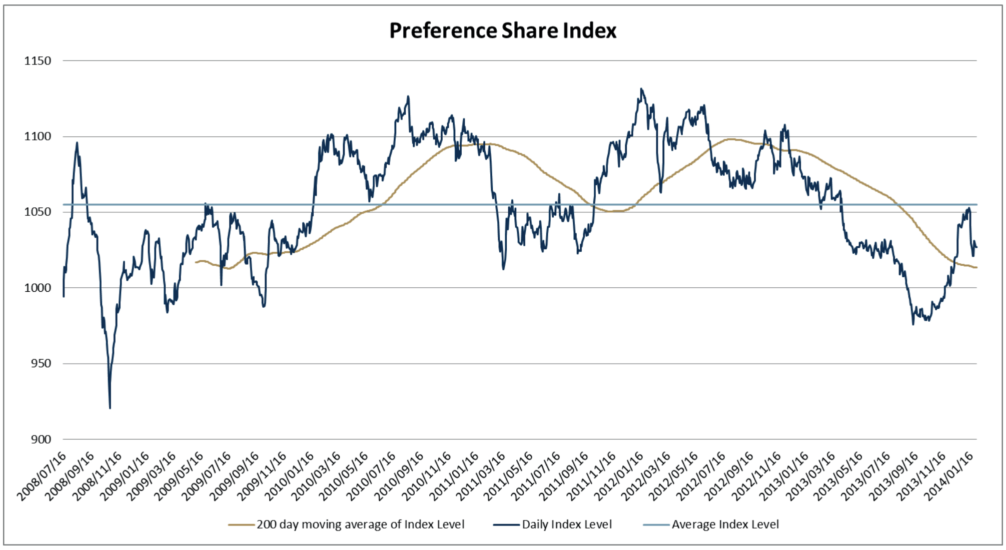
GRINDROD BANK

PREFERENCE SHARE BULLETIN 5 February 2014

Listed Preference Share Outlook 2014 (1st Quarter)

During 2013 the listed preference share market (FTSE/JSE J251 Index) experienced unusual volatility, from January until mid-September there was a downward movement in capital (-9.9%) and since then the market has recovered to some extent delivering 5% capital appreciation from its lowest level. The index returned 4.57% over the year. In previous market commentaries we attributed some of the early weakness in 2013 to poor liquidity and to classic investor behaviour (selling as markets move lower) and we believe the poor liquidity can be blamed more generally for some of the volatility experienced.

We believe notwithstanding the price recovery of the past 3 months that preference shares are still offering considerable value from both a price and yield perspective however, we encourage investors to seek preference share exposure primarily for its ability to produce tax efficient income.



The forward yield of the preference share market is 7.9% (GNDPS: 8.21%, PREFTRAX: 7.9%) which remains attractive relative to other fixed income options and even more so on an after tax basis. Notably preference shares, being floating rate instruments, are well positioned given the most recent move in the prime rate and that the next move in the prime rate is most likely upward. For illustrative purpose an upward move of 1% in official interest rates will mean an increase in the pref yield of 0.88%. By comparison other income assets such as bonds and listed property are likely to suffer capital weakness when interest rates increase.

Preference shares are suitable for investors looking for regular, tax efficient income with a medium term (> 12 months) view on capital. It is not a growth asset class but does provide a good alternative to other fixed income asset classes.

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