



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

**AUDITED ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

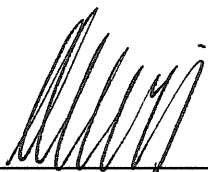


**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

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**CERTIFICATE BY COMPANY SECRETARY**

Grindrod South Africa Proprietary Limited, in its capacity as Company Secretary for 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 2016 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)  
27 February 2017

**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

**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 and the requirements of the Companies Act. The Company's independent external auditors, Deloitte & Touche, have audited the financial statements and their report appears on pages 3 - 7.

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 8 - 48 were approved by the board of directors on 27 February 2017, and are signed on their behalf by:-



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D A Polkinghorne  
DIRECTOR

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF GRINDROD BANK LIMITED

### Report on the Audit of Financial Statements

#### Opinion

We have audited the financial statements of Grindrod Bank Limited (the "Company") set out on pages 11 to 38 and 41 to 44, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the Companies Act of South Africa.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (Parts A and B)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

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

National Executive: \*LL Bam Chief Executive Officer \*TMM Jordan Deputy Chief Executive Officer \*MJ Jarvis Chief Operating Officer  
\*GM Pinnock Audit \*N Sing Risk Advisory \*NB Kader Tax TP Pillay Consulting S Gwala BPaaS \*K Black Clients & Industries  
\*JK Mazzocco Talent & Transformation \*MJ Comber Reputation & Risk \*TJ Brown Chairman of the Board  
Regional Leader: \*R Redfearn

A full list of partners and directors is available on request

\* Partner and Registered Auditor

**B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code**

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

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

**Key audit matter**

**How the matter was addressed in the audit**

**Impairment against advances**

Significant judgement is required by the Directors in assessing the impairment against advances.

Impairment amounting to R11 636 859 against an advances balance of R5 641 283 161, described in note 10 to the financial statements, represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the advance in respect of loans that exhibit indicators of impairment.

The significant judgements applied in determining the impairment included:

- the expected realisable value of the collateral securing the advance; and
- the probability that an advance will result in a loss.

Accordingly, impairment against advances is considered a key audit matter.

**Portfolio provision against advances**

Significant judgement is required by the Directors in assessing the portfolio provision against advances.

A portfolio provision of R27 696 543 per note 10 to the financial statements is raised against advances in respect of macroeconomic factors that may impact expected future cash flows. The judgements applied in determining the portfolio provision calculation included:

- the average size of credit exposures;
- the average expected loss on default; and
- the average number of potential loss accounts at any point in time.

Accordingly, portfolio provision against advances is considered a key audit matter.

In evaluating the impairment against advances, we assessed the judgements applied by the Directors and our audit procedures included the following:

- Examining on a sample basis the appraised fair value of the collateral securing impaired advances.
- Considering the qualitative factors that indicate impairment including the amount in arrears, period in arrears and the financial strength of the borrower.
- Assessing the adequacy of the impairment raised based on the expected realisable value of collateral and the qualitative factors described above.
- Considering the Directors' credit control processes to identify impaired advances and testing of relevant key controls in the process.

We found that the judgements applied in determining impairment against advances were appropriate and that the amount raised was reasonable.

In evaluating the portfolio provision against advances, we reviewed the provision calculations prepared by the Directors, with a particular focus on the average size of credit exposures, the average expected loss on default, and the average number of potential loss accounts at any point in time. Our procedures performed included the following:

- Assessing the accuracy of the calculation of the portfolio provision and the appropriateness of the provisioning methodology.
- Performing a retrospective review of prior year impairments compared to the prior year provision raised against advances.

We found that the assumptions applied in determining the portfolio provision were conservative and that the amount raised was reasonable.

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

**Key audit matter**

**How the matter was addressed in the audit**

**Fee income**

Significant judgement is applied in determining whether the fee earned is in respect of services performed in relation to a significant act where the fee can be recognised upfront or whether it relates to the origination of a loan and the related fee should be deferred over the average life of the loan in accordance with IAS 18 Revenue ("IAS 18").

Fee income amounting to R170 199 068 described in note 3 to the financial statements relates to:

- Fees earned in respect of loan origination which are deferred and recognised using the effective interest rate method in accordance with IAS 18.
- Fees earned on execution of a significant act, which are recognised on completion of the significant act in accordance with IAS 18.

Accordingly, the determination of fee income is considered a key audit matter.

In evaluating the accounting treatment of fee income in accordance with IAS 18, our procedures included the following:

- Inspecting the underlying loan facility agreements on a sample basis to establish the purpose of the fee earned and whether it relates to the origination of a related loan facility or execution of a significant act.
- Assessing whether the fee should be recognised upfront or deferred over the average life of the loan in accordance with IAS 18.
- On a sample basis, recalculating the deferral of fee income based on the average life of the loan book.

We found the accounting treatment of fee income to be in compliance with IAS 18.

**Other Information**

The Directors are responsible for the other information. The other information comprises the Directors' Report, Audit and Compliance Committee Report the Certificate by Company Secretary as required by the Companies Act of South Africa, and the Corporate Governance, Risk Management and Internal Control report, which we obtained prior to the date of this report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

**Responsibilities of the Directors for the Financial Statements**

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the 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.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

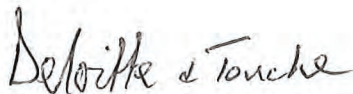
**INDEPENDENT AUDITOR'S REPORT (continued)  
TO THE SHAREHOLDER OF GRINDROD BANK LIMITED**

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

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

**Report on Other Legal and Regulatory Requirements**

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Grindrod Bank Limited for 22 years.



**Deloitte & Touche**

Registered Auditors

Per: Gavin Kruger CA (SA), RA

Partner

Date: 17 March 2017



**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

**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 have 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 Nyoka (previously Fubu)	(resigned May 2016)
R S M Ndlovu	(appointed May 2016)

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 2017 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



WD Geach  
Audit And Compliance Committee Chairman  
27 February 2017

**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

**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 2016.

**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 paid and accrued are disclosed in the statement of changes in equity.

**DIRECTORS**

At 31 December 2016, and the date of this report, the board of directors comprised the following:

<b>Name</b>	<b>Gender</b>	<b>Position</b>	
A K Olivier	M	Chairman	
D A Polkinghorne	M	Managing Director	
S A Blades	M	Executive Director	
J H Beare	M	Non Executive Director	
W D Geach	M	Non Executive Director	
R S M Ndlovu	M	Non Executive Director	(appointed March 2016)
B Ntuli	F	Non Executive Director	
T Nyoka	F	Non Executive Director	(resigned July 2016)
S P Scott	F	Chief Financial Officer	(appointed May 2016)
P J Uys	M	Non Executive Director	

**COMPANY SECRETARY**

Grindrod South Africa Proprietary Limited

**COUNTRY OF INCORPORATION**

South Africa

**GRINDROD BANK LIMITED**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

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 2016**

	<u>Notes</u>	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
		<u>R</u>	<u>R</u>
Interest income	1	782,221,343	592,586,158
Interest expense	2	(542,664,752)	(413,222,408)
NET INTEREST INCOME		<u>239,556,591</u>	<u>179,363,750</u>
Other operating income	3	181,885,218	165,831,934
Operating expenditure	4	(213,227,817)	(192,330,529)
Provision for credit losses	5	(10,504,059)	(10,191,983)
PROFIT BEFORE TAXATION		<u>197,709,933</u>	<u>142,673,172</u>
Taxation	6	(24,358,170)	(20,825,317)
PROFIT AFTER TAXATION		<u>173,351,763</u>	<u>121,847,855</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>173,351,763</u></u>	<u><u>121,847,855</u></u>

**GRINDROD BANK LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**At 31 December 2016**

	<u>Notes</u>	<u>31 Dec 2016</u> <u>R</u>	<u>31 Dec 2015</u> <u>R</u>
<b>ASSETS</b>			
PROPERTY AND EQUIPMENT	7	11,697,890	11,463,674
INVESTMENT IN SUBSIDIARIES	8	1	1
INVESTMENTS	9	-	18,309
LOANS AND ADVANCES	10	5,601,949,759	4,672,441,190
DERIVATIVE INSTRUMENTS	19	-	3,426,898
OTHER ASSETS	11	318,150,226	314,041,329
LIQUID ASSETS AND SHORT TERM NEGOTIABLE SECURITIES	12	1,801,065,264	1,065,729,507
CASH AND SHORT TERM FUNDS	13	7,423,728,329	5,163,657,902
<b>TOTAL ASSETS</b>		<b>15,156,591,469</b>	<b>11,230,778,810</b>
<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	235,000,000	185,000,000
Distributable reserves		555,657,104	402,031,897
<b>TOTAL EQUITY</b>		<b>1,039,236,104</b>	<b>835,610,897</b>
DEFERRED TAXATION	17	5,080,805	1,037,408
DEPOSITS AND FUNDING INSTRUMENTS	18	13,994,542,152	10,300,556,981
DERIVATIVE INSTRUMENTS	19	10,521,451	-
OTHER LIABILITIES	20	104,819,631	88,113,808
TAXATION		2,391,326	5,459,716
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15,156,591,469</b>	<b>11,230,778,810</b>

**GRINDROD BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2016**

	<u>Notes</u>	Ordinary Share <u>Capital</u> <u>R</u>	Ordinary Share <u>Premium</u> <u>R</u>	Preference Share <u>Capital</u> <u>R</u>	Distributable <u>Reserves</u> <u>R</u>	<u>Total</u> <u>R</u>
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 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		650,000	247,929,000	185,000,000	402,031,897	835,610,897
Total comprehensive income for the year		-	-	-	173,351,763	173,351,763
Preference share dividends		-	-	-	(19,726,556)	(19,726,556)
Issue of preference share capital	16	-	-	50,000,000	-	50,000,000
Balance at 31 December 2016		650,000	247,929,000	235,000,000	555,657,104	1,039,236,104

*Issue of share capital*  
50,000 non-cumulative, non-redeemable,  
non-participating, non-convertible no par  
value shares

50,000,000

**GRINDROD BANK LIMITED**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2016**

	<u>Notes</u>	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
		<u>R</u>	<u>R</u>
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>			
Interest income		782,221,343	592,586,158
Interest expense		(542,664,752)	(413,222,408)
Fee and other income		179,437,069	116,795,772
Cash payments to employees and suppliers		(194,470,554)	(179,647,233)
Cash generated from / (utilised in) operations	A	224,523,106	116,512,289
<b><i>(Increase)/decrease in operating assets:</i></b>			
Proceeds on sale of securities and equities		18,307	-
Loans and advances to customers		(927,725,026)	(733,200,863)
Deposits held for regulatory purposes		2,113,620	(259,342,912)
Other short term negotiable securities		(733,267,376)	160,571,286
<b><i>Increase/(decrease) in operating liabilities:</i></b>			
Deposits from customers		3,693,985,171	1,843,267,114
Dividends paid - ordinary shares		-	(13,309,000)
Dividends paid - preference shares		(16,598,065)	(11,561,000)
Normal tax paid		(23,383,163)	(29,495,415)
Net cash inflow/(outflow) from operating activities		2,219,666,574	1,073,441,499
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(5,414,147)	(4,187,135)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>			
Issue of preference share capital		50,000,000	40,000,000
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		2,264,252,427	1,109,254,364
Cash and cash equivalents at the beginning of the year		4,990,257,902	3,881,003,538
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>B</b>	<b>7,254,510,329</b>	<b>4,990,257,902</b>

**GRINDROD BANK LIMITED**  
**NOTES TO THE STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</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	197,709,933	142,673,172
Adjusted for:		
Unrealised (profit)/loss on derivatives	13,948,349	(8,839,522)
Unrealised (profit)/loss on loans designated as at fair value	(12,287,602)	8,200,749
Depreciation	5,179,931	4,221,979
Bad debts written off/(recovered)	(83,024)	-
Increase/(decrease) in impairments against advances	1,019,659	4,987,437
Increase/(decrease) in portfolio provision against advances	9,567,425	5,204,546
Operating profit before working capital changes	<u>215,054,671</u>	<u>156,448,361</u>
Working capital changes		
(Increase)/decrease in accounts receivable	(3,971,139)	(165,230)
(Increase)/decrease in fee debtors	(137,758)	(48,232,159)
Increase/(decrease) in accounts payable	13,577,332	8,461,317
Cash generated from/(utilised by) operations	<u>224,523,106</u>	<u>116,512,289</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	7,423,728,329	5,163,657,902
Deposits held with SARB for regulatory purposes	(169,218,000)	(173,400,000)
Cash and cash equivalents	<u>7,254,510,329</u>	<u>4,990,257,902</u>
Cash and cash equivalents comprise:		
Current account balances	4,156,379,155	625,676,779
Interbank deposits	3,098,131,174	4,364,581,123
	<u>7,254,510,329</u>	<u>4,990,257,902</u>



**GRINDROD BANK LIMITED**  
**ACCOUNTING POLICIES**  
**For the year ended 31 December 2016**

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.

These financial statements are separate financial statements prepared in accordance with IAS27 - Separate Financial Statements. Separate consolidated financial statements are prepared by the Company. The company's ultimate holding company, Grindrod Limited, operating from Durban, South Africa, prepares consolidated financial statements for public use that comply with International Financial Reporting Standards. Those consolidated financial statements are obtainable from Grindrod Limited's website, [www.grindrod.co.za](http://www.grindrod.co.za).

At the date of authorisation of the financial statements the following applicable standards 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 15 - Revenue from contracts with customers - Applies to annual periods beginning on or after 1 January 2018*

*IFRS 16 - Leases - Applies to annual periods beginning on or after 1 January 2019*

The directors anticipate that the adoption of applicable standards and interpretations in future periods will have an impact on the financial statements of the Company but this has not yet been quantified. 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.

Due to the nature of its operations the Company is not managed or internally structured for management reporting purposes on a segmented basis and as a result no segmental information has been provided.

**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**  
**For the year ended 31 December 2016**

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

1. 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 held 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**  
**For the year ended 31 December 2016**

2. 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.

*Investment in subsidiaries*

Investments in subsidiaries 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.

3. 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 through profit and loss 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.

4. 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**  
**For the year ended 31 December 2016**

5. 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.

6. Property and equipment

Fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is accounted for through profit and loss and is calculated using the straight line method, at rates estimated to write off each asset over the term of its useful life. The estimated useful lives, residual values and depreciation 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 computer hardware	3

7. Intangible assets

Intangible assets are recognised at cost less accumulated amortisation and any impairment. Amortisation is accounted for through profit and loss and 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.

Computer software is amortised over a 3 year period

8. 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.

9. 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.

10. 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.

11. 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**  
**For the year ended 31 December 2016**

12. Retirement benefits

Current contributions to the defined contribution retirement benefit plans are the current service costs and are charged in profit or loss as incurred.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<b>1. INTEREST INCOME</b>		
<i>Loans and receivables (effective interest method)</i>	740,625,940	584,198,808
<i>Loans held at fair value through profit or loss</i>	41,595,403	8,387,350
	<u>782,221,343</u>	<u>592,586,158</u>
Advances	439,996,212	355,672,696
Preference share dividends, advances portfolio	89,195,674	58,353,759
Balances at banks and short term funds	209,909,472	145,989,996
Other short term securities	40,312,162	29,728,179
Preference share dividends, negotiable securities portfolio	7,696,354	6,787,659
Interest income received\ (paid) on derivative hedges	(4,888,531)	(3,946,131)
	<u>782,221,343</u>	<u>592,586,158</u>
Interest income from related parties:		
Grindrod Group companies	15,265,172	12,469,364
Directors and key management personnel (directly and indirectly)	1,104,766	510,111
	<u>16,369,938</u>	<u>12,979,475</u>
Interest income on impaired loans	<u>5,618,196</u>	<u>1,523,238</u>
<b>2. INTEREST EXPENSE</b>		
<i>Calculated using the effective interest method</i>		
Call deposits - corporate banking	228,870,349	146,872,840
Call deposits - retail banking	47,620,681	31,419,889
Notice and fixed deposits	123,657,219	76,679,946
Prime linked notice deposits	115,656,403	111,752,674
Preference share funding	8,675,245	6,482,645
Bond issue	14,951,430	34,065,784
Funding guarantee fees	3,233,425	5,948,630
	<u>542,664,752</u>	<u>413,222,408</u>
Interest paid to related parties:		
Grindrod Group companies	17,612,123	8,632,251
Directors (directly and indirectly)	681,247	758,039
	<u>18,293,370</u>	<u>9,390,290</u>
Guarantee fees paid to related parties:		
Grindrod Group companies	<u>3,233,425</u>	<u>5,948,630</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
3. OTHER OPERATING INCOME		
Fee income		
Retail Banking	81,182,932	69,403,673
Corporate Banking	15,448,779	30,471,250
Corporate Banking (property)	39,612,723	31,719,515
Fee debtor accretion	2,787,943	3,173,022
Corporate Finance	10,000,916	12,564,106
Other banking related	11,132,859	8,192,656
Dividends received - other preference share	10,032,916	-
Residual beneficiary distribution	12,810,537	9,857,153
Fair value gains/(losses) on FVTPL financial instruments		
Mark-to-market of derivatives	(13,411,989)	8,651,308
Mark-to-market of loans held at fair value through profit or loss	12,287,602	(8,200,749)
	<u>181,885,218</u>	<u>165,831,934</u>
Included in fee income are fees from related parties:		
Grindrod Bank subsidiaries	266,464	324,081
Grindrod Group companies	13,436,703	12,795,528
Directors (directly and indirectly)	-	11,694
	<u>-</u>	<u>11,694</u>
Included in dividends are dividends from related parties:		
Grindrod Group companies	-	599,425
	<u>-</u>	<u>599,425</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<b>4. OPERATING EXPENDITURE</b>		
Auditors remuneration		
- audit fees	1,962,035	2,448,800
- other services	90,000	18,000
Internal audit - non Deloitte professional service providers	562,784	41,452
Banking and transactional related costs	6,355,815	4,703,723
Computer related costs	16,882,941	11,626,478
Depreciation and amortisation	5,179,931	4,221,979
Legal and professional fees	4,758,460	3,514,031
Marketing	8,984,836	9,736,464
Premises		
- rental	9,143,325	8,784,085
- other premises related costs	4,506,659	3,663,278
Staff expenses		
- salaries	97,141,415	86,918,404
- incentive schemes	30,632,433	31,825,749
- cash-settled share based schemes	4,572,339	3,740,728
- other	1,040,131	982,018
Travel	3,585,801	3,718,929
Other expenses	11,461,738	11,748,951
Indirect taxation	6,367,174	4,637,460
	<u>213,227,817</u>	<u>192,330,529</u>
Key Executive Management Remuneration (10 staff members)		
Managerial services - salaries	18,043,468	17,169,527
Managerial services - incentive schemes	12,961,809	12,234,579
Managerial services - cash-settled share based payments	6,205,516	6,024,370
Post retirement benefits	2,734,924	2,839,168
	<u>39,945,717</u>	<u>38,267,644</u>



**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

		<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
		R	R
Executive director remuneration	Salary	Post retirement benefits	Bonus & Incentive Schemes
<i>Current year</i>			
D A Polkinghorne	3,519,118	353,971	3,824,095
S A Blades	2,560,751	349,822	2,714,731
S P Scott	1,731,568	211,230	1,953,367
	<u>7,811,437</u>	<u>915,023</u>	<u>8,492,193</u>
<i>Prior year</i>			
D A Polkinghorne	3,255,089	479,116	3,503,227
S A Blades	2,266,726	452,289	2,932,190
	<u>5,521,815</u>	<u>931,405</u>	<u>6,435,417</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	1,142,210	460,705
Executive - managerial services	16,303,631	11,957,232
Executive - post retirement benefits	915,023	931,405
	<u>18,360,864</u>	<u>13,349,342</u>

Non-executive director emoluments paid by the Company

J H Beare	466,976	235,335
W D Geach	293,945	162,153
R S M Ndlovu *	177,080	-
T Nyoka (previously Fubu)	77,907	63,217
P J Uys *	126,302	-
	<u>1,142,210</u>	<u>460,705</u>

Director emoluments paid by the Grindrod Group,

*Executive directors*

A K Olivier	9,404,757	9,464,000
B Ntuli	4,904,438	4,850,000

*Non-executive directors*

J H Beare	466,976	-
W D Geach	611,796	522,000
R S M Ndlovu *	177,080	-
T Nyoka (previously Fubu)	217,545	424,000
P J Uys *	126,302	69,000
	<u>15,908,894</u>	<u>15,329,000</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**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
5. PROVISION FOR CREDIT LOSSES		
Increase/(decrease) in impairments against advances	1,019,659	4,987,437
Increase/(decrease) in portfolio provision	9,567,424	5,204,546
Bad debts written off/(recovered)	(83,024)	-
	<u>10,504,059</u>	<u>10,191,983</u>
6. TAXATION		
SA Normal taxation		
Current Tax	20,314,774	31,234,785
Deferred Tax	4,043,396	(10,409,468)
	<u>24,358,170</u>	<u>20,825,317</u>
RECONCILIATION OF RATE OF TAXATION	%	%
Standard rate	28.0	28.0
Adjusted for:		
Dividends	(15.7)	(13.4)
Effective rate	<u>12.3</u>	<u>14.6</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<b>7. PROPERTY AND EQUIPMENT</b>		
Furniture, fittings, office equipment and motor vehicles		
Cost	9,905,007	10,492,313
Accumulated depreciation	(5,809,589)	(5,122,150)
	<u>4,095,418</u>	<u>5,370,163</u>
Computer software		
Cost	3,673,710	3,673,710
Accumulated depreciation/amortisation	(3,628,711)	(3,530,845)
	<u>44,999</u>	<u>142,865</u>
Computers and computer hardware		
Cost	19,631,967	15,579,900
Accumulated depreciation	(12,074,494)	(9,629,254)
	<u>7,557,473</u>	<u>5,950,646</u>
Total assets	33,210,684	29,745,923
Total accumulated depreciation	(21,512,794)	(18,282,249)
	<u>11,697,890</u>	<u>11,463,674</u>

MOVEMENT IN PROPERTY AND EQUIPMENT				
	Furniture, fittings, office equipment and motor vehicles	Computer software	Computers and computer hardware	Total
<i>Current year</i>				
Net book value at beginning of year	5,370,163	142,865	5,950,646	11,463,674
Purchases	90,070	-	5,324,077	5,414,147
Depreciation	1,364,815	97,866	3,717,250	5,179,931
Net book value at end of year	<u>4,095,418</u>	<u>44,999</u>	<u>7,557,473</u>	<u>11,697,890</u>
<i>Prior year</i>				
Net book value at beginning of year	6,363,929	296,737	4,837,852	11,498,518
Purchases	348,475	-	3,838,660	4,187,135
Depreciation	1,342,241	153,872	2,725,866	4,221,979
Net book value at end of year	<u>5,370,163</u>	<u>142,865</u>	<u>5,950,646</u>	<u>11,463,674</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
8. INVESTMENT IN SUBSIDIARIES		
<i>Measured at cost</i>		
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	1	1
	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>
9. INVESTMENTS		
Investment banking portfolio		
<i>Unlisted Investments</i>		
<i>Held at fair value through profit or loss using year end market prices</i>		
Opening balance	18,309	18,309
Disposals	(18,309)	-
Closing balance	<u>-</u>	<u>18,309</u>
	<u>-</u>	<u>18,309</u>
<i>Portfolio analysis</i>		
Investment portfolio	-	18,309
	<u>-</u>	<u>18,309</u>
	<u>-</u>	<u>18,309</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<b>10. LOANS AND ADVANCES</b>		
At amortised cost	5,019,965,613	4,364,484,044
Designated at fair value through profit or loss using year end market related interest rate yield curves to discount expected future cash flows	581,984,146	307,957,146
	<u>5,601,949,759</u>	<u>4,672,441,190</u>
Loans and advances - companies and close corporations	4,282,707,108	3,455,826,600
Loans and advances - unincorporated businesses and other	238,313,546	228,334,658
Loans and advances - household	95,890,375	110,790,423
Preference shares	964,620,184	869,616,249
Interest accrued	50,476,747	39,631,980
Revaluation of loans designated at fair value through profit or loss	9,275,201	(3,012,401)
Less portfolio provision against advances	(27,696,543)	(18,129,119)
Less impairments against advances	(11,636,859)	(10,617,200)
	<u>5,601,949,759</u>	<u>4,672,441,190</u>
Maximum exposure to credit risk	<u>5,641,283,161</u>	<u>4,701,187,509</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	772,068,403	624,147,319
Maturing within one month	346,425,734	420,689,186
Maturing after one month but within three months	359,647,277	47,752,013
Maturing after three months but within six months	95,654,661	236,947,483
Maturing after six months but within one year	466,136,591	210,230,111
Maturing after one year but within three years	1,537,603,314	1,371,299,151
Maturing after three years but within five years	1,253,725,700	950,692,651
Maturing after five years but within ten years	670,204,196	756,364,373
Maturing after ten years	80,065,337	46,445,643
Interest accrued	50,476,747	39,631,980
Revaluation of loans held at fair value through profit or loss	9,275,201	(3,012,401)
Less portfolio provision against advances	(27,696,543)	(18,129,119)
Less impairments against advances	(11,636,859)	(10,617,200)
	<u>5,601,949,759</u>	<u>4,672,441,190</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.

Refer to the loans and advances policy for critical judgements and key sources of measurement uncertainty in determining impairments and the portfolio provision against advances.

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<i>Sectoral analysis</i>		
Agriculture, hunting, forestry and fishing	32,052,068	29,116,762
Mining and quarrying	29,154,272	29,135,800
Manufacturing	239,758,516	201,149,158
Construction	39,465,695	39,419,419
Wholesale and retail trade, repair of specified items, hotels and restaurants	130,347,435	91,114,466
Transport, storage and communication	154,796,085	166,781,042
Financial intermediation and insurance	275,494,478	354,151,842
Real estate	2,588,423,430	2,106,223,388
Business services	129,238,502	89,753,172
Community, social and personal services	298,123	13,104,318
Private households	87,137,229	101,153,031
Other	1,923,480,469	1,469,467,911
Less portfolio provision against advances	(27,696,543)	(18,129,119)
	<u>5,601,949,759</u>	<u>4,672,441,190</u>
<i>Geographical analysis</i>		
South Africa	<u>5,601,949,759</u>	<u>4,672,441,190</u>
Included in advances are fixed rate loans held at fair value through profit or loss:		
Carrying value of loans held at fair value through profit or loss	572,708,945	310,969,547
Revaluation of loans held at fair value through profit or loss	9,275,201	(3,012,401)
Fair value of loans held at fair value through profit or loss	<u>581,984,146</u>	<u>307,957,146</u>
The above loans and advances have been hedged with derivative instruments and may include forward start fixed rate loans (see note 19).		
<i>Revaluation of loans held at fair value through profit or loss</i>		
Changes in fair value during the period attributable to changes in:		
Market risk	<u>9,275,201</u>	<u>(3,012,401)</u>
Related party loans and advances:		
Grindrod Group companies - advances	183,290,434	151,127,501
Directors and key management personnel (directly and indirectly)	11,742,789	6,971,916
	<u>195,033,223</u>	<u>158,099,417</u>
Loans are made to related parties on normal business terms and at market related rates of interest.		
Analysis of portfolio provision		
Provision at the beginning of the year	18,129,119	12,924,573
Net increase/(decrease) in provision	9,567,424	5,204,546
Provision at the end of the year	<u>27,696,543</u>	<u>18,129,119</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
Analysis of impairments		
Impairments at the beginning of the year	10,617,200	5,629,763
Net increase/(decrease) in impairments	1,019,659	4,987,437
Impairments at the end of the year	<u>11,636,859</u>	<u>10,617,200</u>
Analysis of classified, impaired or non-performing loans and advances		
Advances classified as special mention	257,997,407	81,002,312
Advances classified as sub-standard	13,584,170	11,902,281
Advances displaying significant weakness	6,404,404	5,673,890
Carrying amount of impaired advances	<u>277,985,981</u>	<u>98,578,483</u>
Collateral held against impaired or non-performing loans and advances	<u>266,349,122</u>	<u>87,961,283</u>
Age Analysis of classified, impaired or non-performing loans and advances		
Current	2,732,917	40,145,944
< 3 months overdue	169,640,802	21,295,880
3 - 6 months overdue	-	-
6 - 12 months overdue	6,446,196	-
> 12 months overdue	99,166,066	37,136,659
	<u>277,985,981</u>	<u>98,578,483</u>
<i>Sectoral analysis of classified, impaired or non-performing loans and advances</i>		
Agriculture, hunting, forestry and fishing	562,222	501,717
Manufacturing	24,068,736	22,000,530
Wholesale and retail trade, repair of specified items, hotels and restaurants	-	-
Real estate	194,680,467	30,851,977
Community, social and personal services	-	5,987,976
Private households	285,349	272,804
Other	58,389,207	38,963,479
	<u>277,985,981</u>	<u>98,578,483</u>
<i>Geographical analysis of classified, impaired or non-performing loans and advances</i>		
South Africa	<u>277,985,981</u>	<u>98,578,483</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<b>11. OTHER ASSETS</b>		
<i>Debtors measured at amortised cost</i>	277,824,008	272,003,055
<i>Present value recognised at inception and accreted on a straightline basis</i>	40,326,218	42,038,274
	<u>318,150,226</u>	<u>314,041,329</u>
Sundry debtors	19,678,665	15,707,526
Fee debtors	298,471,561	298,333,803
	<u>318,150,226</u>	<u>314,041,329</u>
The carrying value of other assets approximates fair value.		
Maturity analysis of fee debtors		
Maturing within one year	188,854,186	214,143,563
Maturing after one year	109,617,375	84,190,240
	<u>298,471,561</u>	<u>298,333,803</u>
Included in fee debtors are amounts with contractually deferred receipt dates:		
Deferred fee debtors	<u>184,617,375</u>	<u>159,190,240</u>
Included in fee debtors are amounts due from related parties, including overhead recoveries:		
Grindrod Bank subsidiaries	1,735,513	2,309,049
Grindrod Group companies	<u>8,018,348</u>	<u>9,367,354</u>
<b>12. LIQUID ASSETS AND SHORT TERM NEGOTIABLE SECURITIES</b>		
<i>Measured at amortised cost</i>		
Money Market Investments	1,083,724,658	472,097,061
Preference shares	149,168,069	27,528,289
<i>Statutory Liquid Assets at amortised cost</i>		
Treasury bills	517,734,593	460,476,047
SARB Debentures	50,437,944	105,628,110
	<u>1,801,065,264</u>	<u>1,065,729,507</u>
The carrying value of liquid assets and short term negotiable securities approximates fair value.		



**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
13. CASH AND SHORT TERM FUNDS		
<i>Measured at amortised cost</i>		
Regulatory deposits with the S A Reserve Bank	169,218,000	173,400,000
Other deposits with the S A Reserve Bank	4,156,379,155	580,055,289
Interbank deposits	3,098,131,174	4,410,202,613
	<u>7,423,728,329</u>	<u>5,163,657,902</u>

14. ORDINARY SHARE CAPITAL

Authorised		
150,000,000 (2015: 150,000,000) ordinary shares of 1 cent each	<u>1,500,000</u>	<u>1,500,000</u>
Issued		
65,000,002 (2015: 65,000,002) ordinary shares of 1 cent each	<u>650,000</u>	<u>650,000</u>

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

15. ORDINARY SHARE PREMIUM

Arising on the issue of 65,000,002 (2015: 65,000,002) ordinary shares of 1 cent each	<u>247,929,000</u>	<u>247,929,000</u>
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16. PREFERENCE SHARE CAPITAL

Authorised		
250,000 (2015: 250,000) non-cumulative, non-redeemable, non-participating, non-convertible no par value shares		
Issued		
235,000 (2015: 185,000) non-cumulative, non-redeemable, non-participating, non-convertible no par value shares	<u>235,000,000</u>	<u>185,000,000</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**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<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	(843,472)	843,472
Deferred Tax Liability on Operating leases	(2,390,268)	2,390,268
Deferred Tax Asset on Portfolio provision	2,678,879	5,076,153
Deferred Tax Asset on Leave pay provision	(192,321)	1,723,604
Deferred Tax Asset/(Liability) on Income accruals	(2,423,452)	(11,943,667)
	<u>(4,043,396)</u>	<u>(1,037,408)</u>
<i>Reconciliation</i>		
Current charge per statement of profit or loss	(4,043,396)	

<b>ANALYSIS OF TEMPORARY DIFFERENCES</b>			
	Carrying Amount	Tax Base	Temporary Differences
<b>PRIOR YEAR</b>			
Derivative mark-to-market	3,117,008	-	3,117,008
Mark-to-market of loans designated at fair value	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 1 January 2016	<u>(3,705,027)</u>	-	<u>(3,705,027)</u>
Deferred Tax Asset/(Liability) at 28%			<u>(1,037,408)</u>
<b>CURRENT YEAR</b>			
Portfolio provision	27,696,544	-	27,696,544
Leave pay provision	5,468,868	-	5,468,868
Income accruals	(51,311,145)	-	(51,311,145)
Balance at 31 December 2016	<u>(18,145,733)</u>	-	<u>(18,145,733)</u>
Deferred Tax Asset/(Liability) at 28%			<u>(5,080,805)</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<b>18. DEPOSITS AND FUNDING INSTRUMENTS</b>		
<i>Measured at amortised cost</i>		
Call deposits - corporate banking	3,917,122,543	2,631,876,377
Call deposits - retail banking	6,678,435,809	4,389,635,863
Notice and fixed deposits	1,793,799,561	1,228,792,047
Prime linked notice deposits	1,193,427,197	1,741,200,372
Preference share funding	188,000,000	99,400,000
Bond issue (DMTN Programme)	160,000,000	160,000,000
Interest accrued	63,757,042	49,652,322
	<u>13,994,542,152</u>	<u>10,300,556,981</u>
Amounts owed to depositors	13,798,891,683	10,059,769,124
Amounts owed to banks	195,650,469	240,787,857
	<u>13,994,542,152</u>	<u>10,300,556,981</u>
Contractual maturity analysis		
Withdrawable on demand	10,624,112,284	7,038,438,460
Maturing within one month	408,404,759	542,664,647
Maturing after one month but within three months	1,349,401,894	1,695,713,992
Maturing after three months but within six months	870,158,652	406,553,234
Maturing after six months but within one year	244,386,276	290,270,090
Maturing after one year	498,078,287	326,916,558
	<u>13,994,542,152</u>	<u>10,300,556,981</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>		
200 000 000 variable rate, cumulative, redeemable, no par value preference shares		
Preference share dividends are payable bi-annually and are accrued at 75% of the prime rate of interest.		
<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	195,650,469	240,787,857
Government and public sector	72,552,011	62,952,406
Individuals	8,180,350,675	5,364,511,476
Business sector and other	5,545,988,996	4,632,305,242
	<u>13,994,542,151</u>	<u>10,300,556,981</u>
<i>Geographical analysis</i>		
South Africa	<u>13,994,542,152</u>	<u>10,300,556,981</u>

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
Related party deposits:		
Grindrod Group	107,481,762	129,681,331
Grindrod Bank subsidiaries	108,491	108,491
Directors (directly and indirectly)	8,792,028	8,208,298
Deposits from related parties earn market related rates of interest		

19. DERIVATIVE INSTRUMENTS

*At fair value through profit or loss using year end market related interest rate yield curves to discount expected future cash flows*

Interest rate swaps (market valuation)		
Mark-to-market liability	10,686,793	841,852
Mark-to-market asset	(165,342)	(4,268,750)
Net mark-to-market (asset)/liability	<u>10,521,451</u>	<u>(3,426,898)</u>
Current year movements		
Mark-to-market liability	9,844,941	(4,828,971)
Mark-to-market asset	4,103,408	(4,010,551)
Net mark-to-market loss/(gain)	<u>13,948,349</u>	<u>(8,839,522)</u>
Interest rate swaps (market valuation)		
Contracts economically hedging fixed rate loans and advances (note 10)	<u>10,521,451</u>	<u>(3,426,898)</u>
Interest rate swaps (nominal value)		
Contracts with negative mark-to-market value (liability)	506,347,712	29,626,643
Contracts with positive mark-to-market value (asset)	62,092,769	280,053,223
	<u>568,440,481</u>	<u>309,679,866</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**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
20. OTHER LIABILITIES		
<i>Measured at amortised cost</i>		
Accounts payable	24,812,239	12,379,753
Leave pay provision	5,468,868	6,155,727
Bonus provision	34,113,341	29,793,554
Cash-settled share based incentive schemes	21,890,835	24,497,219
Cash/share-settled share based incentive scheme	5,978,130	5,978,130
Forfeitable share plan	1,609,982	1,491,680
Preference share dividends payable	10,946,236	7,817,745
	<u>104,819,631</u>	<u>88,113,808</u>
Analysis of leave pay provision		
Provisions at the beginning of the year	6,155,727	4,302,170
New provision raised	(686,859)	1,853,557
Provisions at the end of the year	<u>5,468,868</u>	<u>6,155,727</u>
Leave pay provisioning is regarded as contractual and the timing of cashflows is variable.		
Analysis of incentive schemes/provisions		
Provisions at the beginning of the year	61,760,583	54,314,968
Utilised or reversed during year	(33,373,068)	(29,726,146)
New provision raised	35,204,773	37,171,761
Provisions at the end of the year	<u>63,592,288</u>	<u>61,760,583</u>
Refer to additional disclosure under Risk Management: Remuneration Committee.		
Related party accounts payable:		
Grindrod Group	<u>1,631,912</u>	<u>1,889,497</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>21,890,835</u>	<u>24,497,219</u>

The fair market value of shares is determined using the greater of:  
*the* combined consolidated net asset values of the Grindrod Financial Holdings Limited and GFS Holdings Proprietary Limited; or  
*approximately* 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.

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<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 Proprietary Limited, 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 impractical the Bank 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>5,978,130</u>

21. FINANCIAL INSTRUMENT FAIR VALUE HIERARCHY

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>31 Dec 2016</b>				
<b>Assets</b>				
Loans and receivables	581,984,146	-	581,984,146	-
	<u>581,984,146</u>	<u>-</u>	<u>581,984,146</u>	<u>-</u>
<b>Liabilities</b>				
Derivative instruments	10,521,451	-	10,521,451	-
	<u>10,521,451</u>	<u>-</u>	<u>10,521,451</u>	<u>-</u>
<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>-</u>	<u>311,384,044</u>	<u>18,309</u>

There were no transfers between the levels during the year.

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

Refer to note 9 and the respective policies 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

**Financial Instruments Risk Management**

Risks arising from financial instruments are addressed in the Corporate Governance, Risk Management and Internal Control reports set out on pages 39 - 48. The following disclosures form part of the financial statements:

Credit risk

Liquidity risk

Interest rate risk

Market risk

**GRINDROD BANK LIMITED**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	R	R
<b>22. COMMITMENTS AND GUARANTEES</b>		
Financing guarantees	<u>119,526,852</u>	<u>47,466,675</u>
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>138,866,515</u>	<u>149,610,683</u>
Irrevocable unutilised facilities are approved lending facilities which cannot be unconditionally withdrawn, prior to facility expiry, by the Bank.		
Maximum exposure to credit risk	<u>258,393,367</u>	<u>197,077,358</u>
Related party guarantees: Grindrod Group companies	<u>451,654</u>	<u>451,654</u>
Operating lease commitments		
Due within one year	11,518,723	10,135,111
Due after one year but not later than five years	27,057,256	37,056,571
Operating lease commitments	<u>38,575,979</u>	<u>47,191,682</u>
Operating lease commitments are based on the contractual period from the balance sheet date to due date and relate to regional premises occupied by the Bank.		
Related party operating lease commitments: Grindrod Group companies	<u>7,677,199</u>	<u>9,493,834</u>
<b>23. RETIREMENT BENEFIT INFORMATION</b>		
Contributions to provident fund	<u>11,596,663</u>	<u>10,222,851</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 2016 156 employees (2015:135 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.		
<b>24. ORDINARY DIVIDENDS PAID</b>		
Dividends paid	<u>-</u>	<u>13,309,000</u>
	Cents per share	Cents per share
Dividend No. 38	<u>-</u>	<u>20.475</u>
Total Dividend	<u>-</u>	<u>20.475</u>
<b>25. SUBSEQUENT EVENTS</b>		
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**  
**For the year ended 31 December 2016**

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 periodically 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.

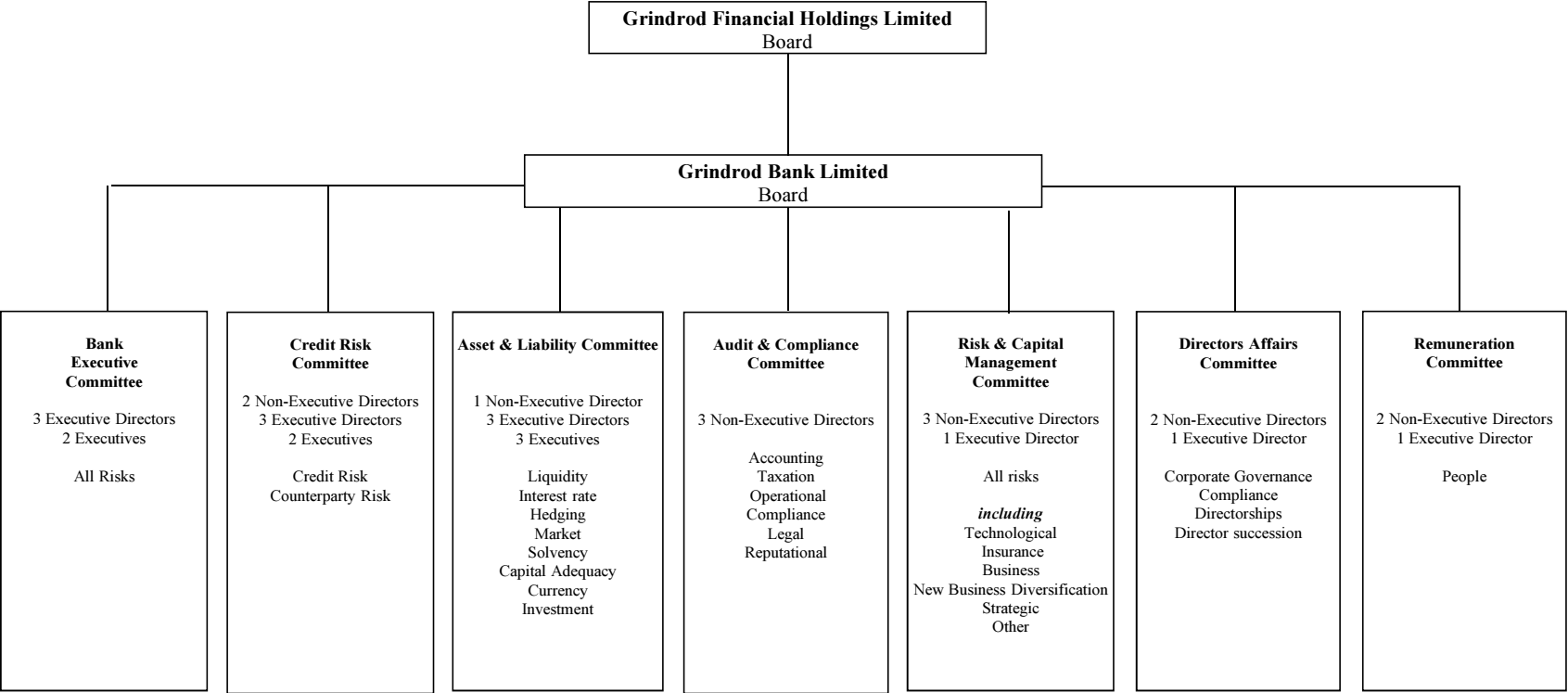
The Company has adopted an employment equity policy that promotes equal opportunity and fair treatment in the workplace. Reports have been submitted in accordance with the Employment Equity Act No.55 of 1998.

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 2016.

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



**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT FRAMEWORK**  
**31 December 2016**



**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**For the year ended 31 December 2016**

**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 exposure to 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 has limited internal statistics for the calculation of the 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.

The Bank monitors concentration risk on an on-going basis and ensures adequate diversification of exposure at account and underlying security level.

**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**For the year ended 31 December 2016**

**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 and Liability Committee (ALCO) is responsible for monitoring the stability of funding, surplus cash or near cash assets, anticipated cash outflows, exposure to large depositors and exposure to 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 2016</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	973,528	-	-	7,465,679	2,082,244	-	10,521,451
Deposits	12,381,918,937	870,158,652	244,386,276	498,078,287	-	-	13,994,542,152
Other liabilities	-	-	-	-	-	104,819,631	104,819,631
Taxation	-	-	-	-	-	7,472,131	7,472,131
	<b>12,382,892,465</b>	<b>870,158,652</b>	<b>244,386,276</b>	<b>505,543,966</b>	<b>2,082,244</b>	<b>112,291,762</b>	<b>14,117,355,365</b>
Operating lease commitments	2,834,902	2,848,886	5,834,935	27,057,256	-	-	38,575,979
Financing guarantees	119,526,852	-	-	-	-	-	119,526,852
Irrevocable unutilised facilities	138,866,515	-	-	-	-	-	138,866,515
	<b>12,644,120,734</b>	<b>873,007,538</b>	<b>250,221,211</b>	<b>532,601,222</b>	<b>2,082,244</b>	<b>112,291,762</b>	<b>14,414,324,711</b>
<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>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>-</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>-</b>	<b>94,610,932</b>	<b>10,639,436,953</b>

**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**For the year ended 31 December 2016**

**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 2016</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	14,074,349,438	190,184,280	-	357,867,997	204,341,637	329,848,117	15,156,591,469
Equity and liabilities	(12,859,955,189)	(757,065,237)	(244,386,276)	(143,656,901)	-	(1,151,527,866)	(15,156,591,469)
Interest rate hedging activities	557,289,322	-	-	(383,809,395)	(173,479,927)	-	0
Repricing profile	<b>1,771,683,571</b>	<b>(566,880,957)</b>	<b>(244,386,276)</b>	<b>(169,598,299)</b>	<b>30,861,710</b>	<b>(821,679,749)</b>	-
Cummulative repricing profile	<b>1,771,683,571</b>	<b>1,204,802,614</b>	<b>960,416,338</b>	<b>790,818,039</b>	<b>821,679,749</b>	-	
Expressed as a percentage of total assets	11.7%	7.9%	6.3%	5.2%	5.4%		

<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	<b>1,091,840,795</b>	<b>(320,036,845)</b>	<b>(124,854,247)</b>	<b>(72,602,707)</b>	<b>30,351,522</b>	<b>(604,698,517)</b>	-
Cummulative repricing profile	<b>1,091,840,795</b>	<b>771,803,950</b>	<b>646,949,702</b>	<b>574,346,995</b>	<b>604,698,517</b>	-	
Expressed as a percentage of total assets	9.7%	6.9%	5.8%	5.1%	5.4%		

**Interest Income Sensitivity**

<b>31 Dec 2016</b>	<b>&lt; 3 months</b>	<b>&gt; 3 months</b>	<b>&gt; 6 months</b>	<b>Cumulative impact on net interest income</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
2% interest rate increase	5,553,000	7,182,000	17,113,000	29,848,000
2% interest rate decrease	(5,532,000)	(7,122,000)	(16,636,000)	(29,290,000)

<b>31 Dec 2015</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)

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

**Hedging**

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

**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**For the year ended 31 December 2016**

**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 2016</b>	<b>31 Dec 2015</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 2016</b>	<b>31 Dec 2015</b>
	<b><u>R</u></b>	<b><u>R</u></b>
<b>Foreign currency exposure</b>	-	-

**Sensitivity analysis**

10% increase in listed equity prices

10% decrease in listed equity prices

**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**For the year ended 31 December 2016**

**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 2016</b>	<b>31 Dec 2015</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>	235,000,000	185,000,000
		<b>483,579,000</b>	<b>433,579,000</b>
Distributable reserves - formally appropriated	<i>Common Equity Tier 1 capital</i>	520,366,963	395,365,963
Distributable reserves - unappropriated		35,290,141	6,665,934
<b>Total Equity</b>		<b>1,039,236,104</b>	<b>835,610,897</b>
Less: Retained earnings (unappropriated)		(35,290,141)	(6,665,934)
Prescribed deductions against capital and reserve funds		(45,000)	(143,000)
<b>Total qualifying tier 1 capital and reserve funds</b>		<b>1,003,900,963</b>	<b>828,801,963</b>
<b>Secondary capital and reserve funds</b>			
General allowance for credit impairment	<i>Tier 2 capital</i>	27,696,543	18,129,119
<b>Total qualifying capital and reserve funds</b>		<b>1,031,589,506</b>	<b>846,923,082</b>
Risk weighted exposure		7,509,756,000	6,253,010,000
Minimum required capital and reserve funds		873,009,135	640,933,525
<b>Tier 1 capital and reserve funds</b>			
<b>Tier 1 Capital Adequacy Ratio</b>		13.37%	13.25%
<b>Total qualifying capital and reserve funds</b>			
<b>Total Capital Adequacy Ratio</b>		13.74%	13.54%
Minimum regulatory capital adequacy ratio		9.75%	10.00%
Additional bank specific regulatory capital requirement		1.25%	0.25%
Add-on: conservation buffer		0.625%	-
<b>Total minimum required ratio</b>		<b>11.625%</b>	<b>10.25%</b>
Tier 1 capital ratio		97.3%	97.9%
Tier 2 capital ratio		2.7%	2.1%

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.

**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**For the year ended 31 December 2016**

**AUDIT AND COMPLIANCE COMMITTEE**

The Audit and Compliance Committee has specific responsibility for the below listed risks and for ensuring the risks are adequately monitored and managed.

**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.

**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 a 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.

**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**For the year ended 31 December 2016**

**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 monitored and managed.

**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 and cyber security management is a significant focus area. Technological upgrade is seen to be an ongoing process.

**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, ethical 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



**GRINDROD BANK LIMITED**  
**RISK MANAGEMENT**  
**For the year ended 31 December 2016**

**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.

*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
- BB-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 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.

*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 Proprietary Limited, 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 impractical the Bank 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 (FSP)**

In terms of the Grindrod Limited FSP, the participants are entitled to receive dividends paid and to vote in respect of the shares awarded. However, the forfeitable shares cannot be disposed of or otherwise encumbered and they are also subject to a risk of forfeiture until the delivery date. The shares vest in equal tranches after 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.