GRINDROD FINANCIAL HOLDINGS LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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CERTIFICATE BY COMPANY SECRETARY

The company secretary hereby certifies in terms of section 88(2) of the Companies Act, 71 of 2008, (the Companies Act), that the Company has lodged with the Companies and Intellectual Property Commission of South Africa all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date in respect of the financial year ended 31 December 2021.

PW Bester
Company secretary
31 March 2022

DIRECTORS' RESPONSIBILITY AND APPROVAL OF FINANCIAL STATEMENTS

The directors are required by the Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate financial statements fairly present the affairs of Grindrod Financial Holdings Limited (the Company) and its subsidiaries (together, referred to as the Group) as at 31 December 2021 and the results of its operations and cash flows for the period then ended, in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Debt Listing Requirements and the Companies Act. The external auditors are engaged to express an independent opinion on the consolidated and separate financial statements.

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

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

The directors have reviewed the Group's cash flow forecast for the year to 31 December 2022 and, in the light of this review and the current/forecast financial and capital positions, they are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

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

The consolidated and separate financial statements set out on pages 14 to 75, which have been prepared on the going concern basis, were approved by the board on 31 March 2022, and are signed on its behalf by:

Tyrone Soondarjee
Chairman

David Polkinghorne
Chief executive officer

Rakesh Garach
Chief financial officer

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DIRECTORS' REPORT

for the year ended 31 December 2021

The directors have pleasure in presenting their report which forms part of the annual financial statements of the Group for the year ended 31 December 2021.

Nature of business

Grindrod Financial Holdings Limited is an investment holding company and sole shareholder of Grindrod Bank Limited, a registered specialist investment bank that provides bespoke financial services to private, corporate and institutional clients.

Review of financial results and activities

The operating results and state of affairs of the Group are fully set out in the consolidated and separate financial statements and accompanying notes. The Group has delivered strong financial performance for the year ended 31 December 2021 despite economic challenges that resulted from the Covid-19 pandemic, economic unrest and an already ailing South African economy. Profitability increased by 44.15% to R109.17 million (2020: R75.73 million). This was largely due to higher net interest margin and lower credit impairments which was offset to some extent by higher operating expenditure.

The directors wish to highlight the following:

- Certain of the Group's lending clients were impacted by the civil unrest that occurred in KwaZulu-Natal and parts of Gauteng in July 2021. The resultant effect was damage to the properties that serve as security and underpin the facilities provided by the Group. The damages had a knock-on effect and resulted in 3 clients with total loan balances of R60.73 million at 31 December 2021 requesting temporary relief on loan repayments while insurance claims were being processed and finalised. Although these clients have sufficient insurance cover for the repair of the properties and servicing of the facilities, the Group deemed it prudent to raise a riot overlay amounting to R4.23 million while insurance claims are being finalised;
- Healthy growth in the Group's funding base to R11.92 billion (2020: R9.97 billion) primarily due to an increase in the deposit book. The Group also increased its issuance under the domestic medium-term note programme by R137 million to R650 million. With a healthy liquidity position and a strong capital adequacy ratio, 15.669% (2020: 14.659%), the Group is well placed to capitalise on new opportunities;
- The Group's net impairment charge decreased by 48.86% to R51.91 million. The key drivers of the decrease include improved credit management over the loan portfolio, better-than-expected collection outcomes and a reduction in Stage 3 loan impairments as some clients cured. The Group did not release its Covid-19 judgemental overlay as it maintains a conservative outlook in an uncertain environment;
- Total operating expenses increased by 24.41% to R327.63 million from R263.35 million at December 2020. The higher expenses are largely attributed to an increase of 39.01% in staff costs and the roll-out of a project to improve the core banking capabilities of the Group to enhance product delivery to its client base;
  - The increase in staff costs was mainly due to the recognition of short-term employee incentives. Following the lifting of Prudential Authority Guidance Note 4/2020 in February 2021, employee incentives linked to performance achieved by employees in the 2020 financial year were paid in June 2021. For the 2021 financial year, short-term employee incentives are based on a business scorecard methodology whereby specific targets set by the board have to be met in order to determine a short-term incentive pool. In terms of IAS 19, the requirement of a constructive obligation was met, hence a provision was raised at year-end; and
  - This led to an increase in the cost-to-income ratio of the Group to 64.79% (2020: 59.68%). The directors anticipate the normalisation of this ratio to levels below 60% going forward.

Authorised and issued share capital

Details of the authorised and issued ordinary share capital are disclosed in note 11. In August 2021 the Company repurchased 483 ordinary shares and issued an additional 483 ordinary shares to Grindrod Limited, which were fully subscribed.

Details of the authorised and issued preference share capital are disclosed in note 13.

Dividends

An ordinary dividend of R30 million was declared and paid in the 2021 financial reporting period (2020: Rnil). Preference share dividends paid and accrued are presented in the consolidated statement of changes in equity.

Directors

At 31 December 2021, and the date of this report, the board comprised of the following members:

Name	Designation	Meeting attendance	Date of appointment	Date of retirement
DA Polkinghorne	Chief executive officer	9/9	January 1999	
JH Beare	Non-executive director	3/3	December 2010	May 2021
ZN Malinga*	Lead independent non-executive director	8/9	April 2017	
RS Garach	Chief financial officer	9/9	July 2019	
TD Soondarjee**	Independent non-executive director (Chairman)	9/9	September 2019	
S Barrett	Independent non-executive director	8/9	December 2019	
R Ramcharan	Independent non-executive director	8/9	September 2020	
GG Christopulo	Independent non-executive director	9/9	September 2020	
CR Howell	Independent non-executive director	9/9	September 2020	
MP Grindrod	Non-executive director	9/9	November 2020	
RM Maleka	Independent non-executive director	1/1	October 2021	

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

Committee meetings

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

- Credit and large exposure committee;
- Balance sheet management committee;
- Audit and compliance committee;
- Risk and capital management committee; and
- Social and ethics committee.

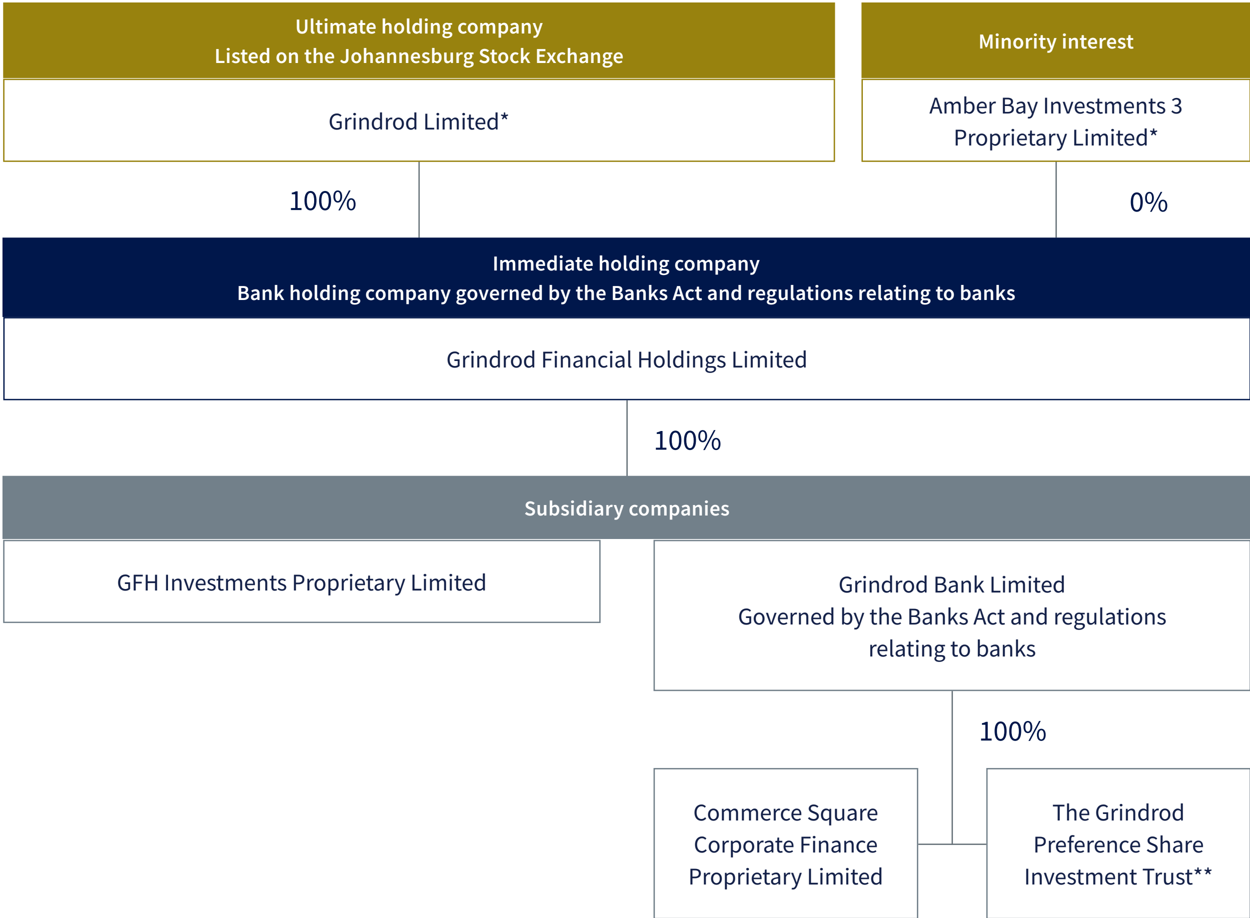
Company secretary

PW Bester (appointed in September 2020).

Country of incorporation

South Africa

Holding company and subsidiaries



* *In August 2021 the Company repurchased 483 ordinary shares issued to Amber Bay, which represented 3.17% of the shares in issue. To finance the repurchase, an additional 483 shares were issued to Grindrod Limited, which were fully subscribed for. The resultant share buy-back from Amber Bay and share issue to Grindrod Limited resulted in the Company becoming wholly-owned by Grindrod Limited.*

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

Going concern

The directors have reviewed the Group's cash flow forecast for the year to 31 December 2022 and in light of this review and the current/forecast financial and capital positions, they are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

Events after the reporting period

The directors are not aware of any matter or circumstance arising since the reporting period date that has a material impact on the financial statements.

Directors' interest

With the exception of David Polkinghorne (chief executive officer), the directors and prescribed officers did not have any interest in the ordinary shares of the Group nor in the preference shares of the Group. David Polkinghorne held a minority interest in the Company via his shareholding in Amber Bay which was subsequently disposed of in August 2021. The directors did not have an interest in any third party or company responsible for managing the business activities of the Group. Transactions with directors and prescribed officers are entered into in the normal course of business under terms that are no more favourable than those with third parties.

Auditor

SNG Grant Thornton

Preparer of financial statements

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

Registered address

5 Arundel Close, Kingsmead Office Park, Durban, 4001

AUDIT AND COMPLIANCE COMMITTEE REPORT

for the year ended 31 December 2021

The audit and compliance committee (the committee) have pleasure in presenting their report which forms part of the annual financial statements of the Group for the year ended 31 December 2021.

Role and key functions

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

Role of the committee

The overall objectives and role of the committee are to:

- Provide oversight of the financial reporting process and the related risk management thereof;
- Review the internal control and assurance processes;
- Review the integrity of financial information and the presentation of accurate financial reports in compliance with the applicable regulations and accounting standards;
- Manage and oversee the performance, conduct, quality and effectiveness of the Group's internal audit function;
- Provide oversight of the Group's compliance function;
- Appoint, manage and oversee the relationship with the external auditors including the effectiveness and independence of the external audit function; and
- Ensure appropriate corporate governance and compliance within the scope of its mandate, with a specific focus on the potential risks to the Group within the framework of a combined assurance model, and for information technology (IT) governance as related to financial reporting and the going concern of the Group.

The committee is also, subject to board approval, authorised to investigate any activity within the scope of its terms of reference and to interact with the directors, management, employees and assurance providers and to obtain independent professional advice to ensure effective governance.

Composition of the committee

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

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

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

Name	Designation	Date of appointment
ZN Malinga*	Independent non-executive director (Chairperson)	April 2017
S Barrett	Independent non-executive director	March 2020
R Ramcharan	Independent non-executive director	October 2020
GG Christopulo	Independent non-executive director	October 2020

** Appointed as chairperson in March 2020.*

Composition of the committee *continued*

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

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

The company secretary serves as secretary to the committee.

The independence of the committee and performance of its members were evaluated by the directors' affairs committee during 2021.

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

The internal and external auditors have unrestricted access to the chairperson and members of the committee. In 2021, the committee met with the internal and external auditors without management being present.

The committee has satisfied itself that the finance and regulatory reporting functions are effective.

Key activities

In terms of its mandate, matters considered by the committee based on its annual work plan for 2021 included:

- Reviewing the consolidated and separate annual financial statements for the year ended 31 December 2021 in line with applicable legislative and regulatory compliance and recommendation thereof for approval by the board;
- Reviewing the combined assurance model and the effectiveness of the process for identifying, assessing and reporting on significant internal financial control, tax and fraud risks as related to financial reporting;
- Assessing the suitability, expertise and experience of the chief financial officer; the expertise, experience and resources of the finance function; the suitability, expertise and experience of the chief internal auditor and evaluation of the independence, effectiveness and performance of the internal audit function;
- Assessing and reviewing the expertise and effectiveness of the chief compliance officer and resources of the compliance function;
- Reviewing and approving the internal audit and compliance plans;
- Recommending the independent external auditor and designated audit partner for approval by the shareholders at the Group's annual general meetings;
- Reviewing and approving the external auditor's terms of engagement, fees for audit and non-audit services, audit plan, resources, independence, effectiveness, audit findings, key audit risks and external audit report;
- Reviewing legislative and statutory compliance within the scope of its mandate and reviewing compliance with the Group's code of ethics and conduct;
- Reviewing IT risks and evaluation of audit assessments of IT-related controls performed by the internal and external auditors together with the appropriateness of actions taken by management to address key issues identified, and reporting on its findings to the risk and capital management committee;
- Considering the impact of and response to the Covid-19 pandemic and the July 2021 Riots in relation to risk of material misstatement presented by estimates required under IFRS 9 and IFRS 13;
- Reviewing and confirming the going concern status; and
- Approving this committee report for presentation to the shareholders.

External audit

SNG Grant Thornton served as the Group's registered external auditors for the 2021 reporting period. The terms of engagement, independence, expertise, audit quality, objectivity and the appropriateness of key partners at SNG Grant Thornton as the external auditor are appraised by the committee, annually. The SNG Grant Thornton audit team includes relevant financial services experts.

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

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

Key audit matters (KAM)

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

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

KAM: measurement of loans and advances: impairments

This is an area that is also reviewed by the credit and large exposure committee. The committee considered whether the levels of provisioning and credit impairment were appropriate. Discussions were held with management and the credit and large exposure committee to obtain comfort over the adequacy of Stage 1, 2 and 3 provisioning. The committee reviewed the methodology and assumptions applied to calculate the impairments and monitored the governance framework applied to the expected credit loss model. The committee reviewed the internal and external auditor's reports to satisfy itself in this regard.

KAM: measurement of loans and advances: fair value

The Group engaged the services of an external expert to assist in the valuation of its loans and advances portfolio to ensure compliance with IFRS 13 Fair Value Measurement. The committee satisfied itself as to the appropriateness of the skills and experience of the expert engaged and further analysed the key judgements and assumptions applied. The committee had a specific discussion with the external auditors to satisfy itself in this regard.

Key focus areas for the 2022 reporting period

In addition to the standard audit committee workplan, the committee has identified the following as key focus areas for the 2022 reporting period:

» Review development and implementation of the compliance business integration strategy (over and above the objective of ensuring compliance with laws and regulations);
» Ensuring systems of internal controls and processes over critical sources of information and models upon which estimates are based are operating effectively;
» Enhance the effectiveness of the combined assurance model; and
» Consider the implications of environmental, social and governance (ESG) from a financial reporting and disclosure perspective.

Financial statements

Following the committee's review of the consolidated and separate financial statements for the year ended 31 December 2021, it is of the opinion that, in all material respects, they comply with the Companies Act, Banks Act, JSE Debt Listing Requirements and IFRS as issued by the International Accounting Standards Board (IASB), and fairly present the results of operations, cash flows and financial position of the Group.

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

On this basis, the committee recommended that the board approves the consolidated and separate financial statements for the year ended 31 December 2021.

Zola Malinga
Chairperson: Audit and compliance committee
31 March 2022

SNG Grant Thornton

An instinct for growth™

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Grindrod Financial Holdings Limited

Opinion

We have audited the consolidated and separate financial statements of Grindrod Financial Holdings Limited and its subsidiaries (the Group) set out on pages 14 to 75, which comprise the consolidated and separate statement of financial position as at 31 December 2021, and the consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

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

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

Key audit matters

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

Key audit matter	How the matter was addressed in the audit

Measurement of loans and advances

Loans and advances by the Group are either measured at amortised cost less impairments in terms of an expected credit loss (ECL) model, or at fair value through profit or loss (FVTPL). This is in accordance with IFRS 9: Financial Instruments (IFRS 9).

Significant judgement is exercised by the directors in assessing these impairments and fair value measurements, and includes estimating:

Impairments:

» whether there was a significant increase in credit risk since inception (SICR), which determines whether a loan or advance is classified as Stage 1, 2 or 3. Many collateralised loans and advances have no scheduled repayments until the end of the loan period, making it highly judgmental to identify a SICR.
» the probability that a loan or advance will default (PD), either over a 12 month period or over the lifetime of the loan or advance, depending on staging; and
» the loss given default (LGD). A key input into the LGD model is the expected realisable value of the collateral securing the loan or advance.

Fair value:

» changes in interest rates since inception (in the case of fixed rate loans and advances);
» changes in credit risk of the counterparty since inception, as well as changes in general market credit spread levels for a given credit rating;
» changes in general market liquidity spread levels since inception; and
» the current and projected future value of the asset being financed, in the case of loans and advances where the total pay-off depends on the value of such underlying asset.

Impairment of advances is disclosed in accounting policy note 1.7 and note 3, and fair value is disclosed in note 23 to the consolidated and separate financial statements.

Due to the significant judgement applied by the directors, as disclosed in "Judgements made by management and key sources of estimation uncertainty" on page 20 of the consolidated and separate financial statements, the credit impairments against loans and advances measured at amortised cost and the fair value of loans and advances measured at FVTPL, are in aggregate considered to be a key audit matter.

With the assistance of auditor's and management's experts, we performed the following audit procedures on the ECL model:

» assessed the design and implementation of key internal controls relating to the model;
» assessed the appropriateness of assumptions and variables used in determining the ECL in relation to current market conditions and forward-looking economic information;
» assessed the completeness, accuracy and validity of data inputs used during the development and application of the credit impairment model;
» considered the methodologies and assumptions applied in order to assess compliance with IFRS 9, including the determination of SICR, PD, EAD (exposure at default) and LGD;
» assessed the appropriateness of management's Stage allocation;
» evaluated the methodology used to incorporate forward looking information in the calculation of expected credit losses;
» performed substantive tests of details on a sample basis, relating to the estimated realisable value of the collateral securing loans and advances included in the ECL model; and
» considered and assessed the qualitative factors that influence the impairment, including the amount in arrears, period in arrears and the financial strength of the borrower.

We assessed the material disclosures made by management against the requirements of IFRS 7: Financial Instruments – Disclosures and IFRS 9.

With the assistance of auditor's and management's experts, we performed the following audit procedures on the fair value models:

» assessed the valuation methodologies for compliance with IFRS 13: Fair Value Measurement (IFRS 13), financial instrument pricing theory and market practice;
» evaluated the completeness, accuracy and validity of the contractual terms and conditions utilised as data inputs into the fair value models; and
» assessed the appropriateness of the models and the reasonableness of the assumptions and market data variables used in the fair value calculations, against current market conditions and relevant forward-looking economic information.

We considered whether management had appropriately allowed for the increased credit risk introduced by the Covid-19 pandemic to the loan book, in their estimation process for determining both the ECL and fair value.

Other information

The Group's directors are responsible for the other information. The other information comprises the information included in the document titled "Grindrod Financial Holdings Limited Annual Financial Statements for the year ended 31 December 2021", which includes the Directors' Report, the Audit and Compliance Committee's Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's reports thereon.

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

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

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Audit tenure

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Grant Thornton Inc has been the auditor of the Group for 3 years.

Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered Auditor

31 March 2022

20 Morris Street East
Woodmead, Gauteng
South Africa
2191

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	31 December 2021 R000	31 December 2020 R000
Assets			
Cash and short-term funds	1	**1 117 663**	923 536
Negotiable securities	2	**3 935 984**	2 469 396
Loans and advances	3	**8 561 255**	8 167 160
Investment securities	4	**9 118**	9 198
Current tax asset		**1 315**	11 795
Other assets	5	**20 826**	75 332
Property and equipment	6	**24 747**	14 828
Deferred tax asset	7	**61 046**	47 931
Total assets		**13 731 954**	11 719 176
Liabilities			
Deposits and funding instruments	8	**11 922 632**	9 965 473
Derivative instruments	9	**24 277**	73 046
Provisions	10.1	**47 562**	14 990
Other liabilities	10.2	**64 734**	54 460
Total liabilities		**12 059 205**	10 107 969
Equity			
Ordinary share capital	11	**–**	–
Share premium	12	**380 278**	380 278
Preference share capital	13	**285 000**	285 000
Retained earnings		**1 007 471**	945 929
Total equity		**1 672 749**	1 611 207
Total liabilities and equity		**13 731 954**	11 719 176

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 R000	2020 R000
Interest and similar income	14	**746 786**	783 363
Interest and similar expense	15	**(472 290)**	(592 980)
Net interest and similar income		**274 496**	190 383
Non-interest revenue	16	**231 188**	250 866
Net fee income	16.1	**47 718**	56 676
Gains and losses on financial instruments	16.2	**180 821**	194 190
Other non-interest revenue	16.3	**2 649**	–
Total revenue		**505 684**	441 249
Impairment losses on financial assets	17	**(51 913)**	(101 522)
Operating income		**453 771**	339 727
Operating expenses	18	**(327 625)**	(263 347)
Profit before tax		**126 146**	76 380
Income tax expense	19	**(16 972)**	(646)
Profit for the year		**109 174**	75 734
Other comprehensive income		**–**	–
Total comprehensive income for the year		**109 174**	75 734

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Ordinary share capital R000	Share premium R000	Preference share capital R000	Retained earnings R000	Total R000
Balance at 31 December 2019	–	380 278	285 000	889 931	1 555 209
Total comprehensive income for the year	–	–	–	75 734	75 734
Profit for the year	–	–	–	75 734	75 734
Preference share dividends	–	–	–	(19 736)	(19 736)
Balance at 31 December 2020	–	380 278	285 000	945 929	1 611 207
Share issuance	–	25 224	–	–	25 224
Share repurchase	–	(25 224)	–	–	(25 224)
Total comprehensive income for the year	–	–	–	109 174	109 174
Profit for the year	–	–	–	109 174	109 174
Ordinary dividends	–	–	–	(30 000)	(30 000)
Preference share dividends	–	–	–	(17 632)	(17 632)
Balance at 31 December 2021	–	380 278	285 000	1 007 471	1 672 749

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 R000	2020 R000
Cash flows from operating activities			
Cash receipts from clients		**1 043 999**	1 067 865
Cash paid to clients, employees and suppliers*		**(749 970)**	(857 215)
Cash generated from operations*	20	**294 029**	210 650
(Increase)/decrease in operating assets:			
Increase in loans and advances		**(506 138)**	(815 021)
Sale of preference shares linked to trust participatory contributions		**–**	1 727 444
Increase in deposits held for regulatory purposes		**(74 432)**	(9 079)
(Increase)/decrease in other negotiable securities		**(1 466 635)**	8 583
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits and funding instruments		**1 957 159**	(1 991 636)
Redemption of trust participatory contributions		**–**	(1 724 276)
Income tax paid		**(19 607)**	(35 632)
Net cash from/(used in) operating activities*		**184 376**	(2 628 967)
Cash flows from investing activities			
Acquisition of property and equipment		**(4 245)**	(3 879)
Proceeds from sale of property and equipment		**67**	5
Acquisition of investment securities		**–**	(221)
Net cash used in investing activities		**(4 178)**	(4 095)
Cash flows from financing activities			
Issue of ordinary share capital		**25 224**	–
Repurchase of ordinary share capital		**(25 224)**	–
Dividends paid to ordinary shareholders		**(30 000)**	–
Dividends paid on preference shares*		**(17 596)**	(10 846)
Payment of lease liabilities*	21	**(12 853)**	(13 985)
Net cash used in financing activities*		**(60 449)**	(24 831)
Net increase/(decrease) in cash and short-term funds		**119 749**	(2 657 893)
Cash and short-term funds at 1 January		**705 805**	3 363 698
Cash and short-term funds at 31 December	22	**825 554**	705 805

* *Limited reclassifications were made to improve disclosure.*

ACCOUNTING POLICIES

For the year ended 31 December 2021

Reporting entity

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

Basis of preparation

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

Recent accounting developments

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

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

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

Standards/Interpretations issued but not yet effective

There are new or revised accounting standards and interpretations in issue that are not yet effective for the year ended 31 December 2021, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated. These include the following standards and interpretations that have been issued, with an indication of the estimated impact on the future financial statements of the Group:

Pronouncement	Title and details	Effective date
IFRS 10 and IAS 28	*Sale or contribution of assets between an investor and its associate or joint venture* The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of business is key to determining the extent of the gain to be recognised. This amendment is not expected to have an impact on the Group as these transactions are unlikely to occur. Changes to be assessed as and when such transactions take place.	The effective date is deferred by the IASB pending the outcome of its research project on the equity method of accounting.
IFRS 17	*Insurance Contracts* IFRS 17 replaces the current standard on insurance contracts, IFRS 4. It creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. Among others, IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows, taking into account any uncertainty relating to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. Insurance contracts are further required to be measured based only on the obligations created by the contracts. An entity will also be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums. This amendment is not expected to have an impact on the Group as these transactions are unlikely to occur. Changes to be assessed as and when such transactions take place.	Annual periods beginning on or after 1 January 2023.
IFRS 3 amendments	*Updating a reference to the Conceptual Framework* This amendment updates reference to the 2018 Conceptual Framework, adds a requirement that transactions and other events within the scope of IAS 37 or IFRIC 21 must be accounted for per IAS 37 and IFRIC 21 to identify the liabilities assumed in a business combination and adds an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. This amendment is not expected to have an impact on the Group as these transactions are unlikely to occur. Changes to be assessed as and when such transactions take place.	Annual periods beginning on or after 1 January 2022.
IAS 37 amendments	*Onerous Contracts – Cost of Fulfilling a Contract* This amendment indicates which costs an entity should include as the costs of fulfilling a contract when assessing whether a contract is onerous. This amendment is not expected to have an impact on the Group as these transactions are unlikely to occur. Changes to be assessed as and when such transactions take place.	Annual periods beginning on or after 1 January 2022.
2018 – 2020 annual improvements cycle	*Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41* Changes were made to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 41, Agriculture, which will have no impact on the Group. An illustrative example has been removed from IFRS 16 to prevent potential confusion regarding the treatment of lease incentives. This amendment is not expected to have an impact on the Group. IFRS 9 has been amended to clarify the fees that an entity includes when determining whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. This amendment is not expected to have a material impact on the Group.	Annual periods beginning on or after 1 January 2022.

Pronouncement	Title and details	Effective date
IAS 1 amendments	*Presentation of financial statements* The amendment clarifies that the classification of liabilities must be based on whether the right to defer settlement by at least twelve months exists at the end of the reporting period. It further states that classification is unaffected by expectation of settlement, that settlement refers to transfer of cash, equity instruments, other assets or services and that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. This amendment is not expected to have an impact on the Group.	Annual periods beginning on or after 1 January 2023.
IAS 16 amendments	*Proceeds before intended use* This amendment prohibits an entity from reducing the cost of an item of property, plant and equipment through deducting the proceeds from the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items and the costs of producing them are to be recognised in profit or loss. This amendment is not expected to have an impact on the Group as these transactions are unlikely to occur. Changes to be assessed as and when such transactions take place.	Annual periods beginning on or after 1 January 2022.

Critical judgements and key sources of estimation uncertainty

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

	Judgement	Estimate	Accounting policy/Note
» Expected credit loss measurement	✓	✓	Refer to accounting policy 1.7 and note 3 to the financial statements for judgements and estimates made.
» Assessment of control of an investee	✓		Refer to accounting policy 4 for judgements made.
» Share-based incentive schemes		✓	Refer to accounting policy 8.3 and note 34 to the financial statements for estimates made.
» Revenue recognition	✓		Refer to accounting policy 10 and notes 14 and 16 to the financial statements for judgements made.
» Valuation of level 2 loans and advances*	✓	✓	Refer to accounting policy 1.6 and note 23 to the financial statements for judgements and estimates made.
» Valuation of level 3 loans and advances*	✓	✓	Refer to accounting policy 1.6 and note 23 to the financial statements for judgements and estimates made.

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

Covid-19 pandemic and July 2021 riots

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

Consideration	Assessment
Going concern	Limited impact on going concern for the foreseeable future. Based on the projections of future results, cash flows, future commitments and assessment of the Group's potential deposits/borrowing facilities projected/available, no going concern risk has been identified.
Deferred tax asset recoverability	No material impact noted, deferred tax assets raised based on sufficient taxable profits and capital gains expected in the future.
Restructuring and retrenchment costs	The Group does not have future restructure or retrenchment plans.
Onerous contracts	The Group does not engage in services that may lead to material onerous contracts.
Net impairment losses on loans and advances (IFRS 9: ECLs)	Due to an improvement in the management of credit risk, Stage 3 ECLs decreased by 45.09%. This was marginally offset by the raising of a judgemental riot overlay of R4.23 million due to the July 2021 unrest. The Group did not release its Covid-19 judgemental overlay as it maintains a conservative outlook in an uncertain environment.
Modifications to contractual cash flows	Due to increased pressure on clients and the impact of Covid-19 and the July 2021 riots, payment holidays were granted to clients. This resulted in a net modification loss of R2.07 million being recognised.
Valuation of loans and advances and derivative instruments (IFRS 13: Fair value measurement)	Heightened focus was given to the fair value loan portfolio, specifically credit spreads which is a key input into the valuation of this portfolio. Sufficient regard was given to the impact of the Covid-19 pandemic and July 2021 riots on security valuations and resultant impact on credit spreads which were adjusted accordingly.
Liquidity risk	The Group has prudent liquidity management strategies and holds sufficient amounts of surplus cash on call and in easily liquifiable assets. This served the Bank well during the Covid-19 pandemic and July 2021 unrest as the Bank did not experience a liquidity strain.

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

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

1. Financial instruments

1.1 Recognition and initial measurement

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

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

1. Financial instruments *continued*

1.2 Classification and subsequent measurement

Financial assets

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

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

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

All other financial assets are classified and measured at FVTPL.

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

Business model assessment

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

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

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

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

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

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

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

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

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

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

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

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

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

Reclassifications

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

1. Financial instruments *continued*

1.2 Classification and subsequent measurement *continued*

Subsequent measurement

Financial assets	Classification	Subsequent measurement
Loans and advances		
» Fixed rate loans and advances linked to interest rate swaps	Designated at FVTPL	These assets are subsequently measured at fair value. Net gains and losses are recognised in profit or loss. Interest income on fair value loans are recognised in non-interest income as it effectively represents fair value movements.
» Fixed rate loans and advances not linked to interest rate swaps	Amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
» Variable rate loans and advances with no special revenue arrangements	Amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
» Variable rate loans and advances with special revenue arrangements	Amortised cost or FVTPL	An assessment is done to determine whether the contractual cash flows consist of SPPI. Cash flows consist of SPPI (amortised cost): These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Cash flows do not consist of SPPI (FVTPL): These assets are subsequently measured at fair value. Net gains and losses are recognised in profit or loss. Interest income on fair value loans are recognised in non-interest income as it effectively represents fair value movements.
Other assets	Amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Preference share investments with no special revenue arrangements	Amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Preference share dividend income (disclosed in note 14) and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Preference share investments with special revenue arrangements	Amortised cost or FVTPL	An assessment is done to determine whether the contractual cash flows consist of SPPI. Cash flows consist of SPPI (amortised cost): These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Preference share dividend income (disclosed in note 14) and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Cash flows do not consist of SPPI (FVTPL): These assets are subsequently measured at fair value. Net gains and losses are recognised in profit or loss. Preference share dividend income on fair value loans are recognised in non-interest income as it effectively represents fair value movements.

Financial liabilities

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

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

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Financial liabilities subsequently measured at amortised cost using the effective interest method have the interest expense recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derivative financial instruments

Derivative instruments, which include interest rate swaps, are held by the Group to manage interest rate risk, defined as economic hedging activities. Derivative instruments are initially recognised at fair value and subsequently remeasured to FVTPL using market prices at each reporting date.

1.3 Derecognition

Financial assets

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

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

Financial liabilities

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

1.4 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. When considering whether the modification is substantial, the Group performs a quantitative and qualitative assessment. Under the quantitative assessment the modification is considered to be substantial if the discounted present value of the cash flows under the new terms including any fees received net of any fees paid is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset. The qualitative assessment will depend on the specific facts and circumstances of each case, where a substantial modification would arise when there is a significant value transfer of the financial asset.

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (refer below 1.7 for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

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

1. Financial instruments *continued*

1.4 Modifications of financial assets and financial liabilities *continued*

Financial liabilities

If the terms of a financial liability are modified, the Group evaluates whether the cash flows of the modified liability are substantially different. When considering whether the modification is substantial, the Group performs a quantitative and qualitative assessment. Under the quantitative assessment the modification is considered to be substantial if the discounted present value of the cash flows under the new terms plus any fees paid net of any fees received is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. The qualitative assessment will depend on the specific facts and circumstances of each case, where a substantial modification would arise when there is a significant value transfer of the financial liability.

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

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

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

1.5 Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS.

1.6 Fair value measurement

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

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

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

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

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

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

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

1.7 Credit impairment losses

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

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

No impairment loss is recognised on equity investments.

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

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

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

- Facility is in arrears for greater than 30 days;
- Classification and appearance on a credit watch list; and
- Significant decrease in value of collateral.

When loans and advances are considered to be non-performing, i.e. they meet the Group's internal staging criteria (Stages 2 and 3) which may affect the recovery of the loan, they are transferred to a dedicated managed accounts department. Once a loan is considered as performing, the loan is assessed for reclassification out of managed accounts. If a redefault occurs, the above process is followed.

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

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

Financial instruments for which lifetime ECLs are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'. Credit impairment is considered to occur when defined Stage 3 criteria have been met, the most significant of which is default. IFRS 9 requires an entity to apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and considers qualitative indicators where appropriate. There is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due, unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default should be the same for all financial instruments unless an entity can demonstrate that another default definition is more appropriate for a particular financial instrument.

Based on this the Group uses the following indicators for default:

- Facilities with an outstanding amount for 90 days or more will be termed in default;
- Conditions not being met (such as covenants or minimum NAV). This is subject to an internal assessment of the breach; and
- Acts of insolvency (liquidation/business rescue proceedings).

Collateral

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

Measurement of ECLs

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

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

1. Financial instruments *continued*

1.7 Credit impairment losses *continued*

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

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

The Group calculates ECLs using the following main components: probability of default (PD), exposure at default (EAD) and loss-given default (LGD). The calculated ECLs are then discounted using the appropriate effective interest rate of the financial asset. The assessment of SICR and the calculation of ECLs incorporate forward looking information.

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

The period of exposure used in this model for all types of facilities, except for overdraft facilities, is the expiry date of the facility granted. For overdraft facilities, the period of exposure is the average rolling period. This is deemed appropriate for the Group since behavioural patterns of individual facilities cannot consistently reflect the average behavioural patterns across products. As such, the probability that the facility will be renewed varies significantly across the loan book. All facilities are granted with a defined expiry date and with no guarantee of renewal. Renewals are subject to the normal credit evaluation process.

PD

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

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

Product type	**2021 PD range %**	2020 PD range %
Mortgage bonds	**(0.16) – (1.96)**	(0.14) – (1.73)
Invoice discounting, term loans and overdrafts	**(0.37) – (3.77)**	(0.34) – (3.43)
Covid-19 Guarantee scheme loans	**(0.55) – (5.56)**	(0.44) – (4.46)
Preference shares	**(0.35) – (4.35)**	(0.32) – (3.96)

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

	2021		**2020**	
Stress scenario analysis	**+20% PD R000**	**-20% PD R000**	+20% PD R000	-20% PD R000
Stage 1	**4 237**	**(4 237)**	4 134	(4 134)
Stage 2	**267**	**(269)**	503	(505)
Stage 3*	**–**	**–**	–	–
	4 504	**(4 506)**	4 637	(4 639)

* *Subject to specific impairment and not model impairment.*

EAD

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

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

LGD

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

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

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

Forward looking information (FLI)

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

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

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

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

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

1. Financial instruments *continued*

1.7 Credit impairment losses *continued*

The table below reflects stress scenarios based on forward looking information (FLI):

Stress scenario analysis	Stress impact %	Stress impact R000	Total ECLs R000
2021			
Base FLI			**38 268**
Positive FLI	**(2.7)**	**(1 042)**	**37 226**
Negative FLI	**2.09**	**801**	**39 069**
2020			
Base FLI			34 696
Positive FLI	(3.8)	(1 318)	33 378
Negative FLI	2.6	902	35 598

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

	2021		2020	
Stress scenario analysis	+20% LGD R000	-20% LGD R000	+20% LGD R000	-20% LGD R000
Stage 1	**4 237**	**(4 237)**	4 134	(4 134)
Stage 2	**274**	**(274)**	510	(510)
Stage 3*	**–**	**–**	–	–
	4 511	**(4 511)**	4 644	(4 644)

* *Subject to specific impairment and not model impairment.*

Significant areas of judgement and key assumptions

The Group has limited historical quantitative data on credit defaults owing to the nature and size of loans and advances. Consequently, various elements of the model incorporate the use of experience and professional judgement, including the following:

- Determining PD across all product types;
- Appropriateness of qualitative staging criteria;
- Security valuation methodology; and
- FLI impact on PDs and LGDs.

The following are key economic variables used to determine the change in PDs and LGDs:

	12 month range %	Lifetime range %
2021		
Key economic variables		
Gross domestic product (GDP)	**0.8 – 2.5**	**0.3 – 2.0**
Inflation rate	**2.9 – 5.6**	**3.0 – 7.7**
Prime lending rate	**6.0 – 10.0**	**7.0 – 11.0**
Unemployment rate	**28.4 – 34.4**	**28.3 – 34.3**
2020		
Key economic variables		
Gross domestic product (GDP)	0.6 – 2.0	0.3 – 3.0
Inflation rate	2.6 – 4.6	2.7 – 6.7
Prime lending rate	5.0 – 9.0	8.0 – 12.0
Unemployment rate	28.4 – 32.4	28.3 – 32.3

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

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

Scenario analysis on staging

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

	Stage 1 R000	Stage 2 R000	Stage 3 R000	Total R000
2021				
Base staging	**21 187**	**17 081**	**179 619**	**217 887**
5% transfer from Stage 1 to Stage 2	**11 845**	**35 505**	**179 619**	**226 969**
10% transfer from Stage 1 to Stage 2	**10 113**	**39 846**	**179 619**	**229 578**

	Stage 1 R000	Stage 2 R000	Stage 3 R000	Total R000
2020				
Base staging	20 670	14 026	133 203	167 899
5% transfer from Stage 1 to Stage 2	14 278	40 900	133 203	188 381
10% transfer from Stage 1 to Stage 2	11 746	57 264	133 203	202 213

Restructured financial assets

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

ECLs are measured as follows:

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

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

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

1. Financial instruments *continued*

1.7 Credit impairment losses *continued*

Credit-impaired financial assets

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

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

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

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

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

Presentation of allowance for ECLs in the statement of financial position

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

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

Write-off

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

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

1.8 Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

2. Cash and short-term funds

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

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

3. Investment securities

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

Dividends are recognised in profit or loss.

4. Basis of consolidation

A subsidiary is an entity controlled by the Group.

The Group controls an entity if it:

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

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

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

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

Significant area of judgement

Unconsolidated structured entities

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

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

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

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

4. Basis of consolidation *continued*

Significant area of judgement *continued*

Deemed controlled entities

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

Based on management's assessment of the requirements of IFRS 10, the Group has power over the Trust, has exposure to variable returns from its involvement with the Trust and that it has the ability to use that power to affect the amount of its returns from the Trust. As all the requirements of control are met, it is deemed that the Group controls the Trust. The Trust is dormant and therefore did not have a financial impact on the Group's results in 2021 and 2020.

5. Property and equipment

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

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

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

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

6. Taxation

Income tax

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

Current tax

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

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

Deferred tax

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

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

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

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

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

7. Provisions

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

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

8. Employee benefits

8.1 Short-term employee benefits

Short-term employee benefits consists of salaries, short-term incentives, leave pay, provident fund contributions, medical aid contributions and group life contributions.

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

8.2 Defined contribution scheme

The Group pays fixed contributions to a third party as part of a defined contribution provident fund plan for the benefit of its employees. The Group has no further legal or constructive obligation in terms of the defined contribution benefit plan beyond these contributions.

Defined contributions are recognised in profit or loss as they become due.

8.3 Share-based payment

Forfeitable share plan

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

Share appreciation rights

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

9. Leases

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

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

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

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

10. Revenue recognition

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

10.1 Interest

10.1.1 Effective interest rate

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

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

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

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

10.1.2 Amortised cost and gross carrying amount

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

10.1.3 Calculation of interest income and expense

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

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

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

10.1.4 Presentation

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

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

10.2 Fee income

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

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

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

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

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

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

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

10. Revenue recognition *continued*

10.2 Fee income *continued*

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

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

11. Impairment of non-financial assets

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

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

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

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

12. Share capital, other equity and reserves

12.1 Ordinary and preference share capital

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

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

12.2 Share issue costs

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

12.3 Share premium

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

	31 December 2021 R000	31 December 2020 R000
1. Cash and short-term funds		
At amortised cost		
Regulatory deposit with the SARB*	**292 309**	217 877
Other deposits with the SARB	**51 616**	51 469
Inter-bank deposits	**773 938**	654 336
ECL allowance against cash and short-term funds (Stage 1)	**(200)**	(146)
	1 117 663	923 536
The carrying amount of cash and short-term funds approximates fair value due to its short-term nature.		
Analysis of ECL allowance (Stage 1)		
Allowance at 1 January	**146**	–
Net increase in allowance	**54**	146
Allowance at 31 December	**200**	146
ECL allowance analysis		
Stage 1 – 12-month ECLs	**200**	146
Total ECL allowance on cash and short-term funds	**200**	146
Stage 1 – 12-month ECLs		
Gross carrying amount	**1 117 863**	923 682
Less: ECL allowance	**(200)**	(146)
Net carrying amount at 31 December	**1 117 663**	923 536
ECL allowance at 1 January	**146**	–
Movements of allowance recognised in profit or loss		
Net impairment losses recognised	**54**	146
ECL allowance at 31 December	**200**	146

* *The regulatory deposit with the SARB is for minimum reserve requirements and is available for use subject to certain restrictions and limitations imposed by the SARB.*

	31 December 2021 R000	31 December 2020 R000
2. Negotiable securities		
At amortised cost		
Treasury bills	**3 623 745**	1 661 248
Money market investments	**–**	607 237
Government bonds	**312 958**	185 232
Preference shares	**290**	16 641
ECL allowance against negotiable securities (Stage 1)	**(1 009)**	(962)
	3 935 984	2 469 396

The carrying amount of negotiable securities approximates fair value due to its short-term nature or its ability to be easily liquifiable.

	31 December 2021 R000	31 December 2020 R000
Analysis of ECL allowance (Stage 1)		
Allowance at 1 January	**962**	–
Net increase in allowance	**47**	962
Allowance at 31 December	**1 009**	962
ECL allowance analysis		
Stage 1 – 12-month ECLs	**1 009**	962
Total ECL allowance on negotiable securities	**1 009**	962
Stage 1 – 12-month ECLs		
Gross carrying amount	**3 936 993**	2 470 358
Less: ECL allowance	**(1 009)**	(962)
Net carrying amount at 31 December	**3 935 984**	2 469 396
ECL allowance at 1 January	**962**	–
Movements of allowance recognised in profit or loss		
Net impairment losses recognised	**47**	962
ECL allowance at 31 December	**1 009**	962

3. Loans and advances

	31 December 2021 R000	31 December 2020 R000
At amortised cost	**6 650 577**	5 951 392
At fair value through profit or loss	**1 272 504**	1 263 415
Designated at fair value through profit or loss	**638 174**	952 353
	8 561 255	8 167 160
Loans and advances – companies and close corporations*	**6 897 549**	6 759 194
Loans and advances – unincorporated businesses and other	**522 217**	586 326
Loans and advances – households*	**25 986**	27 838
Preference share financing	**1 076 569**	770 057
Debtor financing*	**145 753**	51 802
Revaluation of loans at fair value through profit or loss	**111 068**	139 842
ECL allowance against loans and advances (Stages 1 and 2)	**(38 268)**	(34 696)
ECL allowance against loans and advances (Stage 3)	**(179 619)**	(133 203)
	8 561 255	8 167 160
Mortgages	**3 824 359**	3 501 017
Corporate loans	**3 174 576**	3 230 484
Overdrafts	**446 817**	641 857
Debtor financing	**145 753**	51 802
Preference share financing	**1 076 569**	770 057
Revaluation of loans at fair value through profit or loss	**111 068**	139 842
ECL allowance against loans and advances (Stages 1 and 2)	**(38 268)**	(34 696)
ECL allowance against loans and advances (Stage 3)	**(179 619)**	(133 203)
	8 561 255	8 167 160

* *Limited reclassifications were made to improve disclosure.*

3. Loans and advances *continued*

	31 December 2021 R000	31 December 2020 R000
Collateral		
Property	**4 544 511**	4 259 047
Listed shares	**584 469**	279 310
Unlisted shares	**337 890**	250 892
Debtors	**155 636**	52 771
Guarantees	**1 987 155**	1 611 789
Other	**160 665**	126 264
Fair value of collateral held	**7 770 327**	6 580 073
Unsecured*	**1 006 663**	1 887 195
Revaluation of loans at fair value through profit or loss	**111 068**	139 842
ECL allowance against loans and advances (Stages 1 and 2)	**(38 268)**	(34 696)
ECL allowance against loans and advances (Stage 3)	**(179 619)**	(133 203)
Security for financing guarantees excluding cash-backed guarantees	**(108 915)**	(272 051)
	8 561 255	8 167 160
Sectoral analysis		
Agriculture, hunting, forestry and fishing	**44 098**	70 182
Mining and quarrying	**31 694**	21 112
Manufacturing	**124 882**	239 866
Electricity, gas and water supply	**10 628**	7 879
Construction	**45 045**	11 188
Wholesale and retail trade, repair of specified items, hotels and restaurants	**473 197**	483 848
Transport, storage and communication	**262 573**	53 943
Financial intermediation and insurance	**207 087**	286 428
Real estate	**5 063 767**	4 810 077
Business services	**397 956**	306 409
Community, social and personal services	**39 568**	41 861
Households	**25 986**	27 838
Other**	**1 873 042**	1 841 225
ECL allowance against loans and advances (Stages 1 and 2)	**(38 268)**	(34 696)
	8 561 255	8 167 160
Geographical analysis		
KwaZulu-Natal	**4 375 769**	4 197 912
Gauteng	**2 431 694**	2 558 997
Western Cape	**1 226 588**	1 249 994
Free State	**427 872**	91 015
Mpumalanga	**86 915**	7 359
Eastern Cape	**8 592**	6 707
Northern Cape	**3 825**	4 478
Outside of South Africa	**–**	50 698
	8 561 255	8 167 160

* *Exposures are secured by counterparties' statement of financial position on which the Group does not place reliance for collateral valuation purposes.*

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

	31 December 2021 R000	31 December 2020 R000
Modified loans and advances measured at amortised cost		
Information on loans and advances that were modified while they had loss allowances amounting to lifetime ECLs.		
Gross carrying amount before lifetime ECLs and modifications	157 498	21 291
Lifetime ECLs before modifications	(21 412)	(21 287)
Amortised cost before modifications	136 086	4
Modifications gains	8	21
Analysis of ECL allowance (Stages 1 and 2)		
Allowance at 1 January	34 696	22 129
Net increase in allowance	3 572	12 567
Allowance at 31 December	38 268	34 696
Analysis of ECL allowance (Stage 3)		
Allowance at 1 January	133 203	67 795
Net increase in allowance including suspended interest	64 183	92 391
Written off	(17 767)	(26 983)
Allowance at 31 December	179 619	133 203
ECL allowance analysis		
Stage 1 – 12-month ECLs	21 187	20 670
Stage 2 – lifetime ECLs	17 081	14 026
Stage 3 – lifetime ECLs	179 619	133 203
Total ECL allowance on loans and advances	217 887	167 899

3. Loans and advances *continued*

	Stage 1 (12-month ECL allowance) R000	Stage 2 (Lifetime ECL allowance) R000	Stage 3 (Lifetime ECL allowance) R000	Total R000
2021				
Gross carrying amount	**5 359 790**	**243 536**	**1 265 138**	**6 868 464**
Less: ECL allowance	**(21 187)**	**(17 081)**	**(179 619)**	**(217 887)**
Net carrying amount at 31 December 2021	**5 338 603**	**226 455**	**1 085 519**	**6 650 577**
ECL allowance at 1 January 2021	**20 670**	**14 026**	**133 203**	**167 899**
Transfers between stages	**(1 683)**	**(1 337)**	**3 020**	**–**
Transfers from Stage 1 to Stage 2	**(231)**	**231**	**–**	**–**
Transfers from Stage 1 and 2 to Stage 3	**(1 452)**	**(1 568)**	**3 020**	**–**
Movements of allowance recognised in profit or loss	**2 200**	**4 392**	**43 396**	**49 988**
New ECLs raised	**1 239**	**3 383**	**1 842**	**6 464**
Subsequent changes in ECLs including derecognition	**961**	**1 009**	**59 321**	**61 291**
Written off	**–**	**–**	**(17 767)**	**(17 767)**
ECL allowance at 31 December 2021	**21 187**	**17 081**	**179 619**	**217 887**
2020				
Gross carrying amount	4 026 488	974 006	1 118 797	6 119 291
Less: ECL allowance	(20 670)	(14 026)	(133 203)	(167 899)
Net carrying amount at 31 December 2020	4 005 818	959 980	985 594	5 951 392
ECL allowance at 1 January 2020	15 177	6 952	67 795	89 924
Transfers between stages	(593)	25	568	–
Transfers from Stage 1 to Stage 2	(25)	25	–	–
Transfers from Stage 1 to Stage 3*	(568)	–	568	–
Movements of allowance recognised in profit or loss	6 086	7 049	64 840	77 975
New ECLs raised*	4 435	1 221	82 306	87 962
Subsequent changes in ECLs including derecognition*	1 651	5 828	9 517	16 996
Write offs	–	–	(26 983)	(26 983)
ECL allowance at 31 December 2020	20 670	14 026	133 203	167 899

* *Limited reclassifications were made to improve disclosure.*

	31 December 2021 R000	31 December 2020 R000
Analysis of classified, impaired or non-performing loans and advances		
Advances classified as special mention	**420 552**	551 845
Advances classified as sub-standard	**741 303**	339 568
Advances displaying significant weakness (doubtful and loss)	**97 467**	227 384
Carrying amount of classified, impaired or non-performing loans and advances*	**1 259 322**	1 118 797
Collateral held against classified, impaired or non-performing loans and advances**	**3 013 819**	4 195 499
Age Analysis of classified, impaired or non-performing loans and advances		
Current	**1 130 154**	825 691
6 – 12 months overdue	**2 766**	179 339
> 12 months overdue	**126 402**	113 767
	1 259 322	1 118 797
Sectoral analysis of classified, impaired or non-performing loans and advances		
Electricity, gas and water supply	**7 384**	–
Wholesale and retail trade, repair of specified items, hotels and restaurants	**35 299**	43 157
Financial intermediation and insurance	**–**	15 044
Real estate	**781 961**	626 832
Business services	**231 744**	236 386
Households	**–**	355
Community, social and personal services	**–**	6 726
Other	**202 934**	190 297
	1 259 322	1 118 797
Credit-impaired loans and advances (included in Stage 3)		
Carrying amount	**326 815**	279 008
ECL allowance (Stage 3)	**(179 619)**	(133 203)
Net carrying amount	**147 196**	145 805

* *Not all classified, impaired or non-performing loans and advances are categorised as Stage 3 loans and advances.*
** *Overcollateralised in certain instances.*

	31 December 2021 R000	31 December 2020 R000
4. Investment securities		
At fair value through profit or loss		
Private equity investments	6 398	6 398
Unit trust investments	2 720	2 800
	9 118	9 198
5. Other assets		
At amortised cost		
Sundry receivables	5 717	9 370
Fee and dividend receivables	15 109	65 962
	20 826	75 332

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

	Furniture, fittings, office equipment, motor vehicles and artwork R000	Computers and computer hardware R000	Right-of-use assets* R000	Total R000
6. Property and equipment				
2021				
Cost at 1 January	13 026	25 183	35 207	73 416
Additions	530	3 715	21 165	25 410
Disposals	(92)	(31)	–	(123)
Cost at 31 December	13 464	28 867	56 372	98 703
Accumulated depreciation at 1 January	11 584	20 548	26 456	58 588
Depreciation	715	2 947	11 784	15 446
Disposals	(47)	(31)	–	(78)
Accumulated depreciation at 31 December	12 252	23 464	38 240	73 956
Carrying amount at 1 January	1 442	4 635	8 751	14 828
Carrying amount at 31 December	1 212	5 403	18 132	24 747

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

	Furniture, fittings, office equipment and motor vehicles R000	Computers and computer hardware R000	Right-of-use asset* R000	Total R000
2020				
Cost at 1 January	12 895	21 452	26 997	61 344
Additions	131	3 748	8 210	12 089
Disposals	–	(17)	–	(17)
Cost at 31 December	13 026	25 183	35 207	73 416
Accumulated depreciation at 1 January	10 827	18 862	13 624	43 313
Depreciation	757	1 701	12 832	15 290
Disposals	–	(15)	–	(15)
Accumulated depreciation at 31 December	11 584	20 548	26 456	58 588
Carrying amount at 1 January	2 068	2 590	13 373	18 031
Carrying amount at 31 December	1 442	4 635	8 751	14 828

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

	31 December 2021 R000	31 December 2020 R000

7. Deferred tax asset

	31 December 2021 R000	31 December 2020 R000
Deferred tax asset	**61 046**	47 931

Deferred tax asset is attributable to the following:

	31 December 2021 R000	31 December 2020 R000
Loss allowance	**15 661**	13 237
Provisions	**17 319**	7 883
Income and sundry accruals	**19 668**	21 601
Capital loss*	**8 398**	5 210
	61 046	47 931

* *Management is of the view that the deferred tax asset relating to the capital loss will reverse in the future periods and therefore the asset will be recovered through future capital taxable income generated on realisation of the preference share financing and investment securities portfolio.*

	Balance at 1 January R000	Recognised in profit or loss R000	Balance at 31 December R000
2021			
Loss allowance	**13 237**	**2 424**	**15 661**
Provisions	**7 883**	**9 436**	**17 319**
Income and sundry accruals	**21 601**	**(1 933)**	**19 668**
Capital loss	**5 210**	**3 188**	**8 398**
	47 931	**13 115**	**61 046**
2020			
Loss allowance	6 387	6 850	13 237
Provisions	7 863	20	7 883
Income and sundry accruals	3 717	17 884	21 601
Capital loss	6 980	(1 770)	5 210
	24 947	22 984	47 931

	31 December 2021 R000	31 December 2020 R000

8. Deposits and funding instruments

	31 December 2021 R000	31 December 2020 R000
At amortised cost		
Call deposits	**5 914 414**	5 098 352
Current accounts	**957 544**	880 258
Notice and fixed deposits	**4 277 991**	3 399 610
SARB guaranteed loans	**36 235**	–
Notes – domestic medium-term note (DMTN)	**650 000**	513 000
Accrued interest	**86 448**	74 253
	11 922 632	9 965 473
Amounts owed to depositors	**11 897 421**	9 933 143
Amounts owed to banks	**25 211**	32 330
	11 922 632	9 965 473
Note issue (DMTN programme)		
3-month Johannesburg Inter-bank Agreed Rate (JIBAR) plus 3.00% (maturity date: June 2021)	**–**	263 000
3-month JIBAR plus 2.25% (maturity date: November 2022)	**250 000**	250 000
3-month JIBAR plus 2.50% (maturity date: June 2024)	**400 000**	–
	650 000	513 000

A JSE listed 3-year note was originally issued on 15 October 2012 with subsequent taps, rollovers and new issues.

Interest is payable quarterly in arrears and is linked to the 3-month JIBAR rate plus a spread.

Notes to the value of R263 million at a rate of 3-month JIBAR plus 3.00% matured in June 2021. New notes to the value of R400 million at a rate of 3-month JIBAR plus 2.50% were issued in June 2021.

	31 December 2021 R000	31 December 2020 R000
Sectoral analysis		
Banks	**25 211**	32 330
Government and public sector	**874 192**	742 482
Individuals	**2 116 653**	1 627 841
Business sector	**8 906 576**	7 562 820
	11 922 632	9 965 473
Geographical analysis		
South Africa	**11 922 632**	9 965 473

	31 December 2021 R000	31 December 2020 R000
9. Derivative instruments		
At fair value through profit or loss		
Interest rate swaps		
Derivative liabilities	**25 203**	73 046
Derivative assets	**(926)**	–
Net derivative liabilities	**24 277**	73 046
Fair value adjustments for the period:		
Derivative liabilities	**47 843**	(50 795)
Derivative assets	**926**	(2)
Net fair value gain/(loss)	**48 769**	(50 797)
Interest rate swaps (nominal value)		
Contracts with negative fair value (liabilities)	**544 598**	822 561
Contracts with positive fair value (assets)	**70 000**	–
	614 598	822 561

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

10. Provisions and other liabilities

	31 December 2021 R000	31 December 2020 R000
10.1 Provisions		
Leave pay provision	**9 366**	8 252
Short-term incentive provision*	**38 196**	6 738
	47 562	14 990
10.2 Other liabilities		
Trade and other payables**	**31 772**	32 112
Preference share dividends payable**	**8 926**	8 890
Share appreciation rights*	**4 252**	2 700
Forfeitable share plan*	**507**	1 071
Lease liabilities	**19 277**	9 687
	64 734	54 460
Analysis of leave pay provision		
Balance at 1 January	**8 252**	7 925
Utilised or reversed during the year	**(9 553)**	(4 315)
Recognised during the year	**10 667**	4 642
Balance at 31 December	**9 366**	8 252

Leave pay provision is contractual and the timing of cashflows is variable.

	31 December 2021 R000	31 December 2020 R000
Analysis of short-term incentive provision		
Balance at 1 January	**6 738**	10 500
Utilised or reversed during the year	**(6 738)**	(10 500)
Recognised during the year	**38 196**	6 738
Balance at 31 December	**38 196**	6 738

* *Refer to additional disclosure on incentive schemes included in note 34.*

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

	31 December 2021 R000	31 December 2020 R000

10 Provisions and other liabilities *continued*

10.2 Other liabilities *continued*

Analysis of share appreciation rights scheme		
Balance at 1 January	**2 700**	6 408
Utilised or reversed during the year*	**(810)**	(4 862)
Recognised during the year*	**2 362**	1 154
Balance at 31 December	**4 252**	2 700

Analysis of forfeiture share plan scheme		
Balance at 1 January	**1 071**	3 368
Utilised or reversed during the year	**(564)**	(2 297)
Balance at 31 December	**507**	1 071

* *Limited reclassifications were made to improve disclosure.*

Analysis of lease liabilities

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

Interest expense on lease liabilities was R1 277 879 (2020: R1 145 636).

Undiscounted contractual maturity analysis	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	Total R000
31 December 2021					
Lease liabilities	**3 469**	**3 514**	**3 362**	**10 619**	**20 964**
31 December 2020					
Lease liabilities	2 628	2 717	3 695	1 072	10 112

	31 December 2021 R000	31 December 2020 R000

11. Ordinary share capital

	31 December 2021 R000	31 December 2020 R000
Authorised		
10 000 000 (2020: 10 000 000) ordinary shares of 1 cent each	**100**	100
Issued		
15 239 (2020: 15 239) ordinary shares of 1 cent each	**–**	–
Reconciliation of the number of shares issued		
Balance at 1 January	**15 239**	15 239
Issue of shares*	**483**	–
Repurchase of shares*	**(483)**	–
Balance at 31 December	**15 239**	15 239

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

12. Share premium

	31 December 2021 R000	31 December 2020 R000
Arising on the issue of 15 239 (2020: 15 239) ordinary shares of 1 cent each	**380 278**	380 278
Reconciliation of share premium		
Balance at 1 January	**380 278**	380 278
Issue of shares*	**25 224**	–
Repurchase of shares*	**(25 224)**	–
Balance at 31 December	**380 278**	380 278

* *In August 2021 the Company repurchased 483 ordinary shares issued to Amber Bay, which represented 3.17% of the shares in issue. To finance the repurchase, an additional 483 shares were issued to Grindrod Limited, which were fully subscribed for.*

13. Preference share capital

	31 December 2021 R000	31 December 2020 R000
Authorised		
750 000 (2020: 750 000) non-cumulative, non-redeemable, non-participating and non-convertible par value shares of 1 cent each	**–**	–
Issued		
245 000 (2020: 245 000) non-cumulative, non-redeemable, non-participating and non-convertible par value shares of 1 cent each	**285 000**	285 000

The preference share capital is held by Grindrod Limited. Dividends are payable bi-annually at 88% of the prime interest rate and is subject to the Companies Act requirements with regards to adhering to the solvency and liquidity requirements.

The preference shares qualify as additional Tier 1 regulatory capital.

14. Interest and similar income

	31 December 2021 R000	31 December 2020 R000
Calculated using the effective interest method		
Advances*	**465 090**	436 621
Preference share dividends, advances portfolio	**24 766**	16 362
SARB guaranteed loans*	**2 728**	800
Balances at banks and short-term funds	**36 903**	103 557
Other short-term securities	**158 189**	117 792
Preference share dividends, negotiable securities portfolio	**2 042**	603
Loan origination fees recognised over the expected life of advances	**57 068**	41 878
Preference shares linked to participatory contributions	**–**	65 750
	746 786	783 363

* *Limited reclassifications were made to improve disclosure.*

	31 December 2021 R000	31 December 2020 R000
15. Interest and similar expense		
Calculated using the effective interest method		
Call deposits	**200 306**	207 545
Current accounts	**5 362**	8 717
Notice and fixed deposits	**225 168**	265 281
SARB guaranteed loans	**1 017**	–
Funding under repurchase agreements	**3 823**	–
Notes – domestic medium-term note (DMTN)	**35 336**	54 659
Trust participatory contributions	**–**	55 632
Lease liabilities	**1 278**	1 146
	472 290	592 980
16. Non-interest revenue		
16.1 Net fee income		
Corporate banking**	**2 374**	6 814
Corporate banking fee income**	**3 525**	9 785
Corporate banking fee expense**	**(1 151)**	(2 971)
Platform banking**	**36 767**	41 408
Platform banking fee income**	**135 194**	139 497
Platform banking fee expense**	**(98 427)**	(98 089)
Corporate finance	**5 744**	5 019
Other banking related*	**2 833**	3 435
	47 718	56 676

* *Other banking related fee income consists of administrative fee income.*
** *Limited reclassifications were made to improve disclosure.*

	31 December 2021 R000	31 December 2020 R000
16.2 Gains and losses on financial instruments		
Loans held at FVTPL – Fair value adjustments***	**36 337**	11 304
Loans held at FVTPL – Interest income***	**87 971**	88 973
Loans designated at FVTPL – Fair value adjustments***	**(37 426)**	73 215
Loans designated at FVTPL – Interest income***	**71 143**	93 468
Modification of loans at amortised cost	**(2 073)**	3 855
Derivates held at FVTPL	**24 949**	(76 425)
Investment securities held at FVTPL	**(80)**	(200)
	180 821	194 190

*** *Limited reclassifications were made to improve disclosure. Interest income on fair value loans are recognised in non-interest income as it effectively represents fair value movements.*

	31 December 2021 R000	31 December 2020 R000
16.3 Other non-interest revenue	**2 649**	–
	231 188	250 866
17. Impairment losses on financial assets		
Increase in allowance for credit losses		
Stage 1 ECL allowance against cash and short-term funds	**54**	146
Stage 1 ECL allowance against negotiable securities	**46**	962
Stage 1 and 2 ECL allowance against loans and advances	**3 572**	12 567
Stage 3 ECL impairment losses against loans and advances	**48 241**	87 847
	51 913	101 522

	31 December 2021 R000	31 December 2020 R000
18. Operating expenses		
Audit fees	**4 071**	4 109
Advisory fees	**655**	530
Banking and transactional-related costs	**13 403**	14 482
Computer-related costs	**53 614**	32 884
Depreciation	**15 446**	15 290
Employee expenses	**205 767**	147 547
Remuneration and other employee expenses	**154 521**	139 655
Short-term incentives	**48 884**	6 738
Share-based payments expense	**2 362**	1 154
Legal and professional fees	**7 250**	4 995
Marketing	**3 586**	2 117
Non-executive director emoluments	**5 621**	4 521
Premises	**6 047**	6 589
Rental	**1 254**	1 148
Other premises-related costs	**4 793**	5 441
Travel	**911**	1 093
Other expenses*	**10 962**	12 164
Indirect tax	**292**	17 026
	327 625	263 347

* *Other expenses consists of insurance, entertainment, corporate services, printing and stationery, telephone and subscriptions.*

	31 December 2021 R000	31 December 2020 R000
Included in employee expenses:		
Key executive management remuneration (6 employees, 2020: 8 employees)		
Managerial services – salaries	**18 888**	18 040
Managerial services – short-term incentive expense**	**5 315**	3 082
Managerial services – share-based payment expense	**910**	628
Defined contribution plan expense	**1 966**	2 100
	27 079	23 850

** *Short-term incentive expense relates to 2020 awards paid in the 2021 reporting period. The 2021 short-term incentive provision has been raised but is yet to be awarded and is therefore not included in this amount.*

18. Operating expenses *continued*

Directors' remuneration

	Services as directors R000	Salaries R000	Short-term incentive expense* R000	Share-based payment expense** R000	Defined contribution scheme expense R000	Total R000
31 December 2021						
Executive directors						
DA Polkinghorne	–	5 864	1 836	483	279	8 462
RS Garach	–	3 971	1 304	–	384	5 659
Non-executive directors						
JH Beare	252	–	–	–	–	252
ZN Malinga	945	–	–	–	–	945
TD Soondarjee	1 050	–	–	–	–	1 050
S Barrett	1 072	–	–	–	–	1 072
R Ramcharan	810	–	–	–	–	810
GG Christopulo	695	–	–	–	–	695
CR Howell	722	–	–	–	–	722
MP Grindrod	–	–	–	–	–	–
RM Maleka	75	–	–	–	–	75
	5 621	9 835	3 140	483	663	19 742
31 December 2020						
Executive directors						
DA Polkinghorne	–	5 607	–	357	290	6 254
RS Garach	–	3 177	–	–	478	3 655
Non-executive directors						
JH Beare	658	–	–	–	–	658
ASP Dambuza	453	–	–	–	–	453
WD Geach	76	–	–	–	–	76
ZN Malinga	725	–	–	–	–	725
MS Mbatha	49	–	–	–	–	49
TD Soondarjee	1 031	–	–	–	–	1 031
S Barrett	791	–	–	–	–	791
Z Nyanga	271	–	–	–	–	271
R Ramcharan	179	–	–	–	–	179
GG Christopulo	156	–	–	–	–	156
CR Howell	132	–	–	–	–	132
MP Grindrod	–	–	–	–	–	–
	4 521	8 784	–	357	768	14 430

* *Short-term incentive expense relates to 2020 awards paid in the 2021 reporting period. The 2021 short-term incentive provision has been raised but is yet to be awarded and is therefore not included in this amount.*

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

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

	31 December 2021 R000	31 December 2020 R000
Executive directors of Grindrod Limited		
MP Grindrod*	**3 566**	583

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

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

19. Income tax expense

	31 December 2021 R000	31 December 2020 R000
SA Normal taxation		
Current Tax	**27 565**	23 631
Deferred Tax	**(13 115)**	(22 985)
Foreign taxation	**2 522**	–
Income tax expense	**16 972**	646

	%	%
Reconciliation of the tax rate		
Standard rate	**28.00**	28.00
Adjusted for:		
Non-taxable dividend income	**(16.02)**	(26.56)
Non-deductible differences	**0.24**	0.32
Non-taxable differences	**(0.12)**	(0.37)
Capital losses/(gains) on loans and advances	**0.75**	(0.46)
Prior year tax adjustments	**0.60**	(0.08)
Effective tax rate	**13.45**	0.85

20. Reconciliation of profit before tax to cash generated from operations

	31 December 2021 R000	31 December 2020 R000
Profit before taxation	**126 146**	76 380
Adjusted for:		
Unrealised (profit)/loss on derivatives	**(48 769)**	50 797
Unrealised loss/(profit) on loans at FVTPL	**60 230**	(36 100)
Unrealised loss on investment securities	**80**	200
Depreciation	**15 446**	15 290
Profit on sale of property and equipment	**(22)**	(3)
Foreign exchange loss	**21**	–
Increase in Stage 1 and 2 ECL allowances	**3 672**	13 675
Increase in Stage 3 ECL impairments allowance	**48 241**	87 847
Operating profit before working capital changes	**205 045**	208 086
Changes in:		
Decrease/(increase) in sundry receivables	**3 632**	(1 064)
Decrease in fee income	**50 853**	19 803
Increase/(decrease) in trade and other payables	**34 499**	(16 175)
Cash generated from operations	**294 029**	210 650

	31 December 2021 R000	31 December 2020 R000

21. Reconciliation of lease liabilities arising from financing activities

	31 December 2021 R000	31 December 2020 R000
Balance at 1 January	**9 687**	14 316
Additions	**21 165**	8 210
Interest expense	**1 278**	1 146
Payments	**(12 853)**	(13 985)
Balance at 31 December	**19 277**	9 687

22. Cash and short-term funds

	31 December 2021 R000	31 December 2020 R000
Cash and short-term funds	**1 117 663**	923 536
Deposits held with SARB for regulatory purposes	**(292 309)**	(217 877)
ECL allowance against cash and short-term funds (Stage 1)	**200**	146
Cash and short-term funds at 31 December	**825 554**	705 805
Cash and short-term funds comprise:		
Current account balances	**51 616**	51 469
Inter-bank deposits	**773 938**	654 336
	825 554	705 805

23. Financial instruments measured at fair value – hierarchy

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

	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
31 December 2021				
Assets				
Loans and advances	**–**	**638 174**	**1 272 504**	**1 910 678**
Investment securities	**–**	**–**	**9 118**	**9 118**
	–	**638 174**	**1 281 622**	**1 919 796**
Liabilities				
Derivative instruments	**–**	**24 277**	**–**	**24 277**
	–	**24 277**	**–**	**24 277**
31 December 2020				
Assets				
Loans and advances	–	952 353	1 263 415	2 215 768
Investment securities	–	–	9 198	9 198
	–	952 353	1 272 613	2 224 966
Liabilities				
Derivative instruments	–	73 046	–	73 046
	–	73 046	–	73 046

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

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

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

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

	31 December 2021		31 December 2020	
	Loans and advances R000	Investment securities R000	Loans and advances R000	Investment securities R000
Level 3 reconciliation				
Balance at 1 January	**1 263 415**	**9 198**	1 095 625	9 177
Total gains/(losses) recognised in profit or loss	**124 308**	**(80)**	100 277	(200)
Additions	**386 303**	**–**	202 019	221
Settlements	**(501 522)**	**–**	(134 506)	–
Balance at 31 December	**1 272 504**	**9 118**	1 263 415	9 198

Supplementary information

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

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

	Category	Valuation technique	Observable inputs	Unobservable inputs	Range for unobservable inputs
Level 3	Loans and advances	Discounted cash flow	Swap and prime curves	Credit spreads	1.6% – 21.1%
	Investment securities	Earnings multiple	None	Future profit assumptions and earnings multiple	10.3x – 11.3x

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

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

Sensitivity analysis of valuations using unobservable inputs

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

Significant unobservable parameter	Favourable/ (unfavourable) variance applied to parameters
31 December 2021	
Credit spread	**100 – 150/(100) – (150) bps**
Price earnings multiple	**0.5x – (0.5x)**
31 December 2020	
Credit spread	100 – 150/(100) – (150) Bps
Price earnings multiple	0.5x – (0.5x)

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

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

Financial instrument	*Parameter*	31 December 2021 Potential effect on profit or loss favourable/ (unfavourable) R000	31 December 2020 Potential effect on profit or loss favourable/ (unfavourable) R000
Loans and advances	Credit spread – 100 bps	**16 537/(15 995)**	14 933/(14 460)
Loans and advances	Credit spread – 150 bps	**25 017/(23 797)**	22 584/(21 520)
Investment securities	Price earning multiple – 0.5x	**3 154/(4 896)**	3 154/(4 896)

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

	Total carrying amount R000	Total fair value R000	Level 1 R000	Level 2 R000	Level 3 R000
31 December 2021					
Assets					
Cash and short-term funds*	**1 117 663**	**1 117 663**	**–**	**1 117 663**	**–**
Negotiable securities*	**3 935 984**	**3 935 984**	**–**	**3 935 984**	**–**
Loans and advances	**6 650 577**	**6 655 400**	**–**	**–**	**6 655 400**
Other assets*	**20 826**	**20 826**	**–**	**20 826**	**–**
	11 725 050	**11 729 873**	**–**	**5 074 473**	**6 655 400**
Liabilities					
Deposits and funding instruments*	**11 922 632**	**11 922 632**	**–**	**11 922 632**	**–**
Trade and other payables*	**31 772**	**31 772**	**–**	**31 772**	**–**
Preference share dividends payable*	**8 926**	**8 926**	**–**	**8 926**	**–**
	11 963 330	**11 963 330**	**-**	**11 963 330**	**–**

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

	Total carrying amount R000	Total fair value R000	Level 1 R000	Level 2 R000	Level 3 R000
31 December 2020					
Assets					
Cash and short-term funds*	923 536	923 536	-	923 536	-
Negotiable securities*	2 469 396	2 469 396	-	2 469 396	-
Loans and advances	5 951 392	5 966 049	-	-	5 966 049
Other assets*	75 332	75 332	-	75 332	-
	9 419 656	9 434 313	-	3 468 264	5 966 049
Liabilities					
Deposits and funding instruments*	9 965 473	9 965 473	–	9 965 473	–
Trade and other payables*	32 112	32 112	–	32 112	–
Preference share dividends payable*	8 890	8 890	–	8 890	–
	10 006 475	10 006 475	–	10 006 475	–

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

Supplementary information

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

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

	Category	Valuation technique	Observable inputs	Unobservable inputs	Range for unobservable inputs
Level 3	Loans and advances	Discounted cash flow	Swap and prime curves	Credit spreads	2.77% – 6.56%

25. Financial instruments risk management: credit risk

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

Credit risk management

Sound credit risk management involves prudently managing the risk and reward relationship which takes into account controlling and minimising credit risks across a variety of dimensions, such as financial performance, quality of lending, concentration, maturity, monitoring and security. The board has delegated responsibility for the management of credit risk to the credit and large exposure committee (CLEC) who is responsible for the sustainability and health of the loan book by ensuring sound credit granting and for monitoring large exposures, associated exposures, sectoral exposure and any irregular or problem loans. Credit risk is monitored at an individual and at an aggregated group exposure level. The Group's target market typically includes SME businesses with a focused client-centric approach. New deal approval is subject to specified limits of authority which are aggregated at a client or total group exposure level, i.e. credit department (R10 million), credit exco (R80 million), credit and large exposure committee (R150 million) and the board (above R150 million). The CLEC monitors credit portfolios, risk procedures, policies and credit standards. The CLEC has also been assessing and reporting the impact of Covid-19 and the civil unrest on the credit portfolio. The Group has tasked management to be more diligent and commence early interventions with clients in arrears. This has shown benefits in managing arrear accounts. The credit risk unit manages post-implementation credit risk in line with the Group's credit policies and board risk appetite. In addition the Group established a dedicated loan recovery unit to manage Stage 2 and Stage 3 loans to maximise the recoveries from distressed loans.

Maximum exposure to credit risk

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

Definitions

Past due

Exposures are considered past due when the facility has expired and not settled per the terms and conditions of the contractual agreement. Generally, exposures are graded per regulations and once they are considered past due, a Stage 3 impairment loss is recognised taking into account the collateral held.

The Group has limited historical quantitative data on credit defaults owing to the nature and size of loans and advances. Consequently, various elements of the ECL model incorporate the use of experience and professional judgement which are reviewed and approved by both the CLEC and risk and capital management committee.

Credit risk mitigation

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

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

Counterparty risk

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

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

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

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

Concentration risk

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

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

26. Financial instruments risk management: liquidity risk

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

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

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

	Note	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non-contractual R000	Total R000
Contractual maturity analysis								
31 December 2021								
Assets (discounted maturity)								
Cash and short-term funds	1	**344 279**	**–**	**771 691**	**–**	**1 893**	**(200)**	**1 117 663**
Negotiable securities	2	**918 047**	**1 232 230**	**1 473 758**	**217 114**	**95 844**	**(1 009)**	**3 935 984**
Loans and advances*	3	**2 211 179**	**160 766**	**828 982**	**3 973 320**	**1 604 895**	**(217 887)**	**8 561 255**
Investment securities	4	**–**	**–**	**–**	**–**	**–**	**9 118**	**9 118**
Other assets	5	**15 109**	**–**	**–**	**–**	**–**	**5 717**	**20 826**
		3 488 614	**1 392 996**	**3 074 431**	**4 190 434**	**1 702 632**	**(204 261)**	**13 644 846**
31 December 2021								
Liabilities (undiscounted maturity)								
Deposits and funding instruments	8	**9 592 432**	**1 116 108**	**627 342**	**739 347**	**9 847**	**–**	**12 085 076**
Derivative instruments	9	**–**	**–**	**1 072**	**20 889**	**2 316**	**–**	**24 277**
Trade and other payables	10.2	**31 772**	**–**	**–**	**–**	**–**	**–**	**31 772**
Preference share dividends payable	10.2	**8 926**	**–**	**–**	**–**	**–**	**–**	**8 926**
		9 633 130	**1 116 108**	**628 414**	**760 236**	**12 163**	**–**	**12 150 051**
Financial guarantees	35	**434 724**	**–**	**–**	**–**	**–**	**–**	**434 724**
Irrevocable unutilised facilities	35	**232 141**	**–**	**–**	**–**	**–**	**–**	**232 141**
		10 299 995	**1 116 108**	**628 414**	**760 236**	**12 163**	**–**	**12 816 916**

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

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

	Note	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non–contrac–tual R000	Total R000
31 December 2020 Assets (discounted maturity)								
Cash and short-term funds	1	923 682	–	–	–	–	(146)	923 536
Negotiable securities	2	1 063 120	1 010 878	195 787	15 340	185 233	(962)	2 469 396
Loans and advances*	3	2 634 941	143 267	672 847	3 036 411	1 847 593	(167 899)	8 167 160
Investment securities	4	–	–	–	–	–	9 198	9 198
Other assets	5	9 497	–	–	65 835	–	–	75 332
		4 631 240	1 154 145	868 634	3 117 586	2 032 826	(159 809)	11 644 622
31 December 2020 Liabilities (undiscounted maturity)								
Deposits and funding instruments	8	8 041 568	863 372	631 621	549 568	–	–	10 086 129
Derivative instruments	9	–	–	–	28 565	44 481	–	73 046
Trade and other payables	10.2	27 367	–	–	2 141	2 604	–	32 112
Preference share dividends payable	10.2	8 890	–	–	–	–	–	8 890
		8 077 825	863 372	631 621	580 274	47 085	–	10 200 177
Financial guarantees	35	735 152	–	–	–	–	–	735 152
Irrevocable unutilised facilities	35	310 324	–	–	–	–	–	310 324
		9 123 301	863 372	631 621	580 274	47 085	–	11 245 653

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

27. Financial instruments risk management: interest rate risk

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

Traditional repricing gap analysis is used to measure interest rate exposure. The Group has a conservative policy on interest rate risk arising from repricing differentials and the duration of this exposure is limited to three months for material aggregated positions or hedged using derivative instruments. The static interest rate gap report is reviewed monthly by the BSM committee and the model assumes each asset class will reprice in full in the relevant repricing timeband.

Interest rate repricing gap	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	>1 year <5 years R000	>5 years R000	Non-rate sensitive R000	Total R000
31 December 2021							
Assets	**9 711 083**	**1 232 231**	**1 540 011**	**756 005**	**302 358**	**190 266**	**13 731 954**
Equity and liabilities	**(11 335 365)**	**(333 650)**	**(298 896)**	**(239 720)**	**–**	**(1 524 323)**	**(13 731 954)**
Interest rate hedging activities	**663 270**	**–**	**(66 254)**	**(403 781)**	**(193 235)**	**–**	**–**
Repricing profile	**(961 012)**	**898 581**	**1 174 861**	**112 504**	**109 123**	**(1 334 057)**	**–**
Cumulative repricing profile	**(961 012)**	**(62 431)**	**1 112 430**	**1 224 934**	**1 334 057**	**–**	**–**
Expressed as a percentage of total assets (%)	**(7.0%)**	**(0.5%)**	**8.1%**	**8.9%**	**9.7%**		
31 December 2020							
Assets	9 203 014	1 010 879	215 809	312 415	769 101	207 958	11 719 176
Equity and liabilities	(9 574 364)	(152 658)	(289 175)	(234 276)	–	(1 468 703)	(11 719 176)
Interest rate hedging activities	801 769	–	–	(229 198)	(572 571)	–	–
Repricing profile	430 419	858 221	(73 366)	(151 059)	196 530	(1 260 745)	–
Cumulative repricing profile	430 419	1 288 640	1 215 274	1 064 215	1 260 745	–	–
Expressed as a percentage of total assets (%)	3.7%	11.0%	10.4%	9.1%	10.8%		

Interest income sensitivity	<3 months R000	>3 months <6 months R000	>6 months <1 year R000	Cumulative impact on net interest income R000
31 December 2021				
2% interest rate increase	**(4 866)**	**(5 677)**	**(11 355)**	**(21 898)**
2% interest rate decrease	**4 866**	**5 677**	**11 355**	**21 898**
31 December 2020				
2% interest rate increase	3 231	1 768	3 535	8 534
2% interest rate decrease	(3 231)	(1 768)	(3 535)	(8 534)

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

Equity impact is net of tax and amounts to (R15.77 million) (2020: R6.14 million) on a 2% interest rate increase and R15.77 million (2020: (R6.14 million)) on a 2% interest rate decrease.

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

Hedging

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

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

28. Financial instruments risk management: market risk

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

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

29. Financial instruments risk management: investment risk

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

Where the business is exposed to investment risk, reports are tabled at BSM meetings.

30. Financial instruments risk management: equity investment risk

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

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

Unlisted investments are recognised on a settlement date basis and are initially measured at fair value and are remeasured to fair value through profit or loss using either listed proxy entity share prices (adjusted for liquidity, marketability and operational scale) or a discounted cash flow model taking into account future maintainable earnings.

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

Sensitivity analysis	**31 December 2021 R000**	31 December 2020 R000
10% increase in equity prices	**91**	92
10% decrease in equity prices	**(91)**	(92)

Equity impact is net of tax and amounts to R0.71 million (2020: R0.71 million) on a 10% increase in equity prices and (R0.71 million) (2020: (R0.71 million)) on a 10% decrease in equity prices.

31. Financial instruments risk management: currency risk

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

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

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

Capital management

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

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

Key objectives include:

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

Regulatory capital

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

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

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

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

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

	2021 % Unaudited	2020 % Audited
Common equity Tier 1 capital	**12.508**	11.653
Additional Tier 1 capital	**2.777**	2.670
Total Tier 1 capital	**15.285**	14.323
Tier 2 capital	**0.384**	0.336
Total capital	**15.669**	14.659
Stakeholder capital adequacy ratio minimum requirements		
Regulator:		
– Notional common equity Tier 1	**7.000**	7.000
– Notional total Tier 1	**8.500**	8.500
– Total capital	**10.500**	10.500

Retained earnings appropriation

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

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

Dividend policy

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

33. Financial instruments risk management: operational risk

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

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

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

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

34. Incentive schemes

At 31 December 2021, the Group had the following short-term incentive scheme (refer note 10.1) and share-based payment arrangements (refer note 10.2):

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

Short-term incentives (refer to note 10.1)

Short-term incentives are based on the achievement of agreed individual key performance indicators with employees, subject to the satisfactory performance of the Group and approval by the human capital and remuneration committee. Short-term incentives for executives and other key employees are based on the achievement of agreed individual key performance indicators and the achievement of the Group's business scorecard objectives based on final audited results, subject to approval by the board of directors taking into account other qualitative factors. Short-term incentives for executives are capped at 100% of total cost of employment.

Share-based payment arrangements

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

Grindrod Financial Services Group cash-settled share-based incentive schemes (refer to note 10.2)

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

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

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

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

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

The Group has recognised liabilities of R4.25 million (2020: R2.70 million). Refer to note 10.2.

The Group has recognised expenses of R2.36 million (2020: R1.15 million). Refer to note 10.2.

The details of the SARs are as follows:

Date granted	**Number of SARs**	**Issue price* R**	**Cancellations**	**Settlements**	**Restated**	**Vested**	**Net total****
2017	**1 109 000**	**14.33**	**(351 623)**	**(226 000)**	**111 997**	**(476 821)**	**166 553**
2018	**1 194 000**	**15.20**	**(342 498)**	**(215 000)**	**132 476**	**(326 412)**	**442 566**
2019	**1 641 000**	**16.54**	**(507 777)**	**(295 000)**	**200 078**	**(138 204)**	**900 097**
2020	**2 262 000**	**15.01**	**(359 000)**	**–**	**–**	**–**	**1 903 000**
2021	**1 890 000**	**15.51**	**–**	**–**	**–**	**–**	**1 890 000**
	8 096 000		**(1 560 898)**	**(736 000)**	**444 551**	**(941 437)**	**5 302 216**

* *The price reflects the market price on the dates of the awards.*
** *At 31 December 2021, the fair value of these SARs was R3.84 million.*

The vesting price for the 2016, 2017 and 2018 awards that vested during 2021 was R15.57. The 2019, 2020 and 2021 awards did not vest during the year.

The final vesting date for the 2021 options is April 2026.

Included in the net total SARs in issue is 1 152 217 made to DA Polkinghorne (chief executive officer) and 484 000 made to RS Garach (chief financial officer).

Details of SARs outstanding during the year:

	31 December 2021 Number of SARs	31 December 2020 Number of SARs
Outstanding at 1 January	**4 138 779**	4 787 000
Granted during the year	**1 890 000**	2 262 000
Settled/Cancelled during the year	**(726 563)**	(3 593 480)
Restated during the year	**–**	683 259
Outstanding at 31 December	**5 302 216**	4 138 779

In addition to the above share option scheme, DA Polkinghorne is also a beneficiary of the Grindrod Limited share-price linked scheme. The details of the scheme is as follows:

The options issued by Grindrod Limited requires it to pay the intrinsic value of the SARs at the date of exercise.

The fair values were calculated using a stochastic model based on the standard binomial options pricing model.

This model has been modified to take into account early exercise opportunities and expected employee exercise behaviour.

Refer to Grindrod Limited financial statements, as published on their website at www.grindrod.co.za, for full disclosure.

34. Incentive schemes *continued*

Grindrod Financial Services Group cash-settled share-based incentive schemes (refer to note 10.2) *continued*

The details of the SARs are as follows:

Date granted	Number of SARs	Issue price* R	Vested	Net total**
2016	**152 063**	**5.09**	**(152 063)**	**–**
2017	**287 230**	**7.65**	**(143 614)**	**143 616**
2018	**351 193**	**7.40**	**(117 064)**	**234 129**
2019	**385 000**	**8.13**	**–**	**385 000**
2020	**406 800**	**3.67**	**–**	**406 800**
2021	**213 000**	**5.10**	**–**	**213 000**
	1 795 286		**(412 741)**	**1 382 545**

* *The price reflects the market price on the dates of the awards.*
** *At 31 December 2021, the fair value of these SARs was R0.41 million.*

The vesting price for the 2016, 2017 and 2018 awards that vested during 2021 was R5.51, R5.15 and R5.20 respectively. The 2019, 2020 and 2021 awards did not vest during the year.

The final vesting date for the 2021 options is August 2026.

Details of options outstanding during the year:

	31 December 2021 Number of SARs	31 December 2020 Number of SARs
Outstanding at 1 January	**1 582 286**	1 538 867
Granted during the year	**213 000**	406 800
Settled/Cancelled during the year	**(412 741)**	(363 381)
Restated during the year	**–**	–
Outstanding at 31 December	**1 382 545**	1 582 286

Grindrod Limited forfeitable share plan (FSP) (refer to note 10.2)

In terms of the Grindrod Limited FSP, the participants are entitled to receive dividends and to vote in respect of the shares awarded. However, the forfeitable shares cannot be disposed of or otherwise encumbered and they are also subject to a risk of forfeiture until the delivery date. The shares vest in equal tranches after three, four and five years. For the delivery conditions to be met, the participants are required to remain employed by the Group until the vesting date. There are no performance criteria in the vesting conditions. Employees terminating employment due to resignation or dismissal on grounds of misconduct, proven poor performance or dishonest or fraudulent conduct will forfeit all unvested awards. There were no share issues in either the current or prior reporting periods.

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

The Group has recognised liabilities of R0.51 million (2020: R1.07 million). Refer to note 10.2.

The Group has not recognised expenses in the current or prior reporting periods. Refer to note 10.2.

Date granted	Number of options granted	Price* R	Number of forfeitable shares vested	Number of forfeitable shares forfeited	Total forfeitable shares**
2016	111 151	9.61	(111 151)	–	–
2017	651 697	13.87	(319 814)	(253 438)	78 445
	762 848		(430 965)	(253 438)	78 445

* *The price reflects the market price on the dates of the awards.*
** *At 31 December 2021, the fair value of these options were R0.51 million.*

The vesting price for the 2016 and 2017 awards that vested during 2021 was R5.23 and R4.73 respectively.

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

Details of options outstanding during the year:

	31 December 2021 Number of options	31 December 2020 Number of options
Outstanding at 1 January	193 941	659 411
Vested during the year	(115 496)	(338 751)
Forfeited during the year	–	(126 719)
Outstanding at 31 December	78 445	193 941

35. Commitments and financial guarantees

	31 December 2021 R000	31 December 2020 R000
Financial guarantees	434 724	735 152
Financial guarantees are provided where lending facilities have been approved and all the terms and conditions of the loan have been met.		
Irrevocable unutilised facilities	232 141	310 324
Irrevocable unutilised facilities are approved lending facilities which cannot be unconditionally withdrawn, prior to facility expiry, by the Bank.		
Maximum exposure to credit risk*	341 056	582 375

* *Excludes cash-backed guarantees.*

36. Retirement benefit information

	31 December 2021 R000	31 December 2020 R000
Defined contribution plan expense	17 720	15 130

The Group contributes to the Galaxy Umbrella Provident Fund, administered by GQM Fund Administrators Proprietary Limited, a defined contribution plan. Alexander Forbes Financial Services Proprietary Limited is responsible for the administrative functions of the fund. The fund is registered under and governed by the Pension Funds Act, 1956.

At 31 December 2021, 182 employees (2020: 183 employees) of the Group were members of the Galaxy Umbrella Provident Fund.

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

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

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

	31 December 2021 R000	31 December 2020 R000
Statement of financial position		
Loans and advances – at FVTPL	**642 767**	586 828
Loans and advances – at amortised cost	**457 628**	164 198
Statement of comprehensive income		
Loans at amortised cost – Interest revenue	**24 857**	16 580
Loans held at FVTPL – Fair value adjustments	**26 800**	27 832
Loans held at FVTPL – Interest income	**44 837**	45 530
Impairment losses on loans and advances	**(18 015)**	(5 154)

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

38. Related parties

The Group conducts business with various related parties.

Grindrod Group companies

» Entities in the Grindrod Limited Group, other than all entities held directly or indirectly by Grindrod Financial Holdings Limited;

» The grouping includes subsidiaries within the Grindrod Limited Group that invest in property and private equity:
- Grindrod Property Private Equity Proprietary Limited; and
- GFS Holdings Proprietary Limited (GFS).

Grindrod Group investee companies/entities

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

Directors and key management personnel (directly and indirectly)

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

» Grindrod Limited; and

» Grindrod Financial Holdings.

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

Summary of related party transactions

	31 December 2021 R000	31 December 2020 R000
3. Loans and advances		
Related party loans and advances:		
Grindrod Group companies	**554 324**	693 401
Grindrod Group investee companies/entities	**821 259**	1 225 499
Directors and key management personnel (directly and indirectly)		
Grindrod Financial Holdings	**7 025**	39 461
	1 382 608	1 958 361
5. Other assets		
Included in other assets are amounts due from related parties, including overhead recoveries:		
Grindrod Group companies	**1 519**	57 196
Grindrod Group investee companies/entities	**97**	909
	1 616	58 105
8. Deposits and funding instruments		
Related party deposits from:		
Grindrod Group companies	**15 167**	20 881
Grindrod Bank subsidiaries	**72**	72
Grindrod Group investee companies/entities	**1 549**	6 310
Deposits from directors and key management personnel (directly and indirectly)		
Grindrod Group (excluding Grindrod Financial Holdings)	**137 648**	152 226
Grindrod Financial Holdings	**107 322**	70 679
	261 758	250 168
14. Interest and similar income		
Interest and similar income earned from related parties:		
Grindrod Group companies	**39 217**	65 525
Grindrod Group investee companies/entities	**84 538**	101 533
Interest and similar income earned from directors and key management personnel of:		
Grindrod Financial Holdings	**4 028**	3 316
	127 783	170 374
15. Interest and similar expense		
Interest and similar expenses paid to related parties:		
Grindrod Group companies	**890**	2 062
Grindrod Group investee companies/entities	**121**	495
Interest and similar expenses paid to directors and key management personnel of:		
Grindrod Group (excluding Grindrod Financial Holdings)	**5 536**	4 703
Grindrod Financial Holdings	**4 324**	5 296
	10 871	12 556

38. Related parties *continued*

	31 December 2021 R000	31 December 2020 R000
16.1 Fee income		
Fee income earned from related parties:		
Grindrod Group companies	**4 398**	2 885
Grindrod Group investee companies/entities	**11 955**	1 026
Fee income earned from directors and key management personnel of:		
Grindrod Group (excluding Grindrod Financial Holdings)	**136**	–
Grindrod Financial Holdings	**–**	815
	16 489	4 726
18. Operating expenses		
Operating expenses paid to related parties:		
Grindrod Group companies	**7 139**	6 774
Operating expenses paid to directors and key management personnel of:		
Grindrod Financial Holdings*	**69**	1 049
	7 208	7 823

* *Paid R69 050 (2020: R11 750) to SAPOA, of which Z Malinga is a non-executive director.*
Paid Rnil (2020: R100 000) to Travisiri Enterprises Proprietary Limited, of which TD Soondarjee is a director.
Paid Rnil (2020: R134 550) to Uyandiswa Project Management Services, of which ASP Dambuza is a director.

	31 December 2021 R000	31 December 2020 R000
35. Commitments and financial guarantees		
Guarantees held by related parties subject to credit risk:		
Grindrod Group companies	**11 974**	11 974
Grindrod Group investee companies/entities	**30 812**	902
Directors and key management personnel (directly and indirectly)		
Grindrod Group (excluding Grindrod Financial Holdings)	**14 865**	95 382
Grindrod Financial Holdings	**19 742**	4 300
	77 393	112 558

39. Events after reporting date

The directors are not aware of any matter or circumstance arising since the reporting period date that has a material impact on the financial statements.

STATEMENT OF FINANCIAL POSITION OF GRINDROD FINANCIAL HOLDINGS LIMITED

At 31 December 2021

	Notes	31 December 2021 R000	31 December 2020 R000
Assets			
Investment in subsidiaries	1	380 278	380 278
Total assets		380 278	380 278
Equity			
Ordinary share capital	2	–	–
Share premium	3	380 278	380 278
Total equity		380 278	380 278

STATEMENT OF COMPREHENSIVE INCOME OF GRINDROD FINANCIAL HOLDINGS LIMITED

For the year ended 31 December 2021

	2021 R000	2020 R000
Dividend income	30 000	–
Profit before tax	30 000	–
Income tax expense	–	–
Profit for the year	30 000	–
Other comprehensive income	–	–
Total comprehensive income for the year	30 000	–

STATEMENT OF CHANGES IN EQUITY OF GRINDROD FINANCIAL HOLDINGS LIMITED

For the year ended 31 December 2021

	Ordinary share capital R000	Share premium R000	Retained earnings R000	Total R000
Balance at 31 December 2019	–	380 278	–	380 278
Total comprehensive income for the year	–	–	–	–
Profit for the year	–	–	–	–
Balance at 31 December 2020	**–**	**380 278**	**–**	**380 278**
Share issuance	**–**	**25 224**	**–**	**25 224**
Share repurchase	**–**	**(25 224)**	**–**	**(25 224)**
Total comprehensive income for the year	**–**	**–**	**30 000**	**30 000**
Profit for the year	**–**	**–**	**30 000**	**30 000**
Ordinary dividends	**–**	**–**	**(30 000)**	**(30 000)**
Balance at 31 December 2021	**–**	**380 278**	**–**	**380 278**

STATEMENT OF CASH FLOWS OF GRINDROD FINANCIAL HOLDINGS LIMITED

For the year ended 31 December 2021

	2021 R000	2020 R000
Cash flows from investing activities		
Dividends income	**30 000**	–
Net cash from investing activities	**30 000**	–
Cash flows from financing activities		
Dividends paid to ordinary shareholders	**(30 000)**	–
Issue of ordinary share capital	**25 224**	–
Repurchase of ordinary share capital	**(25 224)**	–
Net cash used in financing activities	**(30 000)**	–
Net increase/(decrease) in cash and short-term funds	**–**	–
Cash and short-term funds at 1 January	**–**	–
Cash and short-term funds at 31 December	**–**	–

NOTES TO THE FINANCIAL STATEMENTS OF GRINDROD FINANCIAL HOLDINGS LIMITED

For the year ended 31 December 2021

	31 December 2021 R000	31 December 2020 R000
1. Investment in subsidiaries		
Grindrod Bank Limited (100%)		
65 000 003 (2020: 65 000 003) ordinary shares of 1 cent each, at cost	**380 278**	380 278
The principal place of business of this subsidiary is 5 Arundel Close, Kingsmead Office Park, Durban, 4001		
2. Ordinary share capital		
Authorised		
10 000 000 (2020: 10 000 000) ordinary shares of 1 cent each	**100**	100
Issued		
15 239 (2020: 15 239) ordinary shares of 1 cent each	**–**	–
Reconciliation of the number of shares issued		
Balance at 1 January	**15 239**	15 239
Issue of shares*	**483**	–
Repurchase of shares*	**(483)**	–
Balance at 31 December	**15 239**	15 239
The directors do not have the authority to issue the remaining unissued shares unless a resolution is passed by the shareholders.		
3. Share premium		
Arising on the issue of 15 239 (2020: 15 239) ordinary shares of 1 cent each	**380 278**	380 278
Reconciliation of share premium		
Balance at 1 January	**380 278**	380 278
Issue of shares*	**25 224**	–
Repurchase of shares*	**(25 224)**	–
Balance at 31 December	**380 278**	380 278

* *In August 2021 the Company repurchased 483 ordinary shares issued to Amber Bay, which represented 3.17% of the shares in issue. To finance the repurchase, an additional 483 shares were issued to Grindrod Limited, which were fully subscribed for.*

4. Financial instruments risk management: credit risk

Common with all other businesses, the Company is exposed to financial risks. These risks are managed as part of the normal operations of the Company. The more important financial risks to which the Company is exposed are described below:

Credit risk management

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.

The Company is exposed to credit risk indirectly through its investment in its subsidiary, Grindrod Bank Limited.

Capital management

The Company will raise additional capital as and when capital is required to support asset growth and to ensure that a prudent capital adequacy ratio is maintained.

CORPORATE DETAILS

Country of incorporation:	South Africa
Independent non-executive chairman:	TD Soondarjee
Lead independent non-executive director:	ZN Malinga
Executive directors:	DA Polkinghorne (chief executive officer) RS Garach (chief financial officer)
Independent non-executive directors:	S Barrett ZN Malinga R Ramcharan GG Christopulo CR Howell RM Maleka
Non-executive directors:	MP Grindrod
Company secretary:	PW Bester
Debt officer:	YJ Zimbler
Debt sponsor:	Nedbank Limited, acting through its Corporate and Investment Banking Division 135 Rivonia Road Fourth Floor, Block F 135 Rivonia Campus Sandown, Sandton, 2196
Transfer agent:	Nedbank Limited, acting through its Corporate and Investment Banking Division 135 Rivonia Road Fourth Floor, Block F 135 Rivonia Campus Sandown, Sandton, 2196
Auditor:	SNG Grant Thornton Incorporated
Registered office:	5 Arundel Close, Kingsmead Office Park, Durban, 4001
Postal address:	PO Box 3211, Durban, 4000
Website:	www.grindrodbank.co.za
Email:	enquiries@grindrodbank.co.za

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