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

**Contractual maturity analysis**

<b>31 Dec 2015</b>	<b>&lt; 3 months</b>	<b>&gt; 3 months &lt; 6 months</b>	<b>&gt; 6 months &lt; 1 year</b>	<b>&gt; 1 year &lt; 5 years</b>	<b>&gt; 5 years</b>	<b>Non- contractual</b>	<b>Total</b>
	<b><u>R</u></b>	<b><u>R</u></b>	<b><u>R</u></b>	<b><u>R</u></b>	<b><u>R</u></b>	<b><u>R</u></b>	<b><u>R</u></b>
<b>Liabilities</b>							
Derivative Instruments	-	-	-	-	-	-	-
Deposits	9,276,817,099	406,553,234	290,270,090	326,916,558	-	-	10,300,556,981
Other liabilities	-	-	-	-	-	88,113,808	88,113,808
Taxation	-	-	-	-	-	6,497,124	6,497,124
	<b>9,276,817,099</b>	<b>406,553,234</b>	<b>290,270,090</b>	<b>326,916,558</b>	-	<b>94,610,932</b>	<b>10,395,167,913</b>
Operating lease commitments	2,560,476	2,460,411	5,114,224	37,056,571	-	-	47,191,682
Financing guarantees	47,466,675	-	-	-	-	-	47,466,675
Irrevocable unutilised facilities	149,610,683	-	-	-	-	-	149,610,683
	<b>9,476,454,933</b>	<b>409,013,645</b>	<b>295,384,314</b>	<b>363,973,129</b>	-	<b>94,610,932</b>	<b>10,639,436,953</b>
<b>31 Dec 2014</b>	<b>&lt; 3 months</b>	<b>&gt; 3 months &lt; 6 months</b>	<b>&gt; 6 months &lt; 1 year</b>	<b>&gt; 1 year &lt; 5 years</b>	<b>&gt; 5 years</b>	<b>Non- contractual</b>	<b>Total</b>
<b>Liabilities</b>							
Derivative Instruments	-	-	1,551,059	2,159,561	1,702,004	-	5,412,624
Deposits	7,221,974,814	433,846,199	742,548,919	22,301,430	36,618,505	-	8,457,289,867
Other liabilities	-	-	-	-	-	77,248,372	77,248,372
Taxation	-	-	-	-	-	15,167,221	15,167,221
	<b>7,221,974,814</b>	<b>433,846,199</b>	<b>744,099,978</b>	<b>24,460,991</b>	<b>38,320,509</b>	<b>92,415,593</b>	<b>8,555,118,084</b>
Operating lease commitments	2,225,521	2,213,284	4,513,626	26,870,133	-	-	35,822,564
Financing guarantees	14,784,129	-	-	-	-	-	14,784,129
Irrevocable unutilised facilities	146,076,036	-	-	-	-	-	146,076,036
	<b>7,385,060,500</b>	<b>436,059,483</b>	<b>748,613,604</b>	<b>51,331,124</b>	<b>38,320,509</b>	<b>92,415,593</b>	<b>8,751,800,813</b>

The liquidity maturity analysis is prepared on an undiscounted basis.



**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**31 December 2015**

**Interest Rate Risk**

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

*Interest Rate Risk Management*

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

**Interest Rate Repricing Gap**

<b>31 Dec 2015</b>	<b>&lt; 3 months</b>	<b>&gt; 3 months</b>	<b>&gt; 6 months</b>	<b>&gt; 1 year</b>	<b>&gt; 5 years</b>	<b>Non-rate sensitive</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Assets	10,594,427,741	-	-	235,883,878	74,943,879	325,523,312	11,230,778,810
Equity and liabilities	(9,811,970,424)	(320,036,845)	(124,854,247)	(43,695,464)	-	(930,221,829)	(11,230,778,810)
Interest rate hedging activities	309,383,478	-	-	(264,791,121)	(44,592,357)	-	0
Repricing profile	1,091,840,795	(320,036,845)	(124,854,247)	(72,602,707)	30,351,522	(604,698,517)	-
Cummulative repricing profile	1,091,840,795	771,803,950	646,949,702	574,346,995	604,698,517	-	
Expressed as a percentage of total assets	9.7%	6.9%	5.8%	5.1%	5.4%		

<b>31 Dec 2014</b>	<b>&lt; 3 months</b>	<b>&gt; 3 months</b>	<b>&gt; 6 months</b>	<b>&gt; 1 year</b>	<b>&gt; 5 years</b>	<b>Non-rate sensitive</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Assets	8,846,418,721	-	43,978,625	48,027,603	40,569,529	277,160,767	9,256,155,245
Equity and liabilities	(7,422,813,645)	(257,419,992)	(742,548,919)	(3,301,430)	(36,618,505)	(793,452,754)	(9,256,155,245)
Interest rate hedging activities	131,519,942	-	(43,466,226)	(48,151,943)	(39,901,774)	-	-
Repricing profile	1,555,125,019	(257,419,992)	(742,036,520)	(3,425,770)	(35,950,750)	(516,291,987)	-
Cummulative repricing profile	1,555,125,019	1,297,705,026	555,668,506	552,242,737	516,291,987	-	
Expressed as a percentage of total assets	16.8%	14.0%	6.0%	6.0%	5.6%		

**Interest Income Sensitivity**

<b>31 Dec 2015</b>	<b>&lt; 3 months</b>	<b>&gt; 3 months</b>	<b>&gt; 6 months</b>	<b>Cummulative impact on net interest income</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
2% interest rate increase	6,265,000	7,329,000	15,805,000	29,399,000
2% interest rate decrease	(6,227,000)	(7,272,000)	(15,348,000)	(28,847,000)
<b>31 Dec 2014</b>				
2% interest rate increase	5,714,000	6,442,000	14,960,000	27,116,000
2% interest rate decrease	(5,681,000)	(6,348,000)	(14,465,000)	(26,494,000)

**Hedging**

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

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

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**Market Risk (Position Risk)**

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

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

**Investment Risk**

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

**Equity Investment Risk**

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

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

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

<b>Sensitivity analysis</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
	<b><u>R</u></b>	<b><u>R</u></b>
10% increase in listed equity prices	-	-
10% decrease in listed equity prices	-	-

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

**Currency Risk**

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

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

	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
	<b><u>R</u></b>	<b><u>R</u></b>
<b>Foreign currency exposure</b>	-	-
<b>Sensitivity analysis</b>		
10% increase in listed equity prices		
10% decrease in listed equity prices		

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**Solvency Risk**

Capital Adequacy

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

		<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
		<b><u>R</u></b>	<b><u>R</u></b>
Ordinary share capital	<i>Common Equity Tier 1 capital</i>	650,000	650,000
Ordinary share premium	<i>Common Equity Tier 1 capital</i>	247,929,000	247,929,000
Preference share capital	<i>Additional Tier 1 capital</i>	185,000,000	145,000,000
		<b>433,579,000</b>	<b>393,579,000</b>
Distributable reserves - formally appropriated	<i>Common Equity Tier 1 capital</i>	395,365,963	295,371,963
Distributable reserves - unappropriated		6,665,934	12,086,197
<b>Total Equity</b>		<b>835,610,897</b>	<b>701,037,160</b>
Less: Retained earnings (unappropriated)		(6,665,934)	(12,086,197)
Prescribed deductions against capital and reserve funds		(143,000)	(297,000)
<b>Total qualifying tier 1 capital and reserve funds</b>		<b>828,801,963</b>	<b>688,653,963</b>
<b>Secondary capital and reserve funds</b>			
General allowance for credit impairment	<i>Tier 2 capital</i>	18,129,119	9,305,693
<b>Total qualifying capital and reserve funds</b>		<b>846,923,082</b>	<b>697,959,656</b>
Risk weighted exposure		6,253,010,000	5,356,287,500
Minimum required capital and reserve funds		640,933,525	549,019,469
<b>Tier 1 capital and reserve funds</b>			
<b>Tier 1 Capital Adequacy Ratio</b>		13.25%	12.86%
<b>Total qualifying capital and reserve funds</b>			
<b>Total Capital Adequacy Ratio</b>		13.54%	13.03%
Minimum regulatory capital adequacy ratio		10.00%	10.00%
Additional bank specific regulatory capital requirement		0.25%	0.25%
		10.25%	10.25%
Tier 1 capital ratio		97.9%	98.7%
Tier 2 capital ratio		2.1%	1.3%

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

*Capital Management*

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

Retained earnings appropriation

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

Dividend policy

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

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

*Restrictions or other major impediments on the transfer of funds or qualifying capital within the banking group*

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

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**AUDIT AND COMPLIANCE COMMITTEE**

**Accounting Risk**

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

**Taxation Risk**

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

**Operational Risk**

The risk that internal practices, policies and systems are not rigorous or sophisticated enough to cope with adverse market conditions or human or technological errors.

Including:

- error, negligence or fraud
- failure to correctly measure or report risk
- lack of controls to prevent unauthorised or inappropriate transactions being made
- lack of understanding by key staff

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

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

**Technological Risk**

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

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

**Legal Risk**

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

**Compliance Risk**

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

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

**Reputational Risk**

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

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**RISK AND CAPITAL MANAGEMENT COMMITTEE**

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

**Insurance Risk**

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

**New Business Risk**

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

**Diversification Risk**

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

**Strategic Risk**

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

**DIRECTORS AFFAIRS COMMITTEE**

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

**REMUNERATION COMMITTEE**

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

The Remuneration Committee meets twice per annum and its primary function is to

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

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

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

No employees of the Bank are considered to be material risk takers and the main business areas of the Bank are:

- Corporate Banking
- Treasury (activities limited to deposit taking and investment of surplus liquidity)
- Corporate Finance
- Retail Banking

**Incentive schemes**

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

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***Variable Incentive Schemes***

All employees who have performed according to predetermined criteria are incentivised if such a pool is justified and created. Variable incentive schemes for key executives are linked to key performance areas with metrics that vary between executives depending on their area of responsibility.

Material key performance areas and risks accounted for when implementing remuneration measures are

- Business profitability
- Divisional profitability
- Credit risk and bad debts
- Adequacy of liquidity
- New business generation
- Compliance with FICA and other applicable regulations
- BEE criteria
- Risk management
- Implementation and maintenance of internal controls

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

***Share based incentive schemes***

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

***Cash-settled share based incentive schemes***

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

- Grindrod Limited
- Grindrod Financial Holdings Limited and GFS Holdings Proprietary Limited (combined consolidated value)

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

***Cash/share-settled share based incentive scheme***

In terms of the plan participants are allocated notional shares at an approved allocation price in Select Industrial Real Estate UK Fund Limited (SIRE). Grindrod Property Private Equity (Pty) Ltd, a co-subsidiary, has agreed subject to exchange control regulations prevailing in March 2018 to facilitate delivery of the shares to the participants. Where the latter is not possible the Company will pay a share appreciation bonus equal to the difference between the allocation price of the shares and the fair market value at vesting date in March 2018. An employee's right to participate in the scheme terminates upon leaving the employment of the Company.

***Forfeitable share plan***

In terms of the FSP, the participants are entitled to receive dividends paid and to vote in respect of the shares awarded. However, the forfeitable shares cannot be disposed of or otherwise encumbered and they are also subject to a risk of forfeiture until the delivery date. The shares vest in equal tranches after 3, 4 and 5 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 be classified as bad leavers and will forfeit all unvested awards.