INTEGRATED ANNUAL REPORT
2013 - 2014

LAND BANK

20 years of democracy

Contents

Vision

To be a fully integrated development finance institution that promotes, facilitates and supports agricultural and rural development through the provision of financing solutions.

Mission

Our mission is to:

- Promote and facilitate access to ownership of land by the historically disadvantaged.
- Increase the productive use of agricultural land.
- Assist emerging farmers with finance and technical support.
- Provide finance to commercial farmers.
- Promote agricultural entrepreneurship.
- Contribute to food security and facilitate poverty eradication.
- Facilitate rural development and job creation.

Supporting values

Our values are:

- Integrity – Honest and ethical conduct in all interactions, honouring the dignity and worth of all, and ensuring fairness and equitable access to all stakeholders.
- Professionalism and service excellence – Executing all activities professionally, ensuring delivery beyond expectations, and being responsive to customers and providing them with quality and value.
- Accountability – Taking personal ownership of our commitments.
- Cost-consciousness – Using our resources in the most cost-effective manner.
- Innovation – Being open and receptive to new ways of personal and business conduct.

Message from the Minister of Finance

Nhlanhla Nene, MP
Minister of finance

This 2013/14 Annual Report is presented against the backdrop of South Africa emerging from 20 years of democracy. Agriculture has emerged as one of the priority areas of government and one which is expected to grow the economy, and create close to one million jobs by 2030 according to the National Development Plan (NDP). The Land Bank is playing an increasingly important role in the agricultural development sphere. The NDP gives the Land Bank an environment from which to determine its strategic direction. The expectations of the Plan are very clear and the Ministry will continue to monitor and assist the Bank in its effort to contribute to the realisation of the NDP goals.In addition to the above, the role that the Land Bank has played over the past 20 years encompasses the following:

(i) Enhancing financial inclusion through development of the agricultural sector: to ensure transformation of the agricultural landscape over the last four years, the Land Bank has reviewed its Operations Business Unit which identified challenges in the financing of emerging farmers. In order to overcome these challenges and to determine how these could be best addressed, the Bank decided to establish a dedicated unit called the Retail Emerging Markets (REM) through which it lends to emerging farmers who would not typically have qualified for funding. This initiative is in response to the key challenges faced by emerging farmers in the country which include high interest rates and lack of business support and markets. The REM Division now offers concessionary interest rates commencing at 4% with end-to-end business support and links to markets and off-takers. In support of this initiative, the National Treasury, through the Department of Agriculture, Forestry and Fisheries (DAFF) has provided an allocation of R100 million over the current MTEF to the REM programme.

The above results demonstrate the Bank's success and impact on development. More importantly, these results illustrate the impact of affordable funding complemented by appropriate and comprehensive support. The Land Bank is therefore encouraged to continue finding innovative ways of funding development.

(ii) Ensuring the Bank's sustainability: the Land Bank has developed a sustainability business model which has four core business areas that generate income to sustain the REM Division. The Bank's organisational divisions include:

- Retail Commercial Banking;
- Business and Corporate Banking;
- Retail Emerging Markets; and
- Land Bank Insurance Services (LBIS).

Government and multilateral funding is used to supplement the REM Division's capital requirements. This area, however, requires further attention when it comes to negotiating the terms and conditionalities of such funding.

(iii) The Land Bank as a key institution: having celebrated its centenary in the previous financial year 2012/13), the Land Bank is viewed as one of South Africa's national assets. Given that the Bank contributes to Government priorities, its performance is therefore of utmost importance to Government. Going forward, the Bank will support land and agricultural reform through close collaboration with the Department of Rural Development and Land Reform (DRDLR) and the Department of Agriculture, Forestry and Fisheries (DAFF) and seek to increase lending to emerging farmers while maintaining sound lending practices. The Bank will forge closer relations with industry stakeholders and ensure that it becomes more attuned and relevant to sector needs.

I am pleased to note that the Bank has commenced engagements with the National Planning Commission to determine how best it can become involved in the proposed Land Reform initiative, aimed at expediting land transfer to previously disadvantaged individuals in accordance with the Land Reform Act. It is clear that the Land Bank is indeed in a position to provide much required expertise in providing a proper viability assessment of prospective farmers and farming enterprises that can be supported by Government for conversion into commercial farming. In so doing, Government will be able to reach more beneficiaries in a sustainable manner.

I wish to thank my predecessor, Mr Pravin Gordhan, for his stewardship in leading the Bank to where it is today. I must also thank Mr Phakamani Hadebe, the former Chief Executive Officer of the Land Bank whose visionary and competent leadership ensured that the Bank has made significant strides in returning itself to viability and in ensuring improved performance. I wish the new leadership well and undertake to work closely with the Land Bank team. I have no doubt that the Bank will continue in this upward trajectory to deliver on its mandate for the people of South Africa and contribute to the development of our economy.

Mr MN Nene, MP
Minister of Finance

Message from the Chairperson

Dr Ben Ngubane
Chairperson of the Board of the Directors

South Africa's agricultural sector has undergone a number of changes since the advent of democracy in 1994. Land reform programmes were introduced by Government to correct racially-based land ownership and the agricultural economy was deregulated to stimulate international trade. Over the past twenty years, South African agriculture has become increasingly consolidated, with cooperative structures and agro-industry improving efficiencies amongst commercial farmers, and the sector sustaining a generally robust trading position. At the same time, rural poverty and inequality in many parts of the country and the slow pace of transformation in land ownership remain persistent challenges in South Africa's pressing development agenda.

Since 1994, the Land Bank has been through several turnaround strategies to adapt its service offering to meet these changing conditions and to fulfil its developmental mandate. Today, we are proud to demonstrate that the Land Bank is on a steady growth path, with sound internal governance and risk management, skilled staff, a strong client base and a growing book of successful lending to emerging black farmers. While there is still much to be achieved, particularly in driving growth in black farming, innovative partnerships between the Land Bank, commercial agriculture, Government and land reform beneficiaries are enhancing access to credit, input supplies, expertise, equipment and markets for small and emerging farmers.

The Land Bank's market share now stands at about 31 percent of the total farming debt as at 31 December 2013, with performing loan book growth of 24.6 percent in 2013/14 to R33 billion. Non-performing loans have declined to 3.2 percent of the total loan book. The Bank has exceeded its development target for the year and there are no non-performing loans in the Retail Emerging Market book of the Land Bank.

Over the past three years, the Land Bank's funding liabilities have increased significantly in response to the growing loan book. This has inevitably put pressure on the Bank's capital adequacy ratio that has since declined from 42.0% in 2009/10 to 25.9% in 2013/14. As part of the review on capital utilisation, the Bank's management has embarked on a portfolio optimisation review with the intention of maximising the utilisation of capital. In addition, I am pleased to report that the shareholder continues to support the growth ambitions of the Land Bank. The Board is confident that the Land Bank will maintain a sound capital adequacy ratio given the concerted efforts by management and shareholder support, aimed at addressing the matter.

While South Africa's agricultural sector output and demand remains relatively stable through the current sluggish economic growth conditions, a number of factors place significant pressure on both large and small farm producers. These include volatile and sharp increases in input costs, skills shortages, water constraints, stressed labour relations and extreme weather linked to climate change. The Western Cape experienced protracted agricultural sector strikes over wages and working conditions in early 2013. The North West experienced its worst drought in 80 years in the summer of 2013/14, affecting grain and livestock farmers, many of which are our development clients. Electricity, fuel and fertiliser costs continue to rise above general inflation. The Land Bank is deeply cognisant of the impact of these factors on our clients and the country. We have therefore established an Environmental and Social Sustainability programme seeking, with all our stakeholders, to find lasting environmental and social solutions to these persistent challenges.

The National Development Plan (NDP), adopted by Government in 2012, identifies agriculture as having the potential to create 1 million new jobs by 2030 through a focus on sustainable irrigated production, conversion of under-used land in communal areas, collaboration between existing farmers and land reform beneficiaries, and support to upstream and downstream industries. The Land Bank is now well-placed to support this NDP vision, particularly by integrating value chains between large-scale agro industry and emerging farmers and by targeting Land Bank support to agricultural regions and sectors with high potential for growth and employment.

The challenges ahead for the Land Bank are to scale up lending in a financially sustainable manner; to play a leading role in the transformation of the South African agricultural sector as targeted in the NDP; and to promote innovative solutions for social and environmental sustainability in agriculture.

The relationship between the Land Bank and the Ministry of Finance, the Department of Agriculture, Forestry and Fisheries, and the Department of Rural Development and Land Reform is a vital enabler in the Land Bank's quest to deliver on this developmental mandate and we are grateful for the positive collaboration which continues between these important institutions of state. We are also grateful for the invaluable support we receive from the Parliamentary Portfolio Committees on Finance, Agriculture and Rural Development.

In December 2013, we bade farewell to the Land Bank's exceptional CEO of the last five years, whose contract came to an end. Mr Phakamani Hadebe led the Land Bank out of a period of decline into the stable growth position it is in today. The Board conveys its sincere appreciation to Mr Hadebe for his strategic vision, executive management, unwavering commitment and hard work during his years at the helm of the Land Bank and we wish him well in his future endeavours.

I extend my thanks to the acting CEO, Ms Lindiwe Mdlalose, for ensuring that the Bank continues to deliver on its objectives while the appointment of a permanent CEO is being finalised. I thank the Board, the Executive team and all the staff of the Land Bank for their dedication and performance during the year.

Dr Ben Ngubane
Chairperson: Land Bank Board of Directors

Report of the Acting Chief Executive Officer

Lindiwe Mdlalose
Acting Chief Executive Officer

The Land Bank has played an important role in shaping agriculture in South Africa since it opened its doors more than 100 years ago. During its early days of establishment, it was used as a vehicle to support and empower white farmers. Today, the Bank has become an instrumental institution for agricultural reform and development, serving the diverse needs of the entire agriculture sector.

Guided by the Land and Agricultural Development Bank Act (2002) (the Land Bank Act), the Bank aims to promote, facilitate and support agriculture-related activities. In 2013/14, the Bank continued working towards these goals by providing financial services to commercial farmers, agri-businesses and development farmers with particular focus on emerging black farmers.

While there has been some progress made in helping emerging black farmers to be successful commercial farmers, many still lack access to:

- Land;
- Innovative Funding;
- Technical Support;
- Information; and
- Appropriate markets.

In an effort to provide for the above shortcomings, the Bank has developed and successfully implemented the wholesale finance facility (WFF), which is administered by the Retail Emerging Market (REM) division of the Bank. However, the Bank is cognisant that these initiatives alone are not a panacea to the above mentioned challenges. Emerging farmers need more than just financial aid. Strategic collaborations with private and public sector are crucial to promote and ensure sustainable impact in lending to this market. To ensure that this market receives all the support it requires, including non-financial support, the Bank also works closely with other institutions that complement our mandate in order to ensure sustainable development of black farmers.

The agriculture sector in 2013/14

The agricultural sector's performance showed positive improvement for the period up to December 2013, as compared to the previous year. The gross value of agricultural production, which is the total production valued at average prices, for 2013 was estimated at R187 678 million. This was an increase of 8,5% to the previous year's R172 974 million. The total farming debt increased by 15,5% to R102 508, whilst the Bank's exposure grew by 24.6%, hence the growth of our market share from 30% to 31%. South Africa continues to be the net exporter of agricultural products. The value of trade was R72 493 million for exports against R57 307 million for imports.

Whilst the sector has performed positively in general, some parts of the country experienced adverse weather incidents, such as drought. The effects of drought experienced by the sector during the previous season have been evident in tight grain stock supply, with the need to increase maize import. As supply improved during the course of the season, maize prices have subsequently subsided from levels seen earlier in the season on the back of favourable crop forecasts for the 2014 season. Wheat prices remain bullish due to production disruption with the developments in Ukraine.

The Bank has a significant exposure on both livestock and grain industries which are being monitored on a regular basis through the Credit Risk Monitoring Committee (CROM). Some of our corporate clients have reported subdued financial performance as a result of this adverse phenomenon. However, this development did not result in non-performing loans (NPL's) as the affected clients had a well-diversified enterprise portfolio.

In our retail commercial space, the number of applications for poultry production was less than aggressive indicating the challenges faced by this industry. However, the Bank still believes that there will be improvement in this market in the future.

Notwithstanding the challenges agriculture faces, South Africa has the potential to be self-sustaining. The Land Bank has an important role to play in improving the number of sustainable emerging farmers entering the commercial space, while continuing to support commercial farmers to ensure they remain competitive.

Creating a financially stable and sustainable organisation

In recent years, we have focused on repositioning the Bank and ensuring that it becomes financially stable and sustainable while delivering on its development mandate. The results to date have been encouraging. During the past financial year, we interalia:

- **Grew our group net profit to R394.3 million** (2012/13: R304.6 million) due to significant loan-book growth and operational efficiency.
- **Grew our performing loan book to R33 billion** (2012/13: R26.5 billion).
- **Grew our market share from 30 percent** of the total farming debt as at the end of December 2012, **to approximately 31 percent** as at 31 December 2013
- **Reduced our non-performing loan book to 3.2 percent** of the total loan book (including insolvencies but excluding the Land Bank Development Finance Unit).

Our healthy financial outlook and good corporate governance enables us to attract other potential investors and multilateral funders at relatively competitive rates. Such presents the Bank with an opportunity to competitively increase its investment in the sector. These positive results have been achieved through our seven pillars of sustainability:

- Implement development as core to business
- Maintain financial sustainability and secure affordable funding
- Provide a sustainable pipeline of critical skills
- Implement systems and drive research and innovation
- Improve service delivery
- Ensure partnerships and stakeholder engagement
- Ensure good governance, risk management and compliance.

Our future relies on the success of the farmers and agribusinesses we support, which in turn depends largely on their ability to adapt to the effects of climate change. With this in mind, we have established the Environmental and Social Sustainability Programme (ESS Programme), which encourages the farming community to the farm in a manner that protects the environment and promotes sustainable socio- economic development. The launch of EES Programme coincided with the Bank becoming a member of the United Nations Environment Programme Finance Initiative (UNEP-FI), which is a partnership between financial services sectors and policy-makers to promote sustainable finance.

The Environmental and Social Sustainability programme assists the Bank to mitigate against environmental and social risks, whilst financing projects with direct impact to society. This is part of the Bank's commitment to keep working with the global community in the fight to preserve and protect the environment, while sharing value with the communities within which we operate. As we move forward, the Bank will investigate ways to raise funding that will be targeted for agro-green strategic projects.

Let me take this opportunity to thank the Ministers of Finance; Agriculture, Forestry and Fisheries; and Rural Development and Land Reform, and their respective departments for their support and partnership for the past years. This also goes to the relevant Parliamentary committees for their continued oversight and guidance on the mandate of the Land Bank.

The Bank is proud and appreciative of the continued support received from its clients and partners during the year. Such partnerships have ensured that the Bank continues to remain sustainable while pursuing its development mandate.

I would also like to express my sincere appreciation to the Board of the Land Bank for the confidence and unwavering support they have shown in requesting me to lead the Bank in the interim. Such mammoth responsibility would not have been possible without the solid foundation laid by my predecessor, Mr Phakamani Hadebe.

Finally, I would like to thank the executive team and staff for their valuable contribution in ensuring that the Bank delivers excellent performance during the year.

Lindiwe Mdlalose
Acting Chief Executive Officer

Report of the Audit Committee

Tryphosa Ramano
Chairperson: Audit committee

In terms of Regulation 27(1) of the Public Finance Management Act (1999), as amended, the Audit Committee reports that it has discharged its responsibilities as contained in the Audit Committee charter.

The Audit Committee meets quarterly and additional meetings are held as and when required. Committee meetings are held before Board meetings to ensure that all critical issues highlighted are brought to the attention of the directors in good time. Minutes of committee meetings are available to the Board as a whole as and when required.

In executing its duties during the reporting period, the committee has:

- Reviewed the effectiveness of the internal control systems.
- Considered the risk areas of the group's operations covered in the scope of internal and external audits.
- Assessed the adequacy, reliability and accuracy of financial information provided by management.
- Considered accounting and auditing concerns identified as a result of internal and external audits.
- Assessed compliance with applicable legal and regulatory requirements.
- Reviewed the effectiveness of the internal audit and forensic department, including its annual plan, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.
- Considered all factors and risks that may affect the integrity of integrated reporting, including factors that may predispose management to present a misleading picture, significant judgments and reporting decisions made, monitoring or enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information.
- Reviewed the financial statements and reporting for proper and complete disclosure of timely, reliable and consistent information and confirmed that the accounting policies used are appropriate.
- Reviewed the expertise, resources and experience of the Bank's finance function.
- Provided a channel of communication between the Board and management, the risk division, internal auditors, external auditors and the compliance officer.
- Received regular reporting from each of the above functions and monitored timely resolutions of issues or concerns raised by management.
- Liaised with the Board committees and met as required with the regulators and separately with the internal and external auditors.

- Performed such other functions as required from time to time by the National Treasury in the regulations relating to public entities.
- Ensured that a combined assurance model was applied to provide a coordinated approach to all assurance activities.
- Ensured that the combined assurance received was appropriate to address all the significant risks faced by the Land Bank.

The committee has access to all sources of information that it may require from within the group. In addition, the committee or its individual members may, if they deem it necessary in the course of discharging their responsibilities, seek guidance and counsel from external experts at the group's cost. The committee has authority to invite any person that it deems necessary in the discharge of its duties, including group employees/officers and external advisors, to attend its meetings.

The committee is pleased to report that nothing came to its attention suggesting that any material breakdown had occurred in the functioning of the group systems, procedures and controls that could lead to material losses, contingencies or uncertainties that would require disclosure in the financial statements. Any control deficiencies identified by the internal and external auditors were brought to the attention of the committee and corrective action taken by management. Where internal controls did not operate effectively throughout the year, compensating controls or corrective action or both were used to eliminate or reduce risks. This ensured that the group's assets were safeguarded and proper accounting records maintained.

The committee's assessment is that the overall control environment of the group is effective. This assessment is supported by a written report from the group's internal audit function.

The committee believes that the financial controls adequately ensure that the financial records may be relied on to prepare the group's annual financial statements and the accountability for assets and liabilities is maintained. This view is based on the information and explanations provided by management about the internal control environment and the integrity of information, as well as the findings of, and discussions with the independent internal audit external auditors on the results of their audits.

The committee is satisfied that the annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

The committee evaluated the Land Bank's group annual financial statements for the year ended 31 March 2014. Based on the information provided there, the committee believes that the financial statements comply, in all material respects, with the relevant provisions of the Public Finance Management Act and International Financial Reporting Standards.

The committee evaluated specifically the information that should be disclosed in terms of King III for integrated reporting and found that it is contained in a number of statements in the annual report. The committee reviewed the integrated report information as disclosed in the annual report.

The committee concurs that it is appropriate to prepare the group financial statements on a going-concern basis, and the Bank has no reason to doubt that it will continue to be a going concern in the year ahead. The committee therefore recommends that the financial statements as submitted be approved by the board of directors.

T. Tryphosa

Tryphosa Ramano
Chairperson: Audit Committee

Report from Auditor-General

REPORT OF THE AUDITOR-GENERAL TO THE PARLIAMENT ON THE LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Land and Agricultural Development Bank of South Africa (Land Bank) and its subsidiaries set out on pages 90 to 226, which comprise the consolidated and separate statement of financial position as at 31 March 2014, the consolidated and separate statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

The accounting authority's responsibility for the consolidated and separate financial statements

2. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Land and Agricultural Development Bank of South Africa and its subsidiaries as at 31 March 2014 and its financial performance and cash flows for the year then ended, in accordance with IFRS and the requirements of the PFMA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Subsequent event

8. As disclosed in note 38 to the financial statements, the minister of finance has approved that the Land Bank Insurance Services SOC Limited, the holding company of Land Bank Insurance SOC Limited and Land Bank Life Insurance SOC Limited be dissolved and that the two insurance companies be held directly by the Land Bank.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

9. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

10. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2014:

    Land Bank
    - Development mandate on page 24.
    - Financial sustainability and affordable funding on pages 25 to 26.
    - Information and communication technology on page 28.
    - Governance, risk management and compliance on pages 30 to 32.

    Subsidiaries
    - Financial stability on pages 32 to 33.
    - Human capital on page 33.
    - Customer relationships on page 34.
    - Governance, risk management, regulation and compliance on pages 34 to 35.

11. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

12. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

14. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matters

15. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

Achievement of planned targets

16. Refer to the annual performance report on pages 23 to 35 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

17. I identified material misstatements in the annual performance report relating to the subsidiaries submitted for auditing on the reported performance information for the financial stability and human capital objectives. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

18. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

19. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

OTHER REPORTS

Investigations

20. The previously reported investigations relating to irregularities in the Land for Development Finance Unit and in respect of AgriBEE and Mafisa funds administered on behalf of the Department of Agriculture, Fisheries and Forestry are still in progress.

21. Discrepancies in the disbursement of a loan were identified and investigated. It was recommended that a case of fraud be opened against the clients of the Land Bank. The matter is still in progress.

Audit-related services and special audits

22. As requested by the Land Bank, an engagement was conducted during the year under review on compliance with the National Credit Act of South Africa, 2005 (Act No. 34 of 2005). This report covered the period 1 April 2012 to 31 March 2013 and was issued on 31 October 2013.

23. As requested by the Land Bank, engagements were conducted during the year under review on compliance with the Securities Services Act, 2004. The first report covered the period 1 April 2013 to 31 July 2013 and was issued on 1 October 2013. Subsequent reports covered the period 1 August 2013 to 31 January 2014 and were issued on 28 February 2014 and 6 March 2014.

Auditor General

Auditor General
Pretoria
31 July 2014

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Stakeholder Engagement

"We will act together to build a South Africa that truly belongs to all who live in it."

Thabo Mbeki

Stakeholder Engagement

During the financial year under review, the Land Bank engaged with a number of stakeholders that affect the manner in which it conducts its business, including its strategic objectives, operations and long-term sustainability. Through stakeholder engagement, the Land Bank aims to gain a better understanding of its stakeholders' perspectives on important issues and respond to their legitimate interests and expectations. The aim is to build strong relationships between the Bank and its stakeholders in order to advance mutual interests.

In 2013, the Board approved a stakeholder engagement framework to guide the Bank on how to interact with stakeholders and to co-ordinate the outcomes of such engagements. Through this framework a number of stakeholders were identified and engaged. This engagement has generated valuable business intelligence for the Bank in the form of new partnerships and collaborations which brought diverse perspectives together. The table below details some of the significant engagements with stakeholders that took place during the financial year under review.

Table 1: Key stakeholder engagements

Stakeholder classification

Stakeholders	Methods of engagements	What matters to them	Response to their concerns
Clients (Development & commercial farmers and Agribusiness (Corporate),	• Formal meetings • Sponsoring of sector events • Scheduled Roadshows • Written and verbal communications • Formal visits to clients	• Improved product diversification & alignment • Improved communication • Enhanced client relationships • Improved turnaround times • Simplified application process	• Development and introduction of new products • Regular written and verbal communication to clients • Schedule visits • Standardise application documentation and streamline credit process
Investors	• Planned investors roadshows • Regular consultations • Written and verbal communications	• Continued shareholder support • Capital adequacy • Funding of development • Sustainability • Credit rating issues • Strategy	• Investor roadshows conducted jointly with the shareholder • Reaffirm Shareholder's commitment for recapitalisation; Improve equity through retained earnings for operations • Raising affordable funding for development from multilateral institutions and government • Continuous improvement for cost to income and growth of business as per corporate plan • Credit rating improved from AA to AA+ and maintained • 2016 Corporate Landscape discussed

Stakeholders	Methods of engagements	What matters to them	Response to their concerns
Employees	• Climate surveys • Employee engagement surveys • Newsletters • Union quarterly meetings • Awareness campaigns • Employee Health portals	• Culture and work environment • Career development prospects • Timeous Communications • Salary and benefits matters • Compliance and legislation updates • Health and wellness matters	• Communication of survey results and develop mitigating interventions • Use of Business Units' and departmental meetings • Annual bargaining forums/consultations • Wellness interventions and programmes
National Government • National Treasury (NT) • Department of Rural Development and Land Reform (DRDLR) • Department of Agriculture Forestry and Fisheries (DAFF)	• Formal consultative sessions • Participating in relevant portfolio committees • Relevant policies and plans (Land Reform Act, NDP) • Written and verbal communications	• Promote inclusion of PDI's in mainstream agriculture • Fulfilment of the mandate • Sustainable models for funding to development famers • Ensure food security • Facilitate job creation	• Developed financial products for development farmers • Established a dedicated business unit to focus on funding of development clients • Secured affordable funding from multilateral institutions and government to fund development • Established Working Committees with DAFF, DRDLR, and NT to facilitate appropriate support for development farmers by co-ordinating various government programmes. Dedicating special attention to the resuscitation of distressed farms • Continuous engagement with other potential multilateral financial institutions to secure appropriate and affordable funding for development • Continued support of organised agriculture to promote food security and job creation through lending activities
Organised Agriculture • AgriSA • GrainSA • African Farmers' Association (AFASA) • Transvaal Agricultural Union of South Africa(TAUSA) • Agriculture Sector Unity Forum (ASUF) • National Emergent Red Meat Organisation (NERPO)	• Formal consultative sessions • Sponsoring of sector events • Participating in programmes and special committees and working groups • Written and verbal communications	• Transformation of the agriculture sector • Financing of development farmers • Understanding of the Bank's strategy • Sponsorship of annual events	• A number of consultative sessions have been held with organised agriculture where the Bank presented its plans for sector transformation • Emphasis was placed on how the Bank is financing development and its commitment in financing commercial farmers • The Bank has sponsored a number of important events such as AGM's and national agricultural shows, organised by these associations. During these events the Bank had the opportunity to present its strategy

Stakeholder Engagement

Stakeholders	Methods of engagements	What matters to them	Response to their concerns
Regulators • National Credit Regulator (NCR) • Financial Services Board (FSB) • South African Revenue Services (SARS)	• Continuous interaction through meetings • Written and verbal communications	• Good governance • Transparency • Compliance with: - National Credit Act (NCA) - Financial Advisory and Intermediary Services Act (FAIS) and - Long & Short Term - Insurance Act	• Adequate systems and procedures have been implemented through the Bank to ensure compliance with all applicable legislation • Presentation of results to the media and tabling of Land Bank annual report in parliament • Continuous reporting in terms of the reporting requirements provided in PFMA & Treasury Regulations
Land Bank Chairs • University of Venda • University of North West • University of Fort Hare	• Formal meetings • Sponsoring of sector events • Written and verbal communications • Formal visits Formal meetings	• Funding and advancement of research agenda for agricultural innovation • Funding *inter-alia* used to promote research in: - Lending market in the rural communities, - Identification of new lending markets, and - Analysis of new market trends which will inform the Bank's strategy	• Bank provided funding for Universities to support research capacity building as well as for farmer support • Specific research assignments aimed at facilitating and informing credit decisions have be completed and new ones have been commissioned based on the developed agenda
Strategic Joint Ventures • Thembani International Guarantee Fund (TIGF) • Grain Farmer Development Association (GFADA)	• Written and verbal communications • Participating in programmes and special committees and working groups	• Reducing default risk for development clients by providing a limited guarantee for clients' exposure • Promotion of access to finance for development farmers • Provision of expert advice and technical service to qualifying development clients	• Bank has signed an MoU with TIGF which provides development clients with guarantees for up to 75% of loans to be granted by the Bank in the event of default. Implementation of the MoU is underway for FY14/15 • The Bank and GFADA have signed an MoU to work together for the provision of support for development clients • Both parties have identified suitable intermediaries for collaboration. The Bank will evaluate the intermediaries' suitability and viability for credit management

Stakeholders	Methods of engagements	What matters to them	Response to their concerns
Assurance providers The Auditor-General of South Africa	• Planning meetings • Audit stakeholder • Close out meetings • Audit committee meetings	• Compliance with: • Public Finance Management Act (PFMA) • Treasury Regulations • Land Bank Act • National Credit Act (NCA), Financial Advisory and Intermediary Services Act (FAIS)	• Formal engagements • Formal management responses to audit findings raised
Commercial Banks and Development Finance Institutions (DFI's)	• Due-diligences on Land Bank • Annual ratings review	• Financial sustainability • Levels of debt • Liquidity • Strategy	• Systems and procedures in place • Managing Land Bank's balance sheet • Presentation of results via media • Increase development impact, including levels of funding to different priority sectors, in line with mandate
Rating Agency Fitch	• Official meetings with Land Bank and Shareholder • Follow up conference calls • Final review of draft report before publication	• Financial performance • Profitability • Loan Book growth • Asset Quality • Funding concentration • Interest rate risk • Capital adequacy	• Direct engagement with relevant departments • Standard Questionnaire to be completed • Engagement through email

The above information is an account of the Bank's interaction during 2013/14 with material industry stakeholders that impact on the Bank's business and on which, in turn, the Bank has an impact. These interactions have improved the Bank's understanding of our stakeholders' expectations and the manner in which they do their business. The engagements have also assisted the Bank in managing some misunderstandings of the Bank's mandate.

Looking ahead, the Bank is developing a strategy and a policy on stakeholder engagement which will enforce the culture of appropriate engagement and guided deliberations with stakeholders throughout the Bank.

About the Land Bank

"We seek to create a united Democratic and non-racial society. We have a vision of South Africa in which black and white shall live and work together as equals in conditions of peace and prosperity."

Oliver Tambo

About the Land Bank

The Land Bank is wholly owned by government. It receives its revenue from issuing agricultural loans (production and mortgage loans) to emerging, commercial farmers and large agribusiness. It also earns interest on cash and the insurance portfolio generates significant income from investments.

Mandate

The Bank's objectives flow from the Land Bank Act, and are aligned with government policies and the country's socioeconomic needs. The Bank is expected to play a pivotal role in advancing agriculture and rural development. Its broad mandate, as expressed in the Land Bank Act, is to promote:

- Equitable ownership of agricultural land, particularly by historically disadvantaged people;
- Agrarian reform, land redistribution or development programmes for historically disadvantaged people;
- Land access for agricultural purposes;
- Agricultural entrepreneurship;
- Removal of the legacy of racial and gender discrimination in agriculture;
- Productivity, profitability, investment and innovation;
- Growth of the agricultural sector and better use of land;
- Environmental sustainability of land and related natural resources;
- Rural development and job creation;
- Commercial agriculture; and
- Food security.

Sustainability

In 2008, the Land Bank launched a turnaround strategy to address organisational challenges, consisting of three phases:

- Phase 1: Clean-up
- Phase 2: Stabilisation
- Phase 3: Sustainability

The Land Bank is currently implementing the third phase to build the organisation's sustainability. To ensure its successful implementation, the Bank is using a strategy known as Fit for Future to achieve the following sustainability goals:

- Predictable and enhanced customer interaction;
- Development impact;
- A sustainable delivery channel network; and
- A growing business that is based on clear, achievable targets.

The Bank has also developed a sustainability framework, comprising seven pillars that represent strategic areas of performance. The seven pillars of sustainability are designed to ensure that the transformed Bank delivers on its business strategy. The framework informs the corporate plan and key performance indicators:

Figure 1: The seven pillars of sustainability

1. **Implement development as core to business**
2. **Maintain financial sustainability and secure affordable funding**
3. **Provide a sustainable pipeline of critical skills in support of sustainability**
4. **Implement systems, and drive research and innovation**
5. **Improve service delivery**
6. **Ensure partnership and stakeholder engagement**
7. **Good governance, risk management and compliance**

Business Activities and Performances

The FY2013/14 was a good year for The Land Bank in achieving its set performance targets. The Land Bank has achieved in excess of 90% of its predetermined objectives and its subsidiary, Land Bank Insurance Services has managed to achieve in excess of 80% of its predetermined objectives as per commitments of the 2013/14 Corporate Plan.

The Bank persists in efforts to make development core to business, this is evident in the R919.3 million total development disbursement achieved by 31st March 2014, exceeding the full year target of R850 million. The Bank further exceeded its target for the year to resuscitate distressed farmers. It is important to note that more work still remains, but the progress thus far is commendable.

The gross loan book at 31 March 2014 amounted to R34.06bn, an increase of 22.34% from R27.84bn at 31 March 2013. This is a commendable achievement for The Bank.

A summary of the status of key performance indicators as the year ended in March 2014 is outlined in table 2 and table 3.

Summary of key performance indicators

Table 2: Land Bank key performance indicators

- **Achieved >> 100%**
- **Substantially achieved >> More than 80%, but less than 100%**
- **Partially achieved >> More than 50% but less than 80%**
- **Not achieved >> Less tan 50%**

Key performance area	Key performance indicator	Actual result	Status indicator
Guarantee conditions	**100% of guarantee conditions met** Maintain a capital adequacy ratio of at least 20%	Including government guarantee: 25.9% Excluding government guarantee: 19.2% The ratio includes cash injections of: R1 billion in December 2009 R750 million in November 2010 R400 million in May 2011 R350 million in October 2011 R200 million in April 2012 R300 million post 31 March 2013 R503 million will be converted into cash in 2014/15 The Bank will have a remaining guarantee of R1.5 billion, which is non-convertible	Achieved
	Quarterly report on the progress made in implementing the turnaround strategy	The Bank submits quarterly progress reports to the National Treasury on the turnaround strategy measured against key performance indicators	Achieved
	Projected annual cash-flow statements and quarterly cash-flow performance reports	The Bank makes quarterly reports to the National Treasury on the actual and projected cash-flow statement (Annexure A)	Achieved
	Quarterly progress reports on loan recoveries demonstrating sound management of non-performing loan book	The Bank makes quarterly reports to the National Treasury on loan-recovery progress, demonstrating sound management of the non-performing loan book. The results achieved are disclosed under the recoveries and loan-book quality key performance area	Achieved
	Performance updates on development indicators as contained in the development policy statement	The Bank provides the National Treasury with quarterly performance updates on its development indicators as contained in the development policy statement	Achieved

<table>
<tr><th>Key performance area</th><th>Key performance indicator</th><th>Actual result</th><th>Status indicator</th></tr>
<tr><td>Portfolio committee undertakings</td><td>Portfolio committee undertakings

(Agriculture: 9 July 2009)
Ministers dealing with agriculture, rural development and finance work together to resolve issues relating to development clients of the Bank – the Bank will implement a value-chain financing model</td><td>Status update on the implementation of the Distressed Farms Resuscitation (Rabobank Project):

• Rabobank, a Dutch agricultural Bank has provided Land Bank with a model to restructure distressed emerging farmer loan book.
• The model is yet to be presented to Director Generals of NT, DAFF and DRDLR.
• Training by Rabobank has been finalised.
• Despite the delays in the implementation of the recommended model, the Bank has made an improvement on the resolution of the distressed farms in the financial year ended March 2014.

This is A FULL YEAR'S report on the Distressed Farms which were selected for resuscitation/restructuring/closure:
Target for the year 2013/2014 was agreed as follows:
Opening Balance of farms (1/4/2013): 149 farms
Target 30% reduction: 47 farms
Serviced/Target Achieved: 9 Farms
<table>
<tr><th># of Farms</th><th>Status at 31 March 2014</th></tr>
<tr><td>283</td><td>Declared distressed at 30 June 2009</td></tr>
<tr><td>56</td><td>Offered to DRDLR to consider</td></tr>
<tr><td>13</td><td>Deceased estate</td></tr>
<tr><td>29</td><td>Accounts Regularised/ Restructured</td></tr>
<tr><td>91</td><td>Loans settled</td></tr>
<tr><td>94</td><td>Still outstanding</td></tr>
</table></td><td>Achieved</td></tr>
<tr><td colspan="4">Development</td></tr>
<tr><td>Implement development as core to business</td><td>Total proposed target: R850 million</td><td>Retail Commercial banking: R134.4 million
Retail Emerging Markets: R189 million
Business and Corporate banking: R595.9 million
Total: R919.3 million</td><td>Achieved</td></tr>
</table>

Key performance area	Key performance indicator	Actual result	Status indicator
Financial sustainability and affordable funding			
Growth in the loan book (gross)	15% year-on-year 31 March 2013: R27.8 billion 31 March 2014: R34 billion	Gross loan book amounted to R34.06 billion at end 2013/14, increasing by 22.3% from 31 March 2013 Retail Commercial banking: R295 million Retail Emerging Markets: R143 million Business and Corporate banking: R5.7 billion **Total year-on-year increase: R6.2 billion (22.3%)**	Achieved
Cost-to-income ratio	72.7% (including discontinued operations)	Excluding discontinued operations: 59.5% Including discontinued operations: 61.4%	Achieved
Capital adequacy ratio	20%	Including government guarantee: 25.9% Excluding government guarantee: 19.2%	Achieved
Diversification of income streams (year-on-year increase)	Target income: R34 million 8% increase year-on-year	Gross non-interest income from loan transactions: R53.68 million	Achieved
Reduce non-performing loans	Reduce non-performing loans to 6.3% of total loan book	**Excluding Land Development Finance Unit** Including insolvencies: 3.2% Excluding insolvencies: 2.7% **Including Land Development Finance Unit** Including insolvencies: 5%	Achieved
Liquidity	Maintain liquidity as per the liquidity model Minimum target is 7.5% of short-term debt	The Bank maintained liquidity above the defined minimum level At 31 March 2014 the ratio was 8.2%	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Liquidity	**Improve liquidity management** Strategy to improve cash flow forecasting: • Enhance liquidity model to optimise liquidity management • Formalise channels of communication with branch managers to provide expected drawdowns/deposits on a monthly basis + seven-day period for any unexpected drawdowns/deposits • Draft a framework for liquidity management	The Bank finalised the strategy and a framework for liquidity management has been drafted	Achieved
	Investment of credit facility cost and extending long-term debt against cost of carrying cash • Analysis of credit facility cost • Analysis of extending long-term debt	Analysis of credit facility cost and the analysis of extending long-term debt has been finalised in the funding strategy	Achieved
	Audit review on liquidity risk (Bank-wide perspective	Concluded audit review on liquidity risk and the Bank found that seven of the 44 controls were ineffective	Achieved
Financial plan: net profit	R143.1 million	Net profit: R260.7 million	Achieved
Financial plan: gross interest margin	39.6%	Gross interest margin: 38.6% Due to higher impairments (interest in suspense) incurred on certain large exposures	Substantially achieved
Financial plan: net interest margin	3.5% or R886 million full-year target	Net interest margin: 3.2% (excluding suspense interest and fees) or R953.8 million Achieved with reference to the absolute rand amount, but only substantially achieved on percentage	Achieved
Human capital			
Ensure the provision of key talent in support of sustainable growth	**Optimise recruitment selection processes** 70% of all vacancies filled internally	42.6% (23/54) This partial achievement is due to the skills available within the Bank. Where skills are not available internally, people have to be recruited from outside the organisation	Partially achieved
	50% critical vacancies filled internally through succession planning	71% (5/7)	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Develop internal organisation capability in support of sustainability	**Measure organisation capacity building and effectiveness** 60% leadership positions (heads and senior managers) have identified successors	More than 60% potential successors identified in the following Business Units: Finance/Treasury/ICT/Credit & Risk/HR /Legal/OPS/CS&P & CEO's Office	Achieved
	People-development measures incorporated in all performance contracts (heads and senior managers)	People-development measurement included in performance contracts of heads and senior managers	
Model organisation design on best practice	New HR key performance areas agreed across organisation	HR key performance areas for new structure endorsed by the Executive Committee	Achieved
Entrench leading employee relations practices	Change-management interventions visible and functional	• Packaged toolkit for use across business • Human Resource Business partners capacitated to use change-management toolkit • Change-management principles fully understood by senior management	Achieved
Develop an integrated total rewards model: employment equity achievement	Performance rating distributed curve aligned to best practice established and maintained	Presented the distribution curve concept to the Executive Committee: • Approved curve by the Executive Committee • Ensured business compliance of business units	Achieved
Employment equity			
Employment equity achievement	Achieve employment equity/ transformation targets African, Coloured and Indian employees: 57% White employees: 43% Women employees: 45% Employees with disabilities: 3%	African, Coloured and Indian employees: 57% White employees: 42.3% Women employees: 44.7% Employees with disabilities: 4.8% (Foreign nationals: 0.7%)	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Information technology (IT)			
Enable the business through the implementation of appropriate technologies	Expand customer relationship management to all agricultural finance centres	Significant progress has been made in implementing SAP customer relationship management and roll-out to agricultural finance centres is under way. A business case was developed before the project started	Substantially achieved
	Implement business warehouse/ intelligence	Business intelligence phase I (finance) complete and Phase II tender process has been finalised and a full report has been compiled on the completion of phase II	Achieved
		SAP business warehouse is installed and operational	Achieved
	Roll out customer self-service (pilot project	Functionality for users to log a complaint, refer a client and send a comment to Land Bank from the website is now live. The Bank has also completed a process to have an online agricultural information	Achieved
	Implement SAP workflow for core business process	Workflow functionality has been completed for travel management and procurement. A release strategy has been developed and work on the banking workflow has been completed	Achieved
Support the business with adequate information and communication technology (ICT) capacity (infrastructure and skills)	Refresh desktop equipment Review and ensure that ICT infrastructure can adequately support the Bank (2014 to 2016)	• Tender issued 7 June 2013 and closed 1 July 2013 • Procurement finalised 30 July 2013 • Orders placed in September 2013 • Equipment is being delivered according to agreed schedule	Achieved
	IT organisational structure and capacity aligned with Bank requirements (2014 to 2016)	The structure has been approved by the CEO and the vacancy rate is currently at 16% against a target of 20%	Achieved
Research and innovation			
Scanning the environment for Land Bank business	Expanded circulation and usage of Land Bank insights publication by 10%	The Bank has developed a methodology and instruments to establish a quantity and circulation baseline for research outputs from 2012/13. Data has been collated and analysed, and a final report has been compiled to indicate 10% circulation and usage of insight publication	Achieved
Business intelligence to support Land Bank business	Availability and quality of Bank data assessed for consolidation and usage for business analysis	Inventory of data sources has been developed and macroeconomic indicators have been identified	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Advice and advocacy	Increased visibility and positive feedback on support to stakeholders by 10%	Implemented two collaborative initiatives with key external stakeholders (the National Agricultural Marketing Council and the Department of Trade and Industry) (2% collaboration)	Achieved
		Increase visibility by 6% (from nine to 10 external presentations) • Presentation at the Botswana Investment & Trade Conference • Public signing of UNEP-FI and Environmental and Social Sustainability programme launch • Participation in UNEP-FI Global Round Table Conference and Bankers Commission Meeting, where the Bank became a member of UNEP-FI	Achieved
		Improve stakeholder feedback by 2% (from 4.58 to 4.59) All data collected through questionnaires has been synthesised and a report on stakeholder feedback has been finalised	Achieved
Research publications	Compilation positioning the Land Bank in land reform published	The draft report has been compiled and is ready for editing. The process has made good progress progressed significantly. Due the importance of the land reform issue, the publication has been upgraded from a paper to a full report	Substantially achieved
Market share (2016 corporate landscape)	Market share: 31%	Market share: 31% as at December 2013	Achieved
Service-delivery improvement			
Streamline retail operations and credit business processes	12-day maximum loan-application response time (from complete application at HUB to credit decision communicated)	The turnaround time on retail loan applications is being monitored using a tracking tool Continuous work is required to consistently achieve the target: • South Hub: 2.44 days • North Hub: 3.69 days • Retail Credit Committee: 2.59 days Both Hubs and Retail Credit Committee Turn Around Time have met the target.	Achieved
Agricultural finance centre network optimisation	Sales marketing focus embedded in agricultural finance centres through a targeted sales strategy	Sales targets for all agricultural finance centres have been finalised and endorsed by the chief of operations. These targets have been communicated to all staff and performance is tracked on a weekly basis	Achieved
Enhanced product offering	Tailored products, pricing and services to customer segments	The Bank's product offering has been enhanced to meet market needs, informed by an internal market survey. An agro-processing financing proposal has been presented to various committees and adopted. It is currently being implemented in Retail Commercial banking	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Partnerships and stakeholder engagement			
Stakeholder platforms and channels	Revised partnership and stakeholder engagement strategy in support of the mandate	• Framework and strategy approved by Executive Committee • Implementation plan with priorities has been approved subject to availability of funds • A review has been completed and implementation is under way	Achieved
	Publish stakeholder-centric print and electronic information using relevant platforms	The Bank aims to provide print and graphic design support to paper on land reform report. This can only start when the report is complete	Not achieved
	Alignment of social reporting with integrated reporting processes	The Bank's social report has been approved and published	Achieved
	Bi-monthly internal newsletter	The Bank has published four newsletters against a target of six. The delay was due to the decision to outsource layout and design, which was previously performed in-house	Partially achieved
Formalise service-delivery partnerships	Increase partnerships in finance, development and agriculture sectors	The Bank signed an MoU with Bakgatla Ba-Kgafela traditional community in November 2013. Key aspects of the implementation of the Thembani International Guarantee are under discussion with the Executive Committee and further consultative meetings have been planned	Substantially achieved
Public information centre	Publish corporate and agricultural economic information positioning the Land Bank as a knowledge institution optimising electronic print platforms	Five industry insights published internally	Achieved
	Develop a framework for the agricultural information portal grid	The Bank has developed a framework and the intranet is equipped with an information portal grid	Achieved
Governance, risk management and compliance			
Integrate enterprise-wide risk management	**Develop systems for risk management for early warning and monitoring** Develop an integrated risk report	The Bank has drafted a report and it has been deferred to the Risk Committee for finalisation	Not achieved
	Build risk and control databases in the risk-management system (CURA)	• Procurement risk register reviewed in line with revised procurement manual • Treasury process risk assessment completed • Credit value chain in Business and Corporate banking and Retail Commercial banking completed	Achieved
	Conduct continuous risk training focusing on the Bank's priority areas	Training plans have been finalised and training material approved. Agricultural Economic Specialists and agricultural finance centre managers have been trained on credit-concentration risk and ethics	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Ensure statutory and regulatory compliance	**Embedded compliance culture** Facilitate the development of procedure manuals	The Bank has developed a policy and procedure repository. Policies and procedure manuals as per policy plan have been developed and reviewed, and some have been approved	Achieved
	Focus on the impact of emerging legislation on the Land Bank	• Finalised risk-management plan for the Financial Markets Act (2012) • Aligning the records management policy with the provisions of the Protection of Personal Information Act (2013) • Finalised risk-management plan for National Veld & Forest Fire Amendment Act (2013) • Developed risk-management plan for the use of Official Language Act (2012)	Achieved
Identify and quantify relevant strategic and operational risks	**Design system for risk appetite framework (key risk indicators) by:** Implementing credit-risk scoring and pricing models	• Reports on data generated monthly • Service providers produced quarterly monitoring report • Credit model system fully implemented on 9 December 2013	Achieved
	Gathering risk observations to refine and enhance risk-monitoring capabilities	Quarterly risk appetite report has been compiled and risk indicators have been confirmed with business units	Achieved
	Reviewing head office and developing new business continuity plans for agricultural finance centres	• Head office business continuity plans completed • All southern region business impact analyses/continuity plans signed by area managers and the regional manager • Business impact analyses for the northern region signed by area managers and awaiting the regional manager's sign off • Business continuity plans submitted to acting chief risk officer to sign on behalf of the operational risk manager	Achieved
	Enhanced monitoring of risk register by: Reviewing the strategic risk register	• The strategic register was reviewed in consultation will business units • The strategic risk register was updated with the latest changes and presented to the Board Risk Committee on 18 November 2013 • The combined matrix report was updated with the recent changes in the strategic risk register • Exit strategy for the use of consultants presented to Risk Committee	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Identify and quantify relevant strategic and operational risks	Refining and maintaining business units' operational risk registers	• Business unit risk registers are updated on an ongoing basis. Risk champions updated the risk registers, which were validated by unit chiefs • Operational risk enhanced structure approved • Job profiles and grading complete • Operational risk specialists interviewed • HR processes have started to appoint an operational risk manager	Substantially achieved
	Monitor the implementation of the IT governance road-map	Desktop administrators were trained and the project was completed. The solution was rolled out in 2014. In addition to desktop administration, the rest of ICT were also trained in an awareness session	Achieved

Table 3: LBIS Performance information

Key performance area	Key performance indicator	Actual result	Status indicator
Financial stability	Loss ratio Claims/growth written premium 80-90%	33%	Achieved
	Combined operational ratio (incurred loss + expenses)/growth written premium 122%	140%	Not achieved
	Growth written premium R136 million	R9 716 000 LBIS had anticipated being active in the crop insurance market in 2013/14, but due to regulatory and compliance delays, the subsidiary was unable to participate and therefore lost out on potential premium	Not achieved
	Net underwriting margin 22.5%	-53% LBIS had anticipated being active in the crop insurance market in 2013/14, but due to regulatory and compliance delays, the subsidiary was unable to participate and therefore lost out on potential premium	Not achieved
	Penetration Retail Commercial banking: 5%	Retail Commercial banking: 7.56%	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Financial stability	Business and Corporate banking: 5%	Business and Corporate banking: 0% LBIC has made efforts to enter into agreements with Business and Corporate banking partners, but the LBIC Board has referred the matter back to LBIS. The process is ongoing, and it is anticipated that it will be finalised in 2014/15	Not achieved
	Solvency ratio 80-100%	21 453%	Achieved
	CAR 5N	108x	Achieved
	Liquidity ratio 150%	462%	Achieved
Operational efficiencies a) IT	Automated quotation and policy issue systems: deploy quotation and policy viewing systems to agricultural finance centres	• Product training material has been developed and user credentials created for pilot purposes • Pretoria, Bloemfontein, Heidelberg branch and Middelburg branches have been trained • The Websure system has been deployed to pilot branches	Achieved
	Stakeholder agreement on data format for farm registrations	LBIS engaged with South African Insurance Association, Cover Magazine, Certain Insurance Companies, Munichre and the Department of Agriculture, Forestry and Fisheries on farmer registration	Achieved
b) Management expenses	9-11%	-233% LBIS had anticipated being active in the crop insurance market in 2013/14, but due to regulatory and compliance delays, the subsidiary was unable to participate and therefore lost out on potential premium	Not achieved
Human capital a) Appointment of appropriate expertise	14 of the approved structures in place	• Finance manager appointed May 2013 • Personal assistant to managing director appointed April 2013 • Public officer appointed September 2013 • Underwriter appointed October 2013 • Actuarial analyst appointed on fixed term secondment contract • Actuarial analyst (short term) appointed on fixed term secondment contract	Partially achieved
b) Remuneration models	Bonus pool policy to be agreed to reward profitable growth	Approval was granted at August Board meeting	Achieved
c) Performance management	Each employee's key performance areas and indicators aligned with the 2013/14 strategy by 30 April 2013, ongoing for each financial year	The operations manager concluded the performance contracts of the underwriter and the accountant. The managing director contract was approved by the Remuneration Committee, and submitted to HR	Not achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Customer relationships a) A compelling value proposition for the client b) Empower customers through information to manage their business in a sustainable manner c) Extension of the Land Bank brand to include insurance d) Development farmers with LBIS insurance e) Distribution 20 accessible distribution channels	Segmentation of farmers and agribusiness documented by 31 March 2014	Farmers segmentation documentation has been finalised	Achieved
	Brokers are able to give clients information on how to manage their risks better through leaflets and brochures	Leaflets and brochures have been completed and are ready for distribution	Achieved
	Active media presence and displays in agri-shows	LBIS published an advert in Farmers Weekly	Achieved
	Participate in 80% of Land Bank branded agri-platforms	LBIS has attended all agri-shows on the 2013/14 comprehensive schedule	Achieved
	Target 5% of all Retail Emerging Markets clients	57%	Achieved
	70% of relationship Bankers to be Financial Advisory and Intermediary Services accredited to sell LBIS products	58% (30/50) Not all candidates who wrote the exam passed	Substantially achieved
	50% of Business and Corporate banking partners accredited to sell LBIS products	Three different proposals have been tabled to the LBIC Board for approval to pursue partnerships. However, no business partners have been contracted because the short-term licence had not been issued by 31 March 2014	Substantially achieved
	10 brokers in place to sell to emerging farmers	One distribution channel in place out of a target of five LBIS is still in negotiations with potential brokers due to regulatory and compliance delays	Not achieved
Governance Risk management regulation and Compliance Integrate enterprise-wide risk management	**Develop systems for risk management for early warning and monitoring** a) Develop an integrated risk report	Risk register and risk appetite framework have been finalised. A risk workshop was held in January 2014 and the integrated risk-management report has been finalised and presented to the Board	Achieved
	b) Continuous risk training focusing on LBIS priority areas	LBIS staff trained in legislation	Achieved

Key performance area	Key performance indicator	Actual result	Status indicator
Statutory and regulatory compliance	**Embedded compliance culture** a) Facilitate the development of procedure manuals	The public officer was appointed. A documented regulatory universe ensures compliance with appropriate legislations. The public officer is ensuring adequate processes are in place for the compliance function. The policies were approved in the Board meeting held in February 2014	Achieved
	b) Focus on the impact of emerging legislation on LBIS	Compliance reports have been compiled and presented to the Board	Achieved
	c) Train staff in risk-related disciplines of fraud awareness, the Financial Intelligence Centre Act (2001), ethics, new regulations and legislation	Two LBIS staff members have attended compliance ethics training offered by the Bank's Compliance department	Achieved
Relevant strategic and operational risks	**Design system for risk appetite framework (key risk indicators)** a) Implement scientific and pricing models	Risk register and risk appetite framework have been finalised. A risk workshop was held in January 2014 and the integrated risk-management report has been finalised and presented to the Board	Achieved
	b) Gather risk observations to refine and enhance risk monitoring capabilities	Risk observations have been gathered and are reflected in the risk register	Achieved
	c) Review business continuity plans	Business continuity plans have been reviewed and noted at the Audit and Risk Committee meeting for adoption at the August 2013 Board meeting	Achieved
	Enhanced monitoring of risk register a) Review the strategic risk register	The strategic risk register has been reviewed	Achieved
	b) Monitor the implementation of the operational efficiency road-map	Road-map has been finalised, progress report provided monthly	Achieved

Financial Performance

"It always seems impossible until its done."

Nelson Mandela

Financial Performance

Global economic recovery remained slow in 2013/14. The phased withdrawal of the United States Federal Reserve's stimulus coupled with inflationary pressure contributed significantly to the depreciation of emerging-market currencies, including the Rand.

Locally, the trade deficit continued to increase, exceeding R19 billion at the end of August 2013, putting further pressure on the recovery of the Rand. The labour market remained volatile, which affected the economy's performance and contributed to the uncertainty of potential investors. Protracted labour unrest in the mining, motor and agricultural sectors has cost the economy billions of rand, severely hindering South Africa's economic recovery.

In an effort to mitigate the effects of inflationary pressure and the depreciation of the rand, the South African Reserve Bank increased the repo rate from 5 percent to 5.5 percent in January 2014. This will provide temporary relief to financiers such as the Land Bank because of the lag in the re-pricing of funding liabilities.

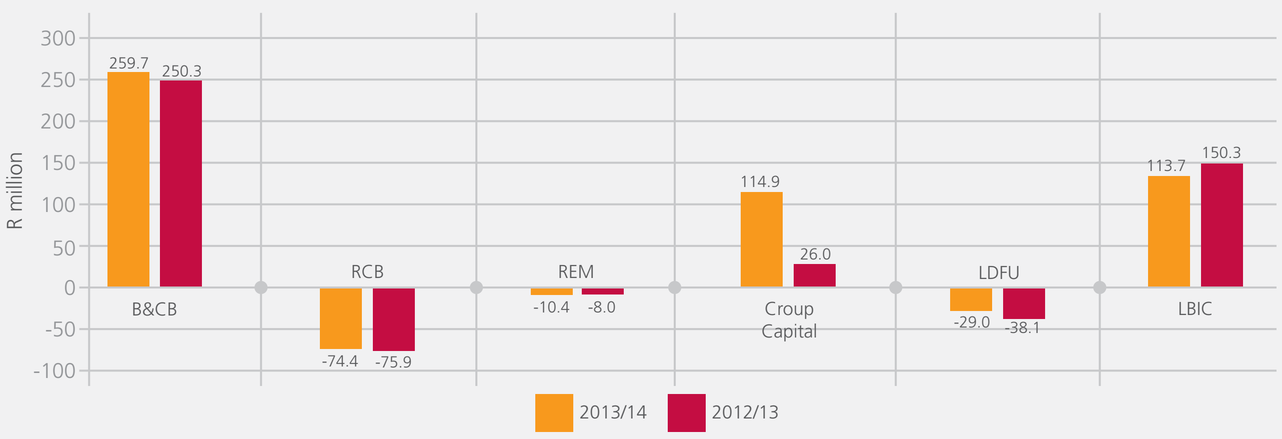
Despite local and global economic challenges, the Land Bank has achieved impressive results in 2013/14. Growth strategies, complemented by cost-containment initiatives and continued government support, have helped the Bank take strides in delivering on its development mandate in recent years. Following the issuance of a R3.5 billion guarantee in 2008/09, the Government decided to convert this guarantee into cash to recapitalise the Bank (the guarantee is reduced by the amount of funds transferred to the Bank). At the beginning of 2013/14, the National Treasury transferred a further R300 million as part of the Land Banks' continued recapitalisation. At the end of the financial year, a total of R3 billion had been transferred to the Bank. On 31 March 2014, the National Treasury granted the Bank a further R1.5 billion guarantee in support of its growth initiatives, bringing the total guarantee to R2 billion.

The Land Bank Group achieved a net profit of R394.3 million in 2013/14, increasing by R89.7 million or 29.4 percent from 2012/13 (R304.6 million). Banking operations contributed a net profit of R260.7 million (2012/13: R154.3 million), while the insurance business contributed R133.7 million (2012/13: R150.3 million). Significant loan-book growth and operational efficiency have bolstered the Bank's performance, confirming the sustainability of the existing business framework.

Gross loans increased by R6.2 billion, or 22.3 percent, to R34.1 billion (2012/13: R27.8 billion), while performing loans increased by 24.6 percent to R33 billion (2012/13: R26.5 billion), representing an increase of R6.5 billion. In the same period, the total impairment requirement (including suspended interest and fees) on loans declined by 10.5 percent to R784 million (2012/13: R875.6 million).

The Bank made a conscious decision to impair some of the loans that showed signs of distress to cushion the organisation from possible future losses. Net impairment charges to the income statement increased by R65.9 million or 87.9 percent during 2013/14, from R75 million in the prior year to R140.9 million in the year under review. The bulk of the charges were largely driven by two Business & Corporate banking division clients and are not a reflection of the overall status of the loan portfolio's performance.

Figure 2: Group total comprehensive income/ (loss)



Internal performance targets

The Land Bank Group submits a corporate plan to the National Treasury annually. The plan contains key performance and strategic targets informed by the Bank's mandate. The key financial performance targets and results set for 2013/14 are set out in the following table:

Table 4: Key financial performance targets and results, 2013/14

KPI	2013/14 Actual	2013/14 Target
Gross interest margin	38.6%	39.6%
Net interest margin	3.2%	3.5%
Cost-to-income ratio	59.5%	72.7%
Capital adequacy ratio	25.9%	20.0%
Loan-book quality (NPLS)	3.2%	6.3%

With the exception of the gross interest and net interest margins, the Land Bank achieved all of its targets. The shortfall in the gross interest and net interest margins of 1 percent and 0.3 percent respectively, in absolute terms, was the result of the loan book's significant growth towards the end of the financial period. The effect of the increase in the repo rate in January 2014, while positive, was not sufficient to make up for the increase in the loan book.

The Bank continues to maintain operational efficiencies, as reflected in the improved cost-to-income ratio of 59.5 percent (2012/13: 67.7 percent), while the capital adequacy ratio increased to 26 percent (2012/13: 24.4 percent) due to further government support. Sustained growth in the loan book will increase funding liabilities and continue to put pressure on the capital adequacy ratio. The Land Bank is reviewing its operating model to manage the ratio.

Banking operations

The Group's banking operations achieved a total comprehensive income of R260.7 million (2012/13: R154.3 million), while operating expenses declined by R8.1 million, or 1.5 percent, to R535.4 million (2012/13: R543.5 million). Despite the increase in impairment charges from R75 million in the prior year to R140.9 million in the year under review, operating income from banking activities increased by 4.3 percent to R759.3 million (2012/13: R727.7 million). The Bank has continued to contain its operating and borrowing costs within affordable levels, while growing its performing loan book.

Table 5: Summary of banking operations results

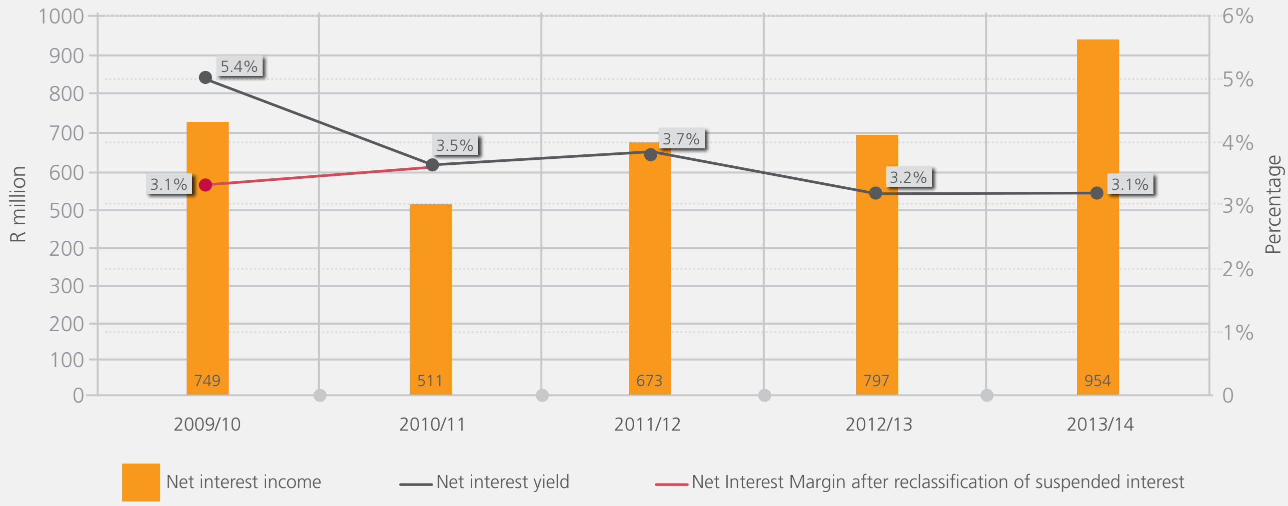
	2013/14 (R million)	2012/13 (R million)	Variance
Net interest income	953.8	796.6	19.7%
Impairment charges	(140.9)	(75.0)	(87.9%)
Non-interest income	(53.5)	6.2	(+100%)
Investment income	56.3	53.6	5.0%
Operating income from banking activities	759.3	727.7	4.3%
Fair value gains/ (losses)	5.0	(12.5)	+100%
Operating expenses	(535.4)	(543.5)	1.5%
Non-trading capital items	9.5	(10.1)	+100%
Loss from Discontinued Operations	(29.0)	(38.1)	24.9%
Other comprehensive income	22.5	0.5	+100%
Total Comprehensive income	260.7	154.3	69.0%
Cash and cash equivalent	1 227.7	1 676.7	(26.8%)
Loans and advances	33 281.3	26 968.7	23.4%
Funding liabilities	28 206.6	22 953.6	22.9%

Net interest income

Net interest income increased by 19.7 percent to R953.8 million (2012/13: R796.6 million). Growth in the performing loan book and well-managed borrowing costs have continued to improve the Bank's interest-related income. In addition, the Government's support through capital injections and guarantees has allowed the Bank to source funds at relatively affordable rates. Over the years, the Bank has continued to diversify its investor base, resulting in a more robust and open assessment of possible funding options.

Financial Performance

Figure 3: Net interest margins



Impairments

During the reporting period, impairment charges to the income statement increased by R65.9 million, or 87.9 percent, to R140.9 million (2012/13: R75 million). The major contributors to the increase were two Business & Corporate banking division clients that went into distress during the year. Interest claims adjustments also contributed to this increase. The significant growth in the loan-book portfolio will inevitably attract impairment charges in the short term, regardless of rigorous credit processes in place. This is in line with the nature of the business as exposure increases.

Table 6: Impairments

	2013/14 R million	2012/13 R million	Variance
Net impairment charges	(140.9)	(75.0)	(87.9%)
Total	**(140.9)**	**(75.0)**	**(87.9%)**

Non-interest income

Overall, net non-interest income deteriorated from an income of R6.2 million in 2012/13 to an expense of R53.5 million in 2013/14. This is due to the 91 percent increase (R52.3 million) in account administrative expenses when the Bank acquired the additional debtor's books. The Land Bank pays a fee for the administration of these books to the service provider based on the size of the book managed as well as a margin fee. However, the benefit derived from increased revenue outweighs the administration costs incurred by the Bank – net interest income increased from R796.6 million in the prior year to R953.8 million in the reporting period. The 13 percent increase in other income (rental and sundry) was mainly driven by income from rentals, which increased by R1.8 million from the prior year.

Table 7: Non-interest expense

	2013/14 R million	2012/13 R million	Variance
Fee and commission income	**(77.9)**	**(15.3)**	**(+100%)**
Account admin fee and commission income	31.9	42.2	(24.4%)
Account admin fee expense	(109.8)	(57.5)	(91.0%)
Other (sundry income, investment property rentals and income from properties in possession)	24.4	21.5	13.5%
Total	**(53.5)**	**6.2**	**(+100%)**

Investment income

Investment income increased marginally, from R53.6 million in 2012/13 to R56.3 million in 2013/14. The decrease in unrealised gains from R28.6 million to R6 million was offset by the increase in realised gains, which increased from R17 million in the prior year to R40.9 million in the year under review. Despite fairly volatile performance during the year, meaningful gains were made and some assets were sold to capitalise on these gains.

Table 8: Investment income

	2013/14 (R million)	2012/13 (R million)	Variance
Unrealised fair value gains	6.0	28.6	(79%)
Dividends	3.9	3.9	-
Realised gains	40.9	17.0	+100%
Interest	7.3	5.7	28%
Investment management fees	(1.8)	(1.5)	(20%)
Total	**56.3**	**53.6**	**5%**

Fair value gains

Fair value gains amounted to R5 million (2012/13: R12.5 million in losses). This gain is attributable to the funding instruments acquired from the open market, which are subject to value changes in response to movement in the Johannesburg Interbank Agreed Rate. Both the promissory notes and floating rate notes responded positively to the market conditions as interest rates increased.

Table 9: Fair value gains

	2013/14 R million	2012/13 R million	Variance
Held for trading			
Swaps	-	(0.9)	100%
Market making assets	0.1	(0.9)	+100%
Designated through profit and loss			
AfDB floating rate loan	1.9	-	100%
Floating rate notes	2.9	(10.7)	+100%
Total	**5.0**	**(12.5)**	**+100%**

Operating expenses

Overall, the Bank's operating expenses decreased by R8.1 million, or 1.5 percent, to R535.4 million (2012/13: R543.5 million). Legal fees and software amortisation were the two biggest contributors to this decrease, reducing their expenses by 89.2 percent and 82.5 percent respectively. Most legal costs were provided for in prior years for legacy matters, and there were no new significant cases that emerged during 2013/14. During the course of the year, the Land Bank revised the useful life of its intangibles from five years to 20 years, resulting in lower amortisation costs. The Bank's concerted efforts to contain costs continue to yield results. Costs classified under other operating expenditure are disclosed in Note 28 to the annual financial statements.

Table 10: Operating expenses

	2013/14 R million	2012/13 R million	Variance
Notable movements			
Staff costs	377.8	354.4	6.6%
Amortisation computer software	2.3	13.2	(82.5%)
Professional fees	18.7	21.9	(14.6%)
Legal fees	1.8	16.7	(89.2%)
Other operating expenses	134.8	137.3	(1.8%)
Total	**535.4**	**543.5**	**(1.5%)**

Non-trading capital items

Non-trading and capital items improved from a net loss of R10.1 million in 2012/13 to a profit of R9.5 million in the year under review. This positive result was mainly driven by the disposal of property and equipment, as well as properties in possession, which made up 90 percent of these profits.

Table 11: Non-trading capital items

	2013/14 R million	2012/13 R million	Variance
Fair value adjustments to investment property, land and buildings	0.3	(8.2)	+100%
Non-current assets held for sale fair value adjustment	0.7	(1.6)	+100%
Profit/(loss) on disposal of investment property and property and equipment	8.5	(0.3)	+100%
Total	**9.5**	**(10.1)**	**+100%**

Discontinued operations

Losses from discontinued operations amounted to R29 million (2012/13: R38.1 million), decreasing by 24 percent. The losses primarily relate to the funding costs of the Land Development Finance Unit loan portfolio. The unit was discontinued in 2008/09 as the loans granted fell outside the Bank's operating mandate. The Bank continues to explore favourable disposal options for the remaining assets. A number of settlement agreements have been concluded since the disposal process began. Since its reclassification as a discontinued operation, no interest income has been accrued or recognised.

Financial Performance

Other comprehensive income

The Bank provides a post-retirement medical aid benefit to those who were either employees or pensioners of the institution at 1 December 2005.

This fund functions primarily as a defined benefit scheme, which means that the Bank is liable for fully funding it. The fund, which is subject to an annual actuarial valuation, reported an actuarial gain of R16.4 million during the reporting period (2012/13: R22.7 million loss) due to increased interest rates. Discount rates used in the valuation process moved in line with interest rates, resulting in a lower liability value compared to the prior year. The value of the liability decreased by 6 percent to R267.5 million (2012/13: R283.9 million).

In collaboration with post-retirement medical aid specialists, the Land Bank is assessing possible solutions to mitigate the liability's adverse effects. The Bank aims to implement some of these recommendations after thorough consultation with relevant stakeholders. The Bank will take due care and time to ensure that the matter is finalised in the interest of all affected parties.

The Bank's land and buildings, which are valued annually, yielded gains of R6.1 million (2012/13: R12.8 million). Fair value gains on financial assets declined to R4.0 thousand compared to the R10.4 million reported in 2012/13. These gains relate to fair value movements on equity investments held in corporate clients. Following restructuring processes, the Land Bank acquired equity in some of its clients through debt-to-equity exchanges.

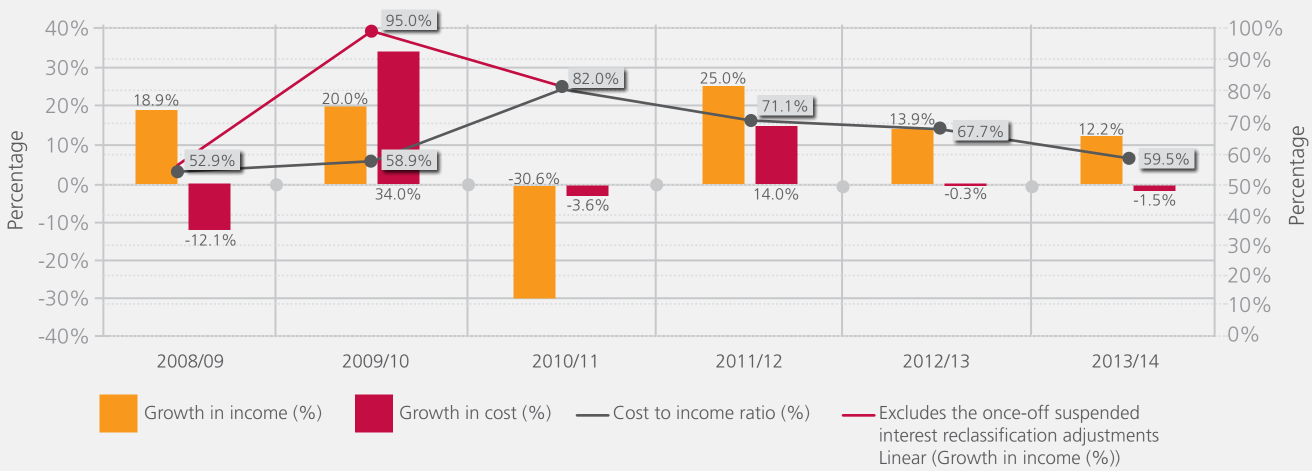
Table 12: Other comprehensive income

	2013/14 R million	2012/13 R million	Variance
Actuarial gain/(loss) on post-retirement medical aid liability	16.4	(22.7)	+100%
Revaluation of land and buildings	6.1	12.8	(87%)
Gains on financial assets at fair value through other comprehensive income	-	10.4	(+100%)
Total	**22.5**	**0.5**	**+100%**

Cost to income

The Bank's concerted efforts to contain costs and grow revenue have resulted in the cost-to-income ratio improving from 67.7 percent in 2012/13 to 59.5 percent in 2013/14. The ratio also exceeds the corporate plan target of 72.7 percent.

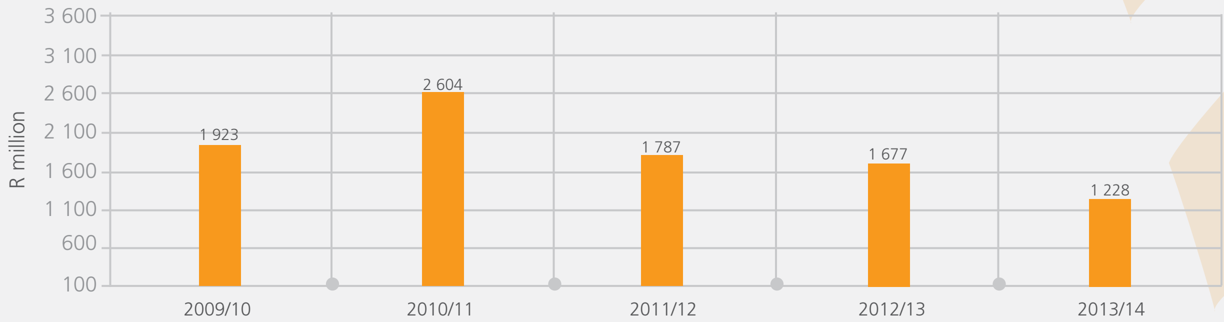
Figure 4: Cost-to-income Ratio



Cash and cash equivalents

The Bank's cash and cash equivalents decreased by 30 percent, from R1.7 billion in 2012/13 to R1.2 billion in 2013/14. Cash balances are primarily held to provide the Bank with a sufficient liquidity buffer for perceived refinancing risk and prevailing operational demands. The Liquidity Committee advises on the appropriate levels of cash to be held, accounting for variables and operational demands. The diversified investor base and improved roll-over rates have also contributed to reducing the Bank's cash buffer.

Figure 5: Cash and cash equivalents



Trade and other receivables

Trade and other receivables increased marginally by 0.8 percent to R342 million (2012/13: R339.2 million). Intercompany balances between the Land Bank and its wholly owned insurance subsidiary amounted to 83 percent or R283.8 million (2012/13: R269.4 million). Intercompany balances are eliminated at Group level. Sundry receivables, accrued investment income and pre-paid expenses contributed R30.3 million, R19 million and R7.9 million respectively.

Repurchase agreements

Repurchase agreements cover any short positions that the Bank might have experienced. At the end of 2013/14, the balance on repurchase agreements amounted to R15.1 million (2012/13: nil).

Non-current assets held for sale

Non-current assets held for sale increased marginally to R52.6 million (2012/13: R52.3 million). This asset class comprises land and buildings (R5.7 million) and properties in possession (R46.9 million). The fair value gains on land and buildings amounted to R0.7 million (2012/13: R1.7 million loss) with no disposals taking place in the year under review (2012/13: R0.1 million). The Bank obtains approval to dispose of land and buildings from the Minister of Finance. Additions to properties in possession amounted to R1.8 million (2012/13: R41.8 million) and disposals to R2.3 million (2012/13: R2.6 million). The Bank disposes of properties in possession to recover outstanding debts from defaulting clients. Note 7.2 of the financials provides further detail on these properties.

Investments

During 2013/14, investments increased by R43.3 million to R343.8 million (2012/13 R300.5 million). Listed equities and bonds accounted for 97 percent of this increase (R42 million), while the balance is attributed to movements in commodities and cash held.

The Land Bank holds assets that serve as a hedge for post-retirement medical aid liability. At the end of the reporting period, the value of assets held was R328.4 million (2012/13: R285.1 million), resulting in a surplus of R60.9 million when compared with the hedged liability of R267.5 million (2012/13: R283.9 million). These investments are classified as "fair value through profit and loss", and are measured and disclosed at fair value. Unlisted equities, also included under investments, amounted to R15.4 million (2012/13: R15.4 million), which the Land Bank acquired after concluding restructuring agreements with respective clients. The value of these unlisted equities was determined by independent professional valuators. Note 8.3 of the financials provides further detail on unlisted equities.

Loans and advances

As a result of the Land Bank's strategy to acquire existing debtors' books, complemented by organic growth, its performing loan book grew by R6.5 billion to R33 billion (2012/13: R26.5 billion), while non-performing loans declined by R282.3 million to R1.1 billion (2012/13: R1.4 billion). Business & Corporate banking contributed R5.9 billion to the growth in performing loans, while Retail Commercial banking and Retail Emerging Markets contributed R455.4 million and R143.7 million respectively.

Financial Performance

Net loans increased to R33.3 billion (2012/13: R27 billion), while total impairments (including provisions for suspended interest and administration fees) declined by R91.6 million to R784 million (2012/13: R875.6 million). The Bank continues to maintain prudent lending procedures and monitoring mechanisms to contain potential defaults by clients. Overall, gross loans increased by R6.2 billion (22.3 percent), with Business and Corporate banking contributing R5.8 billion (92.9 percent) to this growth. Retail Commercial banking and Retail Emerging Markets contributed R295.4 million and R143.7 million respectively.

Collections on loans in arrears (including insolvencies) increased from R154 million in 2012/13 to R733.8 million in 2013/14. The fluctuation in collections is based on the ease with which the arrears can be collected from clients.

Figure 6: Loan-book performance

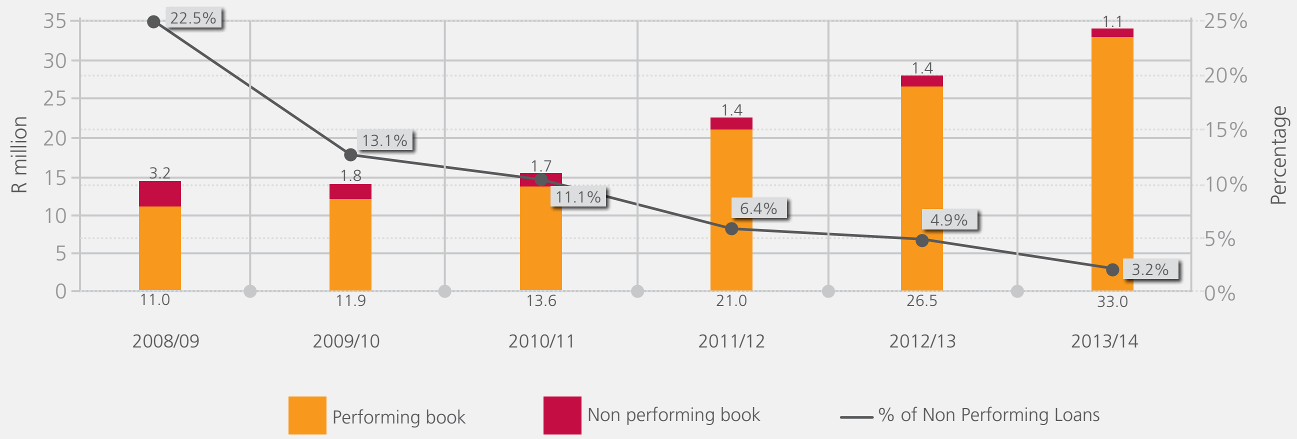
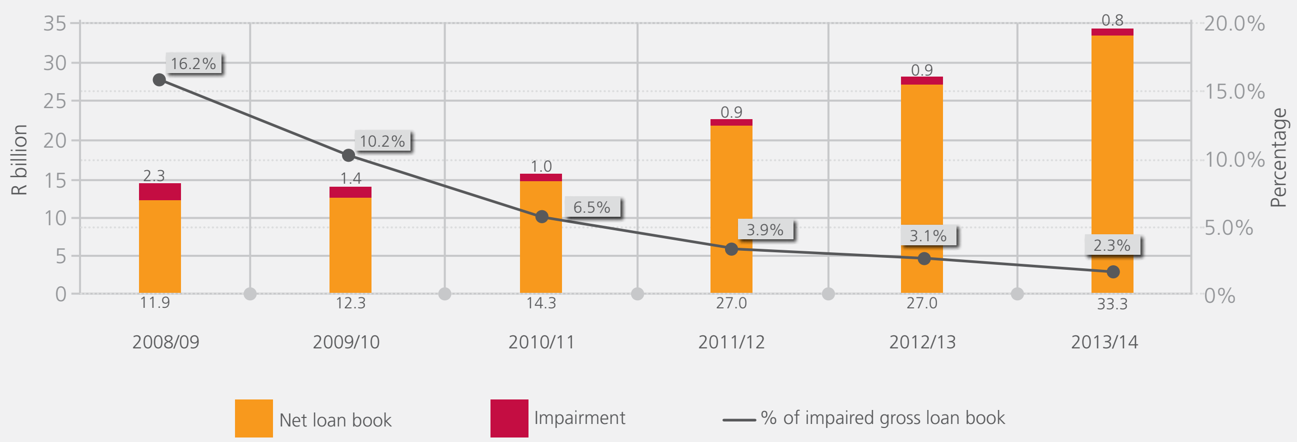


Figure 7: Impairments trend



Assets held for sale

This category comprises the assets of the discontinued Land Development Finance Unit. No interest accruals have been raised since the unit suspended operations. Net assets declined marginally by R1.7 million to R142.2 million in the reporting period (2012/13: R143.9 million).

Loans amounting to R13.4 million were written off during 2013/14. These loans were fully provided for and did not affect profits, losses or other comprehensive income. Impairment charges in the statement of profit or loss and other comprehensive income amounted to R1.2 million.

The assets of the discontinued operations were valued by independent professional valuators at R251.2 million. Where the valuations exceeded the carrying values, the directors opted to maintain the current values due to uncertainties surrounding the potential conditions of disposal legalities. The final valuation of the remaining assets in the portfolio was R199 million (2012/13: R200.6 million).

Derivative financial instruments

Interest-rate swaps manage interest-rate mismatches between fixed and floating interest rates applicable to assets and liabilities. In 2013/14 there were no balances on derivative financial instruments (2012/13: nil).

Intangible assets

Intangible assets declined marginally by R2.3 million to R39.9 million (2012/13: R42.2 million). The values of intangible assets, initially measured at cost, are reduced by accumulated amortisation and impairment losses. During the course of the reporting period, the Bank changed the estimated useful life of computer software from five years to 20 years, reducing amortisation costs to R2.3 million (2012/13: R13.2 million). No additions or disposals were recorded during 2013/14 (2012/13: R1.9 million and R1.1 million respectively).

Investment properties

Investment properties increased by R18.6 million to R84.4 million (2012/13: R65.8 million). This asset class comprises owned office buildings and property held for rental income. Property and equipment reclassifications amounted to R18.3 million (2012/13: nil), contributing significantly towards the increase in investment properties. In the same period, fair value gains amounted to R0.3 million (2012/13: R8.2 million loss). There were no additions or disposals.

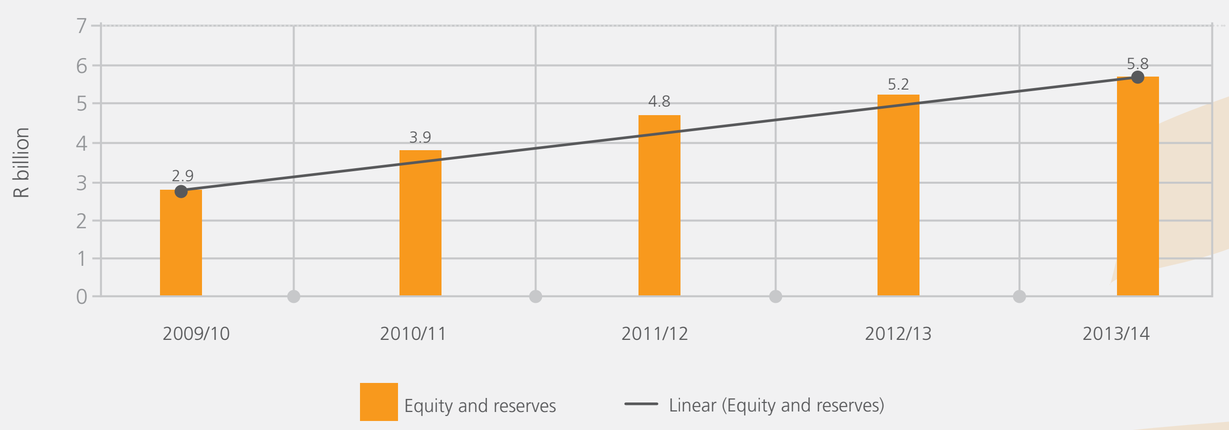
Property and equipment

Net carrying values of property and equipment decreased to R93.8 million (2012/13: R119.3 million). Disposals and reclassifications amounted to R7 million (2012/13: R2.1 million) and R18.3 million (2012/13: nil) respectively. Reclassifications relate to transfers made to investment properties, discussed in the preceding section. Devaluations on land and buildings amounted to R0.3 million (2012/13: R11.2 million), while additions of computer equipment and furniture and fittings totalled R5.2 million (2012/13: R9.9 million). Revaluation surpluses on land and buildings amounted to R4.7 million (2012/13: R22.4 million).

Capital and reserves

During 2013/14, the Land Bank received R300 million from the National Treasury as part of government's recapitalisation initiative. By the end of the year under review, the Bank had cumulatively received R3 billion of its R3.5 billion convertible guarantee, which started in 2009. The transfers, complemented by the Bank's improved financial performance, increased equity levels to R5.8 billion by the end of the reporting period.

Figure 8: Capital and reserves



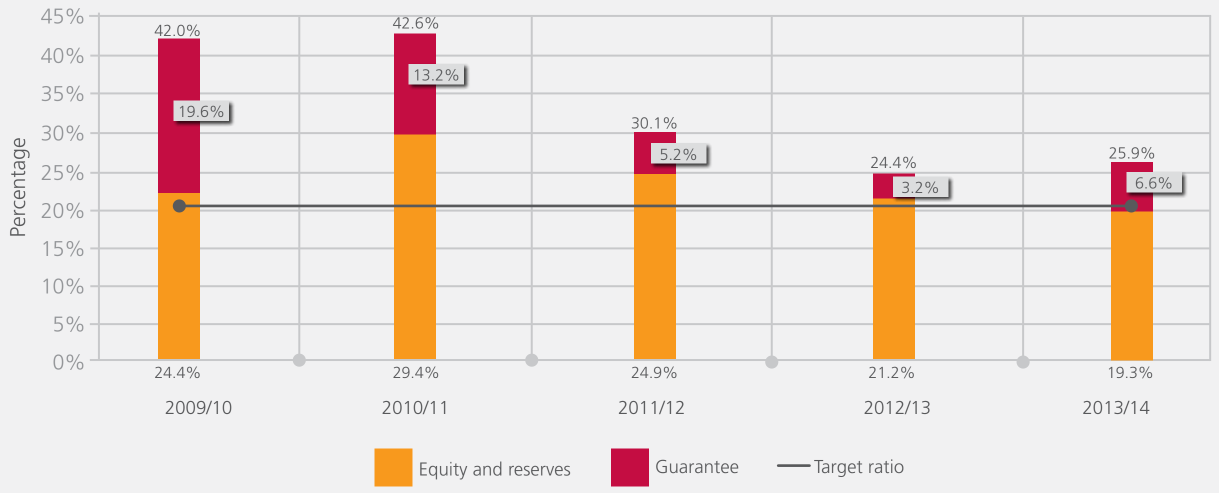
Financial Performance

Capital adequacy

The capital adequacy ratio increased from 24.4 percent in 2012/13 to 26 percent in 2013/14. The National Treasury's granting of a further R1.5 billion guarantee supported the ratio's growth. This augmented the remaining R503 million of the R3.5 billion convertible guarantee granted in 2009.

Over the past three years, the Land Bank`s funding liabilities have increased significantly in response to the growing loan book. This has inevitably put pressure on the Bank`s capital adequacy ratio that has since declined from 42.0% in 2009/10 to 25.9% in 2013/14. As part of the review on capital utilisation, the Bank's executives have embarked on a portfolio optimisation review with the intention of maximising the utilisation of capital. The shareholder continues to support the growth ambitions of the Land Bank and as a result, on the 31st of March 2014, the shareholder granted the Land Bank an additional R1.5 billion guarantee bringing the total guarantee to R2.0 billion.

Figure 9: Capital adequacy



Funding liabilities

Although the Bank has received Government recapitalisation support, the bulk of its lending activities are funded by participating in the open market by issuing instruments such as debentures, promissory notes, floating rate notes, call bonds and bills. In response to the growth in the loan book, total funding liabilities increased by 22.3 percent to R29 billion (2012/13: R23.7 billion). The Land Bank's strong performance in recent years has enabled it to diversify its investor base, borrow at affordable rates and significantly reduce its refinancing risk.

Figure 10: Funding composition, 2013/14

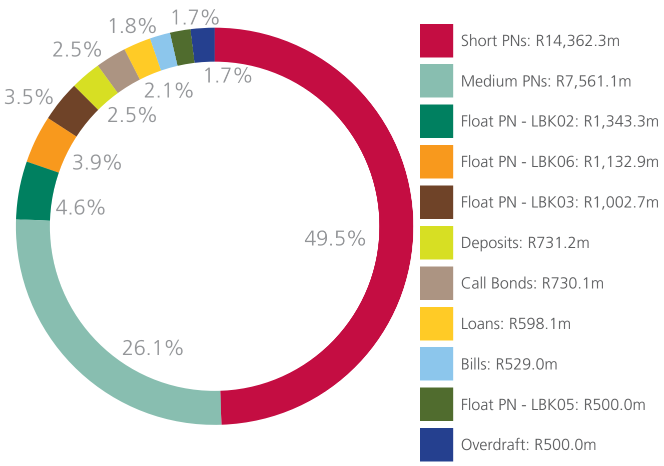


Figure 11: Funding composition, 2012/13

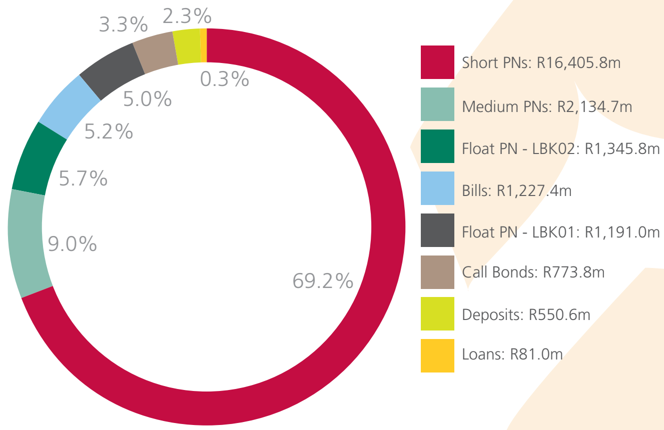


Figure 12: Provisions, 2013/14

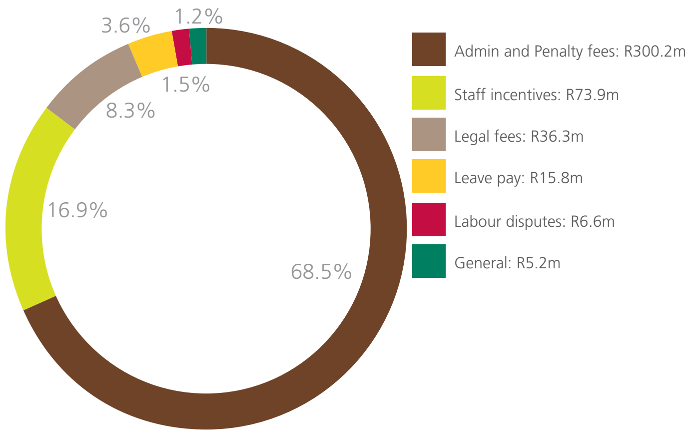
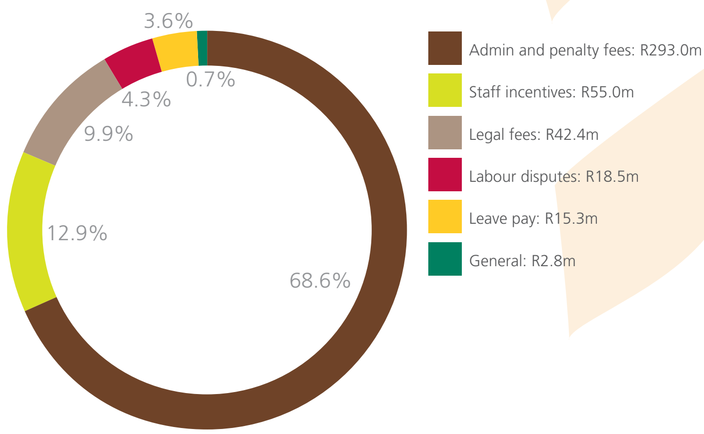


Figure 13: Provisions, 2012/13



Provisions

Provisions increased by 2.6 percent to R438 million during the reporting period (2012/13: R427 million). Provisions raised during the year were mainly for staff-related matters and legal fees, which contributed R92.3 million and R7.8 million respectively. Reversals and utilisations amounted to R36.1 million and R84 million respectively, while additions totalled R131.1 million. Reversals consisted of legal fees and staff-related costs, amounting to R9.2 million and R26.9 million. Staff-related costs (R58 million), legal fees (R4.7 million) and administration and penalty fees (R21.3 million) made up the provisions utilised. At R300.2 million, provisions for administration and penalty fees make up the bulk of total provisions for 2013/14.

Division performance

Table 13: Summary of divisional financial performance

	2013/14 R million	2012/13 R million	Variance
Net operating income/(loss)			
Business & Corporate Banking	259.7	239.9	8.3%
Retail Commercial Banking	(73.9)	(76.8)	3.8%
Retail Emerging Markets	(10.4)	(8.0)	(30.0%)
Group Capital	109.8	70.2	56.4%
Net operating income	285.2	225.4	26.5%
Non-trading and capital items	9.5	(10.1)	+100%
Indirect taxation	(27.5)	(23.4)	(17.5%)
Net profit from continuing operations	**267.2**	**191.9**	**39.2%**

Financial Performance

Business & Corporate Banking

The Business & Corporate banking division provides mostly wholesale funding to agricultural cooperatives and businesses, which often on-lend funds to their customer base. The division operates in Cape Town and Pretoria. The Business & Corporate banking loan book is predominantly made up of short-term funding, with 74 percent of the book in the short-term maturity bracket.

Highlights

- Gross interest income increased by 25.5 percent.
- Performing loan book increased by 26.8 percent.

Table 14: Business & Corporate banking financial performance

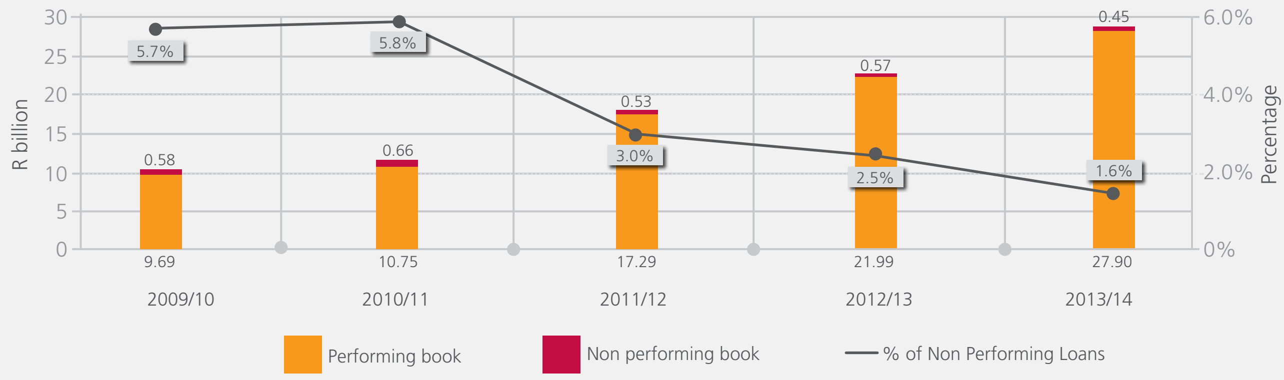
	2013/14 R million	2012/13 R million	Variance
Net interest income	449.5	323.9	38.8%
Net impairment	(71.8)	(20.5)	(+100%)
Non-interest income/ (expense)	(89.2)	(37.9)	(+100%)
Operating income	**288.5**	**265.5**	**8.7%**
Operating expenses including depreciation and amortisation	(28.8)	(25.6)	(12.5%)
Net operating income	**259.7**	**239.9**	**8.3%**

Net operating income increased by 8.3 percent to R259.7 million (2012/13: R239.9 million). Performing loans increased by 26.8 percent to R27.9 billion (2012/13: R22 billion), resulting in an increase in net interest income of R125.6 million to R449.5 million (2012/13: R323.9 million). Operating expenses remained relatively unchanged, increasing marginally from R25.6 million in 2012/13 to R28.8 million in 2013/14.

Impairment charges increased by more than 100 percent to R71.8 million (2012/13: R20.5 million). The spike in net impairments is mainly due to two distressed Business & Corporate banking clients. Non-interest expenses increased in line with growth in the acquired books, which are managed by service providers on behalf of the Land Bank. The Bank pays administration and margin fees to service providers based on the size of the loan book and the margins achieved in managing the respective portfolios.

Non-performing loans decreased by R122.3 million to R451.8 million, compared with R574.1 million in the previous financial year. The Bank continues to enforce prudent lending practices and collect loans in arrears.

Figure 14: Business & Corporate banking year-on-year performance



Retail Commercial Banking

During 2013/14, the Retail Commercial banking division's net operating losses improved marginally from R76.8 million in the previous financial year to R73.9 million. Operating expenses increased by R8.8 million to R200.4 million (2012/13: R191.6 million), while net impairments grew by 29 percent to R66 million (2012/13: R50.9 million), which includes provisions for administration fees amounting to R26.4 million. Performing loans increased by 10.8 percent to R4.7 million (2012/13: R4.2 billion), while non-performing loans decreased by 19.9 percent to R642.5 million (2012/13: R802.5 million).

Retail Commercial banking's under performance is of concern to the Group, and management is working to contain the losses and ensure the division becomes a more sustainable operation.

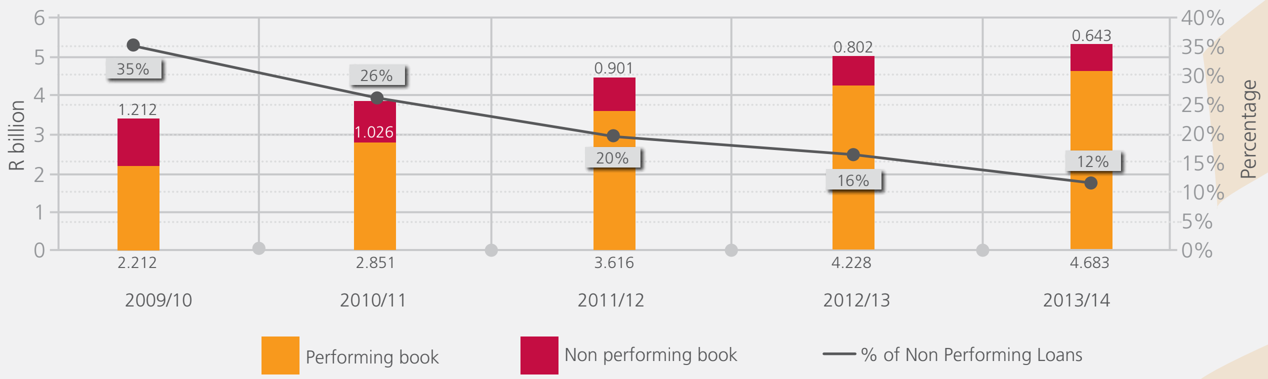
Highlights

- Operating income increased by 16.5 percent.
- Growth in performing loans of 10.8 percent.
- Total collections of R554.5 million on outstanding arrears.

Table 15: Retail Commercial banking financial performance

	2013/14 R million	2012/13 R million	Variance
Net interest income	182.2	150.3	21.2%
Net impairment	(66.0)	(50.9)	(29.7%)
Non-interest income	10.3	15.4	(33.1%)
Operating income	**126.5**	**114.8**	**10.2%**
Operating expenses including depreciation and amortisation	(200.4)	(191.6)	(4.6%)
Net operating loss	**(73.9)**	**(76.8)**	**3.8%**

Figure 15: Retail Commercial banking year-on-year performance



Development (incl. Retail Emerging Markets)

The Bank has made commendable progress in promoting its development mandate through the Retail Emerging Markets division, established in 2010/11. Total development loans disbursed during 2013/14 amounted to R919.3 million, bringing the total development book to R1.99 billion at the end of the reporting period. During 2013/14, Business & Corporate banking contributed R596 million towards the disbursements reported, while Retail Emerging Markets and Retail Commercial banking contributed R189 million and R134.4 million respectively. The Land Bank will continue to pursue its development mandate in a sustainable manner.

Highlights – Retail Emerging Markets

- Growth in performing loans of 57.5 percent.
- No non-performing loans since inception.

Group Capital

Group Capital provides support to business divisions through the following units: Treasury, Finance, Risk and Internal Audit, IT, Strategy, HR, the CEO Office and the Legal and Board Secretariat. Group Capital manages the Bank's capital, cash and funding requirements through the Treasury unit. Funding is provided to the Retail Commercial banking, Retail Emerging Markets, and Business and Corporate banking divisions through an internal transfer pricing model.

Highlights

- Capital adequacy increased to 26 percent (2012/13: 24.4 percent).
- New guarantee of R1.5 billion from the National Treasury.
- Received R300 million for recapitalisation.

Financial Performance

Table 16: Group Capital financial performance

	2013/14 R million	2012/13 R million	Variance
Net interest income	327.6	325.7	0.6%
Non-interest income	20.2	21.9	(7.8%)
Operating income	**349.6**	**347.6**	**0.6%**
Other income	66.4	41.2	61.2%
Operating expenses including depreciation and amortisation	(301.1)	(318.5)	(5.5%)
Net operating income	**114.9**	**70.3**	**63.4%**

Group Capital's net operating income increased by R44.6 million to R114.9 million (2012/13: R70.3 million). The Bank's concerted efforts to contain operating costs are yielding results – operating expenses decreased by 5.5 percent to R301.1 million (2012/13: R318.5 million). Non-interest income is mainly made up of rental income and once-off sundries. Investment income makes up the bulk of other income.

Land Bank Life Insurance Company performance

Table 17: LBLIC financial performance

	2013/14 R million	2012/13 R million	Variance
Gross premiums	9.7	6.1	59%
Net premium income	5.0	10.3	(59%)
Operating expenses	(11.2)	(8.5)	(31.8%)
Underwriting profit/(loss)	(2.9)	7.0	(+100%)
Investment income	125.6	134.5	(6.6%)
Net profit	133.7	150.3	(11%)
Investments	1 136.0	1 025.7	10.8%

LBLIC achieved a net profit of R133.7 million (2012/13: R150.3 million). The 11 percent decline in profit is attributable to the decrease in investment income and lower net premium income. Underwriting profits also deteriorated from R7 million in 2012/13 to a loss of R2.9 million in 2013/14. Total investments held grew by 10.8 percent to R1.1 billion (2012/13: R1 billion), while operating expenses, which are mainly driven by personnel costs and professional fees, increased by R2.7 million to R11.2 million (2012/13: R8.5 million).

Development Performance

"There is no situation that is not transformable. There is no person who is hopeless. There is no set of circumstances that cannot be turned about by human beings."

Desmond Tutu

Development Performance

Development

The development mandate of the Bank is set out in section 3 of the Land Bank Act and it includes facilitation of black farmers' economic empowerment in the agricultural sector by implementing initiatives to include them at all levels of agricultural value chain.

To contribute to transformation of the agricultural landscape, over the last three years, the Land Bank reviewed its operations to deal with challenges in financing emerging farmers. A number of innovative models have been implemented and their success to date provides opportunities for the Land Bank to expand such services to more beneficiaries in the years ahead.

Retail Emerging Markets

In 2011, the Bank established a dedicated division, Retail Emerging Markets (REM), through which it lends to the emerging farmers who would normally not have qualified for funding with most commercial Banks.

REM responds to the key challenges faced by emerging farmers, such as high interest rates, lack of business support, lack of access to appropriate technical support and markets. To this end, the REM division offers concessionary interest rates commencing at 4% with end-to-end business support and links to markets and off-takers.

National Treasury has approved an allocation of R100 million to the land Bank over the 2014/15 medium term expenditure framework (MTEF) as support to the REM programme. Notable REM achievements to date includes:

- Over 400 projects have been financed and all are performing loans (no defaults to date);
- More than 700 individuals have benefited from skill transfer programmes (including financial, managerial and technical);
- Over 1000 people have received on the job training; and
- One of the projects financed through REM in Mpumalanga contributes 22.5% of total sugar canes area harvested, equating to 5% of total South Africa sugar industry output.

These results demonstrate. The impact of affordable funding complemented by appropriate and comprehensive farmer support. National Treasury and DAFF has committed to continue supporting the Bank's development initiatives and the Land Bank will continue to investigate new innovative ways of funding development.

Development disbursement

Although the Bank has established the REM division to focus on emerging farmers funding needs, it is important to highlight that development funding occurs across all divisions of the Land Bank. For the Financial Year 2013/14 the Bank has successfully achieved development disbursements to the amount of R919.3 million against a target of R850 million.

Support programmes and facilities

One of the deliverables of the Bank during 2013/14 was to resuscitate 30 percent (45 farms) of a portfolio of Distressed Farms, either through restructuring, or sale to Department of Rural Development and Land Affairs (DRDLR), or foreclosure proceedings The following is the status of the Distressed Farms which were selected for resuscitation /restructuring/foreclosure in 2013/14:

	Number of farms	June 2009 Balance in Rm
Opening Number	283	233
Less farms offered to DRDLR	56	55
Less farms of deceased	13	9
Less regularised accounts	29	80
Less accounts settled	91	65
Closing number	94	24

In order to improve success in rehabilitating Distressed Farms, the Bank has established and strengthened a number of partnerships with government departments at both national and provincial levels. Furthermore, the Bank has facilitated resuscitation of some farms through the recapitalisation programme that is administered by the DRDLR.

Corporate Social Investment (CSI)

The Bank invested in a number of CSI projects during the 2013/14 financial year, of which two are flagship projects based in Mpumalanga and North West province. In addition, the Land Bank funded University Agricultural Chairs (LBUAC) in support of the research capacity in certain universities.

Mpumalanga project

In Mpumalanga the flagship project is the Silindokuhle Special School, a government primary school situated at Kwalugedlane in the Mangweni village. The school was established in 1995 after a rigorous engagement between the community and government. It accommodates disabled learners from grade R to 7 and has boarding facilities. The classes are divided according to the disability levels of learners as follows:

- Deaf – from Grade R to 7
- Blind – from Grade 1 to 7
- Intellectually impaired – from Grade 1 to 3

As a special school, part of its expanded curriculum includes provision of practical skills that are normally not provided by regular schools, such as welding, sewing and cooking classes. However, during the past years, the school encountered some challenges due to lack of dedicated skills training centre. Before the Bank's intervention, practical skills classes were offered at learners hostels, which is inappropriate and non-compliant with required safety standards.

The Bank was approached by the school through our Nelspruit branch to assist with the construction of the skills training centre. After conducting a thorough due diligence on how to assist the school, the Bank approved a funding request by the school to build the skills training centre. The skills training centre is planned to be completed by end of November 2014. The project has created employment opportunities for local people.

North West project

The second flagship project is in the North West province, which was established through partnership with Balimi Food Security Company and SENWES. In this project the Bank funded the establishment of vegetable gardens for two schools. The purpose of the project is to contribute towards food security and is directly linked to the government school feeding the scheme, and National Nutrition Programme.

In addition to Vegetable production, the project has also created employment opportunities for 20 previously unemployed youth of Jouberton townships. The project has raised significant interest with other stakeholders such as provincial Department of Agriculture and Public Works, who are playing crucial roles by providing agricultural expertise and paying stipends to the labourers respectively. The model has inspired a lot of interest from neighbouring schools and the Bank is considering replicating it to other schools in the future.

Land Bank is proud to be part of initiatives that are aimed at improving the lives of others by facilitating the provision of a conducive environment for skills development, and improved livelihoods through its contribution to job creation.

Land Bank chairs

Land Bank University Agricultural Chairs (LBUAC) is a program aimed at providing research funding for universities in the field of agriculture and rural development. The overall aim of this initiative is to improve agricultural research capacity in the previously disadvantaged universities through provision of grant funding. Currently the Bank is supporting four universities: University of North West (Mafikeng Campus), University of Venda, University of Fort Hare, and University of Limpopo. During the past financial year, the Bank invested R1million towards the program.

The CSI projects play a significant contribution and forms integral part in the overall Bank's B-BBEE strategy. The Bank will continue to invest resources in supporting CSI initiatives.

Measuring Development Impact

SAM impact and methodology

The SAM model estimates the direct, indirect and induced development impact of the Bank's lending on the economy and also estimates economic and socioeconomic impacts ("potential impact" presented by approvals of loans and "actual impact" presented by loan disbursements) achieved by the Bank during 2013/14 Financial Year.

The SAM model is defined as a presentation of the System of National Accounts in a matrix format, which elaborates on the linkages between supply and demand and sectors' accounts. It reflects the economic relationship between sectors of the economy by identifying monetary transactions (expenditure and receipts) between them. The Bank has found it a valuable tool to determine its development impact as a result of its lending activities, because it links the traditional macroeconomic indicators, such as GDP, to indicators of socio-economic concern, for example, job creation and income distribution. These measures all have a social dimension by estimating social parameters, such as job creation and income generation.

Land Bank funding

The estimated SAM potential impact analysis for the 2013/14 financial year is based on loans approved during the year, irrespective of whether all conditions precedent have been complied with, or the loan offer has been accepted.

The estimated SAM actual impact analysis for the 2013/14 financial year is based on all amounts disbursed, irrespective of year of approval, and inclusive of second and further disbursements (re-advancements) on active loans. It should be noted that whilst the impact is generated in the year of approval and/or disbursement, the actual impact may accrue over subsequent years.

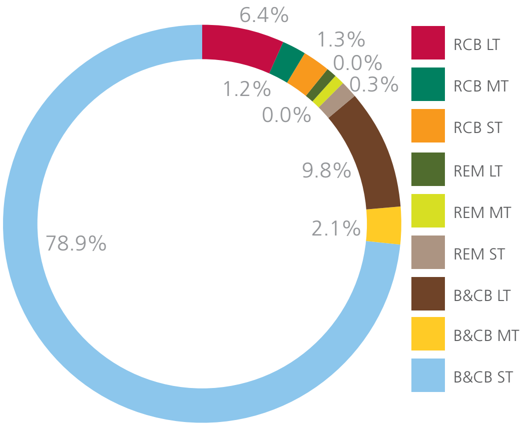
During 2013/14 financial year the Bank approved loans to the value of R14 569m. Disbursements during the same period amounted to R43 285 million which represents growth from previous year. The composition of the loans respectively

Development Performance

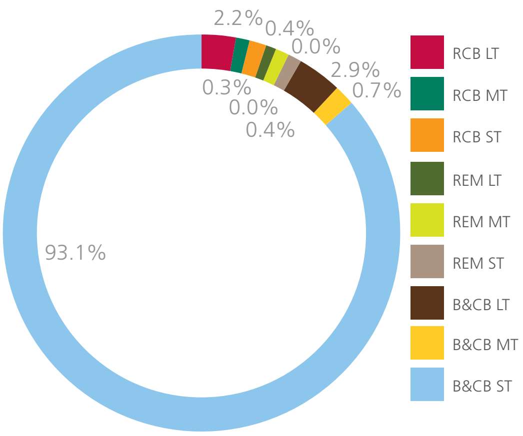
approved and disbursed by the Bank for the 2013/14 financial year is depicted in Figures 16 and 17 below.

Figure 16 & 17: Loan Approvals and Loan Disbursements

Land Bank Approval for Q1 - Q2 of FY 2014



Land Bank Disbursements for Q1 - Q4 of FY 2014



LT = long-term loans MT = medium-term loans ST = short-term loans

Estimated development impact is determined by the long, medium and short term values of the loan book. All categories of loans are responsible for the estimated new jobs created whilst the depreciation on long and medium term assets accounts, together with short term loans forms the basis for the estimated maintenance of existing employment.

The Development Loans portfolio, approved and/or disbursed by the Bank for the 2013/14 financial year, is included under the B&CB, RCB and REM book respectively for purposes of estimation of the development impact on the South African economy.

Estimated development impact is determined by the long, medium and short term values of the loan book. The medium and long term loans are responsible for the estimated new jobs created whilst the depreciation on long and medium term assets accounts, together with short term loans forms the basis for the estimated maintenance of existing employment. Therefore, for the Bank to realise significant growth in new jobs indicator, it must place great focus on targeting both medium and long term loans.

The Development Loans portfolio, approved and/or disbursed by the Bank for the 2013/14 financial year, is included under the B&CB, RCB and REM book respectively for purposes of estimation of the development impact on the South African economy.

Potential development impact of Land Bank loan approvals and disbursement for the 2013/14 financial year

The potential development impact that can be achieved by the Bank's loan approvals and disbursement for the 2013/14 financial year, and are estimated through SAM model in the table below as follows:

Table 19: Loan Approvals and Loan Disbursements

Indicator	Approvals for Q1 - Q4 of FY 2014	Disbursements for Q1 - Q4 of FY 2014
Land Bank Funding (Rm)	**14 569**	**43 285**
Development impact		
Gross Domestic Product (Rm)	15 375	48 154
Job opportunities (Numbers)	121 689	393 736
Nature of jobs (Numbers)		
- *New jobs (Numbers)*	*14 717*	*23 129*
- *Maintenance of jobs (Numbers)*	*106 972*	*370 607*
Capital Employed (Rm)	47 034	149 631
Household Income (Rm)	10 193	31 049
Government Revenue (Rm)	4 959	15 201

Impact on GDP

The potential impact of the Bank's lending approvals on GDP is estimated at R15 375 million, whereas the actual estimated development impact of the Bank's disbursement on GDP is estimated at R48 154 million. Economic growth alleviates poverty because it supports a general improvement of welfare.

Impact on employment

Labour is a primary factor in economic production. Given prevailing vast unemployment and poverty in South Africa, the Bank's shareholder prioritises maintenance and creating of jobs. The Bank is therefore obligated to report on its contribution toward employment in a national context.

The impact of approved loans on job opportunities is estimated at 121 689 for the year under consideration. The estimated 121 689 employment opportunities comprises of an estimated 14 717 new employment opportunities, whilst an estimated 106 972 employment opportunities have been sustained within the economy. The actual estimated impact of the Bank's disbursements on employment opportunities in South Africa is estimated at 393 736 and comprises of 23 129 new employment opportunities, whilst actual employment maintained is at 370 607 for the year under consideration. One employment opportunity constitutes 240 days worked per year.

Impact on capital employed

Capital injection is crucial in stimulating the economy. Capital, natural resources, labour and entrepreneurship are the basic elements the economy needs for production.

The Bank's disbursement during 2013/14 financial year, require that a capital amount of R149 631 million should have been employed directly and indirectly in the economy. The estimated capital employed in this amount includes the Bank's disbursement of R43 285 million. The indirect capital employed in the economy to the value of R106 346 million could therefore be leveraged by the Bank's disbursement to support economic production.

B-BBEE compliance

The Bank must remain relevant as a State Owned Enterprise, by promoting transformation through attracting and supporting meaningful participation of B-BBEE compliant individuals and enterprises in the business of the Bank.

B-BBEE policy and strategy have been approved by the Board. The main aim of the strategy is to provide an implementation plan for the Bank in pursuance of improving its Broad-Based Black Economic Empowerment.

The Land Bank has achieved Level 2 broad-based black economic empowerment (B-BBEE) and value-added supplier status for the second successive year, confirming its ranking as above average within the SOEs benchmark of level 3.The Bank also qualifies as a value added service provider which, in combination with the Level 2 rating, enables customers to claim 125% of their spend with Bank Target towards their own BEE scores.

Cognisant of the environment we live and work in, we are committed to broad-based black economic empowerment as a means of achieving sustainable, meaningful growth that will be of benefit to all our stakeholders and advance the transformation of a democratic South Africa. The Bank is guided by its B-BBEE policy and strategy to drive its economic empowerment and transformation mandate.

Human Capital Performance

"I have cherished the ideal of a democratic and free society in which all persons will live together in harmony with equal opportunities."

Nelson Mandela

Human Capital Performance

The Bank continued to attract competent and appropriately skilled staff during 2013/14. The HR Business Unit was restructured to combine Talent Management and Learning and Development functions for reason of efficiency. The resultant service-delivery model comprises the following:

- Organisation Design and Employee Relations;
- Talent Management and Development; and
- Performance and Rewards Management.

Organisation Design and Employee Relations

The Bank, in conjunction with the Operations business unit, continued restructuring the Agricultural Finance Centres in line with the Fit for Future recommendations. In cases where retrenchments were necessary, management consulted with the Finance Union (SASBO) before engaging with the affected employees. The process, which began in January 2013, is expected to be completed in the second quarter of 2014/15.

Ten industrial relation cases were referred to the *Commission for Conciliation, Mediation and Arbitration*. The Bank won all but one of these cases, which is on review at the Labour Court. Only one of the nine grievances raised during the reporting period remains unresolved.

The Bank participated in the Deloitte's "Best Company to Work For" survey as a virtual participant. Over 80 percent of staff participated. Survey results were circulated throughout the Bank and focus groups discussed how to address those aspects requiring improvement. The Bank achieved an overall score of 3.62 positioning it in the "positive/favourable" category.

An encouraging 18 percent of employees participated in the company's wellness programmes during 2013/14.

Talent Management and Development

The Bank revised its Critical Workforce Segment role identification during 2013/14 and developed a retention strategy for those roles. It intends to implement the strategy during 2014/15.

The Bank also developed its Employer Value Proposition with a tag line ("our true wealth lies in our people") that was approved by the Executive Committee. The employer Value Proposition will be operationalised during 2015.

Staff turnover for the reporting period was 8.2 percent, including terminations determined by operational requirements. The monitoring process included exit interviews and an analysis of reasons for leaving.

Table 20: Transformation status

Category	2013/14	2012/13
African, Coloured and Indian employees	57%	57.5%
Women employees	44.7%	44.2%
Women in managerial positions	32.4%	26%
People with disabilities	4.8%	5.1%

Table 21: Women

Occupation level	Women	Total employees per category	Women representation (%)
Executives (1a–3a)	2	6	33.3%
Senior management (P4 and P5)	2	24	8.3%
Middle management (P6 and P7)	34	87	39.1%

The Bank's African, Coloured and Indian employment equity profile as at 31 March 2014 was 57 percent of 568 staff members, which the Bank had set itself as a target. The target for 2014/15 is 58 percent of the Bank's headcount. Of the total staff complement, 44.7 percent were women and 55.3 percent were men. The Bank continued to adopt a 55/45 recruitment bias in favour of women in its attempt to ensure gender transformation. People with disabilities accounted for 4.8 percent of the total staff complement.

Figure 18: Ethnic group

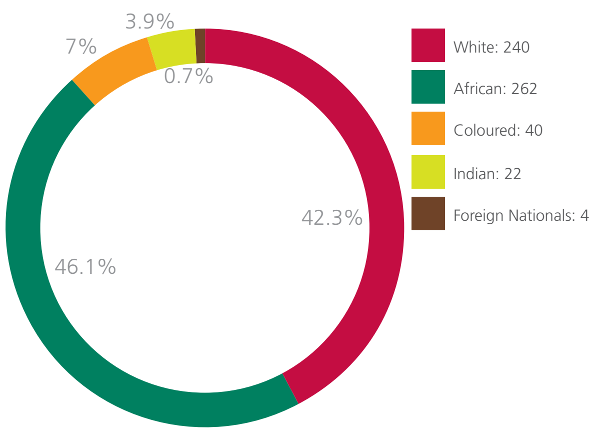


Figure 19: Women

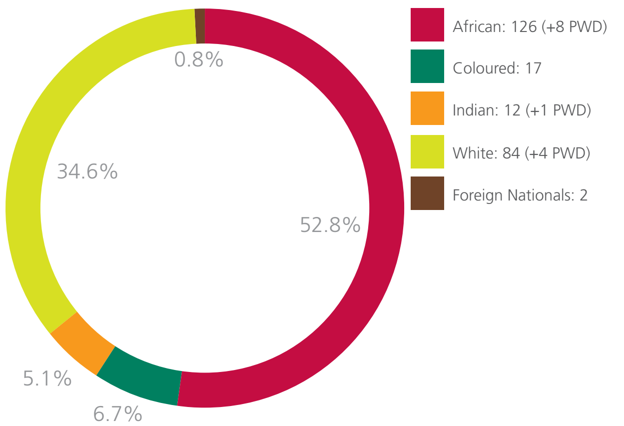
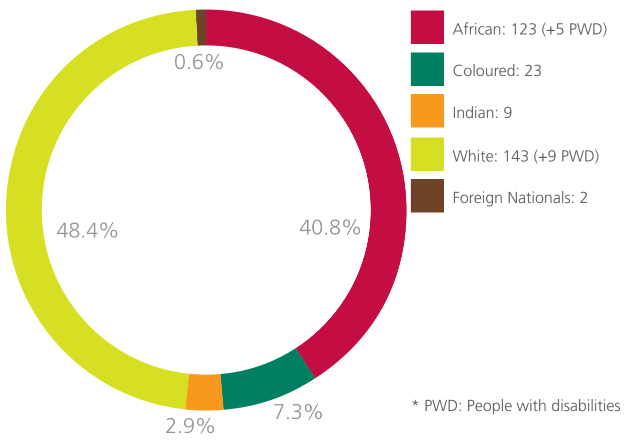


Figure 20: Men



The skills competency at head office was reassessed, resulting in an average rating of 3.32. This brought the average overall organisation competency (including Agricultural Finance Centres) to 3.31 out of 4 (3.2 in 2012/13).

The registration of 33 learnerships significantly increased the skills development component of the Bank's B-BBEE scorecard from 13.75 in 2012/13 to 15.96 out of 20 in 2013/14.

The Bank defines learnerships as structured learning programmes during which the learner spends some time learning theoretical and practical workplace skills to achieve a nationally recognised qualification. The intention is to equip individuals with skills to either acquire employment or enhance their skills. The duration of a typical learnership is 12 months (three months theory and nine months of workplace exposure), subject to a contractual agreement with an employer and registration with a Sector Education and Training Authority (SETA).

Cross-functional training programmes were conducted at head office and the agricultural finance centres, while leadership and development programmes continued to be rolled out to management.

Two executives completed the International Executive Development programme (one public course and one Bank SETA course).

The Land Bank continued to sponsor permanent staff's tertiary studies. These studies equipped the individuals with the necessary qualifications to advance within the organisation.

The following table summarises the participation in learning and development activities by staff members during 2013/14.

Table 22: Summary of training participants

Type of training	Number of participants 2013/14	Number of participants 2012/13
Leadership development	40	28
Technical training	75	110
Generic training	395	185
Degrees, diplomas or certificates	44	47
Bursaries	10	10
Learnerships	33	32

Performance and Rewards Management

The Bank adopted a performance distribution curve to align employee performance to that of the organisation. The Executive Committee used this distribution curve to attain the intended alignment.

The Land Bank continues to pay close attention to performance management processes. During 2013/14 it conducted refresher training on performance management at all agricultural finance centres.

The purpose of the performance moderation process is to provide organisational consistency in the finalisation of the Performance Management process. This process has been embedded and applied throughout the organisation.

The Bank successfully concluded salary negotiations with SASBO and awarded salary increases.

Executives' contracts have been converted from fixed-term to permanent and the associated benefits implemented in line with the Board-approved retention strategy.

The annual Hlanganani Excellence Awards event was held on 30 August 2013 to celebrate those employees considered to be living the values of the Land Bank.

Governance, Risk Management and Compliance

"It is a law of life that problems arise when conditions are there for their solution."

Walter Sisulu

Governance, Risk Management and Compliance

The Land Bank has embedded governance, risk-management and compliance principles throughout the organisation. During 2013/14, the Bank achieved 50 percent of its defined risk maturity by undertaking the following key initiatives:

- Gathering risk observations in order to refine and enhance risk-monitoring capabilities.
- Refining and maintaining the operational risk registers at business unit level.
- Reviewing risk-tolerance levels in the enterprise-wide risk-appetite framework for quarterly reporting to management and the Board.
- Reviewing and developing new business continuity plans.
- Successfully implementing the credit-risk scoring model and the pricing model for loan facilities.
- Continuing with the process of embedding the approved Financial Intelligence Centre Act compliance framework and internal rules. Reporting in terms of the act is done on an on-going basis.
- Approving a comprehensive ethics strategy, inclusive of training, that has been rolled out across the Bank in order to enhance stakeholder conduct and the Bank's reputation.
- Continuing with the quarterly reporting on environmental, social and ethics matters to the Risk Committee.

Corporate governance

Corporate governance encompasses the concepts of sound business principles and best practice, both of which are an integral part of the Land Bank's culture. The Bank is committed to good governance, providing its shareholder and other stakeholders with the assurance that the group is managed with due consideration to risk and that it is in compliance with best practice on a sound ethical foundation.

The Land Bank's corporate governance system consists of external regulations, codes, and internal principles. The governance framework enables the Board of Directors to provide risk oversight and counsel, while ensuring adherence to regulatory requirements and risk tolerance levels.

The Board discharges its duties through policies and frameworks, as well as through several committees. Executive management, together with these committees, manages the business through a system of internal controls. The Bank complies with the governance requirements as contained in the Land Bank Act and the Public Finance Management Act and it subscribes to the King III guidelines.

The Land Bank holds itself accountable to the shareholder and stakeholders for its performance. The Bank aims to enhance the accuracy, completeness and reliability of its annual financial and non-financial reporting through internal controls, assurance and independent audits. Reporting helps the shareholder and stakeholders assess the actions of the Board and management.

Board of Directors and executive management

The Bank has a two-tier governance structure consisting of the Board of Directors and executive management. The two bodies are separate and only the chief executive officer (CEO) and chief financial officer serve on both structures.

On behalf of the shareholder, the Board:

- Determines the Group's overall strategy and helps develop the Bank as a focused development finance institution.
- Acts as the custodian of corporate governance.
- Supervises executive management in its decisions and operations.

The CEO is responsible for the organisation's day-to-day management, under the direction of the Board, and is supported by the executive management team. The team allocates resources, determines and implements strategies and policies, sets direction, ensures timely reporting and provides information to the Board and group stakeholders. The Executive Committee delegates some of these responsibilities to sub-committees, chaired by members of the Bank's executive and senior management.

See *Board, management and remuneration* for further information on Board members, committees and remuneration.

Policies, procedures, objectives and performance measurement

The Board, with input and guidance from the Executive Committee, determines the Bank's philosophy, policies, values and objectives. Management is charged with the detailed planning and implementation of all approved policies in accordance with appropriate risk parameters. The Board monitors the achievement of objectives and compliance with policies through regular mandated reports from management, who are held accountable for their actions.

Governance of IT

IT governance focuses on the performance, compliance and risk management of IT systems and processes. The Risk Committee assists the Board with this responsibility. The Land Bank subscribes to the King III principles in executing all IT functions and related projects and has adopted an IT governance model aligned to best practice. The IT governance framework also defines the organisational structure, as well as the policies and procedures that are required to facilitate good governance and compliance in the areas of technology and information security management. The IT Steering Committee is responsible for ensuring that the IT strategy and business strategy always align. The committee makes recommendations to the Executive Committee on all IT-related strategy, policies, projects and investments and reports to the Board's Risk Committee on a quarterly basis.

Governance of ethics

In line with principle 1.1 of the King Code of Governance, which states that the Board should provide effective leadership on an ethical foundation, Land Bank Board members are required to acknowledge and sign the Board Ethics Statement to demonstrate their continued commitment to Land Bank values. All Board members have acknowledged and signed the statement during this financial year. The Executive Committee has also developed its own code of conduct subscribing and committing to the Land Bank's values and policies.

A Code of Ethics and Business Conduct and the Ethics Policy are in place which sets out the Bank's standard of integrity, values and ethics in dealing with suppliers, fellow employees, customers, stakeholders and society at large. Every employee is expected to ensure compliance with the code and the policy.

Ongoing employee awareness training and a culture of zero tolerance for ethical misconduct help maintain the required level of behaviour. Awareness training sessions were conducted throughout the organisation during 2013/14. Ethics reporting is a standing agenda item in Board Risk Committee.

Compliance with laws, rules, codes and standards

The Board, with support from the Audit and Risk committees, is responsible for ensuring that the Group complies with applicable laws, supervisory requirements, non-binding rules, codes and standards.

The Bank achieved the following key compliance objectives during 2013/14:

- Charters, policies, procedure manuals and processes to strengthen the governance framework were developed and/or reviewed.
- Ethics awareness campaigns in line with the ethics strategy were conducted.
- Impact analyses and risk-management plans for emerging legislation that affected operations were developed.

Processes are in place to ensure that the Board is adequately informed of significant developments in applicable laws, rules, codes and standards. Compliance is an integral part of the Bank's risk-management process. Management is responsible for implementing an effective compliance framework and processes. The Bank strives to comply with the highest professional standards of integrity and behaviour.

The Land Bank is subject to extensive supervisory and regulatory governance from its shareholder. The National Treasury is the Bank's lead regulator. The Land Bank Act, the Public Finance Management Act, National Treasury Regulations, the National Credit Act, the Financial Intelligence Centre Act and the Financial Markets Act regulate the Bank's business.

Requests for information are dealt with according to the Bank's Promotion of Access to Information Act (PAIA) manual. Reports in terms of the PAIA were submitted to the SAHRC and Department of Justice.

The Compliance department assists the Board and management in complying with all applicable statutory, regulatory and supervisory requirements. It also monitors and controls compliance risks. The compliance officer reports to the Audit and Risk committees every quarter.

Business-unit risk champions have been appointed to drive the compliance process. This enables the compliance department to ensure that appropriate controls are designed, introduced and maintained. Regular training is provided to ensure that all employees are familiar with their regulatory obligations. The compliance function also relies on the expertise and capacity of other functions in the Bank. Adherence to controls is tested by either internal audit or the compliance department. The Compliance department is also charged with developing and maintaining constructive working relationships with regulators and supervisory bodies.

There were no regulatory sanctions against the Bank or penalties imposed as a result of non-compliance during the period under review.

Fraud prevention

The Bank maintains a zero-tolerance approach to unethical or dishonest behaviour and any employee found to be acting unethically is subject to disciplinary action. The Bank holds regular fraud-awareness campaigns, including newsletters, posters and presentations. A fraud hotline is available to employees and clients to report dishonesty. Anonymous tip-offs are investigated by the Internal Audit department.

Governance, Risk Management and Compliance

Investigation continues

Forensic investigations into mismanagement of funds involving the Land Development Finance Unit, AgriBEE, Micro Agricultural Finance of South Africa and the Bank's IT unit continued during 2013/14. These units and agencies were separately accused of fraud and mismanagement between 2006 and 2008. The cases are at different stages of investigation by authorities. Most have already resulted in arrests and subsequent court appearances.

Employee empowerment

The organisation ensures adequate and appropriate skills development through its various leadership-development programmes. Employees are also continuously offered opportunities for self-development. Individual competency assessments are conducted to ensure that employees are adequately equipped to perform their tasks.

Reporting

The Land Bank is committed to transparent reporting and disclosure. Information provided to shareholder and stakeholders, including quarterly reports to the National Treasury, financial results and the annual report, are presented in a lucid and relevant manner to enable users to gain a clear and objective perspective of the group.

King III

The Board is committed to complying with the principles contained in King III. The Bank has undertaken a thorough review of the code, and, where appropriate, the corporate governance structure has been amended to comply with it.

Risk management and internal control

Risk management is central to the Bank's business as a going concern. The group has developed comprehensive systems and risk-management processes to control and monitor all activities. While ultimate accountability for risk lies with the Board, the Enterprise Risk Management division and the relevant risk-management committees closely monitor risk.

The Land Bank uses an enterprise risk-management framework to set the risk-management strategy across the organisation. This is a structured and disciplined approach to risk management, aligning strategy, processes, people, technology and knowledge, which enables the Bank to evaluate and manage the opportunities, threats and uncertainties that it faces with the aim of effectively balance risk and control. The framework consists of policies, methodologies, governance and reporting structures and is based on ISO 31000, the Committee of Sponsoring Organisations governance principles, the King III code, the Land Bank Act and the Public Finance Management Act.

The primary objectives of the framework are to:

- Protect against possible losses;
- Integrate risk management at all levels of decision-making;
- Anticipate and mitigate risk events before they occur;
- Ensure earnings stability; and
- Optimise the use of capital.

The Bank maintains and continuously develops its formal risk policies and frameworks to help management address categories of risk associated with its risk appetite and business operations.

Focus areas in 2013/14

The Bank focused on six categories of risk in 2013/14: operational risk, credit risk, liquidity risk, human capital risk, systems risk, and new business and sustainability risk.

Operational risk management

The Land Bank defines operational risk as the failure of people, processes, systems and the internal and external environments. The Operational Risk Committee governs and coordinates operational risk-management processes in accordance with an approved framework and policy that set out the expectations and responsibilities relating to operational risk management.

Operational risk measurement, processes and reporting

The Bank has conducted risk profile reviews of all departments across each area of the business. Management is responsible for continuously recording and reviewing risks in their area of responsibility on the risk management software, CURA, which generates standard and customised reports.

The Operational Risk department liaises with the various risk champions to monitor management's progress in implementing their respective risk-mitigation strategies. Further to this, a formal risk assessment was conducted with business units as part of the bottom-up approach to document the strategic risk register. The Operational Risk Committee discusses potential high-risk areas arising from the monthly reports and possible mitigating actions. This discussion, in one forum, will assist the Bank in generating a common viewpoint and integrated understanding of its risk exposure. It has developed incident tracking methodology and procedure manuals in terms of the Operational Risk Implementation Plan. These are currently being reviewed by stakeholders.

The Board approved a business-continuity management strategy and policy in 2013/14. As part of this, head office business continuity plans were reviewed and developed for the agricultural finance centres. A business continuity management dashboard has been developed to track all related activities.

The following key initiatives were completed in 2013/14:

- Risk and control assessment has been built into Cura;
- Operational risk assessments at process level were rolled out;
- The operational risk registers at business unit level were refined and maintained;
- Business continuity plans were reviewed and developed;
- An incident tracking methodology and procedure manual was developed;
- The strategic risk register was reviewed; and
- CURA's functionality was enhanced.

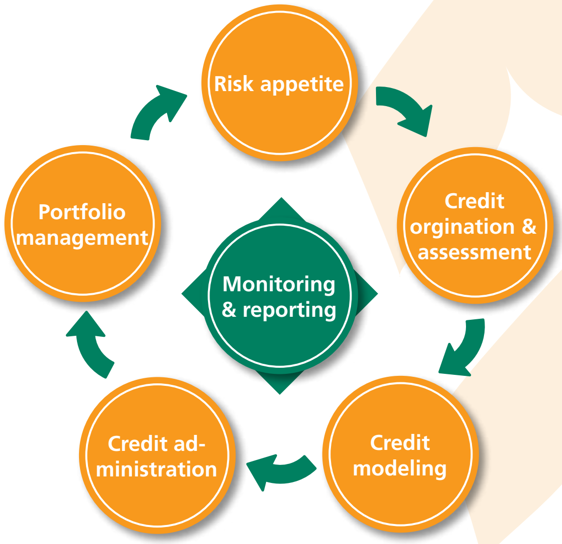
Risk monitoring and reporting is performed through the approved governance structures according to the framework for enterprise-wide risk management. This includes the use of the combined assurance forum.

Credit risk

Credit risk is the possibility that the Bank will incur financial losses due to its customers, clients or counterparties failing to fulfil their contractual obligations. The Bank improves governance through regular review of charters of committees tasked with credit risk decisions.

Credit risk is guided by the Land Bank Act and managed by delegating the Board's authority, charters and credit policies that cover specific credit risks. The credit risk-management framework is reviewed on a regular basis to ensure that it is aligned with the latest best practice.

Figure 21: Credit risk management



The credit risk-management process has five steps. These can be summarised as follows:

- Annually determine the risk appetite for credit extension through the risk appetite framework and the corporate plan to optimise returns while maintaining credit risk within predetermined limits.
- Maintain a process for credit origination and assessment to approve new credit facilities and renew existing facilities. Granting of credit should be aligned with the Bank's risk appetite.
- Conduct credit modelling, which entails credit-risk scoring of clients to determine the probability of default.
- Portfolios are assessed based on a range of variables both qualitative and quantitative. Data is being collected to enable the Bank to build a statistical model in future.
- Support and control credit extension and maintenance. This includes credit administration, disbursements, billing and repayments, maintenance of credit files and collateral documents.
- Manage the credit portfolio, collections, legal collections, provisions and write-off of credit in line with the agreed controls.

Each step above is monitored by the Credit Risk Monitoring department, which reports monthly to the Credit Risk Monitoring Committee and the Executive Committee, and quarterly to the Board.

Credit concentration risk may arise from excessive exposures to individual counterparties, related counterparties, and groups of connected counterparties with similar characteristics. The Board reviews the credit-concentration risk policy and limits annually. These limits are monitored monthly and reported to the Board quarterly. The risks associated with concentration or breach thereof are identified and mitigated in their infancy stages

Governance, Risk Management and Compliance

within the different industries in the agricultural sector. Credit concentration risks are inherent and cannot be eliminated; however, they can be limited and reduced by adopting robust risk controls and diversification strategies.

Liquidity and market risk

The Bank manages its market and liquidity operations within a Board-approved set of risk-tolerance levels, defined by the risk-appetite framework.

Liquidity risk – the inability to generate cash quickly at a reasonable cost – is inherent in all banking operations. The Bank manages liquidity conservatively. The Treasury function manages the Bank's assets and liabilities, balancing its liquidity and market risk exposures.

The Asset and Liability Committee assesses the probability that these risks might materialise and positions the Bank's balance sheet to address these scenarios with minimum deterioration in performance and profitability.

The shareholder continued to recapitalise the Bank during 2013/14, which contributed to a stronger capital base, allowing the Bank to continue delivering on its mandate.

To proactively manage the Bank's liquidity, the Liquidity Committee, a subcommittee of the Asset and Liability Committee, uses a cash-flow model to determine the required range of liquidity to be maintained for a specified period. The following steps were also taken during the year under review:

- The Bank continues to diversify and strengthen its investor base.
- The Treasury Policy Framework was reviewed and approved by the Minister of Finance. The review ensures current market practice in the treasury risk environment.
- The Bank lengthened its debt maturity profile to address refinance risk, through the Domestic Medium Term Note programme.
- The Bank continues to manage its exposure to interest-rate risk due to prime-linked assets, which are mainly funded by short-term liabilities.

Human capital risks

Attracting, developing and retaining critical staff remained a key focus during the reporting period. A list of Critical Workforce Segment roles was revised. Staff turnover was within the target range in 2013/14.

Most senior-management vacancies and other critical roles were filled during the period under review. The term of office for the CEO came to an end on 3 December 2013. The Minister of Finance appointed an acting CEO from 4 December 2013. A new chief HR officer was appointed in August 2013 on a three-year fixed-term contract. The human capital governance, risk-management and internal-control environments received renewed focus to ensure alignment with best practice.

An HR structure was introduced in November 2013, which enabled a more focused approach in addressing human capital strategic deliverables in 2013/14. A service-level agreement was signed with all business units within the Bank.

Systems risk

The Bank has continued to focus on improving its internal governance processes. Extensive attention was given to the testing of the business continuity and ICT disaster recovery plans. This was successfully undertaken during the course of the year.

New business and sustainability risk

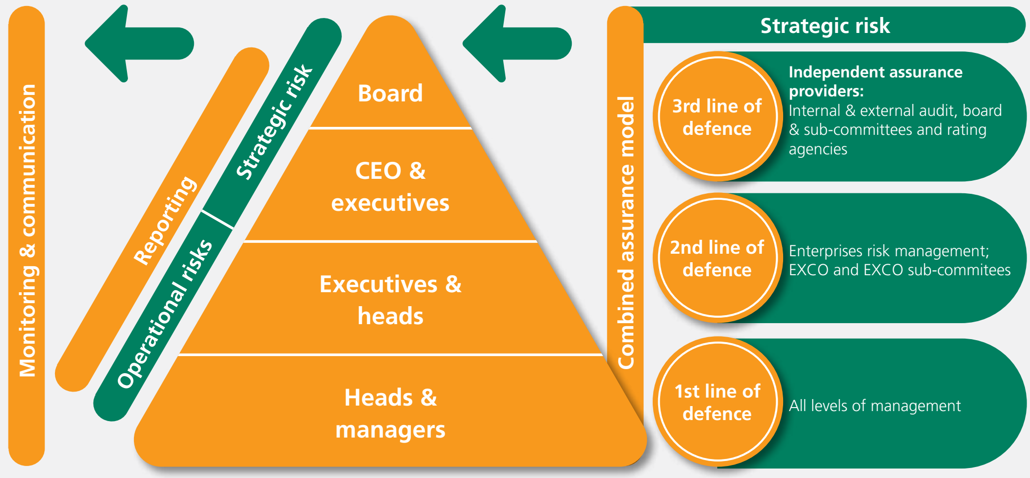
The Bank is generating new business through the wholesale finance facility product, which mitigates risk through providing a comprehensive and sustainable project solution. It benefits from the Bank's presence in rural areas. The Land Bank has not suffered any material losses as a result of unexpected or unusual new business risk during the reporting period.

The Bank has reviewed its business and operating models, and conducted a thorough analysis of its future performance in critical areas using the business sustainability model. The model has improved the quality of projections and scenario-planning. It also specified the appropriate medium-term growth rate for the Bank.

Risk-management process

The Board approved the enhanced enterprise risk-management framework and policy in March 2013.

Figure 22: Risk-management overview



The Enterprise Risk Management division oversees the risk-management process. The internal auditors assist the Audit and Risk committees in evaluating the effectiveness of the risk-management process.

The Bank's risk-management frameworks, including credit risk management, compliance, treasury, IT governance and enterprise risk management, are reviewed regularly to ensure they conform to international best practice. The Bank applies a practical and systematic methodology to identify, analyse, assess, mitigate and monitor all known risks that might affect it.

The Board is responsible for the risk-management process, assisted by the Audit and Risk committees. Management is responsible for managing risk, and designing and discharging appropriate processes in support of this function.

Risk governance

The enterprise risk-management framework and the risk-appetite framework ensure that the Bank has a well-structured approach to risk management. Risks are identified, measured, monitored and responded to through various control mechanisms.

The risk-management process is designed to ensure that:

- All relevant risks are identified and evaluated, based on their potential impact and likelihood of occurrence.
- Risks and the required processes and controls to manage them are assessed in line with the Bank's risk appetite.
- Appropriate management information and monitoring processes are in place so that necessary remedial action can be taken.

Annual risk assessments are conducted with business units and quarterly risk reports are submitted to the Risk Committee.

Risk-management mechanisms

The Bank has made considerable progress in implementing the risk-mitigation strategies outlined in the corporate plan. This is monitored through risk-management and governance mechanisms, as well as oversight bodies.

Risk Committee

The Risk Committee oversees the Bank's risk management. It reviews the risk-identification and evaluation processes, and it ensures that risk assessment is a continuous process. The committee oversees the management of these risks through subcommittees and other structures within the organisation.

The committee's main responsibilities are to:

- Conduct annual risk assessments;
- Define the Bank's risk appetite at least once a year; and
- Perform roles set out in its charter.

Risk maturity

The Bank has made significant progress in embedding a risk-management culture. However, more emphasis will be placed on prudent management of enterprise risk to achieve the 2016 corporate landscape.

The Bank has institutionalised risk management as follows:

- The Board champions the process of risk management;
- The Board Risk Committee oversees risk-management processes;
- The chief risk officer coordinates risk-management functions;
- The risk register is continually reviewed and aligned with corporate strategy;

Governance, Risk Management and Compliance

- Thresholds for key indicators in risk appetite are reviewed annually; and
- Internal and external audits review how the risk-management strategy is being discharged.

In 2014/15, the Bank will continue to review risk-management processes in order to:

- Cover all business risks, which will include assessing key performance areas and compiling a risk register for each business unit.
- Align assurance recommendations from internal and external auditors.
- Implement developments in corporate governance, legislation and industry regulations.
- Refine the risk-appetite model using actual data to articulate the amount of risk the Bank is willing to accept against defined risk-impact criteria.
- Review and enhance the enterprise risk-management framework in line with the latest developments in the risk environment.
- Monitor the implementation of the IT governance road-map.
- Continuously monitor and evaluate performance.
- Train staff on risk-management principles.

Credit rating

Fitch ratings agency upgraded the Bank's long-term rating from AA to AA+ on 23 January 2014. The short-term rating remained unchanged at F1+. This is a positive development given the prevailing negative economic environment, which has led to downgrades for most financial services institutions.

Stress testing

The Land Bank has a stress-testing programme that helps the Board and management understand the business model's resilience. Stress testing is conducted for credit, liquidity, interest rate and business risk, as well as capital adequacy. It also plays a key role in changes to credit-granting rules and loan pricing. The risk-management function ensures that stress testing is embedded within operational processes so that it is intuitive, relevant and part of mainstream business activities.

Internal controls

Assurance

Both the external auditors and the Internal Audit department observe the highest levels of business and professional ethics. Management encourages regular coordination and consultation between the external and internal auditors to ensure an efficient audit process. The Bank has introduced a combined assurance framework for all assurance providers, which is coordinated by Internal Audit.

External audit

The Auditor-General audits and assesses the Group's financial reporting and the adequacy of the internal controls over financial reporting processes. The Audit Committee sets external audit fees in advance every year. The extent of the audit determines the fee.

Internal audit

Assurance provided by Internal Audit and related control assessments

The Land Bank has an independent internal audit department, which has direct access to the Board chairperson and the Audit committee. The department reports functionally to the audit committee and administratively to the chief executive officer. The internal audit function has the necessary resources, budget, and standing authority within the Bank to enable it to discharge its authority.

The internal audit function operates in accordance with a charter approved by the Audit committee. The charter formally defines the purpose, authority and responsibility of the internal audit function. The charter is aligned with the Institute of Internal Auditors' principles.

Internal audit forms an integral part of the combined assurance matrix and focuses on adding value to the operations of the Bank. It performs the following functions:

- Evaluates the appropriateness of and adherence to company policies and procedures;
- Prevents fraud, unethical behaviour and irregularities;
- Produces quality management information; and
- Ensures sound business processes and associated controls.

The Internal Audit department annually submits a coverage plan and budget to the Audit committee for approval. The plan encompasses the entire Bank and is prepared with the Bank's strategic objectives in mind.

The internal auditors submit an annual assessment to the Audit committee on the system of internal controls. The operations environment is closely monitored to ensure that controls are adequate and operating effectively.

The Bank is focused on developing centralised monitoring. In this process, any deficiency detected in governance is referred to management for remedy. The implementation of audit recommendations is measured to ensure adequate results are realised.

The head of the internal audit department attends all Audit and Risk committee meetings and submits a report at each committee meeting.

In 2014, a peer review was conducted and the results of the review were positive. Significant improvement was made from the external review done in 2013. The internal audit function was seen as "generally conforming" with the institute's standards and displaying an "established" maturity level.

King III requires Internal Audit to provide assurance and opinion to the Board on the adequacy and effectiveness of enterprise risk management process, internal financial controls and system of internal controls. Based on these requirements, Internal Audit conducted these audits during the year in order to provide opinion to the Board.

Effectiveness of Enterprise Risk Management

The assessment of each of the four Enterprise Risk Management (ERM) performance components (Governance, Risk Management, Integrated Risk Capabilities and Business Level Performance) was conducted in two parts, namely:

- Maturity assessments of ERM: *how mature is Land Bank's risk management system and process in relation to the it's maturity and leading practice*; and
- Assessment of the adequacy and effectiveness of the ERM process - *is Land Bank's ERM system and process adequate in design and does it operate effectively in terms of COSO and King III.*

We have evaluated the maturity of Land Bank's ERM process as "**Defined**" based on the rating scales established for "*maturity of Design and Operation*". In addition to the maturity rating, we have evaluated the ERM processes as "**Defined**" based on COSO and King III requirements.

Effectiveness and adequacy of internal financial controls

Internal audit conducted a Critical Financial Reporting Controls Review to test the adequacy and effectiveness of internal financial controls. The scope of the work covered the following key areas:

- Financial close process;
- Revenue and receivables;
- Procure to pay;
- Loans and advances;
- Properties, plant & equipment;
- Investment properties;
- Payroll; and
- Treasury.

In our opinion, the internal financial controls system is acceptable.

Overall opinion of our system of internal controls based on audits conducted during the year.

Internal Audit achieved 100% coverage for the year as well as completed all of the additional management requests which formed part of consulting services. The planned audits were to test for the adequacy and effectiveness of the system of internal control in order to manage and/or mitigate risk exposures. Corrective action plans were recommended to management and agreed upon with Internal Audit in order to improve control weaknesses identified by Internal Audit.

Internal audit conducted a review of the ethics function which included strategies, structures and systems for institutionalising ethics within the Bank, training and awareness sessions, monitoring effectiveness of ethical processes and reporting on ethics. The overall rating was satisfactory, with minor areas requiring improvement. Furthermore, a questionnaire was sent to all employees to measure the ethical climate of the Bank in respect of organisational culture, goals and obstacles, policies and procedures, information and communication and lastly evaluation and feedback. The results of the survey were communicated to management for action.

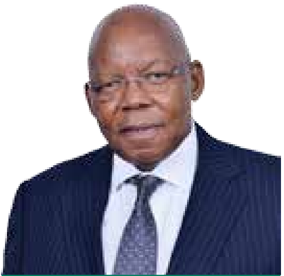
Board, Management and Remuneration

"It is better to lead from behind and to put others in front, especially when you celebrate victory when nice things occur. You take the front line when there is danger. Then people will appreciate your leadership."

Nelson Mandela

Board, Management and Remuneration

Land Bank Board of Directors



Ben Ngubane, 72
Chairperson. *Director since 1 January 2010*
Qualifications: *MBChB, Postgraduate diploma in Tropical Medicine, Diploma in Public Health, Masters in Family Medicine and Primary Care, Postgraduate diploma in Economic Principles (University of London)*
Honorary degrees: *LLD (University of Natal), PhD (University of Zululand), PhD (Medical University of South Africa), PhD (Tshwane University of Technology), PhD (University of Free State), PhD (International Christian University, Tokyo)*
Directorships: *Gade Holdings, Gade Investments, Gade Mine Investments, Mitsui & Company, Development Bank of Southern Africa Development Fund, Blue Horizon Investments Limited, Yokogawa South Africa, Southey Holdings (Pty) Limited, Toyota South Africa, Huntrex 305 (Pty) Ltd t/a Stanger Brick & Tile company, Ngubane Family Trust, Global Colleries Fuel Distributors, Gade Oil & Gas Exploration (Pty) Ltd*
Exposures: Ambassador Extraordinary and Plenipotentiary of the Republic of South Africa to Japan, Minister of Arts and Culture, Premier: KwaZulu-Natal

Mmakeaya Magoro Tryphosa Ramano, 42
Director since 5 September 2011
Qualifications: *Chartered Accountant (Public Accountants' and Auditors' Board)*
Directorships: *PPC Ltd (and subsidiaries), Airports Company South Africa, Black Business Council, , Association of Black Securities and Investment Professionals, South African Institute of Chartered Accountants*

Abdus Salam Mohammad Karaan, 45
Director since 1 January 2010
Qualifications: *BScAgric Hons BScAgric, MScAgric in Agricultural Economics, PhD Agric*
Directorships: *Pioneer Foods Ltd, Southern Oil Ltd, Fruitways (Pty) Ltd, Terrasan Ltd, Bester Feed and GRAIN Exchange*
Memberships: *National Planning Commission*

Bafana Patrick Mathidi, 44
Director since 5 March 2008
Qualifications*: B Compt Honours (Accountancy), Masters in Finance (University of London),* ***Memberships:*** *Investment Analysts Society of Southern Africa*

John Luscombe Purchase, 55
Director since 5 July 2012
Qualifications: *MSc Hons (Agric), PhD (Agric Econ)*
Directorships: *Agricultural Business Chamber, National Agricultural Marketing Council, the Maize Trust*
Memberships: *FAO High Level Panel of Experts on Food Security and Nutrition, AgriBEE Charter Council, NEPAD Business Foundation, International Food and Agribusiness Management Association, Grain Farmer Development Association, Business Unity – South Africa*

Nomavuso Patience Mnxasana, 57
Director since 5 March 2008 (Also member of LBIS Board)
Qualifications: *B Compt Honours/Certificate in Theory of Accounting, Chartered Accountant (South Africa)*
Directorships: *Winhold Limited Group, AWCA Investment Holdings, Nedbank Group Limited, Nedbank Limited, Blythendale Hotel (Dormant), Dream Finders (Dormant), Grundco Investments*, Gundle Plastics Group*, Inmico Investments*, Inmins Trading*, New Capital Investment Holdings (Dormant), Pareto Limited, Noma Namuhla Trading and Projects (Pty) Ltd, Tamarron Trading 181 (Dormant), Umgobho Logistics (Dormant), JSE Limited, Transnet SOC Ltd, Accelor Mittal, Psalms Primary Co-Operative Limited, Leviticus Trading and Projects Co-Operative Limited, SPM Enterprise Primary Co-Operative Limited, Amavuso Projects Primary Co-Operative Limited, Umhlobo Wothando Trading and Projects.*
**Part of Winhold Limited Group*
Memberships: *International Aviation Council*

Shamila Singh, 55
Director since 5 September 2011
Qualifications: *BA(Law), LLB, Aspirant Women Judges Programme (Advanced School of Judicial Education and Training)*
Directorships: *Sha Singh & Associates, Commissioner: Broadcasting Complaints Commission of South Africa*

Davina Nodumo Motau, 51
Director since 01 October 2013
Qualifications: *B Com (UNISA), Certificate in Business Project Management (Wits); Diploma in Advanced Banking (RAU)*
Directorship: *Aphiwa Risk Consultants, Amakha Farms, Shama Conference Venue, Basfour (409) (Pty) Ltd.*

Johannes Theodorus Potgieter, 63
Director since 5 March 2008 (Term of office expired 4 September 2013 - Also member of LBIS Board)
Qualifications: *BSc Honours, MBA*
Directorships: *JTP Consulting CC*
Memberships: *Agricultural Economics Association of South Africa*

Thembekile Thelma Ngcobo, 65
Director since 01 October 2013
Qualifications: *BA (Social Science); Management Development Programme (Harvard Business School Boston USA); Post Graduate Diploma in Management*
Directorship: *Manyuswa Petroleum (Pty) Ltd, Omanyuswa Spearheading Investments (Pty) Ltd, Thelma Ngcobo and Associates CC.*

Sue Lund, 52
Director since 5 September 2011
Qualifications: *BA African Studies (Hons), MA (Rural Development Planning).*
Alumnus: *Harvard Business School Senior Executive Programme, Cambridge Institute for Sustainability Leadership.*
Memberships: *United Nations Global Compact Local Advisory Committee, Network for Business Sustainability-SA Leadership Council, Gordon Institute of Business Science Transnet Programme in Sustainable Development Advisory Panel, Institute of Directors Sustainable Development Forum.*

Executive directors

Phakamani Simphiwe Hadebe, (46)
Chief executive officer of Land Bank since 18 July 2008 (Term expired 28 February 2014). Also member of LBIS Board
Qualifications: *MA (Economics), MA (Rural Development)*

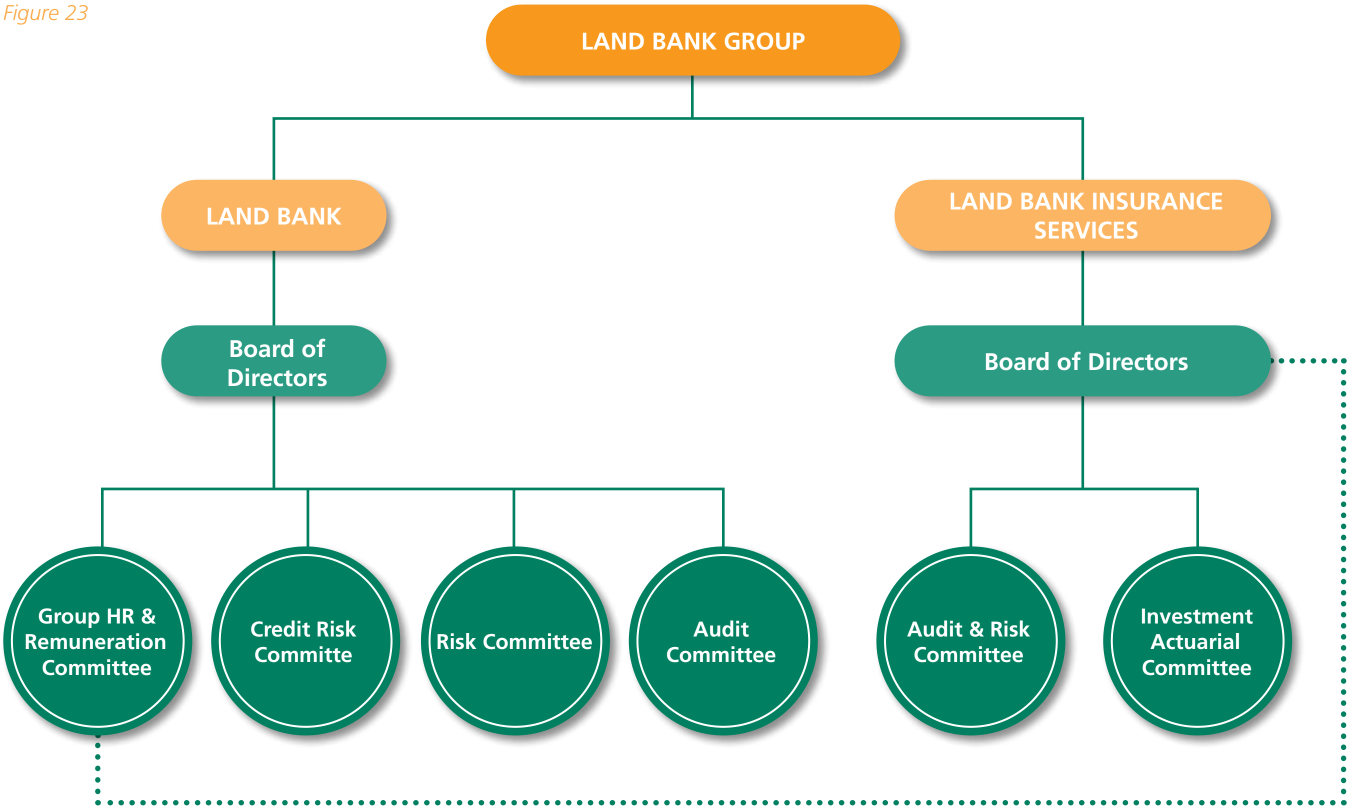
Lindiwe Mdlalose, (52)
Acting Chief Executive Officer of Land Bank since 04 December 2013. Also member of LBIS Board
Qualifications: *BCom (Accounting)*

Lebogang Serithi, (34)
Chief Financial Officer. Director since 5 July 2012
Qualifications: *BCom Honours/CTA (Accounting Science), Master of Commerce (Financial Management), Chartered Accountant (South Africa)*

Board, Management and Remuneration

Board committee structure

Figure 23



The Board's role and Charter

The Land Bank Board of Directors meets quarterly and provides strategic guidance to the Land Bank by:

- Instituting and approving institution-wide frameworks, policies and strategic plans;
- Monitoring risk-management, internal controls and compliance;
- Approving budgets for major capital expenditure and operations and monitoring adherence to them; and
- Ensuring proper conduct of the Bank's operations.

The Board is guided by the Board Charter, which covers aspects such as the Board's constitution, directors' terms, remuneration guidelines and management of confidentiality and conflict of interest.

The charter requires that each new director attend a comprehensive training session on his or her rights and responsibilities, that existing directors attend regular training on the Land Bank's business environment, legislation and compliance matters to stay abreast of developments, and that the Board performs an annual performance self-assessment. The shareholder also performs an annual Board assessment in terms of the Shareholder's Compact.

Board composition

The Minister of Finance appoints the Land Bank's Board of Directors, most of who serve in a non-executive capacity. As at 31 March 2014, the Board had 12 members: 10 Independent Non-Executive Directors and two Executive Directors (the Chief Executive Officer and the Chief Financial Officer). It is chaired by an Independent Non-Executive Director. The roles of Chairperson and Chief Executive Officer are separated. The Board may resolve to delegate any of its powers or duties to the Chief Executive Officer.

The minister determines each director's term of office, limited to five years. A director may be reappointed after his or her term has expired, subject to Land Bank Act requirements. Land Bank directors have freedom of affiliation to external association including social, cultural and political formations.

Board members have unrestricted access to all Land Bank information and documents, and are provided with comprehensive information packs before meetings.

Board committees

The Land Bank Act allows the Board to form committees to help it properly discharge its duties and responsibilities. All committees receive a charter from the Board, setting out their terms of reference and the context within which they are to function. Board committees are chaired by an independent non-executive director. In carrying out their duties, they are free to seek independent external professional advice. However, no external advisors were engaged during the reporting period. Ad-hoc committees are occasionally mandated to attend to specific business matters.

Four committees sat in 2013/14:

- The Audit committee;
- The Risk committee;
- The Human Resources and Remuneration committee; and
- The Credit Risk committee.

Audit committee

The Audit committee consists of five members (including the chairperson) who are independent non-executive directors. Non-members such as the chief executive officer, chief financial officer, internal and external auditors may attend meetings by invitation.

The committee's primary objective is to provide additional assurance regarding the quality and reliability of financial information used by the directors in discharging their duties. Specific responsibilities include:

- Satisfying the Board that adequate, appropriate financial and operating controls are in place.
- Ensuring compliance with appropriate standards of governance, reporting and other regulations.
- Reviewing and approving internal audit, risk and compliance activities, reports and findings.
- Reviewing annual financial statements and making recommendations about adoption.

The Bank's internal audit function reports to the Audit committee. Both internal and external auditors have unrestricted access to the committee, ensuring that their independence is maintained at all times. The committee also meets independently with management to discuss relevant issues privately and independently.

The Audit committee satisfied its terms of reference for 2013/14 and has complied with its legal and regulatory responsibilities.

Risk committee

The Risk committee consists of five members (including the chairperson) who are independent non-executive directors. Non-members can attend by invitation. The committee is primarily responsible for ensuring that suitable risk-management practices, policies, resources and systems are in place and functioning effectively. It has to:

- Demonstrate effective discharge of corporate governance, risk management and Public Finance Management Act responsibilities.
- Demonstrate improved understanding of the Bank, the risks that threaten it and how these are being managed. Potential risk areas include operational risks, market risks, liquidity risks, systems risks and strategic risks.
- Effectively drive the monitoring of risk-management activities within the Bank.
- Monitor social and ethics responsibilities and activities in the Bank, in so far as it concerns social and economic development, good corporate citizenship, environment, health and public safety, consumer relationships and labour and employment issues.

The Risk committee satisfied its terms of reference for 2013/14.

Group Human Resources and Remuneration committee

The Group Human Resources and Remuneration Committee has five members (the Chief Financial Officer and four independent non-executive directors). Non-members may attend by invitation.

The committee ensures that the group's remuneration policies are properly implemented. Its main objective is to assure the Board that executives and employees are being fairly and competitively compensated, and that individuals are rewarded according to their contribution to the group's success. The committee oversees and reviews short-term incentive schemes and fringe benefits.

The Group Human Resources and Remuneration committee satisfied its terms of reference for 2013/14.

Credit Risk committee

The Credit Risk committee has four members and two alternative members. All members, including the chairperson, are independent non-executive directors. Non-members can attend by invitation.

The committee is primarily responsible for the credit risk-management process, credit strategy and the Bank's credit risk-management policies. It considers annual reviews, credit-risk issues, policy matters, loan approvals and recommendations to the Board for approval.

The Credit Risk committee satisfied its terms of reference for 2013/14.

Board, Management and Remuneration

Committee membership and meetings

The following table indicates membership of the various Board committees

Table 23: Land Bank Board and committee members for 2013/14

Board members	Audit committee	Risk committee	Credit Risk committee	Human Resources and Remuneration committee
Non-executive directors				
Ben Ngubane (chair)			X	X
Abdus Salaam Mohammad Karaan	X		X	
Sue Lund	X	X	X[1]	
Bafana Patrick Mathidi	X	X (Chair)	X[1]	
Nomavuso Mnxasana	X		X (Chair)	
Theodorus Potgieter[2]			X	X (Chair)
John Purchase		X		X
Tryphosa Ramano	X (Chair)	X		
Shamila Singh		X		X
Davina Nodumo Motau[3]			X	
Thembekile Thelma Ngcobo[3]				X (Chair)
Executive directors				
Phakamani Hadebe[4]				
Lindiwe Violet Mdlalose[5]				
Lebogang Serithi				

[1] Alternate Member of the Credit Risk Committee
[2] Term expired 4 September 2013
[3] Appointed 01 October 2013
[4] Term expired 28 February 2014
[5] Appointed 04 December 2013

Board and committee meetings

The Board and its committees each meet quarterly and as needed. The committees held the following number of meetings in 2013/14:

- Board of directors: 9 meetings
- Audit committee: 7 meetings
- Risk committee: 4 meetings
- Human Resources and Remuneration committee: 4 meetings
- Credit Risk committee: 17 meetings

Table 24: Land Bank Board and committee meeting attendance

Board members	Board Meetings	Audit committee	Risk committee	Credit Risk committee	Human Resources and Remuneration committee
Non-executive directors					
Ben Ngubane (Chair)	8/9			13/17	3/4
Abdus Salaam Mohammad Karaan	5/9	5/7		12/17	
Sue Lund	8/9	6/7	3/4	3/3	
Bafana Patrick Mathidi	5/9	6/7	4/4	1/1	
Nomavuso Mnxasana	9/9	7/7		17/17	
Theodorus Potgieter	3/3			9/9	2/2
John Purchase	7/9		3/4		3/4
Tryphosa Ramano	3/9	6/7	0/4		
Shamila Singh	9/9		4/4		4/4
Davina Nodumo Motau	4/4			5/5	
Thembekile Thelma Ngcobo	4/4				1/1
Executive directors					
Phakamani Hadebe	5/5	4/5	3/3	11/12	3/3
Lindiwe Violet Mdlalose	4/4	2/2	1/1	5/5	1/1
Lebogang Serithi	7/8	6/7	4/4	8/17	3/4

Land Bank Insurance Services Board of Directors

The LBIS Board is mandated to carry out specific insurance operations delegated to it by the Land Bank Board of Directors. The LBIS Board has adopted all Land Bank policies as far as they are applicable.

LBIS Committees

As with the Land Bank, LBIS may form committees to help it properly discharge its duties and responsibilities. Two LBIS committees sat in 2013/14: the LBIS Audit and Risk committee, and the Investment and Actuarial committee. The Land Bank's Human Resources and Remuneration committee extends its oversight to LBIS.

LBIS Audit and Risk committee

The LBIS Audit and Risk committee has three members who are all independent non-executive directors. The committee meets at least quarterly to review financial and operating results, and to monitor adherence to risk-management practices and policies. Its main role is to help the LBIS Board fulfil its responsibilities regarding:

- Financial and auditing oversight, as well as ensuring the overall quality and integrity of financial and actuarial reporting and internal control matters.
- Its enterprise risk-management framework and compliance.
- The performance of prescribed statutory requirements. This includes recommending an internal auditor for the LBIS Board every three years, agreeing on the scope of the audit and budgeted audit fees in the annual internal and external audit plan presentation, and approving the final internal and external audit fees.

The LBIS Audit and Risk committee satisfied its terms of reference for 2013/14.

Investment and Actuarial committee

The Investment and Actuarial committee has three members, all of whom are independent non-executive directors. The committee meets at least quarterly to review the performance of investment managers, the adherence to investment mandates and other policy matters. Its primary mandate includes:

- Implementing an investment strategy that sets out LBIS's investment objectives, the nature and term of liabilities and the risks to which LBIS's assets and liabilities are exposed.
- Appointing investment managers and establishing investment mandates with each manager.
- Setting guidelines to cover limitations on exposures to volatile assets, limits on asset concentration and limits on exposure to particular types of assets such as unlisted equities, property and hedge funds.
- Monitoring the performance of investment managers, including compliance with mandates.
- Ensuring proper governance in the investment process.

The Investment and Actuarial committee satisfied its terms of reference for 2013/14.

LBIS committee membership and meetings

The following table indicates membership of the various Board committees.

Board, Management and Remuneration

Table 25: LBIS Board and committee members for 2013/14

LBIS Board of Directors	LBIS Audit and Risk committee	Investment and Actuarial committee
Non-executive directors		
Nomavuso Mnxasana (chairperson)		X
Theodorus Potgieter[1]	X	X
Ranti Mothapo	X	X (Chair)
David Bergman	X (Chair)	
John Luscombe Purchase[2]		X[3]
Davina Nodumo Motau[4]	X[3]	
Phakamani Hadebe[5]		
Lindiwe Violet Mdlalose[6]		
Executive director		
Mpumi Tyikwe		

[1] Term of office expired 4 September 2013
[2] Appointed 29 August 2013
[3] Appointed 01 March 2014
[4] Appointed 01 December 2013
[5] Term of office expired 28 february 2014
[6] Appointed 04 December 2013

LBIS Board and committee meetings

The LBIS committees held the following number of meetings in 2013/14:

- Board of Directors: 8 meetings
- Audit and Risk committee: 7 meetings
- Investment and Actuarial committee: 5 meetings

Board self-assessments

The Office of the Company Secretary facilitated the self-assessments of the Land Bank Board, the Board committees and individual directors of both the Land Bank and LBIS. The Board assessment showed that members are satisfied that good governance is generally practiced and that the Board functioned well in its oversight role.

Board, Management and Remuneration

Group remuneration

In accordance with the Land Bank Act, the Minister of Finance determines the remuneration, allowances and associated benefits of all non-executive Board Members and the Chief Executive Officer. The remuneration for Executives and Bank employees is determined through market benchmarking and best practice under the guidance of the Group Human Resources and Remuneration Committee.

Table 26: Remuneration of Land Bank non-executive directors and executive directors for 2013/14 (R 000)

	Board	Audit	Risk	Credit Risk	HR & Remco	Ad hoc Meetings	Cash Salary	Performance Bonuses	Other Benefits, Fees & Expenses[5]	2014 Total
Non-Executive Directors										
Ben Ngubane	691	-	-	180	42	112	-	-	4	1,029
Mohammad Karaan	185	69	-	153	-	-	-	-	2	409
Sue Lund[1]	234	83	56	28	-	40	-	-	8	449
Partrick Mathidi[2]	184	83	85	14	-	8	-	-	4	378
Nomavusa Mnxasana	234	97	-	265	-	64	-	-	7	667
Theodorus Potgieter	93	-	-	125	40	56	-	-	9	323
John Purchase	217	-	42	-	42	-	-	-	3	304
Tryphosa Ramano	150	138	14	-	-	-	-	-	-	302
Shamila Singh	250	-	56	-	56	40	-	-	22	424
Thembekile Ngcobo	117	-	-	-	24	24	-	-	1	166
Davina Motau	117	-	-	69	-	-	-	-	4	190
Subtotal	**2,472**	**470**	**253**	**834**	**204**	**344**	**-**	**-**	**64**	**4,641**
Executive Directors										
Phakamani Hadebe[3] Chief Executive Officer							2,915	1,860	27	4,802
Lindiwe Mdlalose[4] Acting Chief Executive Officer							675	-	8	683
Lebogang Serithi Chief Financial Officer							2,094	983	87	3,164
Total Land Bank	**2,472**	**470**	**253**	**834**	**204**	**344**	**5,684**	**2,843**	**186**	**13,290**

[1] Paid to Transnet Foundation
[2] Paid to Momentum Asset Management
[3] Term of office expired 28 February 2014
[4] Appointed as Acting CEO as at 04 December 2013
[5] Includes R63 000 Group Life, Capital Disability and Total & Temporary Disability Benefits

Board, Management and Remuneration

Table 27: Remuneration of Land Bank Insurance Services non-executive directors and executive directors for 2013/14 (R 000)

	Board	Audit & Risk	Invest. & Actuarial	Ahoc Meetings	Cash Salary	Performance Bonuses	Other Benefits, Fees & Expenses[1]	2014 Total
Non-Executive Directors								
Nomavusa Mnxasana	511	-	36	8	-	-	-	555
Ranti Mothapo	150	63	71	8	-	-	6	298
Theodorus Potgieter	50	36	27	-	-	-	-	112
John Purchase	12	-	-	8	-	-	-	20
David Bergman	162	118		24	-	-	4	309
Davina Motau	25	9	-	8	-	-	-	42
Subtotal	**910**	**253**	**134**	**56**	**-**	**-**	**10**	**1,336**
Executive Director								
Mpumelelo Tyikwe Managing Director					2,052	695	87	2,834
Total LBIS	**910**	**226**	**134**	**56**	**2,052**	**695**	**97**	**4,170**

[1] Includes R63 000 Group Life, Capital Disability and Total & Temporary Disability Benefits

Table 28: Remuneration of Land Bank non-executive directors and executive directors for 2012/13 (R 000) for comparison

	Board	Audit	Risk	Credit Risk	HR & Remco	Ad hoc Meetings	Cash Salary	Performance Bonuses	Other Benefits, Fees & Expenses[3]	2013 Total
Non-Executive Directors										
Ben Ngubane	736	-	-	69	-	-	-	-	1	806
Herman van Schalkwyk	76	-	-	28	14	-	-	-	5	123
Mohammad Karaan	250	83	-	111	-	8	-	-	4	456
Sue Lund[1]	284	111	42	111	-	8	-	-	10	566
Partrick Mathidi[2]	284	97	63	56	-	8	-	-	5	513
Nomavusa Mnxasana	267	97	-	196	-	16	-	-	3	579
Modise Motloba	76	-	22	14	-	32	-	-	1	145
Theodorus Potgieter	284	-	-	180	57	80	-	-	14	615
John Purchase	174	-	42	-	28	8	-	-	2	254
Nolwazi Qata	210	-	42	-	69	24	-	-	2	347
Tryphosa Ramano	200	139	42	-	-	32	-	-	3	416
Shamila Singh	267	-	56	-	56	32	-	-	20	430
Subtotal	**3,108**	**527**	**309**	**765**	**224**	**248**	**-**	**-**	**70**	**5,250**
Executive Directors										
Phakamani Hadebe (CEO)							2,999	1,763	41	4,803
Lebogang Serithi (CFO)							1,789	873	58	2,720
Total Land Bank	**3,108**	**527**	**309**	**765**	**224**	**248**	**4,788**	**2,636**	**169**	**12,773**

[1] Paid to Transnet Foundation
[2] Paid to Momentum Asset Management
[3] Includes R34 000 Group Life, Capital Disability and Total & Temporary Disability Benefits

Board, Management and Remuneration

Table 29: Remuneration of Land Bank Insurance Services non-executive directors and executive directors for 2012/13 (R 000) for comparison

	Board	Audit & Risk	Invest. & Actuarial	Ad hoc Meetings	Cash Salary	Performance Bonuses	Other Benefits, Fees & Expenses[2]	2013 Total
Non-Executive Directors								
Modise Motloba	115	-	-	-	-	-	-	115
Nomavusa Mnxasana	404	27	27	8	-	-	-	466
Ranti Mothapo	150	45	62	32	-	-	6	295
Theodorus Potgieter	100	63	36	8	-	-	-	207
Nolwazi Qata	50			8	-	-	-	58
David Bergman	174	118		24			5	321
Subtotal	**993**	**253**	**125**	**80**	**-**	**-**	**11**	**1,462**
Executive Director								
Mpumelelo Tyikwe[1]					1,345	-	52	1,397
Total LBIS	993	253	125	80	1,345	-	63	2,859

[1] Appointed Managing Director with effect from 17 July 2012
[2] Includes R34 000 Group Life, Capital Disability and Total & Temporary Disability Benefits

The combined total remuneration expenditure for Land Bank and LBIS directors was R17.5 million (2012/13: R15.6 million).

Executive officers and employees

Executive Officers are not permitted to accept external remunerative work or Board appointments without the Chief Executive Officer's prior approval. Remuneration packages for permanent Executive Officers consist of a guaranteed package, benefits (Retirement Fund Investment and Medical Aid), a cell phone allowance, an annual performance bonus and Group life insurance. Executive Officers on fixed term contracts are not obliged to participate in the Land Bank's retirement benefits arrangements but instead, have a choice of belonging to the Land Bank Medical Aid. Remuneration packages for Executive Officers on a fixed term contract consist of a guaranteed package, cell phone allowance, annual performance bonus and Group life insurance.

The Land Bank does not enforce any restraint of trade in employment contracts.

Remuneration packages for other employees consist of a guaranteed package including retirement fund investment and medical aid benefits as well as an annual performance bonus. Employees are permitted to structure their salaries and benefits in accordance with legislation.

Salary packages and benefits are reviewed in accordance with national and industry benchmarks. Guaranteed packages for all employees are positioned at the market median. Exceptions to this are subject to Board approval.

Land Bank employment contracts are managed in terms of the Bank's recruitment policy.

Annual bonuses are discretionary and directly linked to the performance of the organisation, the business units and the individual.

Recognition programme

Employees that are seen as exemplary in living the Land Bank's values are recognised through an annual recognition programme known as the Hlanganani Excellence Awards.

Executive structure as at 31 March 2014

Mpumi Tyikwe
LBIS - Managing Director

Lindiwe Mdlalose
Chief Executive Officer (Acting)

Lebogang Serithi
Chief Financial Officer
Chief Treasury Officer (Acting)
Chief Information Officer (Acting)

Pierre-Jaque Janse van Vuuren
Chief Risk Officer (Acting)

Vincent Potloane
Group Operational and Investment Officer

Mpule Dlamini
Chief Human Resource Officer

Jerome Mthembu
Chief Legal Officer
Chief Strategy Officer (Acting)

Board, Management and Remuneration

Remuneration Report of Executive Officers

Table 30: Remuneration of Land Bank executive officers in 2013/14 (R 000)

Title	Basic Salary	Bonus	Cellphone Allowances	Other benefits[5]	Total
Vincent Potloane Group Operations and Investments Officer	2,188	1,100	24	63	3,375
Jerome Mthembu[1] Chief Legal Officer & Acting Chief Strategy Officer	1,912	900	24	63	2,899
Lindiwe Mdlalose Chief Risk Officer[2]	1,347	935	16	63	2,361
Mpule Dlamini[3] Chief Human Resources Officer	1,241	314	21	16	1,592
Gregory van Wyk[4] Chief Human Resources Officer & Acting Chief Strategy Officer	-	835	-	-	835
Total	**6,688**	**4,084**	**85**	**205**	**11,062**

[1] Acting Chief Strategy Officer from 01 April 2013
[2] Chief Risk Officer until 03 December 2013
[3] Chief Human Resource Officer from 15 August 2013
[4] Resigned from Land Bank on 28 March 2013
[5] Includes R63 000 Group Life, Capital Disability and Total & Temporary Disability Benefits

Table 31: Remuneration of Land Bank executive officers in 2012/13 (R 000) (for comparison)

Title	Basic Salary	Bonus	Cellphone Allowances	Other benefits[2]	Total
Vincent Potloane Group Operations and Investments Officer	1,822	993	24	34	2,873
Jerome Mthembu Chief Legal Officer	1,632	732	24	34	2,422
Gregory van Wyk[1] Chief Human Resources Officer & Acting Chief Strategy Officer	2,261	1,253	24	34	3,572
Lindiwe Mdlalose Chief Risk Officer	1,700	816	24	34	2,574
Total	**7,415**	**3,794**	**96**	**136**	**11,441**

[1] Acting Chief Strategy Officer from 01 August 2011, resigned from Land Bank on 28 March 2013
[2] Includes Group Life, Capital Disability and Total & Temporary disability benefits

Group Annual Financial Statements

"It always seems impossible until its done."

Nelson Mandela

Group Annual Financial Statements
for the year ended 31 March 2014

Index to the Annual Financial Statements of the Land Bank Group for the year ended 31 March 2014

These audited group annual financial statements were prepared by Land Bank Financial Reporting under the direction and supervision of the Chief Financial Officer, L Serithi CA(SA).

Group Annual Financial Statements
for the year ended 31 March 2014

General information

The following information pertains to the Land and Agricultural Development Bank of South Africa (Land Bank) and its subsidiaries, Land Bank Life Insurance Company (SOC) Limited (LBLIC), Land Bank Insurance Services (SOC) Limited (LBIS) and Land Bank Insurance Company (SOC) Limited (LBIC) which entities are consolidated in the annual financial statements and represent the Land Bank Group:

1 Land Bank

1.1 Shareholder

National Treasury

1.2 Public entity

Governed by the Land and Agricultural Development Bank Act, 2002 (Act number 15 of 2002)

1.3 Auditor

The Auditor-General of South Africa

1.4 Banker

ABSA Bank Limited

1.5 Financial year-end

31 March

1.6 Head office physical address

Block D Eco Glades 2
Witch Hazel Avenue
Ecopark
Centurion
0046

1.7 Postal address

P O Box 375
Tshwane
0001

1.8 Company secretary

Nazir Ebrahim

1.9 Country of incorporation

South Africa

1.10 Business activities

The Land Bank provides retail and wholesale finance to emerging and commercial farmers. It also provides short- and long-term insurance services to the wider agricultural sector through its subsidiary companies, the Land Bank Insurance Company (SOC) Limited and the Land Bank Life Insurance Company (SOC) Limited.

General information (continued)

2 Land Bank Life Insurance Company (SOC) Limited

2.1 Holding company

Land and Agricultural Development Bank of South Africa (Land Bank)

2.1.a Group Shareholder[1]

Land Bank Insurance Services (SOC) Limited, incorporated in South Africa

2.1.b Other Group Company

Land Bank Insurance Company (SOC) Limited, incorporated in South Africa

2.2 Company registration number

1954/003095/06

2.2.a Company registration number

2012/060770/30

2.2.b Company registration number

2012/115426/30

2.3 Auditor

The Auditor-General of South Africa

2.4 Banker

ABSA Bank Limited

2.5 Financial year-end

31 March

2.6 Head office physical address

Block D Eco Glades 2
Witch Hazel Avenue
Ecopark
Centurion
0046

2.7 Postal address

P O Box 375
Tshwane
0001

2.8 Public officer designate

Mpumi Tyikwe

2.9 Company secretary

Nazir Ebrahim

2.10 Country of incorporation

South Africa

2.11 Business activities

The Land Bank Insurance Company (SOC) Limited provides short- and long-term insurance services to the wider agricultural sector.

[1] The Minister of Finance has approved that the current holding company "LBIS", be dissolved and that Land Bank be the direct holding company of two insurance companies in May 2014.

Group Annual Financial Statements

for the year ended 31 March 2014

Directors' Responsibility for the Group Annual Financial Statements

The directors are responsible for the preparation, integrity and objectivity of the annual financial statements of the Land and Agricultural Development Bank of South Africa and of the group annual financial statements which conform to International Financial Reporting Standards (IFRS) and related information included in this annual report.

In order for the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for the system of internal control and reviews its operation, primarily through the audit committee and various other risk-monitoring committees. Management enables the Directors to meet these responsibilities.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system operating with strict deadlines and an appropriate control framework.

As part of the system of internal control, the group's internal audit function conducts operational, financial and specific audits. It is the responsibility of The Auditor-General of South Africa to report on the fair presentation of the financial statements.

The consolidated financial statements have been prepared in accordance with IFRS (with consent from the National Treasury for all Schedule 2 public entities) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), applying the accrual basis of accounting, the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

The Directors believe that the group will be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the group annual financial statements.

The group annual financial statements for the year ended 31 March 2014 as set out on pages 90 to 226 were approved by the Board in terms of section 55(1)c of the Public Finance Management Act, 1999 (Act number 1 of 1999) on 31 July 2014 and signed on its behalf by:

Dr BBS Ngubane

Chairperson of the Board

Date: 31 July 2014

LV Mdlalose

Acting Chief Executive Officer

Date: 31 July 2014

Group Annual Financial Statements

for the year ended 31 March 2014

Statement of Financial Position as at 31 March 2014

		Group		Bank	
		2014	2013	2014	2013
	Note	R'000	R'000	R'000	R'000
Assets					
Cash and cash equivalents	3	**1 474 854**	1 891 383	**1 227 729**	1 676 715
Trade and other receivables	4	**149 268**	160 523	**342 000**	339 212
Short-term insurance assets	5	**1 432**	5 280		
Repurchase agreements	6	**15 062**	-	**15 062**	-
Non-current assets held-for-sale	7	**52 567**	52 332	**52 567**	52 332
Investments	8	**1 479 812**	1 326 163	**343 806**	300 487
Market-making assets	9	**3 438**	5 238	**3 438**	5 238
Loans and advances	10	**33 281 280**	26 968 735	**33 281 280**	26 968 735
Assets of disposal group classified as held-for-sale	11	**142 204**	143 873	**142 204**	143 873
Long-term insurance assets	17	**1 202**	985		
Intangible assets	12	**39 900**	42 206	**39 900**	42 206
Investment properties	13	**84 400**	65 800	**84 400**	65 800
Property and equipment	14	**93 868**	119 488	**93 753**	119 348
Total assets		**36 819 287**	30 782 006	**35 626 139**	29 713 946
Equity and liabilities					
Capital and reserves		**6 825 405**	6 131 064	**5 745 669**	5 185 003
Distributable reserves	15	**6 688 270**	5 995 615	**5 608 534**	5 049 554
Non-distributable reserve	15	**137 135**	135 449	**137 135**	135 449
Liabilities					
Trade and other payables	16	**253 714**	178 610	**184 368**	107 825
Short-term insurance liabilities	5	**2 004**	4 660		
Long-term policyholders' liabilities	17	**40 065**	45 291		
Funding liabilities	18	**28 206 620**	22 953 550	**28 206 620**	22 953 550
Provisions	19	**440 017**	428 271	**438 020**	427 008
Post-retirement obligation	20	**267 453**	283 890	**267 453**	283 890
Liabilities directly associated with the assets classified as held-for-sale	21	**784 009**	756 670	**784 009**	756 670
Total equity and liabilities		**36 819 287**	30 782 006	**35 626 139**	29 713 946

Group Annual Financial Statements
for the year ended 31 March 2014

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2014

		Group		Bank	
		2014	2013	2014	2013
	Note	R'000	R'000	R'000	R'000
Continuing operations					
Net interest income		**964 794**	805 278	**953 797**	796 554
Interest income	22	**2 479 734**	2 047 842	**2 468 617**	2 038 158
Interest expense	23	**(1 514 940)**	(1 242 564)	**(1 514 820)**	(1 241 604)
Net impairment charges, claims and recoveries	10.4	**(140 941)**	(75 015)	**(140 941)**	(75 015)
Total income from lending activities		**823 853**	730 263	**812 856**	721 539
Non-interest (expense)/income	24	**(54 258)**	5 483	**(53 517)**	6 183
Operating income from banking activities		**769 595**	735 746	**759 339**	727 722
Operating profit from insurance activities	25	**9 024**	16 267		
Investment income	26	**181 906**	188 095	**56 281**	53 630
Fair value gains/(losses)	27	**4 971**	(12 462)	**4 971**	(12 462)
Operating income		**965 496**	927 646	**820 591**	768 890
Operating expenses	28	**(546 669)**	(552 036)	**(535 439)**	(543 512)
Net operating income		**418 827**	375 610	**285 152**	225 378
Non-trading and capital items	29	**9 490**	(10 043)	**9 490**	(10 073)
Net profit before indirect taxation		**428 317**	365 567	**294 642**	215 305
Indirect taxation	30	**(27 458)**	(23 357)	**(27 458)**	(23 357)
Net profit from continuing operations		**400 859**	342 210	**267 184**	191 948
Share of after-tax loss of associated companies	31	**-**	-	**-**	-
Discontinued operations					
Net loss from discontinued operations	21	**(29 008)**	(38 090)	**(29 008)**	(38 090)
Profit for the year		**371 851**	304 120	**238 176**	153 858
Other comprehensive income [1]					
Items that will not be reclassified to the profit or loss component of the statement of comprehensive income					
Actuarial loss on the post-retirement obligation	20	**16 437**	(22 736)	**16 437**	(22 736)
Revaluation of land and buildings	14	**6 049**	12 806	**6 049**	12 806
		22 486	(9 930)	**22 486**	(9 930)
Items that are or may be subsequently reclassified to the profit or loss component of the statement of comprehensive income					
Gains on financial assets at fair value through other comprehensive income	36.7.2	**4**	10 400	**4**	10 400
Total other comprehensive profit for the year		**22 490**	470	**22 490**	470
Total comprehensive income for the year		**394 341**	304 590	**260 666**	154 328

[1] Other comprehensive income are gross of tax. The group is exempt from income tax in terms of sections 10(1)(cA)(ii) of the Income Tax Act, 1962 (Act No. 58 of 1962). Refer to note 33.4.6 for information regarding a tax contingent liability for the insurance group.

Statement of Changes in Equity for the year ended 31 March 2014

Group	Capital Fund	General Reserve	Insurance Reserve	Contingency Reserve	MTM¹ Reserve	Revaluation Reserve	Discontinued Operations	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 31 March 2012	**3 397 655**	**1 745 484**	**940 411**	**5 388**	**-**	**112 243**	**(574 707)**	**5 626 474**
At 1 April 2012	3 397 655	1 745 484	940 411	5 388	-	112 243	(574 707)	5 626 474
Profit/(loss) for the year	-	191 948	150 262	-	-	-	(38 090)	304 120
Other comprehensive (loss)/income	-	(22 736)	-	-	10 400	12 806	-	470
Total comprehensive income/(loss)	3 397 655	1 914 696	1 090 673	5 388	10 400	125 049	(612 797)	5 931 064
Recapitalisation by National Treasury	200 000	-	-	-	-	-	-	200 000
Transfer from the contingency reserve	-	-	5 388	(5 388)	-	-	-	-
Balance at 31 March 2013	**3 597 655**	**1 914 696**	**1 096 061**	**-**	**10 400**	**125 049**	**(612 797)**	**6 131 064**
At 1 April 2013	3 597 655	1 914 696	1 096 061	-	10 400	125 049	(612 797)	6 131 064
Profit/(loss) for the year	-	267 184	133 675	-	-	-	(29 008)	371 851
Other comprehensive (loss)/income	-	16 437	-	-	4	6 049	-	22 490
Total comprehensive income/(loss)	3 597 655	2 198 317	1 229 736	-	10 404	131 098	(641 805)	6 525 405
Recapitalisation by National Treasury	300 000	-	-	-	-	-	-	300 000
Reversal of revaluation surplus on building sold	-	4 367	-	-	-	(4 367)	-	-
Balance at 31 March 2014	**3 897 655**	**2 202 684**	**1 229 736**	**-**	**10 404**	**126 731**	**(641 805)**	**6 825 405**

¹ MTM = Mark-to-Market

Statement of Changes in Equity for the year ended 31 March 2014

	Capital Fund	General Reserve	MTM Reserve[1]	Revaluation Reserve	Discontinued Operations	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Bank						
Balance at 31 March 2012	**3 397 655**	**1 895 484**	**-**	**112 243**	**(574 707)**	**4 830 675**
At 1 April 2012	**3 397 655**	**1 895 484**	**-**	**112 243**	**(574 707)**	**4 830 675**
Profit/(loss) for the year	-	191 948	-	-	(38 090)	153 858
Other comprehensive (loss)/income	-	(22 736)	10 400	12 806	-	470
Total comprehensive income/(loss)	**3 397 655**	**2 064 696**	**10 400**	**125 049**	**(612 797)**	**4 985 003**
Recapitalisation by National Treasury	200 000	-	-	-	-	200 000
Balance at 31 March 2013	**3 597 655**	**2 064 696**	**10 400**	**125 049**	**(612 797)**	**5 185 003**
At 1 April 2013	**3 597 655**	**2 064 696**	**10 400**	**125 049**	**(612 797)**	**5 185 003**
Profit/(loss) for the year	-	267 184	-	-	(29 008)	238 176
Other comprehensive (loss)/income	-	16 437	4	6 049	-	22 490
Total comprehensive income/(loss)	**3 597 655**	**2 348 317**	**10 404**	**131 098**	**(641 805)**	**5 445 669**
Recapitalisation by National Treasury	300 000	-	-	-	-	300 000
Reversal of revaluation surplus on building sold	-	4 367	-	(4 367)		-
Balance at 31 March 2014	**3 897 655**	**2 352 684**	**10 404**	**126 731**	**(641 805)**	**5 745 669**

[1] MTM = Mark-to-Market

Group Annual Financial Statements

for the year ended 31 March 2014

Statement of Cash Flows for the year ended 31 March 2014

		Group		Bank	
		2014	2013	2014	2013
	Note	R'000	R'000	R'000	R'000
Net profit from continuing operations[1]		**400 859**	342 210	**267 184**	191 948
Net loss from discontinued operations		**(29 008)**	(38 090)	**(29 008)**	(38 090)
		371 851	304 120	**238 176**	153 858
Adjustment to reconcile profit to net cash flows					
Non-cash items:		**1 344 082**	1 115 084	**1 468 937**	1 245 994
Interest expense	23	**1 514 940**	1 242 564	**1 514 820**	1 241 604
Fair value movement of financial instruments	27	**(4 971)**	12 461	**(4 971)**	12 461
Fair value gains (investments)	26	**(141 544)**	(155 121)	**(46 840)**	(45 612)
Dividend income	26	**(20 054)**	(17 191)	**(3 936)**	(3 877)
Interest income	26	**(33 120)**	(28 439)	**(7 312)**	(5 676)
Fund management fees	26	**10 895**	13 099	**-**	-
Depreciation and impairment of property and equipment	14	**13 373**	11 710	**13 332**	11 666
Transfer in of property and equipment	14	**(15)**	(32)	**-**	-
Fair value adjustments (properties in possession)	29	**(335)**	8 200	**(335)**	8 200
Amortisation and impairment of intangibles	12	**2 307**	13 160	**2 307**	13 160
Fair value movement in policyholders' liabilities	17	**-**	(25)		
Fair value adjustment on non-current assets held-for-sale	7, 29	**(696)**	1 543	**(696)**	1 543
Movement in provisions	19	**11 746**	12 842	**11 012**	12 182
Profit/(loss) on disposal of property and equipment	29	**(6 168)**	(172)	**(6 168)**	(172)
Profit/(loss) on disposal of properties in possession	29	**(2 269)**	490	**(2 269)**	490
Loss on sale of LBLIC (formerly LBIC) shares	29	**-**	-	**-**	30
Impairment of other assets	29	**(7)**	(5)	**(7)**	(5)
Working capital adjustments:		**82 110**	(76 804)	**73 755**	(118 755)
Decrease/(increase) in trade and other receivables	4	**11 255**	66 766	**(2 788)**	(110 467)
Increase/(decrease) in trade and other payables	16	**75 105**	(120 676)	**76 543**	(8 288)
Decrease in short-term and long-term insurance liability	5	**(7 881)**	(99 768)		
Decrease in short-term and long-term insurance assets	5	**3 631**	76 874		
Cash flow from operating activities		**1 798 043**	1 342 400	**1 780 868**	1 281 097

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for the year ended 31 March 2014

Statement of Cash Flows for the year ended 31 March 2014

		Group		Bank	
		2014	2013	2014	2013
	Note	R'000	R'000	R'000	R'000
Cash flow from operations		**(7 825 814)**	(6 646 679)	**(7 825 694)**	(6 645 719)
Interest paid	23	**(1 514 940)**	(1 242 564)	**(1 514 820)**	(1 241 604)
Increase in funding to clients	10	**(6 310 874)**	(5 404 115)	**(6 310 874)**	(5 404 115)
Cash flow from investing activities		**25 942**	(23 614)	**10 540**	(23 614)
Proceeds from disposal of property and equipment	14	**11 426**	178	**11 426**	178
Purchase of property and equipment	14	**(5 213)**	(9 900)	**(5 213)**	(9 900)
Additions to intangible assets	12	**-**	(1 920)	**-**	(1 920)
Proceeds from sale of non-current assets held-for-sale	7	**4 531**	2 850	**4 531**	2 850
Proceeds from sale of financial instruments		**29 950**	5 599	**14 548**	5 599
Purchase of financial instruments		**(14 752)**	(20 421)	**(14 752)**	(20 421)
Cash flow from financing activities		**5 585 300**	5 277 870	**5 585 300**	5 277 870
Increase in funding	18	**5 285 300**	5 077 870	**5 285 300**	5 077 870
Capital injection from shareholder		**300 000**	200 000	**300 000**	200 000
Net decrease in cash and cash equivalents		**(416 529)**	(50 023)	**(448 986)**	(110 366)
Cash and cash equivalents at beginning of year		**1 891 383**	1 941 406	**1 676 715**	1 787 081
Cash and cash equivalents at end of year	3	**1 474 854**	1 891 383	**1 227 729**	1 676 715

[1] During FY2014 all other comprehensive income, previously included has been removed. FY2013 numbers have been amended to conform to FY2014 disclosure.
[2] There are no restrictions on any of the cash balances. All cash and cash equivalents are available for use by the group.
[3] There is no foreign exchange impact on the cash flow of the group.

Segment reporting

Segment reporting per reportable segment for the year ended 31 March 2014

Group - 2014	Retail Commercial Banking	Retail Emerging Markets	Business & Corporate Banking	Group Capital and Inter-segment eliminations [1]	Total Bank (Excluding LDFU)	LBLIC	Total Group (Excluding LDFU)	Discontinued Operations LDFU	Total Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Statement of profit or loss and other comprehensive income									
Net interest income	182 156	(5 482)	449 484	327 639	**953 797**	10 997	**964 794**	(27 563)	**937 231**
Interest income	441 196	11 336	1 865 229	150 856	**2 468 617**	11 117	**2 479 734**	-	**2 479 734**
Interest expense	(259 040)	(16 818)	(1 415 745)	176 783	**(1 514 820)**	(120)	**(1 514 940)**	(27 563)	**(1 542 503)**
Impairment (charges)/releases on loans and advances	(65 998)	(4 888)	(71 845)	1 790	**(140 941)**	-	**(140 941)**	(1 241)	**(142 182)**
Total income/(loss) from lending activities	116 158	(10 370)	377 639	329 429	**812 856**	10 997	**823 853**	(28 804)	**795 049**
Non-interest income/(expense)	10 337	5 127	(89 184)	20 203	**(53 517)**	(741)	**(54 258)**	-	**(54 258)**
Operating income/(loss) from banking activities	126 495	(5 243)	288 455	349 632	**759 339**	10 256	**769 595**	(28 804)	**740 791**
Operating profit from insurance activities	-	-	-	-	**-**	9 024	**9 024**	-	**9 024**
Investment income	-	-	-	56 281	**56 281**	125 625	**181 906**	-	**181 906**
Fair value loss	-	-	-	4 971	**4 971**	-	**4 971**	-	**4 971**
Operating income/(loss)	126 495	(5 243)	288 455	410 884	**820 591**	144 905	**965 496**	(28 804)	**936 692**

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2014 (continued)

Group - 2014	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital and Inter-segment eliminations [1] R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group R'000
Operating expenses	(197 539)	(5 179)	(28 540)	(288 114)	**(519 372)**	(11 189)	**(530 561)**	(204)	**(530 765)**
Depreciation and amortisation	(2 862)	(14)	(230)	(12 961)	**(16 067)**	(41)	**(16 108)**	-	**(16 108)**
Net operating (loss)/ income	(73 906)	(10 436)	259 685	109 809	**285 152**	133 675	**418 827**	(29 008)	**389 819**
Non-trading and capital items	(529)	-	(1)	10 020	**9 490**	-	**9 490**	-	**9 490**
Net (loss)/profit before indirect taxation	(74 435)	(10 436)	259 684	119 829	**294 642**	133 675	**428 317**	(29 008)	**399 309**
Indirect taxation [2]	-	-	-	(27 458)	**(27 458)**	-	**(27 458)**	-	**(27 458)**
Net (loss)/profit	(74 435)	(10 436)	259 684	92 371	**267 184**	133 675	**400 859**	(29 008)	**371 851**
Other comprehensive income									
Actuarial losses on the post-retirement obligation	-	-	-	16 437	**16 437**	-	**16 437**	-	**16 437**
Revaluation of land and buildings	-	-	-	6 049	**6 049**	-	**6 049**	-	**6 049**
Gains on financial assets at fair value through other comprehensive income	-	-	4	-	**4**	-	**4**	-	**4**
Total comprehensive (loss)/ income for the year	(74 435)	(10 436)	259 688	114 857	**289 674**	133 675	**423 349**	(29 008)	**394 341**

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2014 (continued)

Group - 2014	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital and Inter-segment eliminations [1] R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group R'000
Interest income									
External customers	441 196	11 336	1 865 229	150 856	**2 468 617**	11 117	**2 479 734**	-	**2 479 734**
Non-interest income/ (expense)									
External customers	10 337	5 127	(89 184)	20 203	**(53 517)**	(741)	**(54 258)**	-	**(54 258)**
Statement of financial position									
Assets									
Segment assets	2 342 644	423 431	88 091 877	(55 657 774)	**35 200 178**	1 476 906	**36 677 084**	142 203	**36 819 287**
Working capital (incl. net loans and advances)	2 312 173	423 428	88 076 090	(56 225 938)	**34 585 753**	338 150	**34 923 903**	142 203	**35 066 106**
Investments	-	-	15 405	328 400	**343 805**	1 136 007	**1 479 812**	-	**1 479 812**
Investment properties	24 725	-	-	59 675	**84 400**	-	**84 400**	-	**84 400**
Property and equipment	5 746	3	382	87 622	**93 753**	115	**93 868**	-	**93 868**
Non-current assets held-for-sale	-	-	-	52 567	**52 567**	-	**52 567**	-	**52 567**
Intangible assets	-	-	-	39 900	**39 900**	-	**39 900**	-	**39 900**
Insurance assets	-	-	-	-	**-**	2 634	**2 634**	-	**2 634**

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2014 (continued)

Group - 2014	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital and Inter-segment eliminations [1] R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group R'000
Liabilities									
Segment liabilities	2 858 356	424 125	87 380 536	(61 850 129)	**28 812 888**	396 985	**29 209 873**	784 009	**29 993 882**
Working capital (incl. funding liabilities)	2 719 591	424 854	87 371 524	(62 408 554)	**28 107 415**	352 919	**28 460 334**	783 975	**29 244 309**
Provisions	138 765	(729)	9 012	290 972	**438 020**	1 997	**440 017**	34	**440 051**
Post-retirement obligation	-	-	-	267 453	**267 453**	-	**267 453**	-	**267 453**
Insurance liabilities	-	-	-	-	**-**	42 069	**42 069**	-	**42 069**

[1] Includes reconciliation to group results in terms of IFRS 8.
[2] During the year under review it was decided that reporting "Indirect Taxes" at a Group Capital level rather than allocating it to segments would provide users with a better reflection of actual segment performance. The FY2013 comparative information has been realigned to conform with FY2014 disclosure.

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2014 (continued)

Group - 2013	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital and Inter-segment eliminations [1] R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations R'000	Total Group R'000
Statement of profit or loss and other comprehensive income									
Net interest income	150 283	(3 273)	323 856	325 688	**796 554**	8 724	**805 278**	(38 470)	**766 808**
Interest income	386 131	6 880	1 486 433	158 714	**2 038 158**	9 684	**2 047 842**	-	**2 047 842**
Interest expense	(235 848)	(10 153)	(1 162 577)	166 974	**(1 241 604)**	(960)	**(1 242 564)**	(38 470)	**(1 281 034)**
Impairment (charges)/releases on loans and advances	(50 912)	(3 650)	(20 466)	13	**(75 015)**	-	**(75 015)**	1 284	**(73 731)**
Total income/(loss) from lending activities	99 371	(6 923)	303 390	325 701	**721 539**	8 724	**730 263**	(37 186)	**693 077**
Non-interest income/(expense)	15 419	6 790	(37 889)	21 863	**6 183**	(700)	**5 483**	-	**5 483**
Operating income/(loss) from banking activities	114 790	(133)	265 501	347 564	**727 722**	8 024	**735 746**	(37 186)	**698 560**
Operating profit from insurance activities	-	-	-	-	**-**	16 267	**16 267**	-	**16 267**
Investment income	-	-	-	53 630	**53 630**	134 465	**188 095**	-	**188 095**
Fair value loss	-	-	-	(12 462)	**(12 462)**	-	**(12 462)**	-	**(12 462)**
Operating income/(loss)	114 790	(133)	265 501	388 732	**768 890**	158 756	**927 646**	(37 186)	**890 460**

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2014 (continued)

Group - 2013	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital and Inter-segment eliminations [1] R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations R'000	Total Group R'000
Operating expenses	(187 808)	(7 700)	(25 346)	(297 443)	**(518 297)**	(8 524)	**(526 821)**	(904)	**(527 725)**
Depreciation and amortisation	(3 757)	(146)	(254)	(21 058)	**(25 215)**	-	**(25 215)**	-	**(25 215)**
Net operating (loss)/income	(76 775)	(7 979)	239 901	70 231	**225 378**	150 232	**375 610**	(38 090)	**337 520**
Non-trading and capital items	862	-	(8)	(10 927)	**(10 073)**	30	**(10 043)**	-	**(10 043)**
Net (loss)/profit before indirect taxation	(75 913)	(7 979)	239 893	59 304	**215 305**	150 262	**365 567**	(38 090)	**327 477**
Indirect taxation [2]	-	-	-	(23 357)	**(23 357)**	-	**(23 357)**	-	**(23 357)**
Net (loss)/profit	(75 913)	(7 979)	239 893	35 947	**191 948**	150 262	**342 210**	(38 090)	**304 120**
Other comprehensive income									
Actuarial losses on the post-retirement obligation	-	-	-	(22 736)	**(22 736)**	-	**(22 736)**	-	**(22 736)**
Revaluation of land and buildings	-	-	-	12 806	**12 806**	-	**12 806**	-	**12 806**
Gains on financial assets at fair value through other comprehensive income	-	-	10 400	-	**10 400**	-	**10 400**	-	**10 400**
Total comprehensive (loss)/income for the year	(75 913)	(7 979)	250 293	26 017	**192 418**	150 262	**342 680**	(38 090)	**304 590**

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2014 (continued)

Group - 2013	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Business & Corporate Banking R'000	Group Capital and Inter-segment eliminations [1] R'000	Total Bank (Excluding LDFU) R'000	LBLIC R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations R'000	Total Group R'000
Interest income									
External customers	386 131	6 880	1 486 433	158 714	**2 038 158**	9 684	**2 047 842**	-	**2 047 842**
Non-interest income/ (expense)									
External customers	15 419	6 790	(37 889)	21 863	**6 183**	(700)	**5 483**	-	**5 483**
Statement of financial position [2]									
Assets									
Segment assets	4 581 814	165 659	22 602 022	1 951 162	**29 300 657**	1 337 476	**30 638 133**	143 873	**30 782 006**
Working capital (incl net loans and advances)	4 550 467	165 659	22 586 205	1 418 154	**28 720 485**	305 394	**29 025 879**	143 873	**29 169 752**
Investments	-	-	15 400	285 087	**300 487**	1 025 676	**1 326 163**	-	**1 326 163**
Investment properties	24 725	-	-	41 075	**65 800**	-	**65 800**	-	**65 800**
Property and equipment	6 622	-	417	112 308	**119 347**	141	**119 488**	-	**119 488**
Non-current assets held-for-sale	-	-	-	52 332	**52 332**	-	**52 332**	-	**52 332**
Intangible assets	-	-	-	42 206	**42 206**	-	**42 206**	-	**42 206**
Insurance assets	-	-	-	-	**-**	6 265	**6 265**	-	**6 265**

Segment reporting (continued)

Segment reporting per reportable segment for the year ended 31 March 2014 (continued)

Group - 2013	Retail Commercial Banking	Retail Emerging Markets	Business & Corporate Banking	Group Capital and Inter-segment eliminations [1]	Total Bank (Excluding LDFU)	LBLIC	Total Group (Excluding LDFU)	Discontinued Operations	Total Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Liabilities									
Segment liabilities	4 656 268	173 682	18 287 758	385 148	**23 502 856**	391 416	**23 894 272**	756 670	**24 650 942**
Working capital (incl funding liabilities)	4 534 406	173 682	18 282 922	(199 018)	**22 791 992**	340 200	**23 132 192**	756 638	**23 888 830**
Provisions	121 862	-	4 836	300 276	**426 974**	1 265	**428 239**	32	**428 271**
Post-retirement obligation	-	-	-	283 890	**283 890**	-	**283 890**	-	**283 890**
Insurance liabilities	-	-	-	-	**-**	49 951	**49 951**	-	**49 951**

[1] Includes reconciliation to group results in terms of IFRS 8.
[2] The FY2013 Statement of Financial Position has been realigned to conform with FY2014 disclosure.

Segment reporting (continued)

Segment reporting (Business segments)

The group reports in six distinct segments, grouped according to the nature of products and services provided by the respective business units and divisions. The six segments are:

- Retail Commercial Banking, which consists of 27 AFC's and 2 hubs spread across the country, provides finance to developing and commercial farmers. Retail Commercial Banking also includes previously granted micro-finance loans.
- Retail Emerging Markets, which is run from Head Office and AFC networks. Provides finance to "emerging" farmers.
- Business & Corporate Banking, which consists of two branches, provides finance to the agri-related businesses.
- LDFU, which was established to provide finance for the development of land. The activities of the division were discontinued in 2008.
- Group capital which consists of treasury, finance and other central functions.
- LBLIC which conducts insurance activities.

Reporting to the Board is based on segments which engage in business activities that generate revenues and incur expenditure. None of the operating segments meet the criteria for aggregation.

Quantitative thresholds

The group reports separate information about an operating segment that meets any of the following quantitative thresholds:

1) Its reported revenue, from both external clients and other segments, is 10% or more of the combined revenue of all operating segments.
2) The absolute amount of its reported profit or loss is 10 % or more of the greater of:
   (i) the combined reported profit of all operating segments that did not report a loss, and
   (ii) the combined reported loss of all operating segments that reported a loss.
3) Its assets are 10% or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

The group's reportable operating segments are strategic business units that offer products to various classes of clients. These are managed separately since each segment requires different marketing and technical strategies to service a client base with unique needs.

The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies. Cost of funding is allocated based on the monthly average cost of funding for Land Bank and the segment's loan book net of non-performing loan balances as at 31 March 2014. Surplus funding received from segments are allocated to Group Capital.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Except for cost of funding, other operating costs incurred for central functions managed at Group Capital are not allocated to the operating segments.

The group evaluates performance on the basis of profit or loss from reportable operating segments, excluding non-recurring gains and losses.

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Segment reporting (continued)

Segment reporting (Geographic segments)

Group - 2014	Interest income R'000	Interest expense R'000	Net interest income R'000	Impairment (charges)/ releases, claims and recoveries R'000	Non-interest income/ (expense) R'000	Operating income from insurance activities R'000	Fair value gains, investment income and non-trading and capital items R'000	Operating expenses and indirect taxes excluding depreciation and amortisation R'000	Depreciation and amortisation R'000	Net profit/ (loss) R'000	Actuarial losses on the post-retirement obligation R'000	Revaluation of land and buildings and Fair value gains on financial assets R'000	Total comprehensive income R'000
Statement of profit or loss and other comprehensive income													
Northern region	1 851 065	(1 041 806)	809 259	(72 794)	(60 757)	-	70 750	(441 058)	(14 770)	290 630	16 437	5 749	312 816
Southern region	617 552	(473 014)	144 538	(68 147)	7 240	-	(8)	(105 773)	(1 297)	(23 447)	-	304	(23 143)
LBLIC	11 117	(120)	10 997	-	(741)	9 024	125 625	(11 188)	(41)	133 676	-	-	133 676
Continuing operations	**2 479 734**	**(1 514 940)**	**964 794**	**(140 941)**	**(54 258)**	**9 024**	**196 367**	**(558 019)**	**(16 108)**	**400 859**	**16 437**	**6 053**	**423 349**
Discontinued operation - LDFU	-	(27 563)	(27 563)	(1 241)	-	-	-	(204)	-	(29 008)	-	-	(29 008)
	2 479 734	**(1 542 503)**	**937 231**	**(142 182)**	**(54 258)**	**9 024**	**196 367**	**(558 223)**	**(16 108)**	**371 851**	**16 437**	**6 053**	**394 341**

Segment reporting (continued)

Segment reporting (Geographic segments) (continued)

Group - 2014

Statement of financial position

	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment	Working Capital (incl. loans and advances)	Other assets	Total assets
	R'000	R'000	R'000	R'000
Assets				
Northern region	611 786	9 677 459	-	10 289 245
Southern region	2 639	24 908 293	-	24 910 932
LBLIC	1 136 122	338 150	2 634	1 476 906
Continuing operations	**1 750 547**	**34 923 902**	**2 634**	**36 677 083**
Discontinued operation - LDFU	-	142 204	-	142 204
	1 750 547	**35 066 106**	**2 634**	**36 819 287**

	Working Capital (incl. funding)	Other liabilities	Total liabilities
	R'000	R'000	R'000
Liabilities			
Northern region	2 811 894	693 300	3 505 194
Southern region	25 295 521	12 174	25 307 695
LBLIC	352 919	44 065	396 984
Continuing operations	**28 460 334**	**749 539**	**29 209 873**
Discontinued operation - LDFU	783 975	34	784 009
	29 244 309	**749 573**	**29 993 882**

Segment reporting (continued)

Segment reporting (Geographic segments) (continued)

Group - 2013	Interest income R'000	Interest expense R'000	Net interest income R'000	Impairment releases/ (charges), claims and recoveries R'000	Non-interest income R'000	Operating loss from insurance activities R'000	Fair value gains, investment income and non-trading and capital items R'000	Operating expenses and indirect taxes excluding depreciation and amortisation R'000	Depreciation and amortisation R'000	Net profit/ (loss) R'000	Actuarial losses on the post-retirement obligation R'000	Revaluation of land and buildings R'000	Total comprehensive income R'000
Statement of profit or loss and other comprehensive income													
Northern region	1 478 650	(796 719)	681 931	(37 877)	(3 158)	-	31 059	(442 381)	(23 139)	206 435	(22 736)	23 206	206 905
Southern region	559 508	(444 885)	114 623	(37 138)	8 641	-	67	(99 408)	(1 944)	(15 159)			(15 159)
LBLIC	9 684	(960)	8 724		-	16 267	134 464	(8 521)	-	150 934			150 934
Continuing operations	**2 047 842**	**(1 242 564)**	**805 278**	**(75 015)**	**5 483**	**16 267**	**165 590**	**(550 310)**	**(25 083)**	**342 210**	**(22 736)**	**23 206**	**342 680**
Discontinued operation - LDFU	-	(38 470)	(38 470)	1 284	-	-	-	(904)	-	(38 090)	-	-	(38 090)
	2 047 842	**(1 281 034)**	**766 808**	**(73 731)**	**5 483**	**16 267**	**165 590**	**(551 214)**	**(25 083)**	**304 120**	**(22 736)**	**23 206**	**304 590**

Segment reporting (continued)

Group - 2013
Statement of financial position

	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment	Working Capital (incl. loans and advances) [1/2]	Other assets [2]	Total assets
	R'000	R'000	R'000	R'000
Assets				
Northern region	577 769	21 014 919	-	21 592 688
Southern region	2 403	7 705 566	-	7 707 969
LBLIC [2]	1 025 817	305 394	6 265	1 337 476
Continuing operations	**1 605 989**	**29 025 879**	**6 265**	**30 638 133**
Discontinued operation - LDFU	-	143 873	-	143 873
	1 605 989	**29 169 752**	**6 265**	**30 782 006**

[1] Includes reconciliation to group results in terms of IFRS 8.
[2] The FY2013 Statement of Financial Position has been realigned to conform with FY2014 disclosure.

	Working Capital (incl. funding)	Other liabilities	Total liabilities
Liabilities	R'000	R'000	R'000
Northern region	12 882 913	633 028	13 515 941
Southern region	9 909 079	77 836	9 986 915
LBLIC	340 200	51 216	391 416
Continuing operations	**23 132 192**	**762 080**	**23 894 272**
Discontinued operation - LDFU	756 638	32	756 670
	23 888 830	**762 112**	**24 650 942**

	2014	2013
Additions to non-current assets	R'000	R'000
Northern region	**4 427**	14 088
Southern region	**1 187**	-
LBLIC	**15**	3
Continuing operations	**5 629**	14 091
Discontinued operation - LDFU	-	-
	5 629	14 091

The geographical segments consist of 27 AFC's and 2 hubs within the boundries of the respective provinces of the Republic of South Africa according to the client's location. Group Capital is included in the Northern segment, as the head office is situated in Pretoria.

All revenue per geographical segment is attributable to the Republic of South Africa. All non-current assets are located in the Republic of South Africa.

Information about major customers
The bank earned R401 million (2013: R320 million) in interest revenue from one of the Gauteng-based customers in the Business & Corporate Banking Unit. This represents approximately 16.2% (2013: 15.7%) of the bank's gross revenue.

Notes to the Group Annual Financial Statements

1 Corporate information

The Land and Agricultural Development Bank of South Africa ("Land Bank" or "the Bank") operates as a development finance institution within the full agricultural value chain. Its activities are regulated by the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002), (the Land Bank Act) and the Public Finance Management Act, 1999 (Act No. 1 of 1999) (the PFMA) as amended. The Land Bank provides a range of finance options to a broad spectrum of clients within the agricultural sector. Financing products cater for wholesale as well as retail financing for various client groups, including developing and commercial farmers, co-operatives and other agricultural enterprises.

In addition to its banking operations, the Land Bank extends its services to the insurance sector through its subsidiary, Land Bank Life Insurance Company (LBLIC). LBLIC offers credit life insurance products and short-term insurance products. LBLIC is incorporated in terms of the Companies Act of South Africa 2008 (Act No. 71 of 2008) and is a schedule 2 Public Entity in terms of the PFMA.

The financial statements were authorised for issue by the directors on 31 July 2014.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

2.1 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 April 2013.

i) Offsetting of financial assets and financial liabilities (amendments to IFRS 7 Financial Instruments Disclosures ("IFRS 7"))

The amendments introduced additional disclosures to include information that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognised financial assets and recognised financial liabilities, on the statement of financial position.

The amendment does not have an impact on the group's annual financial statements.

ii) Consolidated financial statements (IFRS 10 Consolidated Financial Statements ("IFRS 10"))

This standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements ("IAS 27") and SIC 12 Consolidation – Special Purpose Entities ("SIC 12"). The standard sets out how to apply the control principle inter alia to voting rights, circumstances involving agency relationships and circumstances when the investor has control over specified assets of the investee. The consolidation principles have remained unchanged and are now incorporated as part of IFRS 10

The group does not have any SPV's and as a result IFRS 10 had no impact on the consolidated financial statements.

iii) Joint arrangements (IFRS 11 Joint Arrangements ("IFRS 11"))

The new standard replaces IAS 31 Interests in Joint Ventures ("IAS 31") and SIC Interpretation 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers ("SIC 13") and requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then accounting for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations (rights to assets and obligations) or joint ventures (rights to net assets).

The proportionate consolidation method for accounting for joint ventures has now been eliminated and all joint ventures will be equity accounted.

The group does not have any investments in joint ventures and as a result IFRS 11 had no impact on the consolidated financial statements.

iv) Disclosure of interests in other entities (IFRS 12 Disclosures of Interest in Other Entities ("IFRS 12"))

This standard requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates, jointly controlled entities and unconsolidated structured entities. Disclosures should enable a user to evaluate the nature of the risks associated with the interest in these entities and are intended to assist users to understand the effects of an entity's interest in other entities on its financial position, financial performance and cash flows.

Notes to the Group Annual Financial Statements (continued)

This standard has resulted in additional disclosure. (Refer to notes 8.3, 8.4, 8.5 and 8.6.)

v) Fair value measurement (IFRS 13 Fair Value Measurement ("IFRS 13"))
This standard replaces guidance on fair value measurement in existing IFRS accounting standards by providing a single source of guidance to prescribe how fair value should be measured. The standard requires (with some exceptions) entities to classify fair value measurements into a "fair value hierarchy" based on the nature of the inputs. The standard also requires entities to make various disclosures depending on the nature and level of the fair value measurement.

The adoption of IFRS 13 has resulted in additional disclosures. (Refer to note 36.7.)

vi) Presentation of items of other comprehensive income ("OCI") (amendments to IAS 1 Presentation of Financial Statements ("IAS 1")
The amendments revise the way OCI is presented by preserving the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together or in a separate "statement of profit or loss" and a "statement of comprehensive income". In addition, items are presented in OCI based on whether or not they will be subsequently reclassified to profit or loss.

The amendment relating to the presentation of profit or loss and OCI to be presented together or in a separate "statement of profit or loss" and a "statement of other comprehensive income" is a voluntary amendment which the Bank has chosen not to apply. The amendment relating to the presentation of items of OCI has resulted in a change whereby the items in OCI are now split between those items that will subsequently be reclassified to profit or loss and those items which will not be subsequently reclassified to profit or loss.

vii) Presentation of comparative information (amendments to IAS 1)
The amendments clarify that when an entity is required to provide comparative information that goes beyond the minimum requirements in the current period, that information need not be presented in the form of a complete set of financial statements. Where an entity changes accounting policies, or makes retrospective restatements or reclassifications, an opening statement of financial position would be required as at the beginning of the required comparative reporting period but related notes would not be required, except for those required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").

There was no restatement of comparative information for the group in the current financial year.

viii) Employee benefits (amendments to IAS 19)
The amendments revise the requirements for pensions and other post-retirement benefits, termination benefits and other changes. The key amendments include eliminating the "corridor approach" as permitted by the previous version of IAS 19, introducing more enhanced disclosures relating to defined benefit plans, modifying accounting for termination benefits and clarifying the classification of employee benefits, current estimates of mortality rates and other miscellaneous issues.

The amendment had no impact on the group annual financial statements.

ix) Separate financial statements (amendments to IAS 27)
The revised IAS 27 now only deals with the requirements for separate financial statements; the requirements for consolidated financial statements are now contained in IFRS 10. The standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments ("IFRS 9") (or IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), as applicable). The standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

The revised IAS 27 had no impact on the group annual financial statements.

x) Investments in associates and joint ventures (amendments to IAS 28 Investments in Associates and Joint Ventures ("IAS 28"))
This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The group already applies the equity method for investments in associates and joint ventures in accordance with the amendments in IAS 28 and as a result the amendment had no impact on the group annual financial statements.

Notes to the Group Annual Financial Statements (continued)

2.2 Basis of presentation of financial statements

The consolidated financial statements have been prepared in accordance with IFRS (with consent from the National Treasury for all Schedule 2 public entities) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), applying the accrual basis of accounting, the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated group and bank financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2.1 Functional and presentation currency

The consolidated financial statements are presented in South African Rand, which is the bank's functional currency. All financial information presented in Rand are rounded to the nearest thousand (R'000), unless otherwise stated.

2.2.2 Distinction between current and non-current

The group presents the assets and liabilities in decreasing order of liquidity as it provides information that is more reliable and relevant than a current/non-current presentation because the Group does not supply goods or services within a clearly identifiable operating cycle.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of the Land Bank and its subsidiaries, LBLIC, LBIS (which is currently dormant) and LBIC (which is currently dormant) and associate, Renaissance Brands (Pty) Ltd as at 31 March 2014.

The financial statements of LBLIC are prepared for the same reporting year as Land Bank, using consistent accounting policies. Furthermore, the annual financial statements have been prepared in accordance with the requirements of both the Short- and Long-term Insurance acts.

2.3.1 Subsidiaries

Subsidiaries are all entities over which the bank has control. The bank controls and hence consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The bank will only consider potential voting rights that are substantive when assessing whether it controls another entity. In order for the right to be substantive, the holder must have the practical ability to exercise that right. Subsidiaries are fully consolidated from the date on which control is transferred to the bank. They are deconsolidated from the date that control ceases.

The consolidation of subsidiaries is considered at inception, based on the arrangements in place and the assessed risk exposures at that time.

The initial consolidation analysis is revisited at a later date if;

- the bank acquires additional interests in the entity;
- the contractual arrangements of the entity are amended such that the relative exposures to risks and rewards change; and
- the bank acquires control over the relevant activities of the entity.

Intragroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the group for the purposes of the consolidation.

The bank uses the acquisition method of accounting to account for business combinations in accordance with IFRS 3 Business Combinations ("IFRS 3").

Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements of the bank.

Notes to the Group Annual Financial Statements (continued)

2.3.2 Investments in associates

Investments in associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits and losses is recognised in the statement of profit or loss and other comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted for against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses arising from transactions with equity-accounted investments are eliminated against the investment to the extent of the group's interest in the investment. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

Investments in associates in the bank's separate financial statements are carried at fair value. Profits and losses arising in investments in associates are recognised in the statement of profit or loss and other comprehensive income.

2.4 Revenue recognition

Revenue is recognised to the extent that economic benefits will flow to the group and the revenue can be reliably measured.

Revenue is measured at the fair value of consideration received or receivable. The following criteria must also be met before revenue is recognised:

2.4.1 Interest income

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recognised in the statement of profit or loss and other comprehensive income using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the 'Net interest income' in the statement of profit or loss and other comprehensive income.

2.4.2 Other income

Fee and commission income

Fees and other income and expenses which are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, is recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

Raising/ structuring fees are recognised immediately as the costs are incurred as they relate to the execution of a significant act.

Dividend income

Dividends are recognised in the period when the shareholders' right to receive payment is established.

Dividend income from financial assets classified as at fair value through profit or loss is recognised on the last date to register.

Preference share dividends are recognised using the effective interest rate method.

Notes to the Group Annual Financial Statements (continued)

Investment surpluses
Investment surpluses consist of net realised gains and losses on the sale of investments and net unrealised fair value gains and losses on the valuation of investments at fair value, excluding dividend and interest income. These surpluses are recognised in the statement of profit or loss and other comprehensive income on the date of sale or upon valuation to fair value.

Penalty fee income
Penalty fee income is recognised when the event of default occurs and it is probable that economic benefits, as a result of the penalty fee, will flow to the bank.

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term and is recorded in the statement of profit or loss and other comprehensive income in 'Non-interest income'.

Realised gains and losses
The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate and is recorded in the statement of profit or loss and other comprehensive income.

Unrealised gains and losses
Unrealised gains or losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the year is recognised in the statement of profit or loss and other comprehensive income.

Insurance premium income
Refer to note 2.25.1 and note 2.25.2.

2.5 Expenses

2.5.1 Administration costs
Administration costs on short-term insurance business consist of directly attributable costs payable to the underwriter and are deferred over the period in which the related premiums are earned.

Administration costs that are directly attributable to long-term recurring premium insurance policy contracts are recognised directly to the statement of profit or loss and other comprehensive income.

2.5.2 Commission
Commission is payable to sales staff on long-term and short-term insurance business. Commission is accounted for on all in-force policies in the financial period during which it is incurred. The portion of the commission that is directly attributable to the acquisition of long-term recurring premium insurance policy contracts is recognised directly to the statement of profit or loss and other comprehensive income. Acquisition costs for short-term insurance business is deferred over the period in which the related premiums are earned.

2.6 Fruitless, wasteful and irregular expenditure
Items of expenditure which meet the requirements of the PFMA for fruitless and wasteful as well as irregular expenditure are separately disclosed in the notes to the financial statements. "Fruitless and wasteful expenditure" means expenditure which was made in vain and would have been avoided had reasonable care been exercised. "Irregular expenditure" means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

"Fruitless and wasteful expenditure" is recognised as an asset in the statement of financial position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the statement of profit or loss and other comprehensive income.

When discovered, irregular expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of profit or loss and other comprehensive income. Irregular expenditure approved with funding, is recognised in the statement of profit or loss and other comprehensive income when the unauthorised expenditure is approved and the related funds are received. Where the amount is approved without funding, it is recognised as expenditure, subject to availability of savings in the statement of profit or loss and other comprehensive income on the date of approval.

Notes to the Group Annual Financial Statements (continued)

2.7 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Group as lessee

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread over the term of the lease.

The Group as a lessor

Leases where the group retains substantially all the risk and benefits of ownership of the asset are classified as operating leases. The bank leases out its investment properties as operating leases, thus generating rental income. The rental income is recognised as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term of the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.8 Government grants

Government grants are recognised as income at their fair value where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the related costs that it is intended to compensate for and are not recognised in equity. When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful live of the related asset and is not recognised in equity.

Capital contributions from the main shareholder, which is a government institution, are classified as capital funds in the statement of changes in equity and not governmental grants.

2.9 Employee benefits

2.9.1 Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employee entitlement to wages, salaries and annual leave represents the amount which the group has a present obligation to pay as a result of employees' services provided during the period under review. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

Group Annual Financial Statements

for the year ended 31 March 2014

Notes to the Group Annual Financial Statements (continued)

2.9.2 Post retirement benefits

2.9.2.1 Defined contribution plans

A defined contribution plan is a plan under which fixed contributions are paid into a separate entity. As a result, there is no legal or constructive obligation on the employer to pay further contributions. Obligations for contributions to defined contribution provident fund plans are recognised as an expense in the statement of profit or loss and other comprehensive income when they are due.

Retirement fund

The Land Bank Retirement Fund which functions as a defined contribution plan and which is subject to the provisions of the Pension Fund Act, 1956 (Act No.24 of 1956) came into operation on 1 November 1994. Defined obligations such as disability and death in service were completely phased out during the 2007 financial year. The Fund is now accounted for as a defined contribution plan as it no longer has any obligation towards members for defined benefits. Contributions are recognised as an expense and as a liability to the extent that they are unpaid.

2.9.2.2 Defined benefit plans

A defined benefit plan is a plan that defines a benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Medical aid fund

The bank provides a post-retirement medical aid benefit to all employees who were either employees or pensioners of the bank at 1 December 2005. The fund functions as a defined benefit scheme. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age. It is the group's policy to pay the medical fund subscription fees on behalf of all pensioners in full and to fund the total obligation as and when it arises.

Actuarial valuations of the bank's liability are conducted on a bi-annual basis by an independent qualified actuary on the Projected Unit Credit method. The liability recognised in the statement of financial position in respect of defined benefit medical plans is the present value of the defined benefit obligation at the statement of financial position date. The benefit obligation at the statement of financial position date is not reflected net of assets since these assets are not held in a legally separate entity that is not available to the bank's own creditors. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the statement of profit or loss and other comprehensive income in full.

2.9.2.3 Termination benefits

Termination benefits are recognised as an expense when the bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

2.9.2.4 Short-term benefits

Short-term employee benefit obligations including annual leave are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the bank 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.

2.10 Taxation

The Land Bank is exempt from income tax in terms of sections 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962.

As part of the restructuring of the operations, the tax status of the Land Bank Insurance Services Group, is currently under review with SARS. Please refer to note 33.4.6 for additional disclosure regarding the contingent liability raised in this regard.

Group Annual Financial Statements
for the year ended 31 March 2014

Notes to the Group Annual Financial Statements (continued)

2.11 Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/ or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced in intervals, the group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

The cost of an item of property and equipment is recognised as an asset if, and only if:

a) it is probable that future economic benefits associated with the item will flow to the group; and
b) the cost of the item can be measured reliably.

Land and buildings held for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken at least once every year by independent sworn appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the 'Revaluation Reserve' included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss and other comprehensive income, in which case the increase is recognised in the statement of profit or loss and other comprehensive income. A revaluation deficit is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Land is not depreciated. Leasehold improvements are depreciated on a straight-line basis over the period of the lease.

The estimated useful lives of the newly acquired assets are as follows:

Buildings	40 years
Furniture and fittings	5 years
Computer equipment	3 years
Motor vehicles	5 years
Leasehold Improvements	Period of the lease

The depreciation charge for each period is recognised in profit or loss.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised.

Residual values, depreciation methods and useful lives are reviewed annually and adjusted prospectively as a change in estimate. The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Useful life is the period over which an asset is expected to be available for use by an entity.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Notes to the Group Annual Financial Statements (continued)

2.12 Investment property

Investment properties (properties that are not owner-occupied), are properties which are held to earn rental income and/ or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss and other comprehensive income in the period in which they arise.

Investment properties are recognised as an asset when, and only when:

a) it is probable that future economic benefits associated with the investment property will flow to the group; and
b) the cost of the investment property can be measured reliably.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss and other comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use. Owner occupied property is classified as investment property where the tenant occupies more than 50% of the lettable space of the property. This threshold was set due to the group's intention to let out any excess office space which exists at the group's properties.

2.13 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of profit or loss and other comprehensive income in the year in which the expenditure is incurred.

Intangible assets are recognised as an asset when, and only when:

a) it is probable that future economic benefits associated with the asset will flow to the group; and
b) the cost of the intangible asset can be measured reliably.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

Notes to the Group Annual Financial Statements (continued)

2.13.1 Computer software

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

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

During the financial year a change of estimate took place with respect to the useful life of the computer software. Previously the software was amortised over a period of five years however after the annual review of the estimated useful life of the software, it was decided that a useful life of 20 years was more appropriate. The change was applied prospectively from 1 April 2013. The software will now be amortised using the straight-line method over a period of twenty years (Refer to note 12.)

2.14 Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

The calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

2.15 Financial instruments

2.15.1 Recognition and initial measurement

(i) Date of recognition

All financial assets and liabilities are initially recognised on the settlement date, i.e., the date that the group becomes a party to the contractual provision of the instrument. This includes "regular way trades": purchases or sales of financial assets that require the delivery of assets within the timeframe generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Notes to the Group Annual Financial Statements (continued)

(iii) Derivatives recorded at fair value through profit or loss

The group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Operating income'.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held-for-trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the statement of profit or loss and other comprehensive income.

(iv) Financial assets or financial liabilities held–for–trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Operating income'. Interest and dividend income or expense is recorded in 'Operating income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

(v) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Fair value gains/ (losses) on financial assets and liabilities designated at fair value through profit or loss'. Interest that is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Investment income' when the right to the payment has been established.

Included in this classification are loans and advances to customers which are economically hedged by credit derivatives and do not qualify for hedge accounting, as well as notes issued which are managed on a fair value basis.

(vi) Held–to–maturity financial investments

Held–to–maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statement of profit or loss and other comprehensive income. The losses arising from impairment of such investments are recognised in the statement of profit or loss and other comprehensive income.

If the group were to sell or reclassify more than an insignificant amount of held–to–maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Notes to the Group Annual Financial Statements (continued)

(vii) Due from Banks and loans and advances to customers
'Due from Banks' and 'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the group intends to sell immediately or in the near term and those that the group upon initial recognition designates as at fair value through profit or loss;
- Those that the group, upon initial recognition, designates as available for sale; and
- Those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from Banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income.

The bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

Financial assets
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value and, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset.

The group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Financial liabilities
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments

2.15.2 Subsequent measurement
Subsequent to initial recognition, the group classifies financial instruments as 'at fair value through profit or loss', 'loans and receivables' and 'other financial liabilities'. The measurement of each is set out below.

Financial assets

Held-to-maturity
Held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statement of profit or loss and other comprehensive income. The losses arising from impairment of such investments are recognised in the statement of profit or loss and other comprehensive income.

Notes to the Group Annual Financial Statements (continued)

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. This category includes debentures, market-making assets. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the future. Derivatives not designated as hedges are also classified as held for trading.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income.

Loans and receivables
The group has classified loans, trade receivables and cash at bank as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. It arises when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in "Net interest income" in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income in finance costs.

Renegotiated loans
Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the group has made concessions that it would otherwise not consider. These loans are not considered to be past due after renegotiations but are treated as current loans after the loan has performed for a specified period. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

When the restructured loan's terms are materially altered, the original loan will be derecognised and a new loan will be recognised.

Financial liabilities

Financial liabilities at fair value through profit or loss
Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income.

Loans and Borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the finance costs in the statement of profit or loss and other comprehensive income.

2.15.3 Derecognition
A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the group's contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year.

Notes to the Group Annual Financial Statements (continued)

Financial assets
A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - The group has transferred substantially all the risks and rewards of the asset, or
  - The group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.15.4 Impairment of financial instruments

Impairment of financial assets
The group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Impairments are recognised through profit and loss.

Assets carried at amortised cost
For financial assets carried at amortised cost the group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of profit or loss and other comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to bad debts recovered in the statement of profit or loss and other comprehensive income.

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Notes to the Group Annual Financial Statements (continued)

2.15.5 Day 1 profit
Where the transaction price in a non-active market is different from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the statement of profit or loss and other comprehensive income under fair value gains and losses. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognised.

2.15.6 Financial guarantees
Financial guarantee contracts are contracts that require the group as the issuer of the guarantee to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. When such contracts are entered into by the group, a liability is recognised initially at fair value and subsequently measured at the higher of the amount determined in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and the initial fair value less cumulative amortisation in accordance with IAS 18.

2.15.7 Fair value of financial instruments
The fair value of financial assets and liabilities that are actively traded in financial markets is determined by reference to quoted market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques such as discounted cash flow analysis.

2.15.8 Amortised cost of financial instruments
Amortised cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

2.16 Derivatives
The group's activities expose it primarily to the financial risks of changes in interest rates. The group uses interest rate swaps, forward rate agreements and option contracts to hedge these exposures. The group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on the use of financial derivatives. The group does not apply hedge accounting to its economic hedging activities.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income.

2.17 Subordinated debt
Subordinated debt is measured at amortised cost using the effective interest rate method under IAS 39.

2.18 Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Notes to the Group Annual Financial Statements (continued)

2.19 Sale and repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the group retains substantially all of the risk and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the bank.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the group reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral, as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position.

The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held-for-trading and measured at fair value with any gains or losses included in net trading income.

2.20 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

2.21 Funds administered on behalf of related parties

The group manages funds on behalf of related parties. These amounts are carried at amortised cost. The net position in terms of legal right to offset of these funds administered on behalf of related parties are separately disclosed in note 32.

2.22 Related parties

The group operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling activities of the group. All individuals from Executive Management up to the Board of Directors are key management individuals in their dealings with the group.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management individuals in their dealings with the group.

Other related party transactions are also disclosed in terms of the requirements of IAS 24. The objective of IAS 24 and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

2.23 Foreign currency transactions

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. Foreign exchange differences arising on the settlement of monetary items or translating monetary items at rates different from those at which they were translated on initial recognition during the period or in the previous financial statements are recorded in profit and loss in the period in which they arise.

Non-monetary items that are measured in terms of historical-cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the Group Annual Financial Statements (continued)

2.24 Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision is made for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

Leave pay liability

Accumulated leave is payable to employees upon termination of services. Provision for leave is calculated on the leave days outstanding at the end of the year multiplied by the remuneration rate. The remuneration rate is calculated in accordance with the employee's employment contract total cost to company multiplied by the normal hours of work.

Provision for bonuses

The provision for bonuses is calculated by using the employee's monthly remuneration and by taking into consideration the overall performance of the group, the performance of the business department and the employee's performance.

2.25 Insurance contracts

Contracts under which the group accepts significant risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Insurance contracts are classified into two main categories, depending on the type of insurance risks, namely short-term or long-term.

2.25.1 Short-term insurance

Short-term insurance provides benefits under crop policies.

Recognition and measurement

Premiums

Gross premiums exclude value added tax. Premiums are accounted for as income when the risk related to the insurance policy incepts and are spread over the risk period of the contract by using an unearned premium provision. All premiums are shown before deduction of commission payable to intermediaries.

Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums receivable that relate to risk periods extending into the following year. The Unearned Premium Reserve (UPR) is established to recognise the unexpired risk for which premiums have already been collected. Apart from the 'Hail Summer', 'Multi-peril Summer' and 'Horticulture' classes of short-term insurance, the UPR was set with reference to the remaining days of each contract as at the valuation date. This method is in line with the requirements of the Short-term Insurance Act.

For the 'Hail Summer', 'Multi-peril Summer' and 'Horticulture' classes, the UPR calculation was based on the incidence of risk over the term of the policy. The risk incidence pattern was set with reference to recent historic claims experience provided by the underwriting manager.

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Notes to the Group Annual Financial Statements (continued)

Fees and commission earned
Insurance contract policy holders are charged for policy administration services, surrenders and other contract fees. These fees are recognised as revenue over the period in which related services are performed. If the fees are for services provided for future periods, then they are deferred and recognised over those future periods.

Provision for unexpired risk
Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims handling fees and related administration costs. This liability adequacy test is performed annually to ensure the adequacy of short-term insurance liabilities.

Provision for notified claims
Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims are charged to income as incurred based on the estimated liability for compensation owed to policy holders. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. Claims provisions are not discounted

Provision for claims incurred but not reported (IBNR)
Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the group at that date. The provision is calculated based on the requirements of the Short-term Insurance Act, 1998.

Deferred acquisition costs (DAC)
Commission and administration fees that vary with and are related to securing new contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

The DAC asset is tested for impairment annually and written down when it is not expected to be fully recovered from future income.

Reinsurance contracts held
Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The group assesses its short-term reinsurance assets for impairment annually. If there is objective evidence that the reinsurance asset is impaired, the carrying amount is reduced to a recoverable amount, and the impairment loss is recognised in the statement of profit or loss and other comprehensive income. The group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) on settled claims, as well as estimates (classified as reinsurance assets) that are dependent on the gross outstanding claims, IBNR and UPR provisions. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred.

The reinsurer's share of unearned premiums represents the portion of the current year's reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the following year. The reinsurer's share of unearned premium is calculated using the same method applied to calculate the unearned premium reserve.

Income from reinsurance contracts ceded, that varies with and is related to obtaining new reinsurance contracts and renewing existing reinsurance contracts, is deferred over the period of the related reinsurance contract and is recognised as a current liability.

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for the year ended 31 March 2014

Notes to the Group Annual Financial Statements (continued)

Contingency reserve

The Contingency Reserve as disclosed in the prior year was calculated in terms of the Short-term Insurance Act in 2010 and 2011 and was set at 10% of short-term gross written premium less short-term reinsurance premiums. The purpose of the reserve was to cover unexpected losses and was created through a transfer from retained earnings. Any transfers to/ from this reserve are reflected in the statement of changes in equity. Changes to the Capital Adequacy Requirements regulations, no longer requires a contingency reserve. The reserve was transferred to retained earnings during the year under review.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders and are included under loans and receivables and trade and other payables.

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of profit or loss and other comprehensive income. The group gathers objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated according to the same method used for these financial assets

2.25.2 Long-term insurance

These contracts provide long-term life insurance benefits with fixed terms to cover natural persons who are indebted to the group under mortgage loans, production loans and short-term loans.

Recognition and measurement

Premiums

Premiums are recognised as revenue when they become payable by the contract holder, viz at policy inception. Premiums are shown before deduction of commission. Unearned premiums are insurance premiums received in advance and are disclosed under trade and other payables in the statement of financial position.

Fees and commission earned

Insurance contract policy holders are charged for policy administration services, surrenders and other contract fees. These fees are recognised as revenue over the period in which related services are performed. If the fees are for services provided for future periods, then they are deferred and recognised over those future periods.

Underwriting benefits

Life insurance policy claims received up to the last day of each financial period and IBNR claims are provided for and included in underwriting policy benefits. Past claims experience is used as the basis for determining the extent of the IBNR claims. Income from reinsurance policies is recognised concurrently with the recognition of the related policy benefit.

Reinsurance asset

Contracts entered into with reinsurers under which the group is compensated for losses on one or more long-term policy contracts issued by the group are classified as long-term reinsurance contracts. The expected claims and benefits to which the group is entitled under these contracts are recognised as assets. The group assesses its long-term reinsurance assets for impairment annually. If there is objective evidence that the reinsurance asset is impaired, the carrying amount is reduced to a recoverable amount, and the impairment loss is recognised in the statement of profit or loss and other comprehensive income.

Long-term insurance liability

The actuarial value of the policy liabilities is determined using the FSV method as described in the Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (Actuarial Society). The underlying philosophy is to recognise profits prudently over the term of each contract which is consistent with the work done and risk borne. In the valuation of liabilities, provision is made for:

- The best estimate of future experience;
- The compulsory margins prescribed in the Long-term Insurance Act, 1998; and
- Actuarial guidance also provides for the use of discretionary margins where deemed appropriate.

Notes to the Group Annual Financial Statements (continued)

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from market yields of fixed-interest securities on the valuation date, with adjustments for the other asset classes, taking a long-term view. The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account. It is assumed that the group will retain its tax-exempt status for the foreseeable future;
- "Per policy" expenses are based on the latest actual expenses and escalated at the estimated annual expense inflation rate. In addition, expense overruns in the medium term were reserved for separately;
- Assumptions with regard to future mortality rates are consistent with the group's recent experience or expected future experience if this would result in a higher liability. In particular, mortality rates are adjusted to allow for expected deterioration in mortality rates as a result of AIDS; and
- Persistency assumptions with regard to lapse rates are consistent with the group's recent experience or expected future experience if this would result in a higher liability.

2.26 Segment information

The segment information is based on the information about the components of the group that management uses to make decisions about operating matters. The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

The principal segments of the group have been identified on a business segment basis, (namely Group Capital, Retail Commercial Banking, Retail Emerging Markets, Business & Corporate Banking, Land for Development and Land Bank Life Insurance Company (SOC) Limited) and on a geographical segmentation namely the northern and southern regions of South Africa. These bases are representative of the internal organisational structure for management purposes. The source and nature of business risks and returns are segmented on the same basis.

2.27 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent liabilities. Actual results could differ from such estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant judgments and estimates are summarised below:

i) Impairment losses on loans and advances

The group reviews its loan portfolios to assess impairment at each financial reporting date. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the group makes judgments as to whether there is any observable evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on the contractual cash flows of the assets within the portfolio and the historical-loss experience for assets with homogeneous credit risk characteristics to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the Group Annual Financial Statements (continued)

(a) LDFU loan impairments

It was concluded in the 2008 financial year that these loans do not form part of the mandate of the group and, as such, a moratorium was placed on further approvals and the operations discontinued.

The group suspended the accrual of interest on all LDFU loans. No further disbursements were made since the last disbursement in October 2007. All the loans have since been regarded as non-performing. Refer to note 21 for information regarding this discontinued operation.

During 2013 and 2014 the group contracted independent professional valuators to obtain up to date valuations in order to ensure that the carrying values of these loans do not exceed the net realisable values. Where the valuations obtained exceed the carrying values, the directors opted to maintain the current values due to uncertainties surrounding the potential conditions of disposal and legalities. (Refer to note 11.)

(b) Provision for onerous contracts - LDFU loans

An independent legal opinion was obtained to determine the likelihood of onerous contract obligations in respect of LDFU loans. According to the opinion the LDFU loans were outside the mandate of the group in terms of the Land Bank Act. Due to the moratorium placed on further approvals/disbursements, the group did not fully disburse all loans approved.

The group performed an assessment to ascertain whether or not provision is required for onerous contracts arising out of the LDFU loans in terms of IAS37 – Provisions, Contingent Liabilities and Contingent Assets for the undisbursed loan commitments. As set out in Note 33.4.1 the quantification of possible claims, if any, is not possible and as such no provision had been raised.

(c) Retail impairment model and the recognition of related fees

Historical system data shortcomings prohibit the group from applying the effective contractual interest rate to discount cash flows in the retail impairment model. As an alternative measure, the group has applied the Weighted Average Cost of Capital (WACC) to discount cash flows. For the current year the group used an average interest rate to discount the cash flows from the date of default onwards. This is the average of all effective interest rates after default and is split by client type, loan type, default date and duration from default. In the retail model, the impairment is triggered when a contractual payment is missed. The impairment calculation is based on the probability of default (PD) methodology. The PD is the percentage of assets moving from the initial delinquency/ current state to defaults, based on historical default experience. The impairment also takes into account the loss given default (LGD). The LGD estimates are based on historical loss experience and are adjusted to add current economic conditions.

ii) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

iii) Insurance

a) Unlisted investments

The valuation of unlisted shares, as applied by the company's asset managers, comply with International Private Equity and Venture Capital Valuation guidelines. Various valuation techniques are used to arrive at the fair value of investments, including:

- Price of recent investment;
- Earnings multiple;
- Net assets;
- Discounted cash flows;
- Industry benchmarks; and
- Available market prices

The appropriateness of valuations is reviewed annually by the Insurance company's Investment and Actuarial Committee.

Notes to the Group Annual Financial Statements (continued)

b) Policy liabilities in respect of long-term insurance contracts
The following process is followed to determine the valuation assumptions:

- Determine the best estimate for a particular assumption;
- Prescribed margins are then applied; and
- Discretionary margins may be applied as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

Investment return
Future investment return assumptions are derived from market-related interest rates on fixed-interest securities with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses and charges for investment guarantees are taken into account.

Decrements
Assumptions with regard to future mortality and lapse rates are consistent with the experience for the five years up to 31 March 2014. Mortality rates are adjusted to allow for expected deterioration in mortality rates as a result of AIDS.

Policy expenses
"Per policy" expenses are based on the latest actual expenses and escalated at the estimated annual expense inflation rate. In addition, expense overruns in the medium term were reserved for separately.

c) Policy liabilities in respect of short-term insurance contracts
One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the group, principally in respect of the insurance liabilities of the group.

Insurance liabilities include the provisions for unearned premiums, unexpired risk, outstanding claims and incurred but not reported (IBNR) claims. Unearned premiums represent the amount of income set aside by the group to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the statement of financial position date. At each statement of financial position date an assessment is made of whether the provisions for unearned premiums are adequate. When it is anticipated that unearned premiums will be insufficient to cover anticipated costs and fees, unexpired risk is also set aside.

Outstanding claims represent the group's estimate of the cost of settlement of claims that have occurred by the statement of financial position date, but that have not yet been finally settled. In addition to the inherent uncertainty of having to provide for future events, there is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the statement of financial position date.

d) Process to determine significant assumptions
Insurance risks are unpredictable and the group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts.

- Outstanding claims
Claim provisions are determined based upon previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on interpretation of circumstances. Each notified claim is assessed on a separate case by case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar cases. The group's estimates for outstanding claims are continually reviewed and updated, and adjustments resulting from this review are reflected in the statement of profit or loss and other comprehensive income as and when identified.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is carried out to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the year in which the loss claim occurred and under which reinsurance programme the recovery will be made as well as the size of the claim.

Notes to the Group Annual Financial Statements (continued)

- Claims incurred but not reported (IBNR)
The policyholders' liabilities include a provision for the expected cost of IBNR claims. This relates to claims expected to be made by policyholders in respect of events that occurred before the financial year end but that have not yet been reported to the group by year end. The IBNR is not discounted due to the short-term nature of IBNR claims on crop.

For short-term business, the provision is based on the minimum requirements of the Short-term Insurance Act, 1998. The computation has changed as required by the FSB Notice 169 issued on 28 October 2011. The Board notice is effective for the year ends after January 1, 2012. In line with the new computation, net earned premiums in different classes for the last six financial years are multiplied by the development factors introduced separately and the outcomes are added up.

The group writes crop insurance cover under the property class.

- Premium provisions
The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. For 'Summer Hail', 'Multi-peril Summer' and 'Horticulture' classes, unearned premium is calculated according to claim occurrence patterns whereas in the other classes, remaining days method is used.

At each statement of financial position date an assessment is made of whether the provisions for unearned premium are adequate. If the premium level is deemed to be insufficient based on information available at the statement of financial position date, to cover the anticipated claims and operating expenses, a separate provision is made for any estimated future underwriting losses relating to unexpired risks. This assessment includes estimates of future claims frequency and other factors affecting the need for a provision for unexpired risk and performed annually.

The provision for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised. Deferred acquisition costs and reinsurance commission revenue is recognised on a basis that is consistent with the related provisions for unearned premiums.

iv) Classification and measurement of the floating rate notes
The group has elected to classify the floating rate notes as held at fair value through profit and loss with all movements in the fair value being accounted for in the statement of profit or loss and other comprehensive income.

v) Basis of allocation of segment revenue, assets and liabilities
Funding liabilities are allocated to segments as a percentage of the loans portfolio in that segment.

vi) Depreciation rates, methods and residual values
Depreciation rates, depreciation methods adopted and residual values of assets requires judgments and estimates to be made. Changes in estimates are disclosed in the relevant notes where applicable.

vii) Post employment medical benefits
The cost of defined benefit post employment medical benefits as well as the present value of the post retirement medical aid obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and medical cost trends. All assumptions are reviewed at each reporting date.

2.28 Events after statement of financial position date
All adjusting events, both favourable and unfavourable, that occurred between statement of financial position date and the date when the financial statements are issued have been reported and adjusted in the financial statements.

No adjustments have been made for those events that are indicative of conditions that came into existence after the statement of financial position date.

Notes to the Group Annual Financial Statements (continued)

2.29 Non-current assets held-for-sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the statement of profit or loss and other comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit/ (loss) after taxes. Property and equipment and intangible assets once classified as held for sale are not depreciated/ amortised.

2.29.1 Properties in possession

Unsold properties in possession are recognised once ownership has been legally transferred to the group and the underlying debtor is then derecognised. These properties are included under non-current assets held for sale at the outstanding loan balance, which are then valued at the lower of the carrying amount and the fair value less costs to sell. The fair value is determined using a market-based valuation performed by a sworn appraiser at the statement of financial position date. Realisable value is determined using market-based valuations performed by a sworn appraiser at the statement of financial position date. Maintenance costs are expensed in the period incurred.

2.29.2 Disposal of properties in possession

It is the group's policy to dispose of repossessed properties in an orderly fashion on a willing buyer and willing seller basis. The property to be sold is advertised in the market. Upon receipt of offers to purchase, the offers are evaluated and an offer that makes the most economic sense is accepted.

2.30 Change in accounting estimate

During the current reporting period, the bank revised the estimated useful lives of intangible assets from five years to twenty years. The change in accounting estimate has been accounted for prospectively from 1 April 2013 in accordance with IAS 8. (Refer to note 12).

2.32 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the group's financial statements are disclosed below. The group intends to adopt these standards, if applicable, when they become effective.

Standard or interpretation	Effective date
IFRS 7 Financial Instruments Disclosures Amendments requiring disclosures about the initial application of IFRS 9. The group is currently in the process of assessing IFRS 9's full impact and the related disclosures which will need to be given on first time adoption of IFRS 9.	01 Jan 15
IFRS 9 Financial Instruments - Classification and measurement of financial assets and financial liabilities and derecognition requirements IFRS 9 was initially published in November 2009 as the first step in replacing IAS 39 and contains new requirements for the classification and measurement requirements for financial assets. The classification and measurement requirements of financial liabilities were added to IFRS 9 in October 2010 and the hedge accounting requirements in November 2013. The effective date of IFRS 9 was 1 January 2015. However, in July 2013, the IASB issued a tentative decision to defer the effective date of IFRS 9 as the classification and measurement and impairment of financial assets requirements have not yet been finalised. The group is currently in the process of assessing IFRS 9's full impact and initial indications are that it is likely to affect the Bank's accounting for certain types of financial assets. Investments in certain listed debt instruments currently classified as financial assets designated at fair value through profit or loss will be permitted to be measured at amortised cost. Investments in structured notes currently accounted for as host debt instruments (measured at amortised cost) and embedded derivatives (measured at fair value) are required to be measured at fair value in their entirety, with fair value gains and losses being recognised in profit or loss. IFRS 9 will also impact the measurement of financial liabilities currently classified as financial liabilities designated at fair value through profit or loss, as changes in fair value resulting from changes in the group's credit risk will be recognised in other comprehensive income (OCI) and not in profit or loss.	01 Jan 15

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Notes to the Annual Financial Statements (continued)

	Group		Bank	
	2014	2013	2014	2013
	R'000	R'000	R'000	R'000

3 Cash and cash equivalents

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Cash at bank				
- Commercial banks	**1 259 754**	962 109	**1 012 663**	747 473
- Short-term deposits	**215 100**	929 274	**215 066**	929 242
	1 474 854	1 891 383	**1 227 729**	1 676 715

Classification of cash and cash equivalents
Loans and receivables at amortised cost

Cash at banks are primarily held as a liquidity buffer in response to the group's perceived refinancing/liquidity risk. Refer to note 36.2.1 for the credit risk ratings on the bank accounts.

The amount of undrawn borrowing facilities as at 31 March 2014: R1.05 billion (2013: R1.05 billion).

Cash at commercial banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.

4 Trade and other receivables

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Accrued investment income	**19 006**	19 906	**19 006**	19 906
Fruitless and wasteful expenditure receivable (note 37)	**1**	24	**1**	24
LBLIC - intercompany balances [1]			**283 758**	269 415
Loans to current employees [2]	**835**	1 042	**835**	1 042
Loans to former employees [2]	**194**	201	**194**	201
- Gross loan	**636**	651	**636**	651
- Impairment	**(442)**	(450)	**(442)**	(450)
Premium receivable	**3 035**	4 155		
Prepaid expenses	**7 921**	8 663	**7 921**	8 663
Reinsurance receivable	**71 610**	69 939		
Sundry receivables [3]	**46 666**	56 593	**30 285**	39 961
	149 268	160 523	**342 000**	339 212

Classification of trade and other receivables
Loans and receivables at amortised cost

Group receivables of R19.1 million (2013: R19.3 million) are expected to be recovered after more than 12 months.

[1] Refer to note 34.2.2 for detail on the intercompany loan.

[2] Loans to employees consists of home loans which are receivable between 7 years to 25 years with an average remaining period of 22 years.
The interest rate on the employee home loans is fixed at 3% per annum and the fair value of the loans is R1.2 million (2013: R1.3million). The practice to grant home loans to employees was discontinued during 1998.

[3] The sundry receivables consists of the following:
- Amounts receivable on properties and possession sold;
- Amounts receivable from clients for due diligence performed;
- Amounts receivable from service providers; and
- Other sundry debtors which are non-interest bearing with no fixed terms of repayment.

Except for employee home loans, trade and other receivables are receivable within a 12-month period.

Notes to the Annual Financial Statements (continued)

5 Short-term insurance assets and liabilities

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Short-term insurance liabilities	**2 004**	4 660		
Outstanding claims	**1 394**	960		
Incurred but not reported claims	**610**	3 700		
Less: Short-term insurance assets	**(1 432)**	(5 280)		
Reinsurers' share of technical provisions				
Outstanding claims	**(976)**	(2 329)		
Incurred but not reported claims	**(456)**	(2 951)		
Net short-term insurance provisions	**572**	(620)		

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

Gross claims incurred

Accident year	2010 R'000	2011 R'000	2012 R'000	2013 R'000	2014 R'000	Total R'000
At end of accident year	107 778	219 070	132 134	-	-	
One year later	125 842	221 860	115 430	-		
Two years later	126 563	218 608	112 959			
Three years later	123 296	218 631				
Four years later	123 221					
Current estimate of gross cumulative claims incurred	**123 221**	**218 631**	**112 959**	**-**	**-**	**454 811**

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Notes to the Annual Financial Statements (continued)

5 Short-term insurance assets and liabilities (continued)

Net claims incurred

Accident year	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
At end of accident year	31 866	65 425	39 135	-	-	
One year later	37 476	62 517	34 272	-		
Two years later	37 948	61 273	36 219			
Three years later	36 958	61 355				
Four years later	37 027					
Current estimate of net cumulative claims incurred	**37 027**	**61 355**	**36 219**	**-**	**-**	**134 601**

Gross claims paid

Accident year	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
At end of accident year	(86 490)	(137 059)	(73 467)	-	-	
One year later	(39 352)	(80 072)	(36 063)	-		
Two years later	(11)	(156)	(74)			
Three years later	(4)	(6)				
Four years later	(53)					
Current estimate of gross cumulative claims incurred	**(125 910)**	**(217 293)**	**(109 604)**	**-**	**-**	**(452 807)**

Net claims paid

Accident year	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
At end of accident year	(25 935)	(40 274)	(21 914)	-	-	
One year later	(11 806)	(24 740)	(10 819)	-		
Two years later	(4)	2 370	(22)			
Three years later	(1)	1 655				
Four years later	(16)					
Current estimate of net cumulative claims incurred	**(37 762)**	**(60 989)**	**(32 755)**	**-**	**-**	**(131 506)**

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Notes to the Annual Financial Statements (continued)

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
6 Repurchase agreements				
Financial instruments purchased				
Republic of South Africa bonds				
- R186	**5 812**	-	**5 812**	-
- R208	**9 250**	-	**9 250**	-
	15 062	**-**	**15 062**	**-**

The group enters into sale and repurchase agreements for periods between one day and one month to cover any short positions that the group may experience from time to time. Interest on these are disclosed in note 22.

7 Non-current assets held-for-sale

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Land and buildings	**5 700**	5 035	**5 700**	5 035
Properties in possession	**46 867**	47 297	**46 867**	47 297
	52 567	52 332	**52 567**	52 332

Analysis of non-current assets held-for-sale

7.1 Land and buildings

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Opening balance	**5 035**	7 510	**5 035**	7 510
Less: Disposals	**-**	(760)	**-**	(760)
Fair value adjustment	**665**	(1 715)	**665**	(1 715)
Closing balance	**5 700**	5 035	**5 700**	5 035

Approval for the sale of these properties have been obtained from the Minister of Finance in September 2009 and the properties were classified as non-current assets held-for-sale on 7 March 2010.

The period to sell the Pietermaritzburg building (Erf 2413) has extended beyond 1 year. Management is however still committed to the sale and the building is being marketed at a reasonable price (market value). During March 2014, the bank invited parties to bid on this property. Subsequent to year end an offer has been received and is currently under review.

The fair valuation of this building during the year gave rise to a reversal of impairment of R0.7 million. This building forms part of the Southern region segment.

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Notes to the Annual Financial Statements (continued)

7 Non-current assets held-for-sale (continued)

7.2 Properties in possession

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Opening balance	**47 297**	7 955	**47 297**	7 955
Plus: Additions	**1 790**	41 750	**1 790**	41 750
Less: Disposals	**(2 250)**	(2 580)	**(2 250)**	(2 580)
Fair value adjustment	**30**	172	**30**	172
Closing balance	**46 867**	47 297	**46 867**	47 297

These represent the properties bought in by the group due to clients defaulting on their loan payments. The intention of the group is to sell these properties to recover the outstanding payments on the defaulted loans. The group exclusively hold these properties with a view to dispose of them:

- Pietermaritzburg Holkrans BP 1938
- Potchefstroom Opleiding BP 2009
- Tzaneen Murlebrook BP 2039
- Polokwane Grysappel BP 2050
- East London SA Eels BP 2102
- North West BP 2107
- Hartbeespoort BP 2109

During 2014 the following disposals took place and profits/losses recognised:

	Carrying Amount R'000	Selling Price R'000	Profit/(Loss) R'000
BP2103 Pretoria	515	700	185
BP2105 Gauteng	275	219	(56)
BP2106 Thabazimbi	60	100	40
BP2108 Hekpoort	1 400	3 500	2 100
	2 250	**4 519**	**2 269**

Notes to the Annual Financial Statements (continued)

8 Investments

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Investments held by subsidiaries	**1 136 006**	1 025 676		
Medical aid fund assets	**328 402**	285 087	**328 402**	285 087
Unlisted investments	**15 404**	15 400	**15 404**	15 400
Investment in subsidiary (LBLIC)	**-**	-	**-**	-
	1 479 812	1 326 163	**343 806**	300 487

Analysis of investments

8.1 Investments held by subsidiaries[1]

These are investments held by subsidiaries with the following Asset Managers:

- Coronation Fund Managers Limited
- Momentum Asset Management
- Argon Asset Management
- Investec Asset Management
- Old Mutual Investment Group (South Africa) (Pty) Ltd

	Group 2014 R'000	Group 2013 R'000
	1 136 006	1 025 676
Equities	**495 132**	414 954
Collective investment schemes	**254 039**	228 359
Bonds	**214 433**	222 689
Cash deposits and similar securities	**124 946**	101 145
Investment policy	**47 456**	58 529

Designated at fair value through profit or loss

8.1.1 Equities

Equities comprise:

	Group 2014 R'000	Group 2013 R'000
Listed on the JSE - at market value	**495 132**	414 299
Unlisted equity at fair value	**-**	655
	495 132	414 954

Notes to the Annual Financial Statements (continued)

8 Investments (continued)

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
8.1.2 Collective investment schemes				
Equity - foreign unit trusts and hedge funds	**130 954**	99 625		
Listed property collective investment schemes	**32 742**	30 012		
Capital market - Local	**71 526**	82 149		
Capital market - Foreign	**18 817**	16 573		
	254 039	228 359		
8.1.3 Investments other than equities and similar securities				
Public sector bonds	**214 433**	222 689		
- Local/ Government	**214 433**	222 689		
- Foreign - nil/ Corporate	**-**	-		
Cash, deposits and similar securities	**124 946**	101 145		
- Local	**124 946**	101 145		
- Foreign - nil	**-**	-		
	339 379	323 834		
8.1.4 Investment policy				
Investment policy				
- Equity	**37 268**	38 110		
- Bonds	**3 651**	9 648		
- Cash	**1 657**	8 029		
- Property	**4 880**	2 742		
	47 456	58 529		

[1] The comparative disclosures have been realigned to conform to the FY2014 presentation.

Investments in foreign equities were made utilising pooled funds. The risk is managed by the LBLIC Investment and Actuarial Committee set up to monitor the performance and activities of the portfolio managers.

Register of investments
A register containing details of all investments is available for inspection at the registered office of LBLIC.

Notes to the Annual Financial Statements (continued)

8 Investments (continued)

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Listed investments	**285 705**	243 696	**285 705**	243 696
- Local equity	**181 290**	142 736	**181 290**	142 736
- Local bonds	**53 020**	48 253	**53 020**	48 253
- Foreign equity	**51 395**	52 707	**51 395**	52 707
Commodities	**6 143**	-	**6 143**	-
- Local ETF	**6 143**	-	**6 143**	-
Cash	**36 554**	41 391	**36 554**	41 391
- Local	**36 554**	41 390	**36 554**	41 390
- Foreign	**-**	1	**-**	1
	328 402	285 087	**328 402**	285 087

The funds are entrusted to portfolio managers for investment purposes. The funds are earmarked to fund the future medical aid contributions of retired employees. The investments are classified as held for trading and are measured and disclosed at fair value. These investments are exposed to interest rate risk, equity price risk and foreign exchange risk. Refer to note 36 for more information on the related risks and mitigation strategies.

	Bank	
Medical aid fund assets invested as follows:	2014 %	2013 %
Local equities		
Financial	**0%**	1%
Oil and gas	**4%**	5%
Financial (excl. real estate)	**14%**	10%
Listed real estate	**18%**	9%
Basic materials	**24%**	22%
Industrials	**6%**	2%
Consumer goods	**16%**	18%
Healthcare	**1%**	2%
Consumer services	**11%**	8%
Telecommunications	**6%**	10%
Internal equity portfolios	**0%**	12%
Other securities	**0%**	1%

The post-retirement obligation is disclosed in note 20.

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

8 Investments (continued)

	Bank	
	2014 R'000	2013 R'000
8.3 Investment in Associate		
49.9% Ordinary shares in Renaissance Brands (Pty) Ltd	-	-
	-	-

Renaissance Brands (Pty) Ltd

The Land Bank acquired a 49.9% equity share in one of its corporate clients, Renaissance Brands (Pty) Ltd, for a nominal amount of R499. The investment relates to a debt restructuring agreement entered into between the bank and Renaissance Brands (Pty) Ltd. The effective date of the restructuring agreement was the 17 February 2014 when approval was received from the Minister.

The investment does not constitute control however a significant influence is deemed to be held. As a result, Renaissance Brands (Pty) Ltd is accounted for as an associate.

Renaissance Brands (Pty) Ltd was valued by an independent valuator as at 31 March 2014. The valuation was based on the Discounted Cash Flow (DCF), Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple and the Price Earnings (PE) multiple. The output of the valuation indicated a negative equity value and the investment was impaired to Rnil.

The bank furthermore has credit risk exposure to Renaissance Brands (Pty) Ltd to the extent of R173.9 million (2013: R228.66 million). Included in this exposure is an amount of R16.3 million relating to a non-interest bearing subordinated loan from the Land Bank. Total impairment of R12.80 million (2013: R72.46 million) is held against this client.

Refer to note 34 for the balances outstanding and impairments provided for with respect to the amounts owed by Renaissance Brands (Pty) Ltd.

8.4 Unlisted investments	Bank	
	2014 R'000	2013 R'000
10% Ordinary shares in Free State Maize (Pty) Ltd	**15 100**	15 400
19% Ordinary shares in Capespan Capital (Pty) Ltd	**304**	-
	15 404	15 400

At acquisition these investments were designated at fair value through other comprehensive income.

Notes to the Annual Financial Statements (continued)

8 Investments (continued)

Free State Maize (Pty) Ltd

The Land Bank acquired a 10% equity share in one of its corporate clients, Free State Maize (Pty) Ltd, for a nominal amount of R5 million. The investment relates to a debt restructuring agreement entered into between the bank and Free State Maize (Pty) Ltd. The effective date of the restructuring agreement was 22 August 2011.

This investment does not constitute control, nor significant influence. The investment is not held for trading and is therefore carried at fair value through other comprehensive income.

The Free State Maize (Pty) Ltd investment was valued by an independent valuator as at 31 March 2014. The valuation was based on the Discounted Cash Flow (DCF), Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple and the Price Earnings (PE) multiple. The average value of the three valuation methods was R151 million (2013: R154 million).

A fair value adjustment of R0.3 million (2013: R10.4 million) was therefore recorded in other comprehensive income.

The bank furthermore has credit risk exposure to Free State Maize (Pty) Ltd to the extent of R394.5 million (2013: R444.6 million). Total impairment of R3.8 million (2013: R13.6 million) held against this loan.

Capespan Capital (Pty) Ltd

The Land Bank acquired a 19% equity share in one of its corporate clients, Capespan Capital (Pty) Ltd, for a nominal amount of R19. The investment relates to a debt agreement entered into between the bank and Capespan Capital (Pty) Ltd. The effective date of the agreement was 18 July 2013.

This investment does not constitute control, nor significant influence. The investment is not held-for-trading and is therefore carried at fair value through other comprehensive income.

Capespan Capital (Pty) Ltd was valued by an independent valuator as at 31 March 2014. The valuation was based on the Net Asset Value (NAV) of the company. The NAV of the business amounts to R1.6 million, which results in an investment value of R0.3 million for the bank.

The bank has credit risk exposure to Capespan Capital (Pty) Ltd to the extent of R22.6 million (2013: Rnil). Total impairment of R0.3 million (2013: Rnil) held against this loan.

8.5 Investment in LBLIC (formerly LBIC)

	Bank	
	2014 R'000	2013 R'000
LBLIC shares (15,000 ordinary shares at par value of R2 each)	-	-
Actuarial valuation (LBLIC)	-	-

As part of the restructuring with effect 1 April 2013, Land Bank no longer holds the investment in the former LBIC, but in Land Bank Insurance Services (SOC) Limited (LBIS). Refer to note 8.6.

Group Annual Financial Statements

for the year ended 31 March 2014

Notes to the Annual Financial Statements (continued)

8 Investments (continued)

8.6 Investment in LBIS

8.6.1 LBIS shares

	Bank	
	2014	2013
	R'000	R'000
LBIS shares (1,000 ordinary shares at no par value)	-	-

As part of the restructuring of the former LBIC, and with effect from 1 April 2012, LBIS issued 1,000 shares with no par value to Land Bank in return for its investment in the former LBIC (now LBLIC - i.e. 15,000 shares with a par value of R2 each). Furthermore, LBIC issued 1,000 shares with no par value to LBIS in terms of the company's incorporation.

Land Bank Insurance Services (SOC) Limited (LBIS), which is currently dormant, is the ultimate holding company of LBIC and LBLIC. The shares are accounted for at cost in terms of IFRS.

In May 2014, the Minister approved that the holding company (LBIS) be dissolved and that the two insurance companies be held directly by Land Bank.

8.6.2 LBLIC shares

	Group	
	2014	2013
	R'000	R'000
LBLIC shares (15,000 ordinary shares at par value of R2 each)	-	-
Actuarial valuation	**1 079 734**	946 060

Land Bank indirectly holds these shares through its 100% holding of Land Bank Insurance Services (SOC) Limited (LBIS) which is the sole beneficial shareholder of LBLIC. The company provides life insurance cover to clients of the Land Bank under mortgage loans as well as short-term crop insurance. The company's actuarial value of the surplus as at 31 March 2014 amounted to R1.1 billion (2013: R946.1 million). In terms of the shareholder's agreement, the Land Bank guarantees the solvency of LBIS. The Land Bank, as a holding company, does not expect to be called upon to perform under this guarantee. The shares are accounted for at cost in terms of IFRS.

8.6.2 LBIC shares

LBIC shares (1,000 ordinary shares at no par value)

Land Bank indirectly holds these shares through its 100% holding of Land Bank Insurance Services (SOC) Limited (LBIS) which is the sole beneficial shareholder of LBIC. LBIC is currently dormant, but will house the short-term insurance activities upon completion of the restructuring of the group's insurance operations. The shares are accounted for at cost in terms of IFRS.

Notes to the Annual Financial Statements (continued)

9 Market-making assets

Market making is the practice of quoting bid and offer prices to the market on a regular basis. This encourages buying and selling of Land Bank bonds and creates market liquidity in Land Bank bonds.

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Government bonds				
At fair value				
- R186	**(5 812)**	-	**(5 812)**	-
- R207	**-**	5 238	**-**	5 238
- R208	**9 250**	-	**9 250**	-
	3 438	5 238	**3 438**	5 238
Contractual amount receivable on maturity				
- R186	**(5 000)**	-	**(5 000)**	-
- R207	**-**	5 000	**-**	5 000
- R208	**10 000**	-	**10 000**	-
	5 000	5 000	**5 000**	5 000

Contractual amount receivable represents the face value of amounts that the Land Bank has purchased in the capital market.

10 Loans and advances

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Short-term loans	**16 778 591**	17 459 479	**16 778 591**	17 459 479
Retail Commercial Banking	**464 126**	603 136	**464 126**	603 136
Retail Emerging Markets	**386 429**	243 362	**386 429**	243 362
Business & Corporate Banking	**15 928 036**	16 612 981	**15 928 036**	16 612 981
Medium-term loans	**766 263**	462 910	**766 263**	462 910
Retail Commercial Banking	**220 885**	221 110	**220 885**	221 110
Retail Emerging Markets	**1 396**	4 120	**1 396**	4 120
Retail Emerging Markets: Instalment sale loans	**3 327**	-	**3 327**	-
Retail Commercial Banking: Instalment sale loans	**236 591**	237 680	**236 591**	237 680
Business & Corporate Banking	**304 064**	-	**304 064**	-
Long-term loans	**16 297 370**	9 613 846	**16 297 370**	9 613 846
Retail Commercial Banking	**4 223 082**	3 751 965	**4 223 082**	3 751 965
Business & Corporate Banking	**12 074 288**	5 861 881	**12 074 288**	5 861 881
Total loans and advances net of suspended interest and fees	**33 842 224**	27 536 235	**33 842 224**	27 536 235
Less: Impairment	**(560 944)**	(567 500)	**(560 944)**	(567 500)
Total loans and advances	**33 281 280**	26 968 735	**33 281 280**	26 968 735

The information presented in this note is per product type and does not take into account the remaining maturities as at year-end. Full details of maturity analysis is provided in note 36.3.

The loan balances above, exclude the LDFU loans which are discontinued, and disclosed separately in note 11.

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

10 Loans and advances (continued)

Group and Bank	Gross loans	Suspended interest and fees *	Loans net of suspended interest and fees	Total impairment	Net loans
	R'000	R'000	R'000	R'000	R'000
10.1 Analysis of loans per category					
2014					
Business & Corporate Banking	28 348 652	(42 264)	28 306 388	(340 803)	27 965 585
Retail Commercial Banking	5 325 465	(180 781)	5 144 684	(209 055)	4 935 629
Retail Emerging Markets	391 152	-	391 152	(11 086)	380 066
	34 065 269	**(223 045)**	**33 842 224**	**(560 944)**	**33 281 280**
2013					
Business & Corporate Banking	22 566 769	(91 907)	22 474 862	(285 574)	22 189 288
Retail Commercial Banking	5 030 079	(216 188)	4 813 891	(275 728)	4 538 163
Retail Emerging Markets	247 482	-	247 482	(6 198)	241 284
	27 844 330	**(308 095)**	**27 536 235**	**(567 500)**	**26 968 735**

* The group continues to accrue interest and fees, where appropriate, on doubtful debts when there is a realistic prospect of recovery. The interest and fees are charged to customer accounts but it is not recognised to income; and is placed in a suspense account - only to be recognised to income, if there ceases to be significant doubt about its recovery. Loans are transferred to a "non-accrual" status where the operation of the customer's account has ceased. This lending is managed by a specialist recovery departments and is written down to its estimated realisable value. Suspended interest and fees are not added to the lending or placed in a suspense account as the recovery thereof is considered unlikely, is only recognised to income when received.

Loan type	Type of security	Nature of interest rate	Average term of repayment	Average interest rate 2014	Average interest rate 2013
10.2 Information on loans					
Short-term loans	None	Variable	1 year	**8,89%**	8,51%
Medium-term loans	Notarial bonds	Variable	1-5 years	**10,26%**	9,93%
Long-term loans	Mortgage bonds	Variable	>5 years	**9,59%**	9,16%

Refer to note 10.7 for disclosure on the collateral.

Group Annual Financial Statements
for the year ended 31 March 2014

Notes to the Annual Financial Statements (continued)

10 Loans and advances (continued)

10.3 Reconciliation of movements in impairments per business unit

	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Total R'000
2014				
Balance at the beginning of the year	**285 574**	**275 728**	**6 198**	**567 500**
Movements for the year:				
Recognition of impairment to acquired loan book[1]	2 121	-	-	2 121
Reclassification of impairment relating to claim accounts	-	11 590	-	11 590
Credit losses written off	(18 036)	(121 121)	-	(139 157)
- Statement of financial position write-off (utilisation)	(18 030)	(74 940)	-	(92 970)
- Statement of profit or loss and other comprehensive income write-off	(6)	(46 181)	-	(46 187)
Net impairments raised to the statement of profit or loss and other comprehensive income	71 144	42 858	4 888	118 890
Balance at the end of the year	**340 803**	**209 055**	**11 086**	**560 944**
2013				
Balance at the beginning of the year	**287 263**	**277 429**	**2 548**	**567 240**
Movements for the year:				
Reclassification of interest in suspense to impairment [2]	5 712	3 698	-	9 410
Reclassification of impairment relating to claim accounts	9 630	657	-	10 287
Credit losses written off	(40 853)	(27 003)	-	(67 856)
- Statement of financial position write-off (utilisation)	(40 786)	(14 364)	-	(55 150)
- Statement of profit or loss and other comprehensive income write-off	(67)	(12 639)	-	(12 706)
Net impairments raised to the statement of profit or loss and other comprehensive income	23 822	20 947	3 650	48 419
Balance at the end of the year	**285 574**	**275 728**	**6 198**	**567 500**

[1] Impairment balance relating to the loan book acquired during the year.
[2] Interest in suspense is reclassified to impairment upon client going insolvent.

Group Annual Financial Statements
for the year ended 31 March 2014

Notes to the Annual Financial Statements (continued)

10 Loans and advances (continued)

10.4 Impairment charges, claims and recoveries

	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Total R'000
2014				
Net impairments raised to the statement of profit or loss and other comprehensive income	71 144	42 858	4 888	118 890
Recoveries in respect of amounts previously written off	(1 988)	(5 029)	-	(7 017)
Claims provision [3]	2 688	26 380	-	29 068
	71 844	**64 209**	**4 888**	**140 941**
2013				
Net impairments raised to the statement of profit or loss and other comprehensive income	23 822	20 947	3 650	48 419
Recoveries in respect of amounts previously written off	(538)	(6 852)	-	(7 390)
Claims provision [3]	-	33 986	-	33 986
	23 284	**48 081**	**3 650**	**75 015**

[3] Claims provision represent the movement in provision for admin fees - refer note 19.

10.5 Performing and non-performing loans per category

	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	Total R'000
2014				
Performing loans				
Gross amount	27 896 812	4 682 955	391 152	32 970 919
Impairment [4]	(47 823)	(86 012)	(11 086)	(144 921)
	27 848 989	**4 596 943**	**380 066**	**32 825 998**
Non-performing loans				
Gross amount	451 840	642 510	-	1 094 350
Suspended interest and fees	(42 264)	(180 781)	-	(223 045)
Impairment	(292 980)	(123 043)	-	(416 023)
	116 596	**338 686**	**-**	**455 282**
	27 965 585	**4 935 629**	**380 066**	**33 281 280**
2013				
Performing loans				
Gross amount	21 992 638	4 227 597	247 482	26 467 717
Impairment [4]	(61 852)	(82 912)	(6 198)	(150 962)
	21 930 786	**4 144 685**	**241 284**	**26 316 755**
Non-performing loans				
Gross amount	574 131	802 482	-	1 376 613
Suspended interest and fees	(91 907)	(216 188)	-	(308 095)
Impairment	(223 722)	(192 816)	-	(416 538)
	258 502	**393 478**	**-**	**651 980**
	22 189 288	**4 538 163**	**241 284**	**26 968 735**

[4] The emergence period concept is applied to ensure that only impairments that exist at the reporting date are captured. The emergence period is defined as the time lapse between the occurrence of a trigger event and the impairment being identified at an individual account level. The probability of default for each exposure class is based on historical default experience, scaled for the emergence period relevant to the exposure class. The probability of default is then applied to the total population for which specific impairments have not been recognised. The resulting figure represents an estimation of the impairment that occurred during the emergence period and therefore has not specifically been identified by the group at the reporting date.

Notes to the Annual Financial Statements (continued)

10 Loans and advances (continued)

Group and Bank

10.6 Ageing of past due loans not individually impaired

Past due for:	Less than 1 year R'000	More than 1 year less than 2 years R'000	More than 2 years and defaulted * R'000	Total R'000
2014				
Business & Corporate Banking				
Gross loan balance	28 051 239	76 539	220 874	**28 348 652**
Portion of gross loan balance past due not impaired	225 601	1 151	164 312	**391 064**
Retail Commercial Banking				
Gross loan balance	4 470 515	245 242	609 708	**5 325 465**
Portion of gross loan balance past due not impaired	22 392	3 455	112 322	**138 169**
Retail Emerging Markets				
Gross loan balance	390 765	387	-	**391 152**
Portion of gross loan balance past due not impaired	2 598	92	-	**2 690**
2013				
Business & Corporate Banking				
Gross loan balance	22 088 823	17 765	460 181	**22 566 769**
Portion of gross loan balance past due not impaired	672 716	6 360	194 957	**874 033**
Retail Commercial Banking				
Gross loan balance	3 970 460	321 020	738 599	**5 030 079**
Portion of gross loan balance past due not impaired	28 379	5 977	71 727	**106 083**
Retail Emerging Markets				
Gross loan balance	247 252	230	-	**247 482**
Portion of gross loan balance past due not impaired	287	-	-	**287**

* Gross past due loans not impaired are covered in full by underlying collateral. Refer to note 10.7 for details on the collateral.

Notes to the Annual Financial Statements (continued)

10 Loans and advances (continued)

10.7 Collateral held as security

The group holds collateral which it is entitled to sell in the case of default by the owner of the collateral. The amount and type of collateral held for the exposure depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of the types of collateral. The values of the collateral are determined with reference to the realisable value of security under forced-sale conditions.

The group has developed an appropriate collateral management system ("CMS") that went live during FY2012/13. However, until data validation has been completed in terms of collateral values captured on the system, the group will not be in a position to report this information.

It is the group's policy to dispose of repossessed properties in an orderly fashion. In general, the group does not occupy the repossessed properties for business. The repossessed properties are accounted for as non-current assets held-for-sale in terms of IFRS5. The carrying amount of collateral taken in possession during the financial year is R1.8 million (2013: R41.8 million).

The group has the following assets held as security for the Business & Corporate Banking loan portfolio:

	Estimated recovery value	2014	2013
Nature of assets	%	R'000	R'000
Business & Corporate Banking			
Biological assets	10%-100%	**1 307 364**	965 219
Commodities	50%-90%	**748 271**	660 792
Debtors	30%-70%	**5 516 165**	5 315 805
Deposits	90%-100%	**119 586**	28 391
Guarantee	95%-100%	**991 800**	991 800
Land and buildings	10%-75%	**5 375 216**	4 996 968
Office equipment and computers	10%	**16 635**	16 149
Plant and equipment	30%-50%	**960 889**	860 693
Shares and investments (listed)	30%-100%	**1 400 365**	1 182 205
Specialised infrastructure	50%	**-**	-
Stock	10%-70%	**2 605 192**	2 388 309
Subleases	75%	**93 750**	90 000
Trademarks	50%	**705 273**	705 273
Vehicles	30%-50%	**113 899**	91 654
Suretyship	10%	**-**	346
Cession held over unpaid shares	30%	**6 635**	6 642
Other	10%	**6 636**	-
Sub Total		**19 967 676**	18 300 246
Less limits of collateral agreements		**(679 910)**	-
Total		**19 287 766**	18 300 246

Concentration of credit risk

By the very nature of the group's business it is exposed to credit concentration risk in the agricultural sector, as well as to certain large account holder/ group facilities within the Business & Corporate Banking loan portfolio. Notwithstanding these risks, there is strategic benefit to the group by holding such exposures as the traditional large agri-businesses are often better positioned than financiers to mitigate risk in agricultural production. Furthermore large agri-businesses are diversified in terms of geographical location, product type, financed agricultural enterprises and client risk profiles which mitigates the concentration risk for the bank.

The current group policy on credit concentration risk requires that the full Board of Directors approves any exposure in excess of 25% of the bank's own equity to any individual entity or group of companies. Furthermore, the Board has instituted additional risk management procedures for large exposures. During the year the concentration risk policy was revised where the prudential limit of 25% was increased to 50% for certain strategic clients who meets specific credit criteria.

As at year-end there was one client (2013: one) with individual exposure of more than 25% of the bank's own equity. This client is also a strategic client and falls below the 50% threshold. The total exposure of this client at year-end amounted to R2.24 billion (2013: R2.24 billion). The loan was approved by Credit Risk Committee and full Board. The client is abiding to its loan repayment terms.

Notes to the Annual Financial Statements (continued)

11 Assets of disposal group classified as held-for-sale

Land for development loans

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Total loans and advances net of suspended interest and fees	**502 442**	516 314	**502 442**	516 314
Less: Impairment	**(360 238)**	(372 441)	**(360 238)**	(372 441)
	142 204	143 873	**142 204**	143 873

Group and Bank

11.1 Analysis of loans per category

	Gross loans R'000	Suspended interest and fees R'000	Loans net of suspended interest and fees R'000	Total impairment R'000	Net loans R'000
2014					
Land for development	**630 607**	(128 165)	**502 442**	(360 238)	**142 204**
2013					
Land for development	**644 479**	(128 165)	**516 314**	(372 441)	**143 873**

11.2 Reconciliation of movements in impairments of land for development loans

	2014 R'000	2013 R'000
Balance at the beginning of the year	**372 441**	346 101
Movements for the year:		
Reclassification of interest in suspense to impairment[1]	**-**	27 624
Credit losses written off	**(13 444)**	-
- Statement of financial position write-off (utilisation)	**(13 444)**	-
- Statement of profit or loss and other comprehensive income write-off	**-**	-
Net impairments raised/(released) to the statement of profit or loss and other comprehensive income	**1 241**	(1 284)
Balance at the end of the year	**360 238**	372 441

[1] Interest in suspense is reclassified to impairment upon a client going insolvent.

Notes to the Annual Financial Statements (continued)

11 Assets of disposal group classified as held-for-sale (continued)

11.3 Impairments raised/(released), claims and recoveries

	2014 R'000	2013 R'000
Net impairments raised/(released) to the statement of profit or loss and other comprehensive income	**1 241**	(1 284)

11.4 Non-performing loans per category

	2014 R'000	2013 R'000
Non-performing loans		
Gross amount	**630 607**	644 479
Suspended interest and fees	**(128 165)**	(128 165)
Impairment	**(360 238)**	(372 441)
	142 204	143 873

Group and Bank

11.5 Ageing of past due loans not individually impaired

Past due for:	More than 1 year less than 2 years R'000	More than 2 years and defaulted* R'000	Total R'000
2014			
Gross loan balance	-	630 607	**630 607**
Portion of gross loan balance past due not impaired	-	138 969	**138 969**
2013			
Gross loan balance	-	644 479	**644 479**
Portion of gross loan balance past due not impaired	-	143 873	**143 873**

* Gross loans that are past due but not impaired are covered in full by underlying collateral. Refer to note 11.6 for details on the collateral.

11.6 Collateral held as security

	2014 R'000	2013 R'000
Land and buildings	**199 016**	200 640

The properties were valued by independent professional valuators to obtain up to date valuations in order to ensure that the carrying values of these loans do not exceed the net realisable values. The total amount per the valuations amounted to R251.2 million. Where the valuations obtained exceed the carrying values, the directors opted to maintain the current values due to uncertainties surrounding the potential conditions of disposal and legalities.

Notes to the Annual Financial Statements (continued)

12 Intangible assets

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Computer software				
Net carrying value	**39 900**	42 206	**39 900**	42 206
Cost at the beginning of the year	**84 011**	83 238	**84 011**	83 238
Accumulated amortisation	**(44 111)**	(41 804)	**(44 111)**	(41 804)
Disposal	**-**	(1 148)	**-**	(1 148)
Additions/new developments - current year	**-**	1 920	**-**	1 920
Reconciliation of movement during the year				
Carrying value at the beginning of the year	**42 206**	54 594	**42 206**	54 594
Additions/new developments	**-**	1 920	**-**	1 920
Amortisation	**(2 306)**	(13 160)	**(2 306)**	(13 160)
Disposal	**-**	(1 148)	**-**	(1 148)
Net carrying value at the end of the year	**39 900**	42 206	**39 900**	42 206

During the year a change of estimate took place with respect to the useful life of the computer software. Previously the software was amortised over a period of five years however after the annual review of the estimated useful life of the software, it was decided that a useful life of 20 years was more appropriate. As per IAS 8 the change has been applied prospectively from 1 April 2013. The software will now be amortised using the straight-line method over a period of twenty years. Included in the cost of intangible assets are computer software that has been fully amortised however still in use with a historical cost of R16.9 million. The group will reassess the useful lives of all the intangible assets at the beginning of the 2014/15 financial year together with the review of the accounting policy in order to reflect the most correct estimated useful lives of all intangible assets. The effect of this change of estimate in the current year's amortisation and future effects to profits is as follows:

	2014 R'000	2013 R'000
Effect of change in estimate with respect to amortisation charge:		
Current year before change in estimate	**13 371**	13 160
Effect of change in accounting estimate	**(11 064)**	-
Current year after change in estimate	**2 307**	13 160

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Notes to the Annual Financial Statements (continued)

13 Investment properties

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Balance at the beginning of the year	**65 800**	74 000	**65 800**	74 000
Reclassification from property and equipment[1]	**18 265**	-	**18 265**	-
Fair value adjustments	**335**	(8 200)	**335**	(8 200)
Net carrying value at the end of the year	**84 400**	65 800	**84 400**	65 800
Investment property comprises the following:				
Office buildings	**84 400**	65 800	**84 400**	65 800
Rental income derived from investment properties	**10 399**	8 657	**10 399**	8 657
Direct operating expenses generating rental income	**(2 140)**	(789)	**(2 140)**	(789)
Net profit arising from investment properties carried at fair value	**8 259**	7 868	**8 259**	7 868

A register containing details of the investment properties and fair value adjustments is available for inspection at the group's registered office.

There are no restrictions on the title of the property and no property has been pledged as security.

Owner occupied property is classified as investment property where the tenant occupies more than 50% of the lettable space of the property. This threshold was set due to the bank's intention to let out any excess office space which exists at the bank's properties.

The investment properties are measured at fair value subsequent to initial recognition. The entire fair value of the group's investment properties at 31 March 2014 and 31 March 2013 has been determined based on valuations performed by independent valuators who hold a recognised and relevant professional qualification.

The fair value of investment property was determined by using the opportunity cash flow method (OCF). This is a combination of capitalisation and discounting. The inputs used are gross market rentals, operating costs, the perpetual vacancy, market capitalisation rate and net present value of the OCF.

[1] The R18.3 million in FY'14 relates to the following buildings that were reclassified from property and equipment to non-current assets held-for-sale:
- Modimolle on 1 April 2013 (refer to note 14)
- Port Elizabeth on 1 February 2014 (refer to note 14)

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Notes to the Annual Financial Statements (continued)

14 Property and equipment

Property and equipment was transferred from Land Bank to LBLIC during the 2013 and 2014 financial year.

2014 Group	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improve-ments R'000	Total R'000
Open market value/cost at 1 April 2013	25 830	70 155	31 328	28 139	882	11 984	168 318
Additions	-	-	4 779	413	21	-	5 213
Disposals	(3 227)	(1 374)	(333)	(2 061)	-	-	(6 995)
Devaluation	(98)	(178)	-	-	-	-	(276)
Reclassification to investment property	(6 143)	(12 257)	-	-	-	-	(18 400)
Revaluation surplus	-	4 689	-	-	-	-	4 689
Open market value/cost at 31 March 2014	**16 362**	**61 035**	**35 774**	**26 491**	**903**	**11 984**	**152 549**
Accumulated depreciation and impairment losses at 1 April 2013	-	-	20 922	19 555	605	7 748	48 830
Depreciation	-	1 780	6 741	2 352	39	2 461	13 373
Depreciation write-back as a result of the revaluation	-	(1 636)	-	-	-	-	(1 636)
Depreciation effect of the reclassification to investment property	-	(134)	-	-	-	-	(134)
Disposals	-	(10)	(307)	(1 435)	-	-	(1 752)
Accumulated depreciation and impairment losses at 31 March 2014	**-**	**-**	**27 356**	**20 472**	**644**	**10 209**	**58 681**
Net carrying value at 31 March 2014	**16 362**	**61 035**	**8 418**	**6 019**	**259**	**1 775**	**93 868**

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Notes to the Annual Financial Statements (continued)

14 Property and equipment (continued)

2014 Bank	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improve-ments R'000	Total R'000
Open market value/cost at 1 April 2013	25 830	70 155	31 174	27 800	882	11 984	167 825
Additions	-	-	4 778	413	21	-	5 212
Disposals	(3 227)	(1 374)	(333)	(2 061)	-	-	(6 995)
Devaluation	(98)	(178)	-	-	-	-	(276)
Reclassification to investment property	(6 143)	(12 257)	-	-	-	-	(18 400)
Revaluation surplus	-	4 689	-	-	-	-	4 689
Transfer to subsidiary	-	-	(15)	-	-	-	(15)
Open market value/cost at 31 March 2014	**16 362**	**61 035**	**35 604**	**26 152**	**903**	**11 984**	**152 040**
Accumulated depreciation and impairment losses at 1 April 2013	-	-	20 806	19 318	605	7 748	48 477
Depreciation	-	1 780	6 723	2 329	39	2 461	13 332
Depreciation write-back as a result of the revaluation	-	(1 636)	-	-	-	-	(1 636)
Depreciation effect of the reclassification to investment property	-	(134)	-	-	-	-	(134)
Disposals	-	(10)	(307)	(1 435)	-	-	(1 752)
Accumulated depreciation and impairment losses at 31 March 2014	**-**	**-**	**27 222**	**20 212**	**644**	**10 209**	**58 287**
Net carrying value at 31 March 2014	**16 362**	**61 035**	**8 382**	**5 940**	**259**	**1 775**	**93 753**

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Notes to the Annual Financial Statements (continued)

14 Property and equipment (continued)

2013 Group	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improve-ments R'000	Total R'000
Open market value/cost at 1 April 2012	26 352	58 588	24 628	27 009	882	11 908	149 367
Additions	-	-	7 426	2 400	-	76	9 902
Disposals	(147)	-	(726)	(1 270)	-	-	(2 143)
Devaluation	(8 234)	(3 003)	-	-	-	-	(11 237)
Revaluation surplus	7 859	14 570	-	-	-	-	22 429
Open market value/cost at 31 March 2013	**25 830**	**70 155**	**31 328**	**28 139**	**882**	**11 984**	**168 318**
Accumulated depreciation and impairment losses at 1 April 2012	-	-	16 002	18 543	568	5 351	40 464
Depreciation	-	1 633	5 570	2 074	37	2 397	11 711
Depreciation write-back as a result of the revaluation	-	(1 633)	-	-	-	-	(1 633)
Disposals	-	-	(650)	(1 062)	-	-	(1 712)
Accumulated depreciation and impairment losses at 31 March 2013	**-**	**-**	**20 922**	**19 555**	**605**	**7 748**	**48 830**
Net carrying value at 31 March 2013	**25 830**	**70 155**	**10 406**	**8 584**	**277**	**4 236**	**119 488**

Notes to the Annual Financial Statements (continued)

14 Property and equipment (continued)

2013	Land	Buildings	Computer equipment	Furniture, fittings and office equipment	Motor vehicles	Leasehold improve-ments	Total
Bank	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Open market value/cost at 1 April 2012	26 352	58 588	24 514	26 671	882	11 908	148 915
Additions	-	-	7 426	2 399	-	76	9 901
Disposals	(147)	-	(719)	(1 270)	-	-	(2 136)
Devaluation	(8 234)	(3 003)	-	-	-	-	(11 237)
Revaluation surplus	7 859	14 570	-	-	-	-	22 429
Transfer to subsidiary	-	-	(47)	-	-	-	(47)
Open market value/cost at 31 March 2013	**25 830**	**70 155**	**31 174**	**27 800**	**882**	**11 984**	**167 825**
Accumulated depreciation and impairment losses at 1 April 2012	-	-	15 918	18 329	568	5 351	40 166
Depreciation	-	1 633	5 548	2 051	37	2 397	11 666
Depreciation write-back as a result of the revaluation	-	(1 633)	-	-	-	-	(1 633)
Depreciation effect of transfer to subsidiary	-	-	(16)	-	-	-	(16)
Disposals	-	-	(644)	(1 062)	-	-	(1 706)
Accumulated depreciation and impairment losses at 31 March 2013	**-**	**-**	**20 806**	**19 318**	**605**	**7 748**	**48 477**
Net carrying value at 31 March 2013	**25 830**	**70 155**	**10 368**	**8 482**	**277**	**4 236**	**119 348**

The land and buildings were valued by independent property valuators as at 31 March 2014. The methods used for the valuations are based on market rentals, as obtained from independent companies who operate in the area, and the capitalisation rate for the areas, as obtained from the valuator's report.

There are no restrictions on the title of the property and no property has been pledged as security. The group does not have any contractual commitments for the acquisition of property.

IFRS requires that the carrying values of land and buildings if they had to be carried using the historical cost method should be disclosed. As a result of the buildings being purchased many years ago, the latest being 1998, it is not possible for the bank to determine and disclose the carrying values of each property and in addition to this the values at which the properties were purchased are negligible in comparison to the current carrying values disclosed using the revaluation method

A register containing details of the owner-occupied properties and the revaluation thereof is available for inspection at the group's registered office.

The opening accumulated depreciation on 1 April 2013 was written back to the carrying amount of buildings when revalued in terms of the net replacement value method.

Properties reclassified as investment properties	Land	Buildings	Total
2014	**R'000**	**R'000**	**R'000**
Erf 203 Modimolle (Reclassified on 1 April 2013 - refer to note 13)	1 115	6 977	8 092
Erf 3127 Port Elizabeth (Reclassified on 1 February 2014 - refer to note 13)	5 028	5 145	10 173
	6 143	**12 122**	**18 265**

Notes to the Annual Financial Statements (continued)

15 Capital and reserves

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Distributable reserve				
Capital fund	**3 897 655**	3 597 655	**3 897 655**	3 597 655
General reserve	**2 202 684**	1 914 696	**2 352 684**	2 064 696
Insurance reserve	**1 229 736**	1 096 061		
Total distributable reserves	**7 330 075**	6 608 412	**6 250 339**	5 662 351
Less: Distributable reserves relating to the discontinued operation (refer note 21)	**(641 805)**	(612 797)	**(641 805)**	(612 797)
Distributable reserves from continuing operations	**6 688 270**	5 995 615	**5 608 534**	5 049 554
Non-distributable reserve	**137 135**	135 449	**137 135**	135 449
Mark-to-Market reserve	**10 404**	10 400	**10 404**	10 400
Revaluation of property	**126 731**	125 049	**126 731**	125 049
	6 825 405	6 131 064	**5 745 669**	5 185 003

15.1 Description of equity components

General reserve
The General reserve comprises of accumulated retained earnings.

Capital fund
The Capital fund consists of an initial loan by government which was converted to equity in 2006 as part of the government commitment to support the bank as well as further capital injections from the National Treasury (Refer to note 34.2.1).

Insurance reserve
The Insurance reserve is a component of group retained earnings and represents the accumulated surplus of LBLIC from insurance activities.

Mark-to-Market reserve
The Mark-to-Market reserve relates to the fair value adjustment on the unlisted investments in Free State Maize (Pty) Ltd, Capespan Capital (Pty) Ltd and Renaissance Brands (Pty) Ltd (Refer to note 8.3 and note 8.4).

Revaluation reserve
The Revaluation reserve represents the net surplus arising from the revaluation of properties.

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Notes to the Annual Financial Statements (continued)

16 Trade and other payables

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Accrued expenses	**102 462**	58 953	**97 314**	54 488
Amounts due to intermediaries	**137**	1 616		
Amounts due to reinsurers	**64 018**	64 161		
Client deposits for approved loans	**7 380**	11 786	**7 380**	11 786
Creditors	**34 695**	12 031	**34 695**	12 031
Deferred income	**1 370**	6 146	**1 370**	6 146
Loan costs and fees received in advance	**32 510**	14 124	**32 510**	14 124
Premiums received in advance	**43**	543		
Other	**11 099**	9 250	**11 099**	9 250
	253 714	178 610	**184 368**	107 825

Group payables of R43.4 million (2013: R45.8 million) are expected to be settled after more than 12 months.

The trade and other payables are classified as other financial liabilities and are carried at amortised cost. Trade and other payables are generally paid as follows:

- Accrued expenses: one month;
- Loan costs and fees received in advance: one to three months;
- Client deposits for approved loans: one to three months; and
- Other: one month.

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Notes to the Annual Financial Statements (continued)

17 Long-term policyholders' liabilities

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Policyholders' liabilities under insurance contracts	**36 523**	42 184		
Notified claims	**2 052**	1 247		
Claims (incurred but not reported)	**1 490**	1 860		
	40 065	45 291		

17.1 Long-term policyholders' liability excluding IBNR and notified claims

	Group 2014 R'000	Group 2013 R'000
Present value of policy liabilities	**42 038**	49 032
Plus: Present value of future expenses	**32 485**	29 966
Less: Present value of future premiums	**(42 203)**	(46 641)
Liability excluding AIDS reserve	**32 320**	32 357
Plus: AIDS reserve	**1 671**	1 937
Plus: Data error provision	**-**	-
Plus: Expense overrun reserve	**2 532**	7 890
Total long-term policyholders' liability excluding IBNR and notified claims	**36 523**	42 184

17.2 Movement in the long-term policyholders' liability

	Group 2014 R'000	Group 2013 R'000
Balance at the beginning of the year	**42 184**	42 140
Movement in the long-term policyholders' liability	**(5 661)**	44
Balance at the end of the year	**36 523**	42 184

17.3 Movement in the IBNR

2014	Gross R'000	Ceded R'000	Net R'000
Opening balance	1 860	(930)	930
Movement in the IBNR	(370)	185	(185)
Balance at the end of the year	**1 490**	**(745)**	**745**

2013	Gross R'000	Ceded R'000	Net R'000
Opening balance	2 000	(1 000)	1 000
Movement in the IBNR	(140)	70	(70)
Balance at the end of the year	**1 860**	**(930)**	**930**

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Notes to the Annual Financial Statements (continued)

17 Long-term policyholders' liabilities (continued)

17.4 Movement in notified claims

2014	Gross R'000	Ceded R'000	Net R'000
Opening balance	1 247	(55)	1 192
Movement in the notified claims	805	(402)	403
Balance at the end of the year	**2 052**	**(457)**	**1 595**

2013	Gross R'000	Ceded R'000	Net R'000
Opening balance	2 665	(764)	1 901
Movement in the notified claims	(1 418)	709	(709)
Balance at the end of the year	**1 247**	**(55)**	**1 192**

17.5 Total long-term policyholders' liability

2014	Gross R'000	Ceded R'000	Net R'000
Long-term policyholder's liability	36 523	-	36 523
Notified claims	2 052	(457)	1 595
IBNR	1 490	(745)	745
	40 065	**(1 202)**[1]	**38 863**

2013	Gross R'000	Ceded R'000	Net R'000
Long-term policyholder's liability	42 184	-	42 184
Notified claims	1 247	(55)	1 192
IBNR	1 860	(930)	930
	45 291	**(985)**[1]	**44 306**

[1] Represents long-term insurance assets.

Notes to the Annual Financial Statements (continued)

18 Funding liabilities

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
At fair value	**4 476 943**	2 536 824	**4 476 943**	2 536 824
At amortised cost	**24 513 686**	21 173 396	**24 513 686**	21 173 396
Total funding	**28 990 629**	23 710 220	**28 990 629**	23 710 220
Less: Funding relating to the discontinued operations (refer to note 21)	**(784 009)**	(756 670)	**(784 009)**	(756 670)
Funding of continuing operations	**28 206 620**	22 953 550	**28 206 620**	22 953 550

Refer to note 36.3 for full disclosure on the maturity of the funding liabilities.

The carrying value of funding liabilities comprise of amounts measured at amortised cost and fair value. The total fair value of funding liabilities and contractual amounts owing are as follows:

18.1 Analysis of funding

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
At fair value				
AfDB loan	**498 062**	-	**498 062**	-
Floating rate notes - LBK01	**-**	1 190 947	**-**	1 190 947
Floating rate notes - LBK02	**1 343 274**	1 345 877	**1 343 274**	1 345 877
Floating rate notes - LBK03	**1 002 680**	-	**1 002 680**	-
Floating rate notes - LBK05	**499 985**	-	**499 985**	-
Floating rate notes - LBK06	**1 132 942**	-	**1 132 942**	-
	4 476 943	2 536 824	**4 476 943**	2 536 824
Movement in the fair values				
AfDB loan				
Opening balance	**-**	-	**-**	-
New issues	**500 000**	-	**500 000**	-
Fair value adjustments	**(1 938)**	-	**(1 938)**	-
	498 062	-	**498 062**	-
Floating rate notes - LBK01				
Opening balance	**1 190 947**	1 188 005	**1 190 947**	1 188 005
New issues	**-**	-	**-**	-
Fair value adjustments	**(2 947)**	2 942	**(2 947)**	2 942
Funds repaid	**(1 188 000)**	-	**(1 188 000)**	-
	-	1 190 947	**-**	1 190 947
Floating rate notes - LBK02				
Opening balance	**1 345 877**	500 000	**1 345 877**	500 000
New issues	**-**	838 032	**-**	838 032
Fair value adjustments	**(2 603)**	7 845	**(2 603)**	7 845
	1 343 274	1 345 877	**1 343 274**	1 345 877

Notes to the Annual Financial Statements (continued)

18 Funding liabilities (continued)

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Floating rate notes - LBK03				
Opening balance	-	-	-	-
New issues	1 000 000	-	1 000 000	-
Fair value adjustments	2 680	-	2 680	-
	1 002 680	-	1 002 680	-
Floating rate notes - LBK05				
Opening balance	-	-	-	-
New issues	500 000	-	500 000	-
Fair value adjustments	(15)	-	(15)	-
	499 985	-	499 985	-
Floating rate notes - LBK06				
Opening balance	-	-	-	-
New issues	1 133 000	-	1 133 000	-
Fair value adjustments	(58)	-	(58)	-
	1 132 942	-	1 132 942	-
At nominal value				
AfDB loan	500 000	-	500 000	-
Floating rate notes - LBK01	-	1 188 000	-	1 188 000
Floating rate notes - LBK02	1 338 032	1 338 032	1 338 032	1 338 032
Floating rate notes - LBK03	1 000 000	-	1 000 000	-
Floating rate notes - LBK05	500 000	-	500 000	-
Floating rate notes - LBK06	1 133 000	-	1 133 000	-
	4 471 032	2 526 032	4 471 032	2 526 032

Notes to the Annual Financial Statements (continued)

18 Funding liabilities (continued)

African Development Bank (AfDB) loan

On 10 September 2012 a loan facility of R1.0 billion was obtained from the African Development Bank (AfDB). On 3 May 2013 the loan was drawn down by R500 million, therefore leaving a further R500 million available on the facility. The purpose of the loan was to on-lend to the commercial and development clients of the bank and the tenor of the loan is 15 years. The AfDB loan is a floating rate loan held at fair value with changes in its value being reflected through the statement of profit or loss and other comprehensive income.

Senior unsecured floating rate notes (LBK01, LBK02, LBK03, LBK05 and LBK06)

A R10 billion Domestic Medium Term Note Programme was registered and listed by the JSE on 18 October 2010.

On 26 September 2013 the bank issued a R1.0 billion senior unsecured floating rate note (LBK03) due on 01 October 2016 pursuant to the R10 billion Domestic Medium Term Note Programme. On 28 February 2013 the bank issued a private placement of R500 million senior unsecured floating rate note (LBK05) due on 28 February 2019 pursuant to the R10 billion Domestic Medium Term Note Programme. On 6 March 2014 the bank issued a further R1.133 billion senior unsecured floating rate notes (LBK06) due on 06 March 2017 pursuant to the R10 billion Domestic Medium Term Note Programme.

The bank has elected to carry the floating rate notes at fair value through profit or loss. Changes in fair value are attributable to interest rate fluctuations. There were changes in the fair value that were attributable to the change in credit risk as there was an upward movement in credit risk as per the rating agency.

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
At amortised				
Industrial Development Corporation of South Africa Limited	**100 000**	81 105	**100 000**	81 105
Promissory notes	**14 362 298**	16 405 749	**14 362 298**	16 405 749
Medium Term Promissory notes	**379 072**	16 000	**379 072**	16 000
Floating rate note - 1 year	**3 770 647**	1 630 984	**3 770 647**	1 630 984
Floating rate note - 2, 3 and 5 years	**3 411 410**	487 732	**3 411 410**	487 732
Bills	**529 042**	1 227 346	**529 042**	1 227 346
Call bonds overnight	**730 050**	773 831	**730 050**	773 831
Treasury overdraft facility	**500 000**	-	**500 000**	-
Agri-related businesses deposits	**383 592**	190 764	**383 592**	190 764
Small institutional deposits	**31**	25 236	**31**	25 236
Forced stock sale deposits	**301 555**	288 842	**301 555**	288 842
Department of Agriculture, Forestry and Fisheries fund	**4 600**	4 600	**4 600**	4 600
Employee deposits	**3 730**	3 548	**3 730**	3 548
Irrigation Board deposit	**37 659**	37 659	**37 659**	37 659
	24 513 686	21 173 396	**24 513 686**	21 173 396
Average effective interest rate				
Short-term promissory notes	**6,07%**	5,53%	**6,07%**	5,53%
Bills	**5,81%**	5,73%	**5,81%**	5,73%
Call bonds	**5,84%**	5,14%	**5,84%**	5,14%

Loan: Industrial Development Corporation of South Africa Limited

On 31 March 2011 a loan of R250 million was obtained from the Industrial Development Corporation of South Africa Limited (IDC). On 31 March 2012 the loan was decreased by R150 million therefore amounting to R100 million. The purpose of the loan was to on-lend to farmers that were adversely affected by floods and drought during the 2010 and 2011 calendar years. The loan is interest-free, however in the event that the Land Bank derives any interest income from on-lending up to a maximum of 3.5% it shall repay an agreed variable portion to the IDC on 31 March each year. Advances and repayment terms of the loan are agreed upon between the IDC and the Land Bank, however the loan is to be repaid in full by 31 March 2022. As at 31 March 2014 the R100 million loan was fully disbursed to qualifying farmers.

Notes to the Annual Financial Statements (continued)

19 Provisions

	Staff incentives R'000	Leave pay R'000	Labour disputes R'000	Administration and penalty fees R'000	Legal fees R'000	Other R'000	Total R'000
Group							
At 1 April 2012	**52 070**	**14 918**	**13 477**	**271 868**	**60 271**	**2 828**	**415 432**
Additional provision raised [1]	56 015	15 495	5 783	33 959	4 217	5 286	120 755
Utilised	(51 969)	(1 261)	(59)	(12 793)	(21 606)	(4 578)	(92 266)
Reversal of provision	(22)	(13 657)	(660)	-	(533)	(778)	(15 650)
At 31 March 2013	**56 094**	**15 495**	**18 541**	**293 034**	**42 349**	**2 758**	**428 271**
Additional provision raised [1]	75 383	16 214	2 666	28 501	7 783	2 507	133 054
Utilised	(55 857)	(1 264)	(1 888)	(21 295)	(4 652)	(122)	(85 078)
Reversal of provision	(172)	(14 231)	(12 676)	-	(9 151)	-	(36 230)
At 31 March 2014	**75 448**	**16 214**	**6 643**	**300 240**	**36 329**	**5 143**	**440 017**
Bank							
At 1 April 2012	**51 569**	**14 815**	**13 477**	**271 868**	**60 271**	**2 828**	**414 828**
Additional provision raised [1]	55 000	15 325	5 783	33 959	4 217	5 286	119 570
Utilised	(51 569)	(1 248)	(59)	(12 793)	(21 606)	(4 578)	(91 853)
Reversal of provision	-	(13 566)	(660)		(533)	(778)	(15 537)
At 31 March 2013	**55 000**	**15 326**	**18 541**	**293 034**	**42 349**	**2 758**	**427 008**
Additional provision raised [1]	73 883	15 782	2 666	28 501	7 783	2 507	131 122
Utilised	(54 828)	(1 264)	(1 888)	(21 295)	(4 652)	(122)	(84 049)
Reversal of provision	(172)	(14 062)	(12 676)	-	(9 151)	-	(36 061)
At 31 March 2014	**73 883**	**15 782**	**6 643**	**300 240**	**36 329**	**5 143**	**438 020**

[1] Additional provision raised on the administration and penalty fees provision relates to the interest for the 2014 financial year on these fees. Over and above this, an additional provision of R9.9million was raised on the back of the judgement by the North Gauteng High Court on the "test" case. (Refer note 33 .4.3).

19.1 Staff incentives
The provision for discretionary performance bonuses is payable to employees and is determined by taking into account both the performance of the bank as well as the performance of individual employees.

19.2 Leave pay
Accumulated leave is payable to employees upon termination of services. Provision for leave pay is calculated on the leave days outstanding at the end of the year multiplied by the cost to company of the employees in terms of employment contracts.

19.3 Labour disputes
Provision raised in respect of certain labour related disputes regarding legacy matters which are likely to result in probable settlements by the group.

19.4 Administration and penalty fees
During 2002 the Land Bank Act was amended, which allowed the bank to charge administration and penalty fees on clients' accounts. Subsequent to this amendment, the bank had, without amending the existing client loan agreements at the time, levied such charges on all client accounts and not only loan agreements entered into after the amendment of the Act. Notwithstanding the amendment in the Act, these charges levied on the client accounts were in contravention of the loan agreements and any claims arising in this regard are being regarded as valid. Full provision for administration and penalty fees, including interest there-on, has been raised for such fees recognised in prior periods

19.5 Other
Other provisions include the guarantee fee payable to the National Treasury.

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Notes to the Annual Financial Statements (continued)

20 Post-retirement obligation

20.1 Medical benefit plan

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Valuation assumptions				
Discount rate - In-service members[1]	**9,1%**	8,5%	**9,1%**	8,5%
Discount rate - Continuation members[1]	**8,6%**	7,7%	**8,6%**	7,7%
Continuation of membership at retirement	**100%**	100%	**100%**	100%
Average retirement age	**65 years**	65 years	**65 years**	65 years
Medical cost trend rate - In-service members	**7,4%**	7,2%	**7,4%**	7,2%
Medical cost trend rate - Continuation members	**7,2%**	7,3%	**7,2%**	7,3%
Membership data				
Number of in-service members	**293**	310	**293**	310
Number of continuation members [2]	**303**	311	**303**	311
	596	621	**596**	621

[1] The medical cost trend rate has been factored in determining the discount rate used in the actuarial valuation.
[2] Refers to the pensioners.

	Group 2014	Group 2013	Bank 2014	Bank 2013
Movement in the present value of the benefit obligations:				
Defined benefit obligation at 1 April	**283 890**	261 154	**283 890**	261 154
Service costs	**3 977**	4 261	**3 977**	4 261
Interest cost	**21 905**	21 117	**21 905**	21 117
Recognised actuarial (gain)/loss	**(28 743)**	10 549	**(28 743)**	10 549
Expected employer benefit payments	**(13 576)**	(13 191)	**(13 576)**	(13 191)
Defined benefit obligation at 31 March	**267 453**	283 890	**267 453**	283 890
Components of net periodic medical benefit cost				
Current service cost	**(3 977)**	(4 261)	**(3 977)**	(4 261)
Interest cost	**(21 905)**	(21 117)	**(21 905)**	(21 117)
Expected employer benefit payments	**13 576**	13 191	**13 576**	13 191
Total included in staff costs	**(12 306)**	(12 187)	**(12 306)**	(12 187)
Recognised actuarial gain/(loss)	**28 743**	(10 549)	**28 743**	(10 549)
	16 437	(22 736)	**16 437**	(22 736)

The defined benefit obligation plan is unfunded. The group does however have an investment earmarked specifically for this obligation. (Refer to note 8.2.) The estimated medical aid contributions for the next 6 months effective 1 April 2014 amount to R6.5 million (2013: R6.8 million). The time value of money has not been taken into account as it is believed that the difference will be insignificant.

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Notes to the Annual Financial Statements (continued)

20 Post-retirement obligation (continued)

20.2 Present value of the benefit obligation for the current year and the previous four financial years

	2014 R'000	2013 R'000	2012 R'000	2011 R'000	2010 R'000
Fair value of assets associated with the liability	328 402	285 087	242 505	227 832	211 170
Fair value of benefit obligation plan liability [1]	(267 453)	(283 890)	(261 154)	(218 844)	(190 149)
Surplus/(deficit)	**60 949**	**1 197**	**(18 649)**	**8 988**	**21 021**

[1] LBLIC does not have a post-retirement benefit obligation- and asset.

20.3 Sensitivity analysis

	Effect on current service and interest cost		Effect on accumulated post-medical aid defined benefit obligation	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Increase in medical inflation by 1%	**15 571**	15 182	**307 481**	324 819
Decrease in medical inflation by 1%	**11 826**	11 358	**239 771**	249 702

Notes to the Annual Financial Statements (continued)

21 Discontinued operation

During 2006/07, the Land for Development Finance Unit (LDFU) entered into loans that were deemed to be outside the mandate of the group in terms of the Land Bank Act. An independent forensic investigation concluded in September 2007 indicated alleged irregularities in the origination, management and administration of these loans. During October 2007, a moratorium was placed on the approval of any new loans and pay-outs on existing loans.

During July 2008, as part of the formalisation of the turnaround strategy, a decision was made to discontinue the LDFU operation and to dispose of the loan portfolio. The discontinuance decision formed part of the stabilisation phase of the turnaround strategy and has been encapsulated in the corporate plan approved by the Board of Directors.

As at 31 March 2009, the LDFU operations is a separate reportable operating segment of the group and it was classified as a disposal group held-for-sale and as a discontinued operation. The disposal of some of the properties have taken place since the discontinuance decision, however, in view of the current market conditions, properties in this portfolio will only be disposed of as and when conditions render it economically viable.

The results of LDFU for the year are presented below:

		Group		Bank	
	Note	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Net interest expense		**(27 563)**	(38 470)	**(27 563)**	(38 470)
Interest income	22	**-**	-	**-**	-
Interest expense	23	**(27 563)**	(38 470)	**(27 563)**	(38 470)
Impairment (charge)/release on loans and advances	11.3	**(1 241)**	1 284	**(1 241)**	1 284
Operating expenses	28	**(204)**	(904)	**(204)**	(904)
Net loss from discontinued operations		**(29 008)**	(38 090)	**(29 008)**	(38 090)

The major classes of assets and liabilities of the LDFU classified as held-for-sale as at 31 March 2014 are as follows:

	Note	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Assets					
Loans and advances classified as assets held-for-sale	11	**142 204**	143 873	**142 204**	143 873
Liabilities					
Liabilities directly associated with assets classified as held-for-sale	18	**(784 009)**	(756 670)	**(784 009)**	(756 670)
Net liabilities directly associated with disposal group		**(641 805)**	(612 797)	**(641 805)**	(612 797)
Equity and reserves of disposal group classified as held-for-sale		**(641 805)**	(612 797)	**(641 805)**	(612 797)
The net cash flows incurred by the LDFU are as follows:					
Cash flows from operating activities					
Operating expenses		**(204)**	(904)	**(204)**	(904)
Cash flow from financing activities					
Interest expense		**(27 563)**	(38 470)	**(27 563)**	(38 470)
Net cash outflow		**(27 767)**	(39 374)	**(27 767)**	(39 374)

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Notes to the Annual Financial Statements (continued)

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
22 Interest income				
Loans and receivables				
Interest from loans and advances	**2 318 438**	1 879 547	**2 318 438**	1 879 547
Interest on short-term deposits	**101 691**	114 702	**101 691**	114 702
Interest from banks	**59 605**	53 593	**48 488**	43 909
	2 479 734	2 047 842	**2 468 617**	2 038 158
23 Interest expense				
Funding deposits	**1 453 003**	1 204 857	**1 453 003**	1 204 857
Deposits and credit balances	**53 792**	34 064	**53 792**	34 064
Commercial banks	**166**	1 134	**46**	174
Government guarantee fee	**7 979**	2 509	**7 979**	2 509
	1 514 940	1 242 564	**1 514 820**	1 241 604
23.1 Interest expense incurred per class of funding				
Designated at fair value through profit or loss	**197 767**	156 485	**197 767**	156 485
Interest on debentures	**184**	201	**184**	201
Interest hedging	**(600)**	(675)	**(600)**	(675)
Interest paid - AfDB	**25 251**	-	**25 251**	-
Interest paid on floating rate notes - LBK01	**45 567**	81 291	**45 567**	81 291
Interest paid on floating rate notes - LBK02	**87 092**	75 668	**87 092**	75 668
Interest paid on floating rate notes - LBK03	**31 878**	-	**31 878**	-
Interest paid on floating rate notes - LBK05	**3 060**	-	**3 060**	-
Interest paid on floating rate notes - LBK06	**5 335**	-	**5 335**	-
Financial liabilities at amortised cost	**1 344 736**	1 124 549	**1 344 616**	1 123 589
Interest paid on deposits	**53 792**	34 064	**53 792**	34 064
Interest paid on call bonds	**38 644**	43 235	**38 644**	43 235
Interest paid on bills	**62 290**	48 216	**62 290**	48 216
Interest paid on promissory notes	**868 192**	933 698	**868 192**	933 698
Interest paid on floating promissory notes - 1 year	**145 857**	47 378	**145 857**	47 378
Interest paid on floating promissory notes - 2, 3 and 5 years	**155 462**	11 565	**155 462**	11 565
Interest paid on treasury overdraft	**11 449**	1 871	**11 449**	1 871
Interest paid - IDC	**905**	879	**905**	879
Fees paid on government guarantees	**7 979**	2 509	**7 979**	2 509
Interest paid - commercial banks	**166**	1 134	**46**	174
Total interest expense	**1 542 503**	1 281 034	**1 542 383**	1 280 074
Less: Interest expense relating to the discontinued operation (refer note 21)	**(27 563)**	(38 470)	**(27 563)**	(38 470)
	1 514 940	1 242 564	**1 514 820**	1 241 604

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Notes to the Annual Financial Statements (continued)

24 Non-interest (expense)/income

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Fee and commission income	**(78 636)**	(16 014)	**(77 895)**	(15 314)
Account administration fee income[1]	**23 315**	34 660	**23 315**	34 660
Account administration fee expense	**(109 802)**	(57 479)	**(109 802)**	(57 479)
Fund administration fees	**7 759**	6 599	**7 759**	6 599
Administration fee from LBLIC	**-**	-	**741**	700
Commission earned	**83**	66	**83**	66
REM rebate income	**9**	140	**9**	140
Other	**24 378**	21 497	**24 378**	21 497
Income from properties in possession	**50**	-	**50**	-
Investment property rentals	**10 399**	8 657	**10 399**	8 657
Sundry income	**13 929**	12 840	**13 929**	12 840
	(54 258)	5 483	**(53 517)**	6 183

[1] Impact of the suspended fees: Release of R6.1 million (2013: R3.0 million).

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Notes to the Annual Financial Statements (continued)

25 Operating profit from insurance activities

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Gross written premium	**9 717**	6 122		
- Long-term insurance contracts	**7 435**	7 710		
- Short-term insurance contracts	**2 282**	(1 588)		
Gross earned premium	**2 282**	(2 739)		
Change in the unexpired risk reserve	**-**	1 151		
Less: reinsurance premium	**(4 684)**	(3 458)		
- Long-term insurance contracts	**(3 087)**	(3 956)		
- Short-term insurance contracts	**(1 597)**	498		
Reinsurance premium	**(1 597)**	498		
Less: movement in the unearned premium reserve	-	7 673		
Net premium income	**5 033**	10 337		
Long-term insurance contract claims	**(2 074)**	(1 365)		
- Gross claims paid	**(3 491)**	(4 278)		
- Movement in the expected cost of outstanding claims	**(805)**	1 418		
- Reinsurance recoveries	**1 820**	2 204		
- Movement in the expected reinsurance ceded cost of outstanding claims	**402**	(709)		
Short-term insurance claims	**425**	7 098		
- Gross claims paid	**(133)**	(36 223)		
- Incurred but not reported claims	**3 090**	9 550		
- Movement in the expected cost of outstanding claims	**(434)**	49 896		
- Reinsurance recoveries	**1 750**	27 774		
- Reinsurance: Incurred but not reported claims	**(2 495)**	(7 029)		
- Movement in the expected reinsurance ceded cost of outstanding claims	**(1 353)**	(36 870)		
Net insurance claims	**(1 649)**	5 733		
Movement in policyholders' liability	**5 846**	25		
Net commission and administration fees	**(206)**	172		
	9 024	16 267		

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Notes to the Annual Financial Statements (continued)

26 Investment income and fees

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Investment income from financial assets classified as at fair value through profit or loss:	**53 174**	45 631	**11 248**	9 554
- Dividend income	**20 054**	17 192	**3 936**	3 878
- Interest income	**33 120**	28 439	**7 312**	5 676
	141 544	155 122	**46 840**	45 612
Realised gains	**98 239**	55 320	**40 880**	17 032
Unrealised fair value gains	**43 305**	99 802	**5 960**	28 580
Investment management and performance fees	**(12 812)**	(12 658)	**(1 807)**	(1 536)
	181 906	188 095	**56 281**	53 630

27 Fair value gains/(losses)

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Held for trading	**91**	(1 730)	**91**	(1 730)
Fair value movement on derivate assets	**-**	-	**-**	-
Fair value movement on derivate liabilities	**-**	(865)	**-**	(865)
Market-making assets	**(220)**	(432)	**(220)**	(432)
Instruments in (Repos)	**311**	(433)	**311**	(433)
Designated at fair value through profit or (loss)				
	4 880	(10 732)	**4 880**	(10 732)
AfDB loan	**1 937**	-	**1 937**	-
Floating rate notes - LBK01	**2 946**	(2 887)	**2 946**	(2 887)
Floating rate notes - LBK02	**2 604**	(7 845)	**2 604**	(7 845)
Floating rate notes - LBK03	**(2 680)**	-	**(2 680)**	-
Floating rate notes - LBK05	**15**	-	**15**	-
Floating rate notes - LBK06	**58**	-	**58**	-
	4 971	(12 462)	**4 971**	(12 462)

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Notes to the Annual Financial Statements (continued)

28 Operating expenses

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Amortisation – computer software	**2 307**	13 160	**2 307**	13 160
- Current year before change in estimate	**13 371**	13 160	**13 371**	13 160
- Effect of changes in accounting estimates[1]	**(11 064)**	-	**(11 064)**	-
Audit fees (external audit)	**5 949**	6 662	**5 301**	6 103
Audit fees (internal audit)	**5 352**	10 966	**5 352**	10 875
Depreciation	**13 373**	11 882	**13 332**	11 838
Directors' emoluments	**17 508**	15 650	**13 338**	12 774
- Executive directors[2]	**11 533**	8 938	**8 699**	7 523
- Non-executive directors	**5 975**	6 712	**4 639**	5 251
Leases	**24 880**	24 743	**24 880**	24 743
- Actual payment	**26 819**	25 092	**(26 819)**	(25 092)
- Effect of straight-lining	**(1 939)**	(349)	**(1 939)**	(349)
Legal fees	**1 776**	16 696	**1 776**	16 696
Management fees	**661**	630	**661**	630
Professional fees	**20 152**	23 218	**18 708**	21 873
Staff costs	**381 357**	357 062	**377 784**	354 405
- Salaries and contributions	**362 059**	337 996	**358 561**	335 421
- Other	**19 298**	19 066	**19 223**	18 984
Other operating expenses	**73 354**	71 367	**72 000**	70 415
	546 669	552 036	**535 439**	543 512

[1] Change in accounting estimate is due to a change in the useful lives of the intangible assets (refer to note 12).
[2] The comparative disclosures have been realigned to conform to the FY2014 presentation.

29 Non-trading and capital items

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Fair value adjustment on investment properties (note 13)	**335**	(8 200)	**335**	(8 200)
Impairment of other assets	**7**	5	**7**	5
Non-current assets held-for-sale fair value adjustment (note 7)	**695**	(1 543)	**695**	(1 543)
Profit on disposal of property and equipment	**6 183**	185	**6 183**	185
Profit on disposal of moveable assets bought in	**1**	-	**1**	-
Profit/(loss) on disposal of properties in possession	**2 269**	(490)	**2 269**	(490)
Loss on sale of LBLIC shares	**-**	-	**-**	(30)
	9 490	(10 043)	**9 490**	(10 073)

Notes to the Annual Financial Statements (continued)

30 Indirect taxation

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Value added tax[1]	**27 458**	23 357	**27 458**	23 357

[1] Value-added taxation comprises the portion that is irrecoverable as a result of the interest earned in the South African financial services sector.

31 Income from associate

During the year the Land Bank acquired a non-controlling 49.9% holding in Renaissance Brands (Pty) Ltd. (Refer to note 8.3). As a result of this, Renaissance Brands (Pty) Ltd is classified as an associate.

	Group 2014 R'000	Group 2013 R'000	Bank 2014 R'000	Bank 2013 R'000
Earnings from associate	-	-	-	-

As at 31 March 2014, the investment in Renaissance Brands (Pty) Ltd was written off to Rnil (refer to note 8.3). During the period over which the company has been recognised as an associate, the loss attributable to Land Bank amounted to R1.9 million. If the losses from the associate were to be disclosed for the full financial year, a loss of R4.3 million would have been incurred. As a result of the investment being carried at a value of Rnil, no loss was recognised during the year. An independent business review has been performed and it is expected that the business will turn around in the future. Unrecognised losses will be accumulated and profits only recognised once these losses have been reversed.

No liability has been raised as Land Bank does not have any constructive or legal obligations to make payments on behalf of Renaissance Brands (Pty) Ltd.

The loss recognised includes interest charged by Land Bank on the old loans which were restructured at 17 February 2014. As a result of the restructuring, the interest amount charged has decreased significantly. By looking at the company's EBITDA, Renaissance Brands (Pty) Ltd earned R9.48 million over the previous financial year in comparison to the accounting loss of R8.65 million recognised by Renaissance Brands (Pty) Ltd as a whole. This further provides management with confidence that the business will return to profitability in the future.

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Notes to the Annual Financial Statements (continued)

	Group		Bank	
	2014	2013	2014	2013
	R'000	R'000	R'000	R'000
32 Funds under administration				
Asset				
Cash balance held for the funds administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF)	**21 542**	460 852	**21 542**	460 852
Liabilities				
Department of Agriculture, Forestry and Fisheries	**6 318**	453 629	**6 318**	453 629
Department of Rural Development and Land Reform	**7 587**	7 223	**7 587**	7 223
Gauteng Department of Agriculture and Rural Development	**7 637**	-	**7 637**	-
	21 542	460 852	**21 542**	460 852
32.1 Funds administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF)				
Agri BEE Fund	**3 763**	197 503	**3 763**	197 503
DAFF Administration Fund - Flood Relief	**31**	5 881	**31**	5 881
MAFISA Fund	**2 524**	160 146	**2 524**	160 146
DAFF Flood Relief Programme	**-**	90 099	**-**	90 099
	6 318	453 629	**6 318**	453 629
32.2 Funds administered on behalf of the Department of Rural Development and Land Reform (DRDLR)				
Land for Redistribution and Agricultural Development (LRAD) grant	**7 587**	7 223	**7 587**	7 223
32.3 Funds administered on behalf of Gauteng Department of Agriculture and Rural Development (GDARD)				
Gauteng Department of Agriculture and Rural Development	**7 637**	-	**7 637**	-
	21 542	460 852	**21 542**	460 852

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Notes to the Annual Financial Statements (continued)

32 Funds under administration (continued)

32.4.1 Agri BEE

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Balance at the beginning of the year	**197 503**	157 067	**197 503**	157 067
Receipts	**33 347**	31 100	**33 347**	31 100
Accrued interest	**6 992**	9 336	**6 992**	9 336
Credit transfer	**(228 577)**	-	**(228 577)**	-
Disbursements	**(5 502)**	-	**(5 502)**	-
Balance at the end of the year	**3 763**	197 503	**3 763**	197 503

32.4.2 DAFF Poverty Fund

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Balance at the beginning of the year	**5 881**	9 567	**5 881**	9 567
Accrued interest	**202**	418	**202**	418
Credit transfer	**(6 052)**	-	**(6 052)**	-
Disbursements	**-**	(4 104)	**-**	(4 104)
Balance at the end of the year	**31**	5 881	**31**	5 881

32.4.3 MAFISA Fund

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Balance at the beginning of the year	**160 146**	294 855	**160 146**	294 855
Receipts	**13 161**	160 019	**13 161**	160 019
Accrued interest	**4 725**	12 956	**4 725**	12 956
Credit transfer	**(136 280)**	-	**(136 280)**	-
Disbursements	**(39 228)**	(307 684)	**(39 228)**	(307 684)
Balance at the end of the year	**2 524**	160 146	**2 524**	160 146

32.4.4 Flood Relief Programme

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Balance at the beginning of the year	**90 099**	85 636	**90 099**	85 636
Accrued interest	**1 853**	4 463	**1 853**	4 463
Credit transfer	**(91 952)**	-	**(91 952)**	-
Balance at the end of the year	**-**	90 099	**-**	90 099

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Notes to the Annual Financial Statements (continued)

32 Funds under administration (continued)

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
32.4.5 LRAD grant				
Balance at the beginning of the year	**7 223**	6 866	**7 223**	6 866
Accrued interest	**364**	357	**364**	357
Balance at the end of the year	**7 587**	7 223	**7 587**	7 223
32.4.6 GDARD				
Balance at the beginning of the year	**-**	-	**-**	-
Receipts	**-**	-	**-**	-
Transfers received	**25 326**	-	**25 326**	-
Accrued interest	**988**	-	**988**	-
Credit transfer	**(18 677)**	-	**(18 677)**	-
Disbursements	**-**	-	**-**	-
Balance at the end of the year	**7 637**	-	**7 637**	-

32.5 Description of the funds under administration

Agri BEE Fund
Parliament approved a sector specific allocation for the Agri BEE Fund that will allocate grants to promote the rural community based empowerment groups. The bank acts as an agent on behalf of the DAFF in the administration of the fund. An injection of R33.4 million from DAFF was received during the current financial year. A directive, dated 17 October 2013, was received from National Treasury to transfer uncommitted DAFF Funds to the National Revenue Fund. A total of R 228.6 million was transferred to the National Revenue Fund.

DAFF Poverty Fund
The fund has been set up by the DAFF to respond to any food crisis by means of procurement of agricultural implements and starter packs. A directive, dated 17 October 2013, was received from National Treasury to transfer uncommitted DAFF Funds to the National Revenue Fund. A total of R 6.05 million was transferred to the National Revenue Fund.

MAFISA Fund
The MAFISA Fund has been set up on request of the DAFF to invest money in approved projects of the Department through on-lending to individuals. Monies received from the DAFF for the MAFISA Fund is invested in a separate bank account on behalf of the DAFF. No on-lending has taken place during the period under review and the disbursements constitutes transfers to other institutions for on-lending on instruction of the DAFF. A directive, dated 17 October 2013, was received from National Treasury to transfer uncommitted DAFF Funds to the National Revenue Fund. A total of R 136.3 million was transferred to the National Revenue Fund.

Flood Relief Programme
The fund has been set up on behalf of the DAFF to administer a recovery program as a result of the extensive flooding that occurred early in the year 2000. All uncommitted funds were transferred to the National Revenue Fund .

Land for Redistribution and Agricultural Development (LRAD) grant
The fund has been set up on behalf of the DRDLR.

Gauteng Department of Agriculture and Rural Development (GDARD)
The objective of the fund is to provide on infrastructure support programme for on-farm infrastructure development.

Notes to the Annual Financial Statements (continued)

32 Funds under administration (continued)

	Group		Bank	
	2014	2013	2014	2013
	R'000	R'000	R'000	R'000
32.6 Emerging Farmers' Support Facility & REM Wholesale Finance Facility				
Asset				
Cash balance held for the support facilities	**255 380**	249 311	**255 380**	249 311
Liabilities				
Emerging farmers support facility	**236 689**	225 302	**236 689**	225 302
REM wholesale finance support facility	**18 691**	24 009	**18 691**	24 009
	255 380	249 311	**255 380**	249 311
32.6.1 Emerging farmers support facility				
Balance at the beginning of the year	**225 302**	214 138	**225 302**	214 138
Accrued interest	**11 387**	11 164	**11 387**	11 164
Balance at the end of the year	**236 689**	225 302	**236 689**	225 302
32.6.2 REM wholesale finance support facility				
Balance at the beginning of the year	**24 009**	12 411	**24 009**	12 411
Receipts	**-**	30 000	**-**	30 000
Accrued interest	**1 044**	865	**1 044**	865
Disbursements	**(6 362)**	(19 267)	**(6 362)**	(19 267)
Balance at the end of the year	**18 691**	24 009	**18 691**	24 009

32.7 Description of the Emerging farmers support & REM wholesale finance support facility

Emerging Farmers Support Facility

The Land Bank received R208.0 million from the Department of Rural Development and Land Reform on the 17th of August 2011. The transfer received is a guarantee for identified deserving emerging farmers which require rescue packages. The identified farmers all have mortgage loans with the Land Bank and the bank can only access the guarantee after complying with conditions as set by the Department of Rural Development and Land Reform. The only movement in the facility to date has been the interest accrued on the transfer received.

REM wholesale finance support facility

The Land Bank received R30 million from the Department of Rural Development and Land Reform on the 27th of October 2012 under this facility. The transfer is meant to subsidise interest payable to the Land Bank and appointed intermediaries by Retail Emerging Market farmers under the wholesale finance facility. The Land Bank and the appointed intermediaries receive interest of 4% p.a each on the loans disbursed by Land Bank to the intermediaries. The intermediaries charge the REM farmers 4% p.a on the value of the loans disbursed for their role of supporting the emerging farmers with skills and other facilities that enhance their success. This interest is paid from the aforesaid funds. Interest paid from the facility to date amounts to R18.7 million (2013: R19.3 million).

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Notes to the Annual Financial Statements (continued)

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
33 Commitments, guarantees and contingent liabilities				
33.1 Commitments				
Loans granted but not yet disbursed				
Individual farmers	**347 858**	375 524	**347 858**	375 524
Agri-related businesses	**69 291**	-	**69 291**	-
	417 149	375 524	**417 149**	375 524
Debentures/ stock purchased				
Other institutional stock (Nominal value: R5 million)	**-**	5 238	**-**	5 238
Repo's				
- R186 (Nominal value: R5 million)	**5 812**	-	**5 812**	-
- R208 (Nominal value: R10 million)	**9 250**	-	**9 250**	-
	15 062	-	**15 062**	-
Market-making assets				
- R186 (Nominal value: R5 million)	**5 812**	-	**5 812**	-
- R208 (Nominal value: R10 million)	**9 250**	-	**9 250**	-
	15 062	-	**15 062**	-
33.2 Financial guarantees				
Individual farmers	**145 435**	282 647	**145 435**	282 647
Agri-related businesses	**220 828**	324 659	**220 828**	324 659
	366 263	607 306	**366 263**	607 306

The above guarantees are included in the clients' approved facility limits and it is unknown when the guarantees will be presented for payment.

Notes to the Annual Financial Statements (continued)

33 Commitments, guarantees and contingent liabilities (continued)

33.3 Lease commitments

33.3.1 Operating leases

The group has entered into various lease agreements with third parties in respect of equipment and premises for its day-to-day operations. The lease periods on equipment range from three to five years and one to five years on buildings.

As at 31 March the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Operating lease commitments - Group as lessee[1]				
Payable within one year	**16 371**	22 284	**16 371**	22 284
Payable between one to five years	**2 140**	17 530	**2 140**	17 530
	18 511	39 814	**18 511**	39 814
Operating lease commitments - Group as lessor				
Receivable within one year	**3 608**	3 379	**3 608**	3 379
Receivable between one to five years	**8 398**	14 943	**8 398**	14 943
	12 006	18 322	**12 006**	18 322

[1] The comparative disclosures have been realigned to confirm to the FY2014 presentation.

The group has entered into a five year lease agreement on a new building for its head office on 1 December 2009 which accounts for 50% of the total lease expense. The agreement has a renewal option for a further five years and an escalation clause of 10% annually. The lease expenses payable within the next financial year amounts to R12 million (2013: R10 million) and the amount payable between one and five years amounts to Rnil (2013: R2 million).

A register containing details of the existence and terms of renewal and escalation clauses is available for inspection at the group's registered office.

33.4 Contingent liabilities

33.4.1 Onerous contracts - LDFU loans

As disclosed in note 21, the LDFU loans entered into by the group in 2007, were outside the mandate of the group in terms of the Land Bank Act. Although the group might be exposed to civil and counter party claims, such potential claims cannot be reliably measured and as such, no provision was raised for possible onerous contracts.

As at 31 March 2014, the situation is as follows:

- The group has negotiated settlement agreements with two of the clients and further negotiations are on-going to finalise these matters.
- No further settlements were concluded during this financial period. The group is actively pursuing avenues to dispose of these assets, but will only consider disposals on favourable terms to the bank. Legalities and prevailing market conditions are some of the factors delaying the disposal process.

Notes to the Annual Financial Statements (continued)

33 Commitments, guarantees and contingent liabilities (continued)

33.4 Contingent liabilities (continued)

33.4.2 Legal claim - previous turnaround strategy

The group entered into an agreement with a service provider to plan and implement a turnaround strategy for the group which developed into a dispute. A second agreement was entered into to resolve the dispute. In the second agreement the group agreed to cede, subject to the agreed-upon terms and conditions, written off debtors to the value of +/- R123 million to the service provider. A second dispute arose between the parties regarding the cession.

The matter was set down for trial during March 2012. On 23 March 2012 judgement was delivered in favour of the Land Bank. However, the plaintiff filed a notice of application for leave to appeal the judgement, which was granted by the trial court.

The Supreme Court of Appeal heard the matter on 7 May 2013 and delivered its judgement on 5 June 2013 which dismissed the Appellants claim with costs. The Appellants decided not to persue the matter any further.

As a result, the "ring-fenced" funds of +/- R123 million, plus interest, has been released and since been utilised within the group's daily operational activities.

33.4.3 Change in the interest rate method

The bank changed the method of calculating interest on loans. This has led to current and past legal claims. Judgement was handed down on 9 March 2012 in the North Gauteng High Court in a “test” case on the Land Bank Interest Calculation Methodology.

In essence the case related to two issues:

1. The reasonableness or unreasonableness of the Land Bank interest rates as applied and variation therein since 1999 - the court found in favour of the Land Bank; and
2. The charging of interest on arrear (default) interest - the court found against the Land Bank.

After considering legal opinion received from the bank’s Senior Councel indicating that an appeal has a reasonable prospect of success, the Land Bank decided to lodge an appeal against the part of the judgement which was not found in its favour. The Appeal was heard on 20 May 2013 and judgment has since been handed down.

The Supreme Court of Appeal ("SCA") found in favour of the bank charging interest on arrear (default) interest, but capped the rate to the prescribed rate of Mora, i.e. 15.5%. The SCA further referred the case back to the North Gauteng High Court to confirm the quantum of settlement.

The North Gauteng High Court heard the matter on 31 March 2014, and judgement was handed down on 17 April 2014. An aspect not previously ruled on by the court in terms of the interest methodology was ruled not in favour of the Bank. The bank accepted the judgment in relation to the "test" case, and although the bank had the option to appeal the judgment, it was decided against for pragmatic reasons.

The impact of the judgment on the "test" case population has been quantified as R9.9 million and an additional provision has been raised - refer note 19.

All matters outside of the "test" case population will be tried in court on a case by case basis. Furthermore, prescription will be considered in all such matters going forward.

33.4.4 Agri-BEE Funds administered on behalf of the DAFF

Possible irregularities in the administration of the funds administered on behalf of the DAFF, currently under investigation by the relevant authorities, could give rise to an obligation in terms of an indemnity clause included in the memorandum of understanding between the DAFF and the group. A reasonable estimate of the amount of the resulting loss, if any, could not be made.

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Notes to the Annual Financial Statements (continued)

33 Commitments, guarantees and contingent liabilities (continued)

33.4 Contingent liabilities (continued)

33.4.5 Disputed lease agreement, Cape Town

During the 2013 financial reporting period, the bank had a dispute with a tenant in one of the investment properties, whereby the lease renewal was declined based on a legal argument that the lease agreement was void ab initio. The tenant disputed this and sought independent legal advice regarding the validity of the lease agreement. Notwithstanding, the tenant effected certain improvements on the building and as such has a possible unjustified enrichment claim against the bank.

The likelihood of loss in this matter has since been completely dissolved by an agreement reached between the Land Bank and the tenant ("the parties"). The parties agreed to an extension of the tenancy by a further period of one year, with the provisio that the tenant waives or gives up any current or future claims against the bank, relating to any improvements done on the premises during the tenancy. This agreement terminates at the end of May 2014, which will mean the final resolution of the issue.

33.4.6 LBLIC Tax

The former LBIC as a wholly owned subsidiary of Land Bank, was exempt from Income Tax in terms of section 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962.

With effect 01 April 2012, LBIC was restructured in line with Ministerial approval of its revised business model, which was based on a preferred “Hold Co” structure by the Financial Services Board (“FSB”). The restructured insurance group now consisted of LBIS Holding Co, LBIC (Short-term insurance co) and LBLIC (Long-term insurance co).

As part of the implementation of LBIC’s restructure during FY2014 LBIS group management approached the South African Revenue Services (“SARS”) for a tax ruling to confirm that the tax privileges of the former LBIC, would still apply to the restructured group, as in effect nothing has changed, i.e. all companies effectively remain 100% owned by the Land Bank, albeit "indirectly".

The tax ruling received back from SARS was negative, stating that because of the inclusion of the LBIS holding company within the insurance group structure, the LBIC and LBLIC operating companies would not be entitled to exemption from Income Tax, as unlike the former LBIC - these companies were not “direct” wholly owned subsidiaries of the Land Bank.

LBIS group management then approached the Minister of Finance requesting approval for the removal of the LBIS holding company, from the group structure.

The Minister granted approval for the request to remove the LBIS holding company on 14 May 2014. This approval indicated that in terms of the new group structure both LBIC (ST Co) and LBLIC (LT Co) can apply for tax exemption in terms of section 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962. Furthermore, the Minister requested that the company engage with the FSB regarding the approved revised structure.

Following the Ministerial approval, management has re-engaged SARS with the application for retrospective tax exemption effective 01 April 2012, for both LBIC and LBLIC to apply for tax exemption in terms of section 10(1)(cA)(ii) of the Income Tax Act, 1962 (Act No. 58 of 1962).

In the unlikely event that SARS does not grant retrospective approval for exemption for these two companies, the group will be liable for tax for the period 01 April 2012 to 14 May 2014, at which point the implications will be quantified and reported on accordingly. Management is of the view that it is improbable that this approval will not be granted.

Notes to the Annual Financial Statements (continued)

34 Related Parties

34.1 Relationships between parents, subsidiaries and associates

The ultimate controlling party of the Land Bank is government, National Treasury, both incorporated in South Africa.

The following represents the significant subsidiary of the bank:

	Ownership Interest	
	2014	**2013**
Land Bank Life Insurance Company (SOC) Limited (LBLIC) through its dormant holding company (LBIS)	**100%**	100%
Land Bank Insurance Company (SOC) Limited through its dormant holding company (LBIS)	**100%**	100%
Land Bank Life Insurance Services (SOC) Limited	**100%**	100%

Upon completion of the restructuring, LBIS will be the holding company of the restructured insurance operations, whilst Land Bank Insurance (SOC) Limited (LBIC) and Land Bank Life Insurance Company (SOC) Limited (LBLIC) will house the short-term and long-term insurance operations respectively. The Land and Agricultural Development Bank of South Africa (Land Bank) will be the ultimate holding company of the group through a 100% shareholding in LBIS.

As part of the restructuring of the former LBIC, and with effect from 1 April 2012, LBIS issued 1,000 shares with no par value to Land Bank in return for its investment in the former LBIC (now LBLIC - i.e. 15,000 shares with a par value of R2 each). Furthermore, LBIC issued 1,000 shares with no par value to LBIS in terms of the company's incorporation. LBIC and LBIS are currently dormant.

In May 2014, the Minister approved that the holding company (LBIS) be dissolved and that the two insurance companies be held directly by Land Bank.

The following represents the associate of the bank:

Renaissance Brands (Pty) Ltd was acquired on 17 Feb 2014 through a debt restructuring process. As at 31 March 2014, the bank owns 49.9% of Renaissance Brands (Pty) Ltd and is being accounted for as an associate. A notional equity value of Rnil has been recognised for the investment (Refer to note 8.3).

34.2 Transactions with related parties other than key management personnel

34.2.1 Amounts received from related parties during the year

	2014	**2013**
	R'000	**R'000**
(i) Land Bank Life Insurance Company (SOC) Limited - Subsidiary		
Policy administration fees received by Land Bank	**741**	700
Commission received by Land Bank	**80**	64
Portion of non-executive directors emoluments paid by LBLIC	**400**	400
Property and equipment transferred to LBLIC (at NAV)	**15**	32
	1 236	1 196

LBLIC is a 100% owned subsidiary of the Land Bank through its dormant holding company, LBIS. An administration and management fee of R0.7 million per annum (2013: R0.7 million) is paid by LBLIC to Land Bank for support services such as finance, human resources, compliance and information technology.

No dividends were declared or paid during the year under review nor were dividends declared in the previous year.

Notes to the Annual Financial Statements (continued)

34 Related Parties (continued)

(ii) National Treasury - Stakeholder	**2014 R'000**	**2013 R'000**
Recapitalisation	**300 000**	200 000

With effect from 14 July 2008, the administrative powers over the bank were transferred from the Ministry of the Department of Agriculture to the Ministry of Finance and, in accordance with The Land Bank Act, 2002, has the following role and responsibilities:

The Minister in terms of paragraph 7:
(a) is responsible for the development of policy with regard to agriculture, agrarian reform and matters incidental thereto; and
(b) may from time to time issue policy directives to the Board not inconsistent with this Act.

The Minister in terms of paragraph 9(1):
may appoint a Board Member for such period as the Minister may determine in the case of each member but the period may not exceed five years.

Transactions during the year
During the course of FY14, the Land Bank received an amount of R300.0 million from the National Treasury as part of the R3.5 billion recapitalisation, and this has been included in the capital fund in the statement of changes in equity.

Government Support - Letter of guarantee
In 2010, the National Treasury issued the Land Bank a R3.5 billion guarantee that was to be reduced by cash transfers to the bank as part of the shareholder`s recapitalisation initiative. As at the end of FY2014, a total of R3.0 billion had been transferred to the Land Bank with a balance of R500.0 million remaining on the guarantee. The R500.0 million will be transferred to the bank within the next two financial periods. In March 2014,the National Treasury issued the bank a further R1.5 billion guarantee resulting in the guaranteed amount increasing to R2.0 billion as at the end of March 2014. The fee payable on the guarantee is 0.3% per annum (refer to note 23).

(iii) Other related parties

Funding received
The bank obtains funding from institutions under the same sphere of government, of which the most significant nominal values are disclosed below:

	2014 R'000	**2013 R'000**
African Development Bank	**500 000**	-
Corporation for Public Deposits	**652 500**	443 000
Development Bank of South Africa	**-**	100 000
KHULA	**-**	25 000
National Housing Finance	**40 000**	140 000
Petro SA	**422 670**	944 000
Post Bank	**700 000**	600 000
Public Investment Corporation	**7 615 000**	9 109 000
South-African Reserve Bank	**-**	110 000
Trans-Caledon Tunnel Authority	**100 000**	-
City of Johannesburg	**201 050**	301 000
	10 231 220	11 772 000

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Notes to the Annual Financial Statements (continued)

34 Related Parties (continued)

The funding from related parties are all short-term financial instruments which are repayable within a year. The funding consists mainly of promissory notes and bonds.

	2014 R'000	2013 R'000
34.2.2 Amounts owed by related parties		
(i) Land Bank Life Insurance Company (SOC) Limited - Subsidiary		
Land Bank Life Insurance Company (SOC) Limited (LBLIC) (note 4)	**283 758**	269 415

The intercompany account is held as a trading account between LBLIC and it's ultimate holding company, the Land Bank. In terms of the shareholders' agreement, interest on the outstanding loan balance is charged at the prime overdraft rate, the loan is unsecured and has been sub-ordinated by Land Bank. Settlement will take place in cash. A decision was taken by the executive of the holding company that no interest would be charged on the outstanding loan balance during the current and prior financial periods under review. All the intercompany arrangements will be revisited as part of the restructuring of the group. It is not expected that the loan will be repaid within 12 months.

There was no provision for doubtful debts at the statement of financial position date and no bad debt expense in the year (2013: Rnil).

(ii) Renaissance Brands (Pty) Ltd - Associate

	2014 R'000	2013 R'000
Senior Debt (3 Loans with differing terms)	**50 000**	
Loan 1 - 52.5%	**26 250**	
Loan 2 - 22.5%	**11 250**	
Loan 3 - 25.0%	**12 500**	
Preference Shares	**107 500**	
Subordinated Shareholders Loan	**16 400**	
	173 900	

With respect to the above balances, an impairment balance of R12.8 million has been raised.

34.2.3 Amounts owed to related parties

	2014 R'000	2013 R'000
Department of Agriculture, Forestry and Fisheries (note 32.1)	**6 318**	453 629
- Micro-Agricultural Finance Institution (MAFISA)	**2 524**	160 146
- Agricultural Broad Based Black Economic Empowerment (Agri-BEE)	**3 763**	197 503
- DAFF Flood Relief	**31**	95 980
Department of Rural Development and Land Reform (note 32.2)	**7 587**	7 223
Gauteng Department of Agriculture and Rural Development (note 32.3)	**7 637**	-
Emerging Farmers` Support Facility & REM Wholesale Finance Facility (note 32.6)	**255 380**	249 311
	276 922	710 163

Notes to the Annual Financial Statements (continued)

34 Related Parties (continued)

	2014 R'000	2013 R'000
(i) Funds under administration		
Department of Agriculture, Forestry and Fisheries (note 32.1)	**6 318**	453 629
Department of Rural Development and Land Reform (note 32.2)	**7 587**	7 223
Gauteng Department of Agriculture and Rural Development (note 32.3)	**7 637**	-
	21 542	460 852
Cash balances held for funds administered	**21 542**	460 852

(ii) Micro-Agricultural Finance Institution (MAFISA)
The bank was appointed as administrator of the state owned scheme, known as MAFISA by the DAFF. The bank maintains separate accounting records for MAFISA which reflected the following balances at the reporting date.

	2014 R'000	2013 R'000
Bank balances of the MAFISA fund (note 32.3.3)	**2 524**	160 146
MAFISA fund balance (note 32.3.3)	**2 524**	160 146

(iii) Agricultural Broad Based Black Economic Empowerment (Agri-BEE)
The bank was appointed as administrator of the Agri-BEE funds in September 2006 in which monies, appropriated by parliament, was paid for the implementation of Agri-BEE. An injection of R33.4 million (2013: R31.1 million) was received from the DAFF during the current financial year. A directive, dated 17 October 2013, was received from National Treasury to transfer uncommitted Daff Funds to the National Revenue Fund. A total of R 228.6 million was transferred to the National Revenue Fund. Management fees are calculated at 2,5% per annum on the amount deposited.

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
(iv) Emerging Farmers` Support Facility & REM Wholesale Finance Facility				
Emerging farmers support (note 32.6.1)	**236 689**	225 302	**236 689**	225 302
REM wholesale finance support facility (note 32.6.2)	**18 691**	24 009	**18 691**	24 009
	255 380	249 311	**255 380**	249 311
Cash balance held for the support facilities	**255 380**	249 311	**255 380**	249 311

35 Transactions with key management personnel

	2014 R'000	2013 R'000
Short-term employee benefits	**25 521**	26 841
Post-employment benefits	**-**	-
Other long-term benefits	**929**	515
Termination benefits	**-**	-

Key management personnel comprises of executive- and non-executive directors (refer to page 72 of the remuneration report).

Other transactions
The following presents detail of loans granted by the group to key management personnel, which are included within loans and receivable financial assets.

Land Bank does not advance any direct loans to key management, however a non-executive director of the bank, Prof ASM Karaan is also a non-executive director and shareholder of one of the bank's clients Southern Oils Limited. Southern Oils Limited has a loan balance of R141 million (2013: R101 million).

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Notes to the Annual Financial Statements (continued)

36 Risk management

36.1 Land Bank's risk management strategy and processes

Brief description of Land Bank's Risk Environment

The group's financial liabilities, other than derivatives, comprise of bank loans and overdrafts, debentures, promissory notes, policy liabilities, repurchase agreements and trade payables. The main purpose of these financial liabilities is to raise finance for the group's operations. The group has various financial assets such as loans and advances, repurchase agreements, trade receivables and cash and short-term deposits which arise directly from its operations.

The group also enters into derivative transactions primarily interest rate swaps to manage the interest risk arising from the group's sources of finance. During the year under review, no new interest rate swaps were entered into.

It is the group's policy not to trade in derivatives unless there is an underlying exposure.

Risk types

The group is exposed to the following main risks:

Risk category (primary)		Risk type (secondary) and description
General risk	Operational	**Operational risk:** the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes: **Information and technology risk:** the risk of obsolescence of infrastructure, deficiency in integration, failures/ inadequacies in systems/ networks and the loss of accuracy, confidentiality, availability and integrity of data. **Going concern/ business continuity risk:** the risk that inadequate processes, people, financial controls and resources exist to continue business in the foreseeable future. **Legal risk:** the risk that the group will be exposed to contractual obligations which have not been provided for. **Compliance risk:** the risk of not complying with laws and regulations, as well as investment management mandates. **Human resources risk:** the risk that the group does not have access to appropriate skills and staff complement to operate and effectively manage other operational risk. **Fraud risk:** the risk of financial crime and unlawful conduct occurring within and/ or against the group.
General risk	Reputational	**Reputational risk:** the risk that the actions of a business (e.g. the treatment of clients, employment equity and social responsibility) harm its reputation and brand.
General risk	Strategic	**Strategic risk:** the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

	Risk category (primary)	Risk type (secondary) and description
Financial and business specific risks	Market	**Market risk:** the risk that the value of a financial instrument will fluctuate as a result of changes in the market. Market risk includes: **Equity price risk:** the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices. **Interest rate risk:** the risk that the value of a financial instrument will fluctuate as a result of changes in interest rates. **Currency risk:** the risk that a rand value of a financial instrument will fluctuate owing to changes in foreign exchange rates. **Concentration risk:** the risk of losses associated with inadequately diversified asset portfolios. This may arise from a lack of diversification in the asset portfolio.
		Asset liability mismatching risk: the risk that losses will be incurred as a result of a deviation between asset and liability cash flows, prices or carrying amounts. **Property risk:** the risk that the value of investment properties will fluctuate as a result of changes in the environment. **Market liquidity risk:** the risk stemming from the lack of marketability of a financial instrument that cannot be bought or sold quickly enough to prevent or minimise a loss (or realise the required profit).
	Liquidity	**Liquidity risk:** the risk relating to the difficulty to accessing funds to meet commitments associated with financial instruments or policy contracts.
	Credit	**Credit risk**: the risk of default and change in credit quality of issuers of securities, counterparties and intermediaries to whom the company has exposure. Credit risk includes: **Default risk:** credit risk arising from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations. **Reinsurance counterparty risk:** concentration risk with individual reinsurers, owing to the nature of the reinsurance market.
LBLIC specific	Insurance risk (life business)	**Insurance risk (life business)**: risk arising from the underwriting of life insurance contracts in relation to the perils covered and the processes used in the conduct of business. It includes: **Mortality risk:** the risk that the actual experience relating to mortality will deviate negatively from the expected experience used in the pricing of contracts and valuation of policy liabilities. **Persistency risk:** the risk of financial loss owing to negative lapse experience. **Expense risk:** the risk of loss owing to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities. **Claims risk:** refers to a) a change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated, b) the risk that the group may pay out fraudulent claims.
	Insurance risk (short-term insurance business)	**Insurance risk (short-term insurance business)**: risk arising from the underwriting of non life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. It includes: **Claims risk:** refers to a) a change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated, b) the risk that the group may pay out fraudulent claims.

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Risk culture

Although there is significant improvement in the risk culture of the group there is still room for improvement. The Risk Champion concept has been extended to the AFC's. The role and responsibility will focus on branch activity rather than on a specific function or discipline.

Operational risk

The Land Bank has identified a maturity level of defined that it aspires to acquire in the next 3 years. All enterprise risk management related activities are designed to achieve this desired risk maturity level. Risk management is central to Land Bank's business. Ultimate accountability for risk lies with the Board of the Land Bank, the management of operational risk is closely monitored by the Enterprise Risk Management Division through the Operational Risk Department and the relevant risk management committees.

The group has a risk policy and framework which are reviewed annually to ensure relevance and alignment to best practises and business changes. The maintenance and development of which is undertaken on a continuous basis in order to assist management to address systematic categories of risk associated with this.

The group mitigates this risk through internal controls, internal audit and compliance functions. The following functions assist in mitigating controls:

- Regular Operational Risk Committee (ORCO) meetings are held to:

  - Monitor risk mitigating strategies;
  - Set risk management policy;
  - Facilitate communication and interaction between business units; and
  - Identify emerging risks.

- Internal audit carries out regular reviews of internal controls;
- External audit provides an independent assessment of internal financial controls relied upon to express an independent audit opinion on the annual financial statements;
- For the period under review, the Board is of the opinion that adequate resources exist to continue business and that the company will remain a going concern in the foreseeable future; and
- LBLIC maintains a risk register.

Operational risk assessments have been conducted throughout the organisation. This was to ensure that we employ a bottom up approach to our strategic risk profile.

36.2 Credit risk

Definition

Credit risk is the risk that the group will incur a loss as a result of its customers, clients or counterparties failing to discharge their contractual obligations. The group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual / group of related counterparties, for geographical and industry concentrations by monitoring such exposures. The group has identified a one single obligor who is in excess of the concentration limits, however this is soften by the diversified portfolio, statement of financial position and statement of profit or loss and other comprehensive income of this counterparty. The group is aware of the consolidation that is taking place within the secondary sector of agriculture which might lead to potential breach of the set concentration limits for large exposures. The bank monitors credit risk through the Credit Risk Monitoring Committee of management which reports to both the Risk and Credit Risk Committees of the Board.

As an important partner in the execution of the bank's development mandate, the bank however needs to comply with statutory and regulatory requirements to ensure that the bank's activities do not lead over indebtedness in this market segment.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Policy and responsibility
The key components of the current general credit policy are the following:

- The primary role of the bank is to provide finance to the agricultural sector;
- In its mandate, the bank seeks to satisfy the needs of its customer base while maintaining a sound credit portfolio;
- The bank insists on a thorough assessment of the client's financial position and repayment ability during the loan decision process, resulting in better quality credit decisions which result in timeous loan repayments and reduced losses in the event of a default;
- For the vast majority of the products, credit is granted on the basis of insight into the customer's circumstances and of specific assessments that provide a context for such credits;
- The facilities should match the customer's creditworthiness, capital position or assets, and the customer should be able to substantiate his or her repayment ability, and
- The group may assume risks only within the limits of applicable legislation and other rules, including the rules of good practice for financial enterprises.

Approval process
When the bank processes a credit application from a customer, the following minimum information is needed:

- Background of applicant;
- Specific purpose of the credit facility supported by a viable business plan;
- Financial statement analysis and cash flow projections;
- Assessment of major risks and key mitigants;
- Credit checks;
- Overview of the facility and collateral;
- Mentorship and aftercare for developing farmers; and
- Signatures of credit committee members approving the transaction.

Monitoring Process
Monthly Credit Risk Monitoring Committee meetings are held to monitor the trending of:

- Loan book performance;
- Arrears;
- Non-performing loans;
- Legal collections;
- Insolvent cases;
- Properties in possession;
- Service level agreement exposures;
- Top 20 exposures per division, pre-legal NPLs and legal NPLs;
- Credit concentration limits; and
- Regular monitoring of credit granting and adherence to policies by the Credit Risk Monitoring Unit.

Risk classification
The bank monitors the repayment record of its customers on an ongoing basis to ensure that any deterioration in repayment records is detected as early as possible. As part of the collection process, customers are classified according to risk, and the classification is updated on receipt of new information about the customer.

The main objectives of risk classification are to rank the bank's customer base according to risk so as to estimate the probability of default (PD) of each customer. The risk classifications used in the day-to-day credit process are based on point-in-time estimates. This means that the bank uses a customer's present general and financial situation as a starting point. A change in the customer's situation or financial position therefore results in an upgrade or downgrade of that customer. The bank adheres to the principle that all classifications should reflect the customer's current situation to the greatest extent possible.

Group Annual Financial Statements

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Credit risk - Insurance activities

LBLIC is exposed to credit risk through its investment portfolios. To counteract this risk, investment portfolios are managed in terms of investment mandates that are aligned to LBLIC's investment strategy. Investment mandates provide guidelines in terms of the average credit quality of financial instruments in the portfolio as well as limits on concentration risk.

LBLIC is also exposed to credit risk in respect of its working capital assets. The following are some of the main credit risk management actions:

- In terms of long-term insurance policies issued before August 2006, the Land Bank guarantees the payment of the premium;
- Long-term insurance policies issued after August 2006, policyholder debtors outstanding for more than 60 days are not accounted for in premiums. If premium income is not paid within 60 days, the policy lapses; and
- Short-term insurance policy premiums needs to be paid within 45 days. Policies due more than 45 days are submitted to the attorneys unless a new agreement is reached with the policyholder.

Reinsurance credit risk

LBLIC makes use of reinsurance to:

- Access underwriting expertise;
- Enable it to underwrite risks greater than its own risk appetite; and
- Protect its mortality/ risk book against catastrophes.

The use of reinsurance exposes the group to credit risk. The counterparty risks of reinsurers are managed through formal contractual agreements which have been set up between the group and reinsurers. These agreements include terms and conditions which regulates the relationship between the group and reinsurers. Credit risk in respect of reinsurance is further managed by placing the group's reinsurance only with companies that have high credit ratings. LBLIC has quota share reinsurance treaties with an internationally AA rated reinsurance company. In addition to the proportional reinsurance treaty, another layer of reinsurance in the form of a stop loss is in place to limit the total exposure per individual claim. For overseas reinsurers, LBLIC retains 40% of ceded written premiums under quota share treaties and settles payments with the reinsurers 1 year after the placement in order to reduce the credit risk.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.2.1 Credit exposure

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
The group's maximum credit exposure at 31 March was as follows:				
Asset class with asset credit risk exposure	**36 547 349**	30 501 195	**35 355 518**	29 434 260
Loans	**33 423 483**	27 112 608	**33 423 483**	27 112 608
Cash at bank	**1 474 854**	1 891 383	**1 227 729**	1 676 715
Trade and other receivables	**149 268**	160 523	**342 000**	339 212
Short-term insurance assets	**1 432**	5 280		
Repurchase agreements	**15 062**	-	**15 062**	-
Market-making assets	**3 438**	5 238	**3 438**	5 238
Investments[1]	**1 479 812**	1 326 163	**343 806**	300 487
Asset class without asset credit risk exposure	**271 937**	280 811	**270 620**	279 685
Intangible assets	**39 900**	42 206	**39 900**	42 206
Investment property	**84 400**	65 800	**84 400**	65 800
Long-term insurance assets	**1 202**	985		
Non-current assets held-for-sale	**52 567**	52 332	**52 567**	52 332
Property and equipment	**93 868**	119 488	**93 753**	119 347
Total assets per statement of financial position	**36 819 286**	30 782 006	**35 626 138**	29 713 945
Add off balance sheet items exposed to credit risk				
Guarantees issued	**366 263**	607 306	**366 263**	607 306
Loan commitments	**417 149**	375 524	**417 149**	375 524
Operating lease commitments - group as lessor	**12 006**	18 322	**12 006**	15 398
	37 614 704	31 783 158	**36 421 556**	30 712 173
Maximum credit exposure - selected items	**37 342 766**	31 502 347	**36 150 936**	30 432 488

Credit exposure is calculated on the basis of selected items on and off the balance sheet (guarantees and loan commitments).

Collateral
Refer to note 10.7 for collateral held against the loans and advances.

[1] Included in the group investments is an amount of R763.9 million which relates to investments which do not have credit exposure (bank: R254.2 million).

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

The table below provides an analysis of the ratings attached to the group's exposure to instruments subject to credit risk:

Credit risk concentration by credit rating (rated externally) 31 March 2014	Bonds R'000	Cash, deposits and similar securities R'000	Net working capital assets R'000	Total R'000
AAA	110 765	274 685	-	385 450
AA+	14 374	13 048	-	27 422
AA	93 510	83 148	-	176 658
AA-	19 433	64 148	-	83 581
A+	18 839	18 339	-	37 178
A	18 623	2 609	-	21 232
A-	1 813	1 326 809	-	1 328 622
BBB+	1 231	2 312	-	3 543
BBB	-	31 802	-	31 802
BBB-	-	122 873	-	122 873
Other[1]	-	33 424 050	-	33 424 050
Not rated	7 435	44 393	93 660	145 488
Total	**286 023**	**35 408 216**	**93 660**	**35 787 899**

Credit risk concentration by credit rating (rated externally) 31 March 2013	Bonds R'000	Cash, deposits and similar securities R'000	Net working capital assets R'000	Total R'000
AAA	79 168	237 368	-	316 536
AA+	28 438	16 057	-	44 495
AA	92 800	44 127	-	136 927
AA-	30 678	347 872	-	378 550
A+	9 490	18 566	-	28 056
A	22 397	7 890	-	30 287
A-	7 406	576 930	-	584 336
BBB+	6 943	-	-	6 943
BBB	-	478 523	-	478 523
BBB-	-	311 041	-	311 041
Other[1]	8 146	27 160 289	-	27 168 435
Not rated	6 776	47 531	165 390	219 697
Total	**292 242**	**29 246 194**	**165 390**	**29 703 827**

[1] This includes the Business & Corporate Banking, Retail, REM and LDFU loans. These clients are not rated externally by Fitch. The Bank has its own credit rating system for these clients. The bank performs a credit assessment by verifying security provision, cash flow forecasts the level of financial leverage which determines the level of financial risk and indicates the extent that debt is covered by assets.

Group Annual Financial Statements

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Gross loan book exposure by agricultural sector (continued)
2014
Business & Corporate Banking

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	404 898	72%	1%	17 184	69%	4%
Ostriches	78 118	14%	0%	7 801	31%	2%
Poultry	80 587	14%	0%	-	0%	0%
Total	**563 603**	**100%**	**1%**	**24 985**	**100%**	**6%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Grain	2 142 418	10%	8%	89 307	53%	19%
Sugar	77 409	0%	0%	-	0%	0%
Maize	5 229 464	24%	18%	11 485	7%	2%
Oil seeds	14 331 991	66%	51%	68 416	40%	14%
Tobacco	48 297	0%	0%	-	0%	0%
Wheat	-	0%	0%	-	0%	0%
Total	**21 829 579**	**100%**	**77%**	**169 208**	**100%**	**35%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Citrus fruit	722 697	30%	3%	-	0%	0%
Cash crops	300 301	12%	1%	3 438	8%	1%
Deciduous fruit	764 262	32%	3%	138	0%	0%
Plantations	114 588	5%	0%	22	0%	0%
Subtropic fruits	69 754	3%	0%	34 098	81%	7%
Wine	442 870	18%	2%	4 368	11%	1%
Total	**2 414 472**	**100%**	**9%**	**42 064**	**100%**	**9%**

Miscellaneous	Total loan R'000	% Miscella-neous Loans	% Loan Book	Arrears R'000	% Arrears Miscella-neous	% Total Arrears
Agri-business	2 106 136	59%	7%	168 781	71%	35%
Feedlot	66 145	2%	0%	35 981	15%	8%
Forestry products	606 563	17%	2%	-	0%	0%
Other	762 154	22%	3%	32 149	14%	7%
Total	**3 540 998**	**100%**	**12%**	**236 911**	**100%**	**50%**
Grand total	**28 348 652**	**100%**	**99%**	**473 168**	**100%**	**100%**

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Gross loan book exposure by agricultural sector (continued)
2013
Business & Corporate Banking

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	374 247	55%	2%	7 600	51%	1%
Ostriches	184 377	27%	1%	7 360	49%	1%
Poultry	120 649	18%	0%	-	0%	0%
Total	**679 273**	**100%**	**3%**	**14 960**	**100%**	**2%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Grain	-	0%	0%	-	0%	0%
Sugar	68 134	0%	0%	1	0%	0%
Maize	4 796 223	31%	21%	51	0%	0%
Oil seeds	10 289 067	68%	46%	629 366	100%	55%
Tobacco	55 825	0%	0%	-	0%	0%
Wheat	127 222	1%	1%	-	0%	0%
Total	**15 336 471**	**100%**	**68%**	**629 418**	**100%**	**55%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Citrus fruit	774 667	32%	3%	12 343	5%	1%
Cash crops	348 683	14%	2%	217 617	81%	19%
Deciduous fruit	804 261	33%	4%	161	0%	0%
Plantations	1 196	0%	0%	-	0%	0%
Subtropic fruits	64 350	3%	0%	-	0%	0%
Wine	443 858	18%	2%	39 043	14%	3%
Total	**2 437 015**	**100%**	**11%**	**269 164**	**100%**	**23%**

Miscellaneous	Total loan R'000	% Miscellaneous Loans	% Loan Book	Arrears R'000	% Arrears Miscellaneous	% Total Arrears
Agri-business	2 725 108	66%	12%	186 034	78%	16%
Feedlot	89 890	2%	0%	32 034	14%	3%
Forestry products	629 366	16%	3%	-	0%	0%
Other	669 646	16%	3%	20 052	8%	1%
Total	**4 114 010**	**100%**	**18%**	**238 120**	**100%**	**20%**
Grand total	**22 566 769**	**100%**	**100%**	**1 151 662**	**100%**	**100%**

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Gross loan book exposure by agricultural sector (continued)
2014
Retail[1]

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	1 538 053	52%	27%	118 563	65%	22%
Feedlot	21 303	1%	0%	7 479	4%	1%
Game	125 620	4%	2%	1 096	1%	0%
Goats	47 212	2%	1%	2 181	1%	0%
Pigs	18 845	1%	0%	2 261	1%	0%
Poultry	190 863	7%	3%	37 486	20%	8%
Sheep	989 645	33%	17%	14 145	8%	4%
Total	**2 931 541**	**100%**	**50%**	**183 211**	**100%**	**35%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Fodder crops	68 170	5%	1%	7 214	5%	1%
Maize	610 444	49%	11%	81 558	53%	17%
Oil seeds	21 651	2%	0%	775	1%	0%
Sugar cane	495 284	40%	9%	61 415	40%	12%
Cotton	5 031	0%	0%	859	1%	0%
Wheat	52 025	4%	1%	548	0%	0%
Total	**1 252 605**	**100%**	**22%**	**152 369**	**100%**	**30%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Cash crops	390 350	32%	8%	57 141	37%	12%
Citrus fruit	167 722	14%	3%	4 972	3%	1%
Deciduous fruit	245 593	20%	4%	34 923	23%	7%
Flowers	5 237	0%	0%	2 400	2%	0%
Hops	10	0%	0%	10	0%	0%
Nuts	63 939	5%	1%	722	0%	0%
Plantations	16 338	1%	0%	975	1%	0%
Subtropical fruit	29 994	2%	1%	13 524	9%	3%
Tea	8 309	1%	0%	20	0%	0%
Vineyards	304 719	25%	6%	38 057	25%	7%
Total	**1 232 211**	**100%**	**23%**	**152 744**	**100%**	**30%**

Miscellaneous	Total loan R'000	% Miscellaneous Loans	% Loan Book	Arrears R'000	% Arrears Miscellaneous	% Total Arrears
Agri-business	33 855	11%	1%	22 150	85%	5%
Ostriches	15 435	5%	0%	1 795	7%	0%
Dairy	182 910	61%	3%	229	1%	0%
Other	68 060	23%	1%	1 759	7%	0%
Total	**300 260**	**100%**	**5%**	**25 933**	**100%**	**5%**
Grand total	**5 716 617**	**100%**	**100%**	**514 257**	**100%**	**100%**

[1] The analysis includes RCB and REM.

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Gross loan book exposure by agricultural sector (continued)
2013
Retail [1]

Animal products	Total loan R'000	% Animal Products Loans	% Loan Book	Arrears R'000	% Arrears Animal Products	% Total Arrears
Cattle	1 390 492	50%	26%	117 217	54%	18%
Feedlot	20 973	1%	0%	6 112	3%	1%
Game	105 468	4%	2%	1 813	1%	0%
Goats	43 483	2%	1%	1 924	1%	0%
Pigs	20 289	1%	0%	2 099	1%	0%
Poultry	257 668	10%	5%	68 298	32%	11%
Sheep	848 269	32%	17%	17 831	8%	4%
Total	**2 686 642**	**100%**	**51%**	**215 294**	**100%**	**34%**

Field crops	Total loan R'000	% Field Crop Loans	% Loan Book	Arrears R'000	% Arrears Field Crops	% Total Arrears
Fodder crops	71 348	6%	1%	14 473	8%	2%
Maize	551 624	47%	11%	88 073	48%	13%
Oil seeds	13 653	1%	0%	834	0%	0%
Sugar cane	490 195	42%	9%	78 131	44%	11%
Cotton	5 090	0%	0%	710	0%	0%
Wheat	49 787	4%	1%	899	0%	0%
Total	**1 181 697**	**100%**	**22%**	**183 120**	**100%**	**26%**

Horticultural products	Total loan R'000	% Horticultural Products Loans	% Loan Book	Arrears R'000	% Arrears Horticultural Products	% Total Arrears
Cash crops	426 550	38%	8%	55 310	33%	8%
Citrus fruit	95 837	9%	2%	7 705	5%	1%
Deciduous fruit	219 350	19%	4%	31 190	18%	5%
Flowers	9 054	1%	0%	4 181	3%	1%
Hops	10	0%	0%	10	0%	0%
Nuts	44 411	4%	1%	419	0%	0%
Plantations	15 305	1%	0%	1 045	1%	0%
Subtropical fruit	47 283	4%	1%	23 772	14%	4%
Tea	4 928	0%	0%	28	0%	0%
Vineyards	271 653	24%	6%	42 492	26%	6%
Total	**1 134 381**	**100%**	**22%**	**166 152**	**100%**	**25%**

Miscellaneous	Total loan R'000	% Miscella-neous Loans	% Loan Book	Arrears R'000	% Arrears Miscella-neous	% Total Arrears
Agri-business	33 332	12%	1%	19 730	19%	3%
Ostriches	16 296	6%	0%	1 751	2%	0%
Dairy	124 527	45%	2%	1 440	1%	0%
Other	100 686	37%	2%	81 460	78%	12%
Total	**274 841**	**100%**	**5%**	**104 381**	**100%**	**15%**
Grand total	**5 277 561**	**100%**	**100%**	**668 947**	**100%**	**100%**

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.2.2 Credit exposure by line of business - loan book

Gross loan book	2014 R'000	2014 % Total	2013 R'000	2013 % Total
Business & Corporate Banking	**28 348 652**	**82%**	22 566 769	79%
Retail Commercial Banking	**5 325 465**	**15%**	5 030 079	18%
Retail Emerging Markets	**391 152**	**1%**	247 482	1%
LDFU	**630 607**	**2%**	644 479	2%
Total gross loan book	**34 695 876**	**100%**	28 488 809	100%
Less:				
Suspended interest and fees	**(351 210)**		(436 260)	
Impairment provision	**(921 182)**		(939 941)	
Balance per annual financial statements - total carrying amount (notes 10 and 11)	**33 423 484**		27 112 608	

The bank's Business & Corporate Banking division, which provides loans to agricultural cooperatives and agribusiness companies, continues to account for the bulk of the bank's overall credit exposure. The LDFU loans constitute 2 percent (2013: 2 percent) of total loans and the LDFU operations have been classified as discontinued (notes 11 and 21).

36.2.3 Credit exposure by maturity - Gross loan book

Based on the maturity of the loans as disclosed in note 10 and 11, the credit exposure by maturity is as follows:

	2014 R'000	2014 % Total	2013 R'000	2013 % Total
Short-term	**11 431 825**	**33%**	15 272 115	54%
Medium-term	**9 206 633**	**27%**	2 095 262	7%
Long-term	**14 057 418**	**40%**	11 121 432	39%
	34 695 876	**100%**	28 488 809	100%

In terms of the exposure profile by maturity, the Land Bank's exposure concentrates on the long-term - i.e. loans extended for periods of five years and longer. The exposure as at 31 March is R14.1 billion (2013: R11.1 billion). For a breakdown per product refer to note 10.1. Included in the medium term, is a 3 year facility which gets reviewed on an annual basis and therefore has a short-term profile.

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Credit exposure by geographic/regional distribution

2014

Province	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	LDFU R'000	Total R'000	Total %
Eastern Cape	823 889	748 086	60 130	-	1 632 105	5%
Free State	2 419 712	929 554	484	-	3 349 750	10%
Gauteng	7 643 771	90 234	272 324	92 848	8 099 177	23%
KwaZulu-Natal	85 295	357 871	53	439 981	883 200	3%
Mpumalanga	142 024	1 020 715	893	-	1 163 632	3%
Northern Cape	4 935 520	545 533	48 245	-	5 529 298	16%
Limpopo	1 705 948	358 625	1 924	-	2 066 497	6%
North West	7 453 997	577 305	7 094	97 777	8 136 173	23%
Western Cape	3 138 496	697 543	5	-	3 836 044	11%
Gross loan book	**28 348 652**	**5 325 466**	**391 152**	**630 606**	**34 695 876**	**100%**

2013

Province	Business & Corporate Banking R'000	Retail Commercial Banking R'000	Retail Emerging Markets R'000	LDFU R'000	Total R'000	Total %
Eastern Cape	701 960	588 052	59 823	-	1 349 835	5%
Free State	1 207 461	872 291	211	-	2 079 963	7%
Gauteng	6 366 292	149 451	179 185	106 816	6 801 744	24%
KwaZulu-Natal	68 135	379 113	68	439 981	887 297	3%
Mpumalanga	68 720	474 541	2 025	-	545 286	2%
Northern Cape	4 022 943	478 866	24	-	4 501 833	16%
Limpopo	1 432 497	890 536	18	-	2 323 051	8%
North West	5 710 022	544 487	6 120	97 682	6 358 311	22%
Western Cape	2 988 739	652 742	8	-	3 641 489	13%
Gross loan book	**22 566 769**	**5 030 079**	**247 482**	**644 479**	**28 488 809**	**100%**

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.3 Liquidity risk

Definition
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities as they become due and payable.

Liquidity risk can develop when short-term assets cannot be readily converted into cash to match the net outflow of liabilities. The liquidity situation of the bank is captured by the maturity profile of projected uses and sources of funds. These determine the time profile of the "gap" between uses and sources of funds. The magnitude of these gaps, and their stability over time, provide an overall image of its liquidity position.

The group faces the following types of liquidity risk:

- Funding of the bank's net increase in lending;
- Insurance claims which are due for payment; and
- A net withdrawal of funds.

Control and management
The following control measures are in place:

- A liquidity committee meets on a monthly basis to determine liquidity ranges;
- Active monitoring of clients cash flow projections;
- A dynamic liquidity management policy and a liquidity contingency plan;
- Actively attracting new investors and funding sources;
- Increased investor limits and appetite;
- A Domestic Medium Term Note (DMTN) programme; and
- Active management of maturities.

Monitoring the liquidity position
The Asset and Liability Management Committee (ALCO) monitors the group's liquidity and maturity mismatches. ALCO reviews the quality of funding and ensures that the sources of funding are adequately diversified. It is the bank's policy to maintain an adequate buffer of liquidity to be able to address fluctuations in its cash flow position.

The bank manages its liquidity requirements by utilising deposits, call bonds, Land Bank bills, Land Bank debentures and promissory notes. Loans, undrawn facilities and committed overdraft facilities are also available to the bank should the need for additional funding arise.

Liquidity risk is managed by maintaining a pool of unencumbered assets (7.5% of short-term liabilities) as prescribed by the South African Reserve Bank as well as additional liquidity as calculated by a behavioural model for credit, market and operational risk.

Cash at bank
The pool of liquid assets (in cash) is invested with reputable financial institutions according to an approved counterparty risk policy.

Trade and other receivables
Past trends indicate that payment has been received timeously and that the fair values post year-end fairly reflect the amounts received. The housing loans have been discounted to the present value using the prime interest rate.

Repurchase agreements, derivative assets, money making assets and investments
The amounts are receivable from reputable institutions and funds invested are managed by reputable asset managers. Past trends indicate that payment has been received timeously and that the fair values post year-end fairly reflect the amounts received.

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

The tables below summarise the maturity analysis for financial liabilities:

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Financial liabilities				
Trade and other payables	**253 714**	178 610	**184 368**	107 825
Short-term insurance liabilities	**2 004**	4 660		
Long-term policyholder liability	**40 065**	45 291		
Funding and liabilities held-for-sale[1]	**28 990 629**	23 710 220	**28 990 629**	23 710 220
Non-financial liabilities				
Provisions	**440 017**	428 271	**438 020**	427 008
Post-retirement obligation	**267 453**	283 890	**267 453**	283 890
Total liabilities	**29 993 883**	24 650 942	**29 880 470**	24 528 943

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

2014 **Financial liabilities**	< 3 months R'000	3 - 6 months R'000	6 - 9 months R'000	9 - 12 months R'000	1 - 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
Financial liabilities at fair value through profit or loss								
Funding at fair value through profit or loss[1]	-	-	-	1 343 274	3 133 669	-	-	**4 476 943**
Other financial liabilities								
Trade and other payables	139 745	-	-	6 609	8 502	2 233	27 279	**184 368**
Funding at amortised cost[1]	7 064 956	5 762 801	3 743 431	3 815 503	3 744 075	100 000	282 920	**24 513 686**
Non-financial liabilities								
Provisions	-	-	-	438 020	-	-	-	**438 020**
Post-retirement obligation	-	-	-	-	-	267 453	-	**267 453**
Bank at 31 March 2014	**7 204 701**	**5 762 801**	**3 743 431**	**5 603 406**	**6 886 246**	**369 686**	**310 199**	**29 880 470**
Less: intercompany loan	-	-	-	-	(283 758)	-	-	**(283 758)**
LBLIC								
Other financial liabilities								
Trade and other payables	15 427	53 239	564	116	283 758	-	-	**353 104**
Short-term insurance liabilities	1 394	-	610	-	-	-	-	**2 004**
Provisions	-	-	-	1 997	-	-	-	**1 997**
Long-term policyholders' liabilities	4 250	1 845	2 760	1 845	24 636	3 592	1 137	**40 065**
Group at 31 March 2014	**7 225 772**	**5 817 885**	**3 747 365**	**5 607 364**	**6 910 882**	**373 278**	**311 336**	**29 993 882**

[1] Refer to note 18 for the split of the funding liabilities

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

2013	< 3 months R'000	3 - 6 months R'000	6 - 9 months R'000	9 - 12 months R'000	1 - 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
Financial liabilities at fair value through profit or loss								
Funding at fair value through profit or loss [1]	1 190 946	-	-	-	1 345 878	-	-	**2 536 824**
Other financial liabilities								
Trade and other payables	80 340	-	-	6 017	9 421	2 235	9 812	**107 825**
Funding at amortised cost [1]	7 227 163	3 609 069	5 300 816	3 916 862	487 732	-	631 754	**21 173 396**
Non-financial liabilities								
Provisions	-	-	-	427 008	-	-	-	**427 008**
Post-retirement obligation	-	-	-	-	-	283 890	-	**283 890**
Bank at 31 March 2013	**8 498 449**	**3 609 069**	**5 300 816**	**4 349 887**	**1 843 031**	**286 125**	**641 566**	**24 528 943**
Less: intercompany loan	-	-	-	-	(269 415)	-	-	**(269 415)**
LBLIC								
Other financial liabilities								
Trade and other payables	5 610	40 233	38	555	293 764	-	-	**340 200**
Short-term insurance liabilities	960	-	3 700	-	-	-	-	**4 660**
Provisions	-	-	-	1 263	-	-	-	**1 263**
Long-term policyholders' liabilities	3 831	1 861	1 861	4 759	28 219	3 623	1 137	**45 291**
Group at 31 March 2013	**8 508 850**	**3 651 163**	**5 306 415**	**4 356 464**	**1 895 599**	**289 748**	**642 703**	**24 650 942**

[1] Refer to note 18 for the funding instrument mix of the funding liabilities

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

The tables below summarise the contractual maturity analysis for financial assets:

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Financial assets	**36 548 552**	30 502 180	**35 355 519**	29 434 260
Cash and cash equivalents	**1 474 854**	1 891 383	**1 227 729**	1 676 715
Trade and other receivables	**149 268**	160 523	**342 000**	339 212
Short-term insurance assets	**1 432**	5 280		
Repurchase agreements	**15 062**	-	**15 062**	-
Market-making assets	**3 438**	5 238	**3 438**	5 238
Loans and advances and assets held-for-sale	**33 423 484**	27 112 608	**33 423 484**	27 112 608
Long-term insurance assets	**1 202**	985		
Investments	**1 479 812**	1 326 163	**343 806**	300 487
Non-financial assets	**270 735**	279 826	**270 620**	279 686
Investment properties	**84 400**	65 800	**84 400**	65 800
Non-current assets held-for-sale	**52 567**	52 332	**52 567**	52 332
Intangible assets	**39 900**	42 206	**39 900**	42 206
Property and equipment	**93 868**	119 488	**93 753**	119 348
Total assets per statement of financial position	**36 819 287**	30 782 006	**35 626 139**	29 713 946
Reconciliation of financial assets to maturity pockets				
Total of financial assets per above	**36 548 552**	30 502 180	**35 355 519**	29 434 260
Suspended interest and fees	**351 210**	436 260	**351 210**	436 260
Impairment provision	**921 182**	939 942	**921 182**	939 942
Less: Insolvencies	**(274 269)**	(328 670)	**(274 269)**	(328 670)
Less: Step-up loans	**-**	(79 109)	**-**	(79 109)
	37 546 675	31 470 603	**36 353 642**	30 402 683

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

2014 Financial assets	< 3 months R'000	3 - 6 months R'000	6 - 9 months R'000	9 - 12 months R'000	1 - 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
Financial assets at fair value through profit or loss								
Repurchase agreements	15 062	-	-	-	-	-	-	**15 062**
Market-making assets	3 438	-	-	-	-	-	-	**3 438**
Investments	-	-	-	-	9 852	47 062	286 892	**343 806**
Loans and receivables								
Trade and other receivables	311 703	-	-	11 231	16 755	1 029	1 282	**342 000**
Gross loan book excluding step up loans and insolvencies	1 282 158	4 605 372	2 036 945	3 507 350	9 206 633	13 777 032	6 117	**34 421 607**
Cash and cash equivalents	-	-	-	-	-	-	1 227 729	**1 227 729**
Bank at 31 March 2014	**1 612 361**	**4 605 372**	**2 036 945**	**3 518 581**	**9 233 240**	**13 825 123**	**1 522 020**	**36 353 642**
Less: Intercompany loan	-	-	-	-	(283 758)	-	-	**(283 758)**
LBLIC								
Loans and receivables								
Trade and other receivables	45 304	28 103	17 000	619	-	-	-	**91 026**
Short-term insurance assets	976	-	456	-	-	-	-	**1 432**
Long-term insurance assets	1 202	-	-	-	-	-	-	**1 202**
Cash and cash equivalents	-	-	-	-	-	-	247 125	**247 125**
Financial assets at fair value through profit or loss								
Investments	138 465	9 315	6 002	67 916	16 875	141 974	755 459	**1 136 006**
Group at 31 March 2014	**1 798 308**	**4 642 790**	**2 060 403**	**3 587 116**	**8 966 357**	**13 967 097**	**2 524 604**	**37 546 675**

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

2013 Financial assets	< 3 months R'000	3 - 6 months R'000	6 - 9 months R'000	9 - 12 months R'000	1 - 5 years R'000	> 5 years R'000	Open ended R'000	Total R'000
Financial assets at fair value through profit or loss								
Market-making assets	5 238	-	-	-	-	-	-	**5 238**
Investments	-	-	-	-	19 425	40 861	240 201	**300 487**
Loans and receivables								
Trade and other receivables	308 265	-	-	11 644	16 778	1 242	1 283	**339 212**
Gross loan book excluding step up loans and insolvencies	3 017 112	294 089	330 416	56 930	16 250 232	8 147 427	(15 175)	**28 081 031**
Cash and cash equivalents	-	-	-	-	-	-	1 676 715	**1 676 715**
Bank at 31 March 2013	**3 330 615**	**294 089**	**330 416**	**68 574**	**16 286 435**	**8 189 530**	**1 903 024**	**30 402 683**
Less: Intercompany loan	-	-	-	-	(269 415)	-	-	**(269 415)**
LBLIC								
Loans and receivables								
Trade and other receivables	2 307	1 493	17 475	69 451	-	-	-	**90 726**
Short-term insurance assets	671	1 658	2 951	-	-	-	-	**5 280**
Long-term insurance assets	985	-	-	-	-	-	-	**985**
Cash and cash equivalents	-	-	-	-	-	-	214 668	**214 668**
Financial assets at fair value through profit or loss								
Investments *	103 687	19 016	7 485	16 751	90 243	136 518	651 976	**1 025 676**
Group at 31 March 2013	**3 438 265**	**316 256**	**358 327**	**154 776**	**16 107 263**	**8 326 048**	**2 769 668**	**31 470 603**

* The comparative disclosures have been realigned to conform to the FY2014 presentation.

Liquidity analysis tables were prepared according to the certain and expected maturity dates of the assets and liabilities. There is no restriction on the ability to liquidate assets.

Open ended asset and liabilities are those which do not have any maturity date.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.4 Market risk

Definition
Market risk is the risk of adverse deviations of the mark-to-market value of the trading portfolio during the period required to liquidate the transactions. Market risk exists for any period of time.

Values of financial instruments may change resulting in both potential gains and losses as a result of:

- changes in interest rates (fair value and cash flow interest rate risk); and
- changes in market prices (price risk).

Objective of market risk monitoring
The objective of market risk monitoring is to prevent or restrict adverse movements in market rates or prices, such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices.

Market risk - Insurance activities
For assets backing policyholder liabilities, the risk to the company is that capital is not preserved and that investment returns earned are lower than anticipated. The company manages market risk through the following:

- Appointment of an Investment and Actuarial Committee. The mandate of this Board sub-committee includes the following:

  i) Implementation of an investment strategy which sets out the investment objectives of the company, the nature and term of liabilities and the risks to which the assets and liabilities of the company are exposed to;
  ii) Appointment of investment managers and establishing investment mandates with each investment manager. Investment mandates set out investment guidelines which cover limitations on exposures to volatile assets, limits on asset concentration and limits on exposure to particular types of assets such as unlisted equities and property and hedge funds;
  iii) Monitoring of the performance of investment managers against "appropriate benchmarks" as well as compliance with mandates; and
  iv) Ensuring proper governance in the investment process.

- Appointment of an independent investment advisor. The responsibilities of the investment advisor are set out below:

  i) Setting of appropriate benchmarks for performance monitoring;
  ii) Monitor implementation of investment strategies; and
  iii) Monthly monitoring of investment performance.

The investment advisor provides quarterly feedback on the performance of investment managers to the Investment and Actuarial Committee who in turns provides quarterly feedback to the LBLIC Board.

Interest rate risk
Interest rate risk is the risk of declines of earnings and market values of assets due to movements of interest rates. Most of the statement of financial position items of the group generate revenue and costs which are interest rate related.

Interest rate risk monitoring
The ALCO consisting of the bank's executive management monitors the implementation of the bank's interest rate risk policy. ALCO formulates medium to long-term interest rate views as the official forecast of interest rates. Sensitivity analysis is performed by the independent risk monitoring department where the interest rate risk limit is set.

Fixed/ floating rate funding
When interest rates are expected to change, the ratio of the interest rate mismatch between fixed and floating interest rates applicable to assets and liabilities can be adjusted in such a manner that the bank benefits from the expected interest rate view. The current interest rate risk mismatch limit is a maximum of 25%. The funding split percentage for March 2014 was 100% floating.

Interest rate risk policy
The bank reviews its interest rate risk policy in line with market practices on an annual basis.

Sensitivity analysis
Sensitivity analysis has been determined based on the exposure to interest rates for derivatives and other financial liabilities and assets at the statement of financial position date. A 100 basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of a reasonably possible change in interest rates on the group's profit.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

The effect of a reasonable possible change in interest rates, and all other variables held constant, the bank's profit would be as follows using data as at 31 March 2014:

Bank	**31 March 2014**		**31 March 2013**	
Incremental change in yield	**Net interest income R'000**	**Effect on equity R'000**	**Net interest income R'000**	**Effect on equity R'000**
Expected NII	**1 147 060**	**-**	918 260	-
Potential movement: 100 Basis point up	**1 380 900**	**233 840**	972 800	54 540
Potential movement: 100 Basis point down	**913 220**	**(233 840)**	864 030	(54 230)

Interest rate risk - Insurance activities

Interest rate risk arises primarily from investments in long-term fixed income securities which are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored through stress testing which calculates the market exposure based on interest rate movements of -100bps and 100bps.

Sensitivity analysis

The market exposure that was calculated at 31 March was as follows:

LBLIC	**Impact on the statement of profit or loss and other comprehensive income**	
	31 March 2014 R'000	**31 March 2013 R'000**
Incremental change in yield		
Potential movement: 100 Basis point up	**13 576**	12 131
Potential movement: 100 Basis point down	**(13 039)**	(11 694)

Equity price risk

The equity risk exposures arise from the medical aid fund assets and the LBLIC investment portfolio. Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

The effect on equity (as a result of a change in the fair value of equity instruments held for trading in the category financial assets through profit or loss at 31 March 2014) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Group		Bank	
	Change in equity price %	Effect on equity R'000	Change in equity price %	Effect on equity R'000
2014				
Individual stocks and indices	**10**	**72 782**	**10**	**23 269**
2013				
Individual stocks and indices	10	61 040	10	19 544

The effect on equity has been calculated using the equity balances at year end.

Price risk - LBLIC

LBLIC is subject to price risk due to daily changes in the market values of its investment portfolios. The objective is to earn competitive returns by investing in a diverse portfolio of high quality, liquid securities.

	Impact on the statement of profit or loss and other comprehensive income	
Sensitivity analysis	31 March 2014 R'000	31 March 2013 R'000
Incremental change in price		
Excluding the impact of derivatives		
5% decrease	**(28 257)**	(24 140)
5% increase	**28 257**	24 140
Including the impact of derivatives		
5% decrease	**(25 777)**	(23 135)
5% increase	**25 777**	23 135

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Currency risk

LBLIC's exposure to currency risk is in respect of foreign investments made in line with the investment strategy approved by the Board for seeking desirable international diversification of investments. The following assets denominated in foreign currencies are included in the statement of financial position:

Group	United States Dollar R'000	Total R'000
31 March 2014		
Equities	117 939	**117 939**
Cash, deposits and similar securities	3 989	**3 989**
Hedge funds	13 015	**13 015**
Bonds	14 828	**14 828**
Foreign currency exposure	149 771	**149 771**

Exchange rates (ZAR: USD):	
Closing rate - 31 March 2014	**10,52**
Average rate	**10,12**

Group	United States Dollar R'000	Total R'000
31 March 2013		
Equities	86 281	**86 281**
Cash, deposits and similar securities	3 838	**3 838**
Hedge funds	13 344	**13 344**
Bonds	12 736	**12 736**
Foreign currency exposure	116 199	**116 199**

Exchange rates (ZAR: USD):	
Closing rate - 31 March 2013	**9,23**
Average rate	**8,55**

Sensitivity analysis

The foreign currency exposure that was calculated at 31 March was as follows:

LBLIC	Impact on the statement of profit or loss and other comprehensive income	
	31 March 2014	31 March 2013
Incremental change in yield		
USD		
10% decrease	**(14 977)**	(11 620)
5% decrease	**(7 489)**	(5 810)
5% increase	**7 489**	5 810
10% increase	**14 977**	11 620

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Impairment

Sensitivity analysis

The sensitivity analysis on impairment has been determined based on the exposure to the percentage of the balance outstanding which the Land Bank expects not to recover when a loan defaults on its payment (loss given default percentage - LGD) at the statement of financial position date. A 5% increase or decrease in the LGD is used when reporting impairment risk and represents management's assessment of a reasonably possible change in impairment expenses on the Group's profit.

The effect of a reasonable possible change in interest rates, and all other variables held constant, the bank's profit would be as follows using data as at 31 March 2014:

Rate analysis	Interest income R'000	Net impairment charges, claims and recoveries R'000	Non-interest (expense)/ income R'000	Loans and advances R'000	Effect on equity R'000
31 March 2014					
As at 31 March 2014: 5%	**2 468 617**	**142 182**	**(53 517)**	**33 281 280**	**-**
Potential movement: 10%	**2 479 573**	**165 204**	**(54 810)**	**33 316 552**	**35 272**
Potential movement: 0%	**2 457 658**	**119 160**	**(52 225)**	**33 246 009**	**(35 272)**
31 March 2013					
As at 31 March 2013: 5%	2 038 158	85 457	(6 043)	27 844 330	-
Potential movement: 10%	2 050 327	108 346	(4 471)	27 882 245	37 915
Potential movement: 0%	2 025 990	59 999	(7 616)	27 806 415	(37 915)

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.5 Insurance risk
* This note relates to Land Bank Life Insurance Company (SOC) Limited.

36.5.1 Insurance risk - long-term
LBLIC provides mortgage and credit life insurance for persons who take out loans with the Land Bank. Until 2008, LBLIC only had one product in issue which was a non profit decreasing term assurance that paid the outstanding amount of a Land Bank mortgage loan at death. Since then, LBLIC has developed and issued a number of new generation mortgage and credit life products.

Mortality risk
Mortality risk is the risk to the group that mortality experience in future is worse than provided for in premium rates. Higher than expected mortality will give rise to losses and will necessitate an increase in valuation assumptions.

This risk is mitigated by the following factors:

- Adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks;
- Adequate pricing and reserving;
- Specific testing for HIV/ AIDS is carried out in cases where applications for risk cover exceed a set limit; and
- Annual reviews of mortality and morbidity experience are conducted by the statutory actuary to ensure that corrective action is taken where necessary.

Persistency risk
Persistency risk (lapse risk) relates to policies being terminated before their final due dates as a result of an increased number of mortgage loans that are paid up before their final settlement dates and an increasing number of farmers transferring loans to trusts, close corporations and companies which result in the cancellation of policies.

The group's reserving policy is based on actual experience, adjusted for expected future changes in experience, to ensure that adequate provision is made for lapses.

Expense risk
Before expenses are incurred, they are checked for budget availability. For the exceptional expenses, the company has a certain approval process. This is monitored in monthly reporting by comparing actual and budgeted expenses.

Reinsurance risk
LBLIC has reinsurance cover to reduce risks proportionally, as well as to limit exposure per event in order to limit the impact per event on the current year's earnings.

The cover is placed on the international reinsurance market. The core components of the reinsurance program comprise:

- Individual excess of loss which limits exposure per policyholder to R1 million, prior to the effect of the quota share treaty.
- Individual quota share which provides protection of 50% of the retained portion, after the excess of loss.

The LBLIC Board approves the reinsurance renewal process on an annual basis. The reinsurance program is in place with a foreign reinsurer which has a credit rating of AA.

Claims risk
The risk that the group may pay out fraudulent claims is mitigated by trained client service staff to ensure that fraudulent claims are identified and investigated thoroughly. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks.

It is also the risk that a change in value caused by the ultimate costs for full contractual obligations which varies from those assumed when these obligations were estimated. Estimated claims are monitored periodically and updated based on the latest information if needed. Furthermore, an actuarial valuation by an independent actuary annually.

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2014, LBLIC believes that its liabilities for claims are adequate.

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Sensitivity analysis
The objective of the sensitivity analysis is to demonstrate the effect on the policyholders' liability for changes in key assumptions underlying the valuation of liabilities.

The sensitivity analysis illustrates the effect of a change in a particular assumption on the value of the policyholders' liability as at 31 March 2013, but this cannot generally be used to determine how future earnings or profitability will be affected. The percentage change in the assumptions chosen for the sensitivity analysis is to illustrate the change in value given the change in assumption and does not represent the possible range of worst or best case experience expected.

For a given change in one assumption, all other assumptions are left unchanged. No allowance has been made for any possible management action in response to a particular change. Lapse experience is not included in the analysis as lapses have not been modelled explicitly (the actuarial reserve for any policy that had a negative reserve was increased to zero, and there are no surrender values under any policies. Lapses and other terminations will therefore result in an actuarial surplus at each future valuation).

2014			Value	Change	
Policyholders' liability			R'000	R'000	%
Base value			**37 269**		
Investment return	+1%	from 5.65% to 6.65%	35 424	(2 417)	(6.48%)
	-1%	from 5.65% to 4.65%	39 905	2 064	5.45%
Mortality	+10%	1.1 x mortality	41 286	3 445	9.24%
	-10%	0.9 x mortality	33 691	(4 150)	(11.14%)
Expenses	+10%	from 55.0% to 60.5%	41 028	3 187	8.55%
	-10%	from 55.0% to 49.5%	34 049	(3 791)	(10.17%)
2013					
Policyholders' liability					
Base value			**43 115**		
Investment return	+1%	from 5.04% to 6.04%	40 518	(2 597)	(6.02%)
	-1%	from 5.04% to 4.04%	45 053	1 938	4.49%
Mortality	+10%	1.1 x mortality	46 816	3 701	8.58%
	-10%	0.9 x mortality	38 393	(4 722)	(10.95%)
Expenses	+10%	from 47.0% to 51.7%	44 460	1 345	3.12%
	-10%	from 47.0% to 42.3%	40 855	(2 260)	(5.24%)

36.5.2 Insurance risk - short-term

LBLIC provides indemnity for crops while still on the field, against hail, drought, fire and excessive rain fall. Cover ceases as soon as harvesting has taken place.

Insurance risk arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source;
- Inaccurate pricing of risks when underwritten;
- Inadequate reinsurance protection;
- Inadequate reserving; and
- Fraudulent claims.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claims. The principal risks LBLIC faces are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserves set aside for policyholders' liabilities, whether they are known or still to be reported, provide to be insufficient.

By the very nature of an insurance contract, this risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors, such as patterns of economic and geographical circumstances, may result in unexpected large claims. Insurance events are random and the actual number of claims and benefits will vary from year to year from the estimate established.

36.5.2.1 Pricing

LBLIC bases its pricing policy on the theory of probability. Underwriting limits are set for the underwriting manager and brokers to ensure that this policy is consistently applied.

The net claims ratio for LBLIC, which is important in monitoring insurance risk is summarised below:

Loss history	**2014**	**2013**
Net insurance benefits and claims on short-term business expressed as a % of net earned premiums	**(62%)**	(108%)

Factors that aggravate insurance risk include a lack of risk diversification in terms of type and amount of risk, geographical location, catastrophic events and agricultural sectors covered. A catastrophe reinsurance programme mitigates the risk arising from this.

36.5.2.2 Claims risk

The risk that the group may pay out fraudulent claims is mitigated by trained client service staff to ensure that fraudulent claims are identified and investigated thoroughly. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks.

It is also the risk that a change in value caused by the ultimate costs for full contractual obligations which varies from those assumed when these obligations were estimated. Estimated claims are monitored periodically and updated based on the latest information if needed. The group utilises independent assessors who appraise and confirm claims as well as quantification by the underwriting manager channel. Furthermore, an actuarial valuation is done by an independent actuary annually.

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2014, LBLIC believes that its liabilities for claims are adequate.

36.5.2.3 Reinsurance

LBLIC has third party reinsurance cover to reduce risks from single events or accumulations of risks that could have a significant impact on the current year's earnings.

This cover is placed on the international reinsurance market. The core components of the reinsurance programme comprise of:

Long-Term Insurance Contracts

- Individual excess of loss which limits exposure to R1 million per client, prior to the quota share treaty; and
- ndividual quota share which provides protection to 50% of the retained portion after excess of loss.

Short-Term Insurance Contracts

- Individual quota share cover for claims, which provides protection to limit losses to 30% per event; and
- Catastrophe cover to the extent of 300% of the total exposure across the board by stop loss treaty.

The LBLIC Board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is in place with external reinsurers which have a credit rating of no less than A+.

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.5.2.4 Concentration risk

Investment portfolio concentration risk

The allocation of investment portfolio as at 31 March 2014 was as follows:

	2014		2013 *	
Asset classes	**R'000**	**%**	**R'000**	**%**
Equities - local	**565 141**	**50%**	453 064	44%
Bonds - local	**218 085**	**19%**	232 337	23%
Cash, deposits and similar securities - local	**198 129**	**18%**	191 323	19%
Investment policy - property	**4 880**	**0%**	2 742	0%
Foreign assests	**149 771**	**13%**	146 211	14%
Total	**1 136 006**	**100%**	1 025 677	100%

* The comparative disclosures have been realigned to conform to the FY2014 presentation.

Investment manager performance, portfolio and manager allocations are monitored and reported to the company management and Investment and Actuarial Board on a regular basis by the Company's investment consultants. Upper and lower bounds have been assigned to each asset class. All classes were within bounds as at 31 March 2014.

Asset classes	**Lower bound**	**Upper bound**
Equities - local	30%	60%
Bonds - local	10%	30%
Cash, deposits and similar securities - local	5%	40%
Foreign assets	0%	15%

A revised investment policy with new bounds was approved during the year with effect from 1 April 2014 as follows:

Asset classes	**Lower bound**	**Upper bound**
Equities - local	30%	50%
Bonds - local	20%	40%
Cash, deposits and similar securities - local	10%	30%
Foreign assets	5%	15%

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Short-term insurance concentration risk

Within the insurance business, concentrations of risk may arise where a particular event or series of events could impact heavily upon the company's resources. The company operates in both short- and long-term insurance business.

Long-term insurance portfolio is based on credit life insurance and the company does not consider any concentration risk. LBLIC monitors the short-term insurance concentration risk by class of business and geographical segment.

Gross written premium by business

Portfolio	2014 R'000	2013 R'000
Long-term insurance	**7 435**	7 710
Short-term insurance	**2 282**	(2 739)
	9 717	4 971

Short-term gross written premium by class of business

Portfolio	2014 R'000	2013 R'000
Hail summer	**2 282**	(1 844)
Hail winter	-	(85)
Horticulture	-	(630)
Multi-peril summer	-	(216)
Forestry	-	-
Multi-peril winter	-	-
Livestock	-	36
	2 282	(2 739)

Short-term insurance gross written premium by geographical segment

Portfolio	2014 R'000	2013 R'000
Northern Cape	**2 282**	(1 395)
Eastern Free State/ Natal	-	(524)
Southern Free State/ Eastern Cape	-	(454)
Limpopo/ Mpumalanga/ Gauteng	-	(12)
Northern Free State	-	78
North West	-	(105)
Western Cape	-	172
Other	-	(499)
	2 282	(2 739)

Group Annual Financial Statements

for the year ended 31 March 2014

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.6 Capital management

Capital management objectives and approach

The group has established the following capital management objectives and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the group thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholder;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders and stakeholder; and
- To maintain healthy capital ratios in order to support its business objectives.

The group's capital management policy for its insurance and non-insurance business is to hold sufficient capital to cover statutory requirements.

The following main strategies were applied to achieve capital management objectives:

- Appropriate matching of assets and liabilities;
- Effective management of operational risk - a sound internal control framework reduces operational risk, which in turn has a positive effect in the calculation of required capital; and
- Routine forecasts of capital requirements, assessment against both available capital as well as the expected internal rate of return - including risk and sensitivity analyses.

The purpose of the group’s capital management is to ensure an efficient use of capital in relation to risk appetite and business development. The group does not have to comply with any regulatory capital requirements. The group uses an internal guideline issued by National Treasury for capital management. This ratio is calculated as a percentage of the capital and reserves plus the support provided by the government over total weighted assets.

Capital Adequacy Requirements (CAR) - Insurance activities

The Long-term and Short-term Insurance Acts specify a standard approach to be used in the insurance industry to assess the level of solvency (or financial strength) of an insurance company. The methodology requires the calculation of an amount representing the minimum level of capital required by each insurer to adequately cover risks inherent in the business it conducts. This measure is the Capital Adequacy Requirement (CAR).

The CAR calculation is performed on a prescribed methodology for long-term insurance. The calculation has a number of distinct components designed to put a numerical value to the different risks in the business. The CAR is not included in the policy liabilities as a contingency reserve. It is rather an independent benchmark against which the solvency level of an insurer can be measured.

With effect from 1 January 2012, the prescribed methodology for short-term insurance was revised to reflect a more risk-based approach in CAR management. This is in line with the current development considered as part of the Solvency and Assessment Management (SAM) framework which is expected to become effective in 1 January 2016. This measure is called the Solvency Capital Adequacy Requirement (or SCR).

The Long-term insurance license was issued in this financial year with the Financial Services Board. The short-term insurance licence was issued in April 2014. The company meets the minimum CAR requirements as per the Long-term Act. As the short-term business is in run-off, no CAR has been calculated.

For the life insurance portfolio, a minimum CAR has been allowed for as would be required by the FSB, based on the higher of:

- Ordinary CAR (OCAR) - R4.1 million; or
- Minimum CAR (MCAR) - Higher of R10.0 million and 13 weeks' operating expenditure (R2.4 million).

CAR for long-term insurance is calculated to be R10.0 million (2013: R10.0 million).

Excess assets over liabilities are R1.079 billion (2013: R946.1 million long-term business and R141 million short-term business). CAR cover remains strong at 108 times (2013: 47.3 times), which means that the Company is well capitalised.

As the short-term business is in its second year of run-off, no CAR has been raised on the legacy short-term business (2013: R10 million).

Group Annual Financial Statements
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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Capital Adequacy Requirements (CAR) - Land Bank
In the absence of any statutory regulation prescribing the levels of the CAR to be maintained by the Land Bank, the bank uses a 20% benchmark which is informed by part of the National Treasury guarantee conditions. This ratio is calculated by summing up the total equity and the remaining balance on the guarantee and then dividing the result by the total liabilities. The guarantee amount is reduced every time the Land Bank receives cash transfers as part of Government`s commitment towards the recapitalisation of the Bank. As at 31 March 2014, the balance of the guarantee was R2.0 billion. The CAR calculation is based on the National Treasury requirements.

	Group			Bank		
Assets	**R'000**	**Risk %**	**Weighted assets R'000**	**R'000**	**Risk %**	**Weighted assets R'000**
Property and equipment and Intangible assets	133 768	100%	133 768	133 652	100%	133 652
Investments	1 479 812	100%	1 479 812	343 806	100%	343 806
Loans and advances[1]	33 423 484	100%	33 423 484	33 423 484	100%	33 423 484
Trade and other receivables	149 267	100%	149 267	342 000	100%	342 000
Other assets	158 100	100%	158 100	155 466	100%	155 466
Cash and cash equivalents	1 474 854	20%	294 971	1 227 729	20%	245 546
Contingent liabilities						
Individual farmers - if irrevocable	347 858	20%	69 572	347 858	20%	69 572
Agri-related businesses	69 291	20%	13 858	69 291	20%	13 858
Total weighted assets			**35 722 833**			**34 727 384**
Total liabilities			**29 993 882**			**29 880 470**
Total capital and reserves			**6 825 405**			**5 745 669**
Government guarantee			**2 003 300**			**2 003 300**
Capital adequacy ratio						
Capital divided by total liabilities			**22,76%**			**19,23%**
Capital divided by total liabilities - including guarantee			**29,44%**			**25,93%**

[1]Include assets of disposal group classified as held-for-sale.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.7 Carrying amount and fair value of financial instruments

Group	2014 Carrying amount R'000	2014 Fair value R'000	2013 Carrying amount R'000	2013 Fair value R'000
Financial assets				
Fair value through profit or loss				
Repurchase agreements	**15 062**	**15 062**	-	-
Investments	**1 479 812**	**1 479 812**	1 326 163	1 326 163
Market-making assets[1]	**3 438**	**3 438**	5 238	5 238
Loans and receivables				
Cash and cash equivalents	**1 474 854**	**1 474 854**	1 891 383	1 891 383
Trade and other receivables	**149 268**	**148 981**	160 523	160 161
Loans and advances	**33 423 484**	**33 423 484**	27 112 608	27 112 608
Total financial assets	**36 545 918**	**36 545 631**	30 495 915	30 495 553
Financial liabilities				
Fair value through profit or loss				
Funding - debentures and floating rate notes	**4 476 943**	**4 476 943**	2 536 824	2 536 824
Financial liabilities at amortised cost				
Trade and other payables	**253 714**	**253 714**	178 610	178 610
Funding	**24 513 687**	**24 513 687**	21 173 396	21 173 396
Provisions	**440 017**	**440 017**	428 271	428 271
Post-retirement obligation	**267 453**	**267 453**	283 890	283 890
Policyholders' liabilities	**40 065**	**40 065**	45 291	45 291
Total financial liabilities	**29 991 880**	**29 991 880**	24 646 282	24 646 282

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Bank	2014 Carrying amount R'000	2014 Fair value R'000	2013 Carrying amount R'000	2013 Fair value R'000
Financial assets				
Fair value through profit or loss				
Repurchase agreements	**15 062**	**15 062**	-	-
Investments	**343 806**	**343 806**	300 487	300 487
Market-making assets[1]	**3 438**	**3 438**	5 238	5 238
Loans and receivables:				
Cash and cash equivalents	**1 227 729**	**1 227 729**	1 676 715	1 676 715
Trade and other receivables	**342 000**	**341 714**	339 212	338 850
Loans and advances	**33 423 483**	**33 423 483**	27 112 608	27 112 608
Total financial assets	**35 355 518**	**35 355 231**	29 434 260	29 433 898
Financial liabilities				
Fair value through profit or loss				
Funding - debentures and promissory notes	**4 476 943**	**4 476 943**	2 536 824	2 536 824
Financial liabilities at amortised cost				
Trade and other payables	**184 368**	**184 368**	107 825	107 825
Funding	**24 513 687**	**24 513 687**	21 173 396	21 173 396
Provisions	**438 020**	**438 020**	427 008	427 008
Post-retirement obligation	**267 453**	**267 453**	283 890	283 890
Total financial liabilities	**29 880 471**	**29 880 471**	24 528 943	24 528 943

[1] Financial assets designated as held for trading

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

Methods used to determine fair values for the group

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following assumptions and methods were used to estimate the fair values:

Those held at fair value are fair valued with reference prices quoted in the market that are readily available. Included in this classification are equities, debt instruments and cash.

Cash and cash equivalents, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Loans and receivables are fair valued by discounting future cash flows at a market related interest rate. The cash flows are calculated by assuming that in each payment period the account holder will either make a payment or default. Default rates based on past experience are used to calculate the proportion of accounts that default in each future payment period. A recovery percentage based on past experience is used to calculate the cash recovered on default. The difference between the outstanding balance and the present value of future cash flows is taken as the provision.

The provision for unimpaired accounts are calculated by assuming that a percentage of these accounts (based on past experience) will default over a 6 month period and using the loss given default percentage to provide for this percentage of accounts. Provisions for defaulted accounts are calculated by multiplying the balance by the loss given default, which is based on past experience. Accounts are considered impaired if more than 5% of the outstanding balance is in arrears.

The carrying amount of the loans and receivables approximates fair value.

The carrying amount of provisions approximates fair value.

Swaps are valued using inputs obtained from independent sources. The inputs are loaded into the Aford model, a derivative valuation tool that is customised to the South African environment and developed by an independent third party. The fair value of a swap is equal to the present value of all future cash flows using the daily market swap curve. The model uses fixed and floating future cash flows. The fixed cash flows are known and are easily calculated. The floating cash flows are unknown and are calculated using the cubic splines interpolation method.

Changes in fair value are attributable to interest rate fluctuations. There have been no changes in fair value that are attributable to the change in credit risk as there have been no upward or downward movements in the credit risk as per the Fitch rating.

36.7.1 Determination of fair value and fair value hierarchy

Included in level 1 category are financial assets and liabilities that are measured in whole or in part by reference to unadjusted, quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in level 2 category are financial assets and liabilities measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are categorised as level 2.

Included in level 3 category are financial assets and liabilities that are measured using valuation techniques that incorporate information other than observable market data. Reasonable assumptions are made for significant inputs which are based on market conditions.

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

31 March 2014	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Bank				
Repurchase agreements	15 062	-	-	**15 062**
Equities	147 492	-	-	**147 492**
Preference Shares	961	-	-	**961**
Real Estate	32 838	-	-	**32 838**
Commodities	6 143	-	-	**6 143**
Bonds	53 089	-	-	**53 089**
Cash deposits and similar securities	-	36 484	-	**36 484**
Foreign Equities	-	51 395	-	**51 395**
Investment in Free State Maize (Pty) Ltd	-	-	15 100	**15 100**
Investment in Capespan Capital (Pty) Ltd	-	-	304	**304**
Investment in Renaissance Brands (Pty) Ltd	-	-	-	**-**
Market-making assets	3 438	-	-	**3 438**
Loans and advances	-	33 423 483	-	**33 423 483**
LBLIC				
Equities	495 133	-	-	**495 133**
Bonds	214 433	-	-	**214 433**
Collective investment schemes	163 696	90 343	-	**254 039**
Equity	130 954	-	-	**130 954**
Interest bearing instruments	-	90 343	-	**90 343**
Property - listed shares	32 742	-	-	**32 742**
Cash deposits and similar securities	-	124 946	-	**124 946**
Investment policy	-	47 456	-	**47 456**
Total financial assets	**1 132 284**	**33 774 108**	**15 404**	**34 921 796**
Financial liabilities				
Bank				
AfDB loan	-	498 062	-	**498 062**
Floating rate notes - LBK02	1 343 274	-	-	**1 343 274**
Floating rate notes - LBK03	1 002 680	-	-	**1 082 880**
Floating rate notes - LBK05	499 985	-	-	**499 985**
Floating rate notes - LBK06	1 132 942	-	-	**1 132 942**
Total financial liabilities	**3 978 880**	**496 062**	**-**	**4 476 943**

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Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

31 March 2013	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Bank				
Equities	142 736	-	-	**142 736**
Preference Shares	-	-	-	**-**
Real Estate	-	-	-	**-**
Commodities	-	-	-	**-**
Bonds	48 253	-	-	**48 253**
Cash deposits and similar securities	-	41 390	-	**41 390**
Foreign Equities	-	52 707	-	**52 707**
Foreign cash deposits and similar securities	-	1	-	**1**
Investment in Free State Maize (Pty) Ltd[1]	-	-	15 400	**15 400**
Market-making assets	5 238	-	-	**5 238**
Loans and advances	-	27 112 608	-	**27 112 608**
LBLIC[2]				
Equities	414 299	-	655	**414 954**
Bonds	222 689	-	-	**222 689**
Collective investment schemes	129 637	98 722	-	**228 359**
Equity	99 625	-	-	**99 625**
Interest bearing instruments	-	98 722	-	**98 722**
Property - listed shares	30 012	-	-	**30 012**
Cash deposits and similar securities	-	101 145	-	**101 145**
Investment policy	-	58 530	-	**58 530**
Total financial assets	**962 852**	**27 465 103**	**16 055**	**28 444 010**
Financial liabilities				
Bank				
Floating rate notes - LBK01	1 190 947	-	-	**1 190 947**
Floating rate notes - LBK02	1 345 877	-	-	**1 345 877**
Total financial liabilities	**2 536 824**	**-**	**-**	**2 536 824**

[1] Investment in Free State Maize (Pty) Ltd was moved to Level 3 due to the implementation of IFRS 13.
[2] The comparative disclosures have been realigned to conform to FY2014 presentation.

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.7.2 Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy

	Capespan Capital (Pty) Ltd	Free State Maize (Pty) Ltd	Renaissance Brands (Pty) Ltd	Unlisted shares	Total
	R'000	R'000	R'000	R'000	R'000
Unquoted Equity Shares					
As at 1 April 2012	-	-	-	-	-
					-
Purchases	-	5 000	-	655	5 655
Re-measurement recognised in OCI	-	10 400	-	-	10 400
As at 31 March 2013	**-**	**15 400**	**-**	**655**	**16 055**
Purchases	-	-	-	-	-
Fair value adjustment for unrealised loss recognised through OCI as part of investment returns	-	-	-	(9)	(9)
Fair value adjustment for realised profit recognised through OCI as part of investment returns	-	-	-	98	98
Re-measurement recognised in OCI	304	(300)	-		4
Disposal	-	-	-	(744)	(744)
As at 31 March 2014	**304**	**15 100**	**-**	**-**	**15 404**

Refer to note 8.3

Notes to the Annual Financial Statements (continued)

36 Risk management (continued)

36.7.3 Description of significant inputs to Level 2 valuations:

As at 31 March 2014

Floating rate loan	Valuation technique	Significant Adjusted Observable Inputs
AfDB	Bond Pricing formula	Discounting spread of 33bps used. The bank used the credit spread of the most liquid listed dept from other listed debt secured by the South African government to derive the 33bps discounting spread. The closest bond that was obtained in the ES26 that matures on 2 April 2026. The spread as on valuation date equals 0,61%. The following adjustment were made to the ES24 spread: - A decrease of 12 bps for regulatory risk due to a relaxation of regulatory requirements compared to other SOEs. - A further decrease of 15 bps was applied for reporting lines of Land Bank - which reports directly to the National Treasury, which is more direct than other SOEs who report to other departments that in turn reports to the National Treasury. - A decrease of 10 bps was applied due to lease financial risks faced by Land Bank relative to other SOEs (they do not face direct commodity and FX risks). - A final increase of 9 bps for sector specific risk was done due to the concentration risk faced by Land Bank in the financing environment. Given the above, it can be concluded that the spread was derived from an input observed in the market.

36.7.4 Description of significant unobservable inputs to Level 3 valuations:

As at 31 March 2014

Unquoted Equity	Valuation Technique	Significant Unobservable Inputs	Sensitivity of the input to the fair value
Capespan Capital (Pty) Ltd	NAV	Audited Financial Statements	N/A
Free State Maize (Pty) Ltd	DCF/earnings multiple	PE Valuation: Comparative listed company PE multiples DCF Valuation: Discount rate - 8.792%, Growth Assumption - 3.8%	PE movement of 1: R1,868,724 'Discount Rate: +1%: -R2,764,535 -1%: R39,667,072 Growth Rate: +1%: R36,681,155 -1%: -R843,602
Renaissance Brands (Pty) Ltd	DCF/earnings multiple	PE Valuation: Comparative listed company PE multiples DCF Valuation: Discount rate - 18.121%, Growth Assumption - 3.8%	PE movement of 1: R6,111,871 'Discount Rate: +1%: -R4,204,339 -1%: -R7,054,262 Growth Rate: +1%: -R9,575,838 -1%: -R18,464,618

Notes to the Annual Financial Statements (continued)

37 Fruitless And Wasteful Expenditure (F&WE)

There has been a reduction in F&WE to R7 thousand (2013: R8 thousand) in the current year. The F&WE relates to isolated incidences where penalties and interest were levied on late payments of utility accounts.

37.1 Reconciliation of amounts transferred to receivables for recovery

	Group		Bank	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Opening balance	**25**	271	**25**	271
Fruitless and wasteful expenditure for the current year				
- Current matters	-	-	-	-
Less: Amounts recovered in current year				
Current year: Current matters	-	(6)	-	(6)
Less: Amounts written off	**(24)**	(240)	**(24)**	(240)
Closing Balance	**1**	25	**1**	25

In terms of regulatory requirements the accounting officer must determine who the responsible party is from whom the amount of F&WE must be recovered. The receivables relates to historical overpayments to employees.

37.2 Analysis of Current Fruitless and Wasteful Expenditure

	2014 R'000	2013 R'000
Current matters		
- Penalties and interest	**7**	8
As per statement of profit or loss and other comprehensive income	**7**	8

38 Events after Statement of Financial Position Date

All adjusting events, both favourable and unfavourable, that occurred between statement of financial position date and the date when the financial statements are issued have been reported and adjusted in the financial statements.

No adjustments have been made for those events that are indicative of conditions that came into existence after the statement of financial position date.

The following events after statement of financial position date have been taken into account:

Change in the interest rate method
On 17 April 2014, the North Gauteng High Court handed down final judgement in the interest claims "test" case. The effect of this judgement has been quantified and adjusted for in the financials as presented. Refer to note 19 and note 33.4.3.

Events specifically relating to the Insurance Operations
The long-term insurance license for LBLIC was issued during July 2013.

The short-term insurance company (LBIC) was registered with effect 1 April 2012. Subsequently, the short-term insurance license was granted by the Financial Services Board (“FSB”) during April 2014.

In May 2014, the Minister approved that the holding company of the Insurance Operations (LBIS) be dissolved and that the two insurance companies be held directly by the Land Bank.

Acronyms

AFASA	African Farmers Association of South Africa
AGM	Annual General Meeting
ASUF	Agriculture Sector Unity Forum
B&CB	Business & Corporate Banking
B-BBEE	Broad Based Black Economic Empowerment
CEO	Chief Executive Officer
COSO	Committee of Sponsoring Organisations
CSI	Corporate Social Investment
DAFF	Department of Agriculture, Forestry and Fisheries
DFI	Development Finance Institution
DRDLR	Department of Rural Development and Land Reform
ERM	Enterprise Risk Management
FAIS	Financial Advisory and Intermediary Services
FSB	Financial Services Board
GDP	Gross Domestic Product
GFADA	Grain Farmer Development Association
ICT	Information and Communication Technology
ISO	International Organisation for Standardisation
IT	Information Technology
LBIS	Land Bank Insurance Services
LBUAC	Land Bank University Agricultural Chairs
LBLIC	Land Bank Life Insurance Company
LDFU	Land for Development Finance Unit
MoU	Memorandum of Understanding
MP	Member of Parliament
MTEF	Medium Term Expenditure Framework
NCR	National Credit Regulator
NCA	National Credit Act
NDP	National Development Plan
NERPO	National Emergent Red Meat Producer Organisation
NNP	National Nutrition Programme
NPL	Non Performing Loans
NT	National Treasury
PAIA	Promotion of Access to Information Act
PFMA	Public Finance Management Act
RCB	Retail and Commercial Banking
REM	Retail Emerging Markets
SAHRC	South African Human Rights Commission
SAM	Social Accounting Matrix
SARS	South African Revenue Service
SASBO	South African Society of Bank Officials
SCOPA	Standing Committee on Public Accounts
SETA	Sector Education and Training Authority
SOE	State Owned Entity
TAUSA	Transvaal Agricultural Union of South Africa
TIGF	Thembani International Guarantee Fund

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