

Land Bank Presentation to SCOF



Date: 19 October 2022



I. The Bank's Purpose and Mandate



In order to provide a practical interpretation of the Mandate of the Bank, such that it is positioned as a unique Development Finance Institution (DFI) intended to close a specific gap in the economy, the Board has translated the Mandate of the Bank as follows:

Land Bank is a specialist DFI that effectively balances financial sustainability and developmental outcomes to meaningfully contribute to the development and transformation of South African agriculture

Land Bank utilises financial services and products to address a critical market failure in the economy for the development and transformation of agriculture. The Bank aims to provide amongst others:

- Affordable finance
- Products to close the equity contributions and collateral gaps of clients
- Facilitation of access to productive agricultural land, and production of high socio-economic impact commodities which will significantly contribute to the achievement of socio-economic outcomes.
- Facilitation of Pre- and Post-Finance Support programmes, including market access, to minimise the risk of entrepreneurial failures of new entrants in the market

The intended Outcomes of the Bank's mandate includes the following:

- Inclusion of Historically Disadvantaged Persons
- Contribution to the GDP
- Job Creation and increase in the economically active population
- Food Security
- Environmental Stewardship

2. A Phased Turnaround Journey



1. In order to launch a successful turnaround journey towards the Bank's desired future state, the Bank will adopt a phased approach, at first, prioritising interventions in areas that will ensure immediate stability and set the basis for the change programme for the next five years.

2. The Bank's transition will take three phases:
 - a. **Stabilisation** - The focus of this phase (FY2022/23 and parts of FY2023/24) is the successful restructuring of the Bank's funding liabilities and the initiation of several initiatives aimed at addressing the immediate priorities that will set the baseline for the Bank's stability, going forward.

 - b. **Consolidation** - This phase (FY2023/24 – FY2025/26) assumes that the Bank's funding liabilities have been successfully restructured and that its state of default has been cured. The focus during this period is the consolidation of the rigorous changes to the Bank's operating model in support of the journey towards the desired state, and adherence to agreed covenants of the Liability Solution.

 - c. **Growth** - Having demonstrated tangible results in its financial and operating performance, and its developmental outcomes, in the third phase of its journey, the Bank will focus on expanding its influence in the agricultural ecosystem through enhanced partnerships, and a diverse funding mix.

3. Board's Immediate Priorities: Stabilisation



The Board has identified immediate priorities for its attention as it begins a process to get the Bank out of its current default status, stabilise the institution and begin the turnaround process:

1. Conclusion of the Liability Solution.
2. Address book quality deterioration and growth of the non-performing loans through improved portfolio management and remediation efforts.
3. Reduce the attrition of critical staff
4. Remediate audit findings and strengthen internal controls towards a Clean Audit Outcome for FY2022/23.
5. Expedite resolution of outstanding instances of confirmed or potential misconduct that may have contributed to the Bank's current position.
6. Implement revised Bank strategy.
7. Work towards regaining a positive reputation for the Bank.
8. Finalise the revised Funding Model.
9. Improve the financial and operating performance of the Bank – including execution capability and readiness of the Bank for resumption of lending activities, as well as appropriate cost containment.

3.1 Progress on priorities



	Priority	Status
1	Conclusion of the Liability Solution	<ul style="list-style-type: none">• 43% reduction in outstanding liabilities since 2020• Negotiations ongoing. Support received for current Liability Solution from the majority of lenders• The latest Liability Solution balances debt repayment with long-term sustainability.
2	Address book quality deterioration and growth of the non-performing loans through improved portfolio management and remediation efforts	<ul style="list-style-type: none">• Non-performing loans remain a challenge but targeted remediation strategies have begun to bear fruit, focussing on book quality maintenance and high-risk legal and pre-legal clients• Insourcing of the SLA book – providing better credit management control on the portfolio and saving the Bank's SLA management fees of cR300m per annum that used to be incurred on the SLA portfolio.
3	Reduce the attrition of critical staff	Introduction of target employee retention strategies and review of employee value proposition in challenging conditions.
4	Remediate audit findings and strengthen internal controls towards a Clean Audit	Unqualified (Clean) audit outcome in FY22 (Disclaimer of Audit Opinion and a Qualified Audit Opinion were achieved in FY2019/20 and FY2020/21, respectively)

3.1 Progress on priorities



Priority	Status
5 Expedite resolution of outstanding instances of confirmed or potential misconduct that may have contributed to the Bank's current position	Established an Accountability and Consequence Management Board Task Team to comprehensively deal with outstanding matters. Reviews underway.
6 Implement revised Bank strategy	Strategic process concluded, consultations with farmer organisations, lenders and other stakeholders are ongoing.
7 Work towards regaining a positive reputation for the Bank	Increased client engagement and sector re-integration. Reputation-building through action: Launch of Blended Finance Scheme in Oct 2022
8 Finalise the revised Funding Model	In progress
9 Improve the financial and operating performance of the Bank	<ul style="list-style-type: none">• Improved financial performance since FY2022• Revision of credit policies focused on development, as well as regional capacity to enable the Bank's resumption of lending activities• Resumption of lending activities in Oct 2022 focussing on:<ul style="list-style-type: none">✓ Affordable finance✓ Reducing the risk of entrepreneurial failure through improved debt to equity ratio on the loan transactions.✓ Improved pre- and post finance support to clients

3.4 FY2022 Financial Performance Overview



<i>Salient Features - Group</i>	FY2022 Rm	FY2021 Rm
Statement of Financial Performance		
Net interest margin	R 600.5	R 167.6
Impairments release/(charges)	R 1 298.6	(R 323.6)
Operating expenses	(R 562.7)	(R 593.5)
Total Comprehensive income/(loss) for the year	R 1 391.4	(R 711.1)
Statement of Financial Position		
Cash	R 9.8bn	R 5.6bn
Investments	R 2.1bn	R 2.3bn
Gross Loans	R 25.9bn	R 36.9bn
Expected credit losses (impairment)	R 5.0bn	R 6.0bn
Total assets	R 34.7bn	R 40.1bn
Funding liabilities	R 29.2bn	R 36.1bn
Key Ratios		
Net interest margin	2.0%	0.4%
Cost-to-income ratio	(96%)	964.0%
Non-performing loans	47.7%	32.5%
Capital Adequacy ratio (CAR)	12.2%	10%

* Audited FY2022 Financials & FY2021

5. Conclusion



1. The Board is focused on finalisation of the Liability Solution that is an essential dependence for the Bank's turnaround.
2. A clear and development focused strategy has been developed and adopted.
3. The Bank will be resuming lending to new development clients with the launch of the Blended Finance Scheme in partnership with Department of Agriculture, Land Reform and Rural Development.
4. Significant progress has been made to stabilise the Bank, however the long term financial sustainability of the Bank requires a revision of its funding model.



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