INTEGRATED ANNUAL REPORT 2019

LAND BANK
We stand by you


LAND BANK
2019 INTEGRATED
ANNUAL REPORT

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01

INTRODUCTION

> The report provides information that we consider to be of material significance in creating short-, medium- and long- term value in delivering on our development mandate.

INTRODUCTION

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About our report

The Land and Agricultural Development Bank of South Africa (Land Bank Group) presents its 2019 Integrated Annual Report: an overview of the Land Bank Group's performance, value created for stakeholders, and contributions to society for the year ended on 31 March 2019; and how the Group's strategy, governance, and performance add to creation of value over the short, medium, and long term. The report has been prepared for all our stakeholders, with particular focus on matters relevant to those stakeholders who provide access to resources of a financial nature.

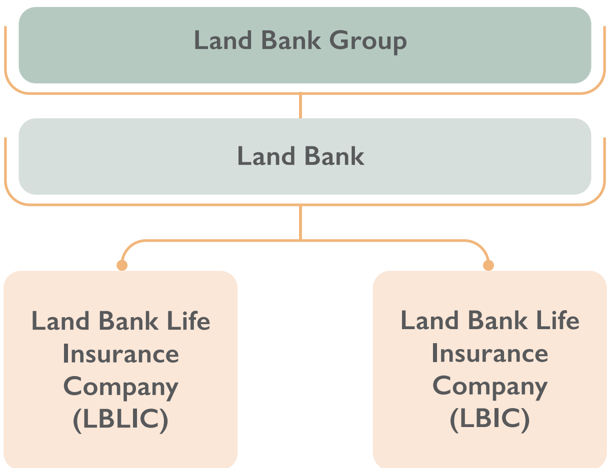
This is our primary report to stakeholders and follows on the FY2018 Integrated Annual Report approved on 30 July 2018 by the Board of Directors. It presents a concise and balanced, assessment of our ability to create sustainable value through application of our business model, including performing the Land Bank's statutory mandate and functions under the Land Bank Act and our outlook.

Reporting boundary

The scope of this FY2019 Integrated Annual Report incorporates the financial reporting boundary of the Land Bank Group and covers the period from 1 April 2018 to 31 March 2019 (FY2019) for Land Bank and its insurance subsidiaries (see figure below). The report provides information about our financial and non-financial performance in thre context of our strategy, and opportunities, risks and outcomes referenced to our most material financial, governance, social and environmental issues associated with our key stakeholders who significantly influence our value creation ability (see Material matters p 36-39).

It contains the Group's outlook, targets and objectives for the short term (FY2020) as well as for the medium to long term, as aligned to the National Development Plan (NDP) and Sustainable Development Goals (SDGs) with clear targets to 2030. Notable events after 31 March 2019 up until the Board approval of the Report on 29 July 2019 are included.

Operating businesses reporting boundary for the FY2019 Integrated Annual Report



There have been no significant changes in our scope and aspect boundaries, size, structure or shareholding during the reporting period that would affect the comparability against the Bank's FY2018 report.

Queries with regards to this report should be made to communication@landbank.co.za.

Our approach to materiality

The report provides information that we consider to be of material significance in creating short-, medium- and long-term value or in delivering on our development mandate. Materiality also considers the matters that could significantly influence our stakeholders' assessments and related decisions regarding our long-term sustainability. (See pp 36-39 for a detailed discussion on our Material matters.)

Value concept

Value creation is the consequence of how the Land Bank Group applies and leverages its resources, strategy and business model towards delivering holistic value for its stakeholders, including financial performance. Our value creation strategy is aligned to our DFI role and the associated legal mandate. Our current strategy and business model is attuned to the needs and expectations of a wide and diverse range of stakeholders, featuring our shareholder and our investors among our primary stakeholder categories that influence development of our strategy and our business model.

FY2019 Reporting suite

This year we have produced a suite of reports, accessible on our website (www.landbank.co.za) as part of meeting our goal of providing complete, reliable and transparent reporting directed towards the information needs of all of our key stakeholders.

The ***FY2019 Integrated Annual Report*** is the key report that provides a holistic view of the Group's business, strategy, and performance, and the creation of value for all stakeholders. This report should be read in conjunction with the more detailed reports for FY2019:

Group Annual Financial Statements

A comprehensive report on our financial performance for FY2019 which provides a detailed understanding of the financial aspects of our business and includes the Directors' Report and the Auditor-General's Report.

Corporate Governance Report for Land Bank

Provides more detailed information on our corporate governance environment referenced to the corporate governance framework applied within the Land Bank Group, including more detailed Board Member profiles and the the Bank's remuneration policy and related practices.

Corporate Governance Report for Land Bank Insurance

Provides details about the governance of the insurance subsidiaries.

Reporting frameworks and comparability

Our process for compiling and presenting the information contained in this report is guided by the principles and requirements of the International Integrated Reporting Council's Integrated Reporting <IR> Framework, and the Global Reporting Initiative (GRI Standards) to provide relevant information on our material financial, environmental and social matters. For all disclosures we have considered information included in previous reports, applicable legislative and regulatory reporting requirements of the Companies Act, 2008 and the Public Finance Management Act (PFMA), as well as the JSE Debt Listing Requirements.

King IV Report on Corporate Governance™ for South Africa, 2016

The Board promotes and supports high and ethical standards of corporate governance and, in so doing, adopts the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV). During FY2018, a number of actions were undertaken in the organisation's continuous implementation of the principles as set out in our King IV Disclosures (See Land Bank governance report)

Assurance

The Board, supported by the Audit and Finance Committee, is ultimately responsible for the effectiveness of the Bank's application of combined assurance to support the integrity of the information presented in the Integrated Annual Report.

This responsibility extends to the design and operating effectiveness of the Bank's internal system of control, to identify, evaluate, manage and provide reasonable assurance against material misstatement and loss. The Bank's management together with the internal audit function plays a crucial role in assessing the effectiveness of our internal control environment.

Internal assurance applied to our Integrated Annual Report includes coverage of figures as well as factual statements.

Navigation icons

Our capitals

Financial capital	Intellectual capital
Human capital	Social and relationship capital
Natural capital	Manufactured capital

Material matters

Financial sustainability	Development outcome and transformation
Technical advancement (Innovation)	Employee development, retention and remuneration
Climate risk and environmental sustainability	Corporate governance
Poorly executed Land Expropriation without Compensation	

INTRODUCTION

Forward-looking information

Certain statements in this Integrated Annual Report contain forward-looking statements or information which, by their nature, involve risk and uncertainty because they relate to future events and circumstances that may be beyond our control and that may cause the actual results and achievements to differ substantially from those implied or expressed in the forward-looking statements. As a result, the Land Bank Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in any forward-looking statements contained in this Report.

Land Bank undertakes no obligation to update the forward-looking statement subsequent to the publication of this Report or in any other forward-looking statements it may make, which have not been reviewed or reported on by the Group's auditor. The directors, therefore, advise readers to use caution regarding interpreting any forward-looking statements in the report.

External reporting suite – individual report	Applicable law/regulation/ framework/standard	Assurance applied to ensure integrity of reporting	Outcome
2019 Integrated Annual Report (the full report)	International Integrated Reporting Council's Integrated Reporting <IR> Framework Johannesburg Stock Exchange (JSE) Debt Listing Requirements	Land Bank Board Audit and Finance Committee Risk and Governance Committee Executive Committee Combined Assurance – application of Land Bank's three lines of defence including risk-based internal audit	Directors' approval
Annual Financial Statements for the year ended 31 March 2019	Public Finance Management Act, 1999 Companies Act, 2008 and Companies Regulations 2011 International Financial Reporting Standards (IFRS)	Auditor-General Land Bank Board Audit and Finance Committee Executive Committee Combined assurance – application of Land Bank's three lines of defence, including risk-based internal audit	Directors' approval
2019 Corporate Governance Report and 2019 King IV Disclosures	Land and Agricultural Development Bank Act, 2002 Companies Act, 2008 Public Finance Management Act,1999 Insurance Act, 2017 Prudential Standards of the Prudential Authority: Governance and Operational Standards KING IV Report on Corporate Governance for South Africa 2016 (KING IV) JSE Debt Listing Requirements	Land Bank Board Audit and Finance Committee Risk and Governance Committee Executive Committee Combined Assurance – application of Land Bank's three lines of defence, including risk-based internal audit	Directors' approval
Selected information on environmental, social and governance matters	Financial Services Sector Code for BBBEE Global Reporting Initiative (GRI) Standards UNEP-FI Principles for Responsible Banking Task Force on Climate-Related Financial Disclosures	Empowerdex Audit and Finance Committee Risk and Governance Committee Executive Committee Combined Assurance – application of Land Bank's three lines of defence, including risk-based internal audit	Level 4 BBBEE rating confirmed Directors' approval

Board approval

Land Bank's Board of Directors acknowledges its responsibility to ensure the integrity of the FY2019 Integrated Annual Report and supplementary information referenced therein. The Bank's Audit and Finance Committee reviewed and recommended the Report to the Board for approval. The Risk and Governance committee reviewed the 2019 King IV Code Disclosures and has recommended those disclosures to the Board for approval.

The Board has applied its mind to the Integrated Annual Report and considered the operating context, strategy, and value creation model in this process. We have considered the completeness of the material aspects addressed in the report, and the relevance and reliability of the reported performance information presented, drawing on the context of our assessment of the effectiveness of the combined assurance applied to support the integrity of material information included. On this basis, the Board is satisfied that the FY2019 Integrated Annual Report addresses those material matters that have, or could have, a material effect on the Group's ability to create value, and that the information contained in the report presents fairly the strategy and integrated performance of the Group.

To the best of our knowledge and belief, we confirm that all information and amounts disclosed in this report are consistent with the Annual Financial Statements for the year ended 31 March 2019 approved by the Board on 29 July 2019, which have been audited by the Office of the Auditor-General of South Africa.

The Board approved the 2019 Integrated Annual Report incorporating the 2019 King IV Code disclosures on 29 July 2019.

Mr MA Moloto
Non-executive Chairman

Ms K Gugushe
Acting Chief Executive Officer

Independent non-executive directors
Ms DR Hlatshwayo
Adv SJ Coetzee
Dr ST Cornelius
Ms SA Lund
Ms ME Makgatho
Mr MS Makgoba
Ms DN Motau
Ms NV Mtetwa
Ms TT Ngcobo

INTRODUCTION

Acronyms

AfDB	African Development Bank
AML	Anti-Money Laundering
ARC	Agricultural Research Council
BBBEE	Broad-Based Black Economic Empowerment
CAR	Capital Adequacy Ratio
CB & SI	Corporate Banking and Structured Investments
CDBB	Commercial Development and Business Banking
COR	Combined Operating Ratio
CRISA	Code for Responsible Investing in South Africa
CSI	Corporate Social Investment
DAFF	Department of Agriculture, Forestry and Fisheries
DALRRD	Department of Agriculture, Land Reform and Rural Development
DBSA	Development Bank of Southern Africa
DEA	Department of Environmental Affairs
DFI	Development Finance Institution specifically including Land Bank, IDC, DBSA
DOP	Delegation of Power
DRDLR	Department of Rural Development and Land Reform
EIB	European Investment Bank
ERM	Enterprise Risk Management
ESMS	Environmental and Social Management System
ESS	Environmental and Social Sustainability
FICA	Financial Intelligence Centre Act 38 of 2001
FY	Financial Year
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
GWP	Gross Written Premium
IA	Internal Audit
IDC	Industrial Development Corporation of South Africa
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
LBIC	Land Bank Insurance Company SOC (Pty) Ltd
LBLIC	Land Bank Life Insurance Company SOC (Pty) Ltd
LCR	Liquidity Coverage Ratio
NAMC	National Agricultural Marketing Council
NPAT	Net Profit after Tax
NPL	Non-Performing Loan
NSFR	Net Stable Funding Ratio
PEP	Politically Exposed Person
PFMA	Public Finance Management Act 1 of 1999
PIC	Public Investment Corporation
PIMS	Post-Investment Management Services
PRB	Principles for Responsible Banking
SD	Supplier Development
SDG	Sustainable Development Goal
SENS	Stock Exchange News Service
SLA	Service Level Agreement
SOEs	State-Owned Entities, including DFIs
SOP	Standard Operating Procedure
TCFD	Task Force on Climate Related Financial Disclosures
UNEP-FI	United Nations Environmental Programme – Finance Initiative
UNPRI	United Nations Principles for Responsible Investment
WFF	Wholesale Finance Facilities

02

LEADERSHIP PERSPECTIVE

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As an organisation focused on agriculture in South Africa, we are mindful of the risks that climate change poses having observed this impact on our loan book over the past few years.

Mr TT Mboweni, MP
Minister of Finance

Statement from the **Minister**

As a part-time farmer, I am conscious of the challenges that farmers across this country must contend with. Moreover, I am cognisant of the Land Bank's crucial support to the sector during both the good and bitter times. During the past few years, South African farmers displayed commendable resilience in dealing with continuing adversity such as changing and adverse weather patterns, increased input costs and fluctuating commodity prices. Despite these challenges, farmers continue to rise above the circumstances and provide food for the nation.

In his State of the Nation address in June 2019, President Ramaphosa identified economic transformation and job creation as priorities to ensure inter alia that no person will go hungry by the end of the next decade. He also prioritised the building of a capable, ethical and developmental State and the need to focus on education and skills to create employment for the youth. As government, we recognise the value of the agricultural sector and remain committed to providing additional financial support to smallholder farmers, supporting key value-chains and products and developing new export markets for the sector. The Land Bank remains government's key development institution within the sector and will be used to facilitate these investments in the sector.

> "National Treasury will continue to work with Land Bank towards strengthening the delivery of its mandate and development objectives in the face of necessary and inevitable changes within the agricultural sector.

In this respect, R1 billion has been appropriated over the Medium Term Expenditure Framework period to the Department of Agriculture, Land Reform and Rural Development to be allocated to Land Bank as part of the Department's policy to encourage blended finance instruments to be made available for the commercialization of farmers. The Land Bank has always played a fund administrator role on behalf of the Department such as with AgriBEE Fund and will take on additional funds on behalf of government in future.

National Treasury will continue to work with Land Bank towards strengthening the delivery of its mandate and development objectives in the face of necessary and inevitable changes within the agricultural sector.

I am pleased to note that in terms of governance, the Land Bank continues to act as a responsible steward of its resources and that the Board of Directors remains committed to good corporate governance. I extend my thanks to the Chairperson of the Land Bank Board of Directors, Mr. MA Moloto, to the Board of Directors as well as to the Executive team and employees for their dedication and energy at driving the Land Bank's mandate in an ethically responsible manner.

TT MBOWENI, MP
MINISTER OF FINANCE

Mr MA Moloto
Non-executive Chairman

Statement from the **Chairman**

In our first Integrated Annual Report in 2016, the Land Bank Group reported that it operated in an agricultural sector that faced increasing volatility and change which requires resilience from the Group, farmers, communities and sector organisations to survive, adapt and grow. At that time, the Land Bank Board and management identified specific actions which could improve its resilience under such volatile circumstances.

To this end we undertook certain counter-cyclical support measures to assist farmers in their continued production and contribution to food self-sufficiency for the country. We increased our internal effectiveness and focused on improving the structure of our funding profile. In so doing we fulfilled a greater role in the agricultural sector to build its resilience and increase inclusivity.

In this FY2019 report, we provide an overview to our stakeholders of the measures we took during the period under review and explain the impact that these actions have had on our ability to withstand these adverse operating conditions.

> "We are pleased to report that we managed to maintain our **strong balance** sheet and remain profitable in FY2019.

Operating environment

Similar to other companies, we have found the external environment extremely difficult during the past financial year. Slow economic growth, weak performance in the investment space combined with wide-spread drought and other sector-specific events had a negative effect on our ability to increase revenue with a concomitant impact on its non-performing loans as clients face significant challenges. We responded to these issues by more stringent monitoring of our loan book and investing in the assessment of environmental and social risks in our credit process. Moreover, we are co-operating with stakeholders and clients, identifying actions to adapt and mitigate climate risk and develop a more resilient institution.

We await the release of the report by the Advisory Panel on Land Reform and Agriculture that was submitted to the President. During the year under review, we engaged with the Panel through written submissions and participation at public events among others to inform the process and communicate the position that we presented in our previous Integrated Annual Report. Although Expropriation without Compensation remains a significant risk to the financial sustainability of the Bank, we believe that it will be undertaken responsibly to strengthen agricultural production, create employment and ensure food security.

The Bank is a 106-year old organisation with the ability to call upon institutional capability that has allowed it to survive extremely challenging conditions during the century of its existence. The Board remains confident in the organisation's ability to navigate the current environment, adapt its practices as necessary and mitigate risks to increase its resilience.

Financial sustainability

It remains a challenge to balance our financial sustainability with our development mandate and expectations from our shareholder to increase support to smallholder farmers. Our aim is to ensure that we remain a financially sustainable Development Finance Institution (DFI) while crowding-in funds from various sources in support of the sector. We consciously make certain trade-offs in pursuit of this objective where we choose to forego some profit and reduce our potential equity by extending loans at lower interest rates than required by our risk models for developmental purposes. In FY2019 these interest rate subsidies amounted to R58.7 million (FY2018: R74.0 million).

We are pleased to report that we managed to maintain our strong balance sheet and remain profitable in FY2019. We also exceeded our target of disbursing R1.5 billion in support of transformation in the sector and increased the proportion of our loan book deemed transformational to 17% (FY2018: 12%).

Board support for a new strategic direction

Over the past two years, we have spent a considerable amount of time engaging with the shareholder regarding the capitalisation of the Bank to secure its future financial sustainability, and its ability to fulfil its development mandate within its financial context. During FY2019, the Bank proposed the division of its Commercial and Development units in order to achieve both mandates. The Board supports the proposal and believes that it is the correct course of action. We will focus on developing a more detailed proposal for engagement with the shareholder. The Board and its committees will provide the appropriate oversight and support to the executive team to implement the necessary structural, fiscal and human capital changes depending on the final outcome of this proposal. We are committed to execute this endeavour ethically and transparently to set the Bank's path for the future.

Principles for Responsible Banking

In February 2018, Land Bank was invited to participate in the United Nations Environmental Programme – Finance Initiative (UNEP-FI) programme to develop the the Principles for Responsible Banking (PRB). We joined a core group of 29 banks from around the world to draft a set of six principles that outline key precepts of responsible behavior by banks to guide them towards a sustainable future. The Bank has been an active member of the Core Group of banks holding a co-leadership position of the Implementation subgroup. During the period under review, we participated in a number of events, linked to the development of the principles.

As the Land Bank Board, we believe that the PRB complement our purpose, mandate and mission and requires us to become a leader in accountability to society. Through the work of the Risk and Governance Board Committee, the Board will provide oversight of the Bank's commitment to implement the PRB over the coming year. As one of the founding banks, we assessed our position according to the principles during the past year and identified a number of gaps to be addressed over the short- to medium-term. In this report, we are commencing the process to align to principle 6 which requires transparency and accountability in reporting on our progress against the principles. As a Board, we are proud to be part of this initiative and to be one of the first development financial institutions to commit and participate in this global project.

Climate risk

The Land Bank Board acknowledges the assessment of the Intergovernmental Panel on Climate Change (IPCC) that warming of the global climate is certain, that it is linked to human influence and that physical climate impact is a present reality for the Group. As non-executive directors we acknowledge that our duty of care should incorporate consideration of the impact of climate change risk on the business and our ability to discharge our mandate set out in the Land Bank Act, including considering the adoption of appropriate measures that mitigate and adapt to the material risks of climate change.

As an organisation focused on agriculture in South Africa, we are mindful of the risks that climate change poses, having observed this impact on our loan book over the past few years. In this report, we aim to provide better information and greater insight on the climate risks and opportunities we have experienced in line with the recommendation made by the Task Force on Climate Related Financial Disclosures (TCFD). Our financial sustainability is intrinsically linked to the continued existence of a climate-resilient and diversified agricultural sector. Therefore, we will focus on our own and our clients' efforts to mitigate and adapt to long-term changes in the available natural capital.

Sustainable Development Goals (SDGs) and National Devlopment Plan (NDP)

Land Bank consistently assesses its contribution to the SDGs and NDP. Our lending activities should support the global goals of eliminating abject poverty, reducing hunger and creating a more equal society for all. The Bank's objectives are aligned with those of the NDP and we continue to strive for greater alignment to the SDGs. We are in the process of assessing the materiality of each of the 17 SDGs to the organisation and will entrench these closer into our policies during the year to come.

Corporate governance

SOE instability, state capture allegations and governance failures in the private and public sector remained an unpleasant theme in the South African discourse. The Board thus demonstrated effective and ethical leadership throughout the Group governance and executive functions. It maintained a strong oversight role for risk and compliance management and governance, including financial, social, climate and environmental governance. Since we are obligated to the public at large, we require a high standard of ethical behaviour from all our employees that promotes and maintains public confidence and trust. In March, most Board members attended the launch of the new ethics hotline. Here I had the opportunity to engage directly with Land Bank staff on the Board's approach to ethical leadership and what we expect of them in this regard. To demonstrate our commitment to ethics and good governance, we also undertook to include any confirmed breaches of the Bank's anti-corruption and corporate governance policies by the Directors or Executive as potential redemption events in its Domestic Medium Term Notes (DMTN) Programme and certain bilateral funding agreements. At both Board and executive management levels, we have therefore created a tangible obligation which could result in some R23.1 billion of liabilities becoming immediately redeemable should we fail to adhere to ethical governance.

We are proud of our status as a financially sustainable State Owned Entity (SOE) that is demonstrably committed to maintaining sound governance practices. Throughout this report stakeholders will find evidence of our commitment and effort to improve our risk and compliance management maturity. Not only do we foster the highest standards of ethical conduct, but we also expand governance oversight across the Bank.

Board changes and succession planning

We value our leadership and rely on the Board's collective skills, experience and diversity for responsible oversight of the Bank's conduct in maintaining an ethical and resilient institution that creates value in both the financial and developmental context.

We welcomed two new, independent non-executive directors to the Board: Mr MS Makgoba and Dr ST Cornelius. Their extensive experience in development finance, veterinary sciences and agriculture respectively are important additions to the Board. Adv SJ Coetzee and Ms ME Makgatho were re-appointed during the year and provide valuable continuity to the activities of the Board. Post-year end, Ms NV Mtetwa, chair of the Audit and Finance Committee, resigned to pursue a new opportunity in the financial services sector. We thank her for her dedicated service to the Board and wish her well in her new role.

The Chief Executive Officer (CEO), Mr TP Nchocho resigned in December 2018 to take up the role of CEO at the Industrial Development Corporation. Following this, and pending the appointment of a new CEO, we appointed the CFO, Mr BJ van Rooy, as acting CEO and Ms K Gugushe as acting CFO. This entailed a change to the Chief Risk Officer position, which has temporarily been divided with Mr S Diza as Acting Chief Risk Officer: Credit and Ms N Khan as Acting Chief Risk Officer: Risk.

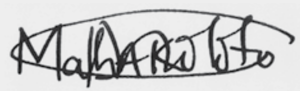
Post year-end, Mr Van Rooy resigned to take up the role of CEO at GroBank which entailed further changes to the management team. Ms K Gugushe is currently the acting CEO and Mr YA Ramrup, Head of Internal Audit, is the acting CFO. We have ensured that the Internal Audit function is not compromised by seconding of an experienced financial services audit partner from a reputable South African professional services firm, having due regard for independence and conflict of interest. We thank Mr Nchocho and Mr Van Rooy for their valued contributions over the past four years to transform the Bank into a more developmentally focused and financially sustainable organisation, and we wish them well in their new positions. The CEO roles that they are now occupying is a testimony of the quality of leadership recruited and developed by Land Bank. We are satisfied that the current management team as configured is capable and will ensure continuity of the organisation's executive leadership team until the new CEO and CFO are appointed.

The Land Bank Act requires that the Minister of Finance must, after consultation with the Board, appoint a suitable person as CEO. The Board is actively engaging with our shareholder to complete this process in the interest of the organisation and specifically to have strong leadership to take the organisation forward. We firmly believe that it is possible to recruit and support strong, capable leadership at SOEs who can provide stewardship that allows these state assets to perform at the level required to develop an inclusive society and growing economy.

Appreciation

Our people are at the heart of our business and our future as a sustainable SOE that delivers its development objectives. Our employees stand apart because they care about their clients, their co-workers and society and they find meaning and purpose in the work they do at Land Bank.

We rely on the support of our multiple stakeholders to deliver on our financial and development commitments. On behalf of the Board, I would like to express our appreciation for the support received from Minister Mboweni and the various teams at National Treasury. I would like to thank my fellow Board members for their commitment and contributions to the Group over the past year. Furthermore, I wish to express my sincere gratitude to the Bank's executive team and our employees for their commitment to building an ethically sound and resilient financial institution that drives transformation in the sector.



Mr MA Moloto
Non-Executive Chairman

Performance highlights

Highlights

Transformation disbursements

R5.07 billion

FY2018: R1.55 billion

Irregular expenditure

R140 000

FY2018: R2.1 million

First crop insurance assessors programme launched in the country to train 20 Black assessors.

LBIC received clean audits (FY2018: unqualified with findings).

We started a debt redemption plan/sinking fund that currently supports four emerging Black fund managers.

Challenges

Non-performing loan ratio

8.8%

FY2018: 6.7%

Net interest margin

2.7%

FY2018: 3.0%

Cost to Income Ratio

57.1%

FY2018: 60.5%

Crop insurance claims paid

R548.5 million

FY2018: R513.0 million

03

ORGANISATIONAL OVERVIEW

"We consdider our various stakeholders as key partners in the Bank's activities. Agriculture as a sector is predisposed to co-dependence and delivers best when when we recognise our stakeholders needs in the business.

ORGANISATIONAL OVERVIEW

About Land Bank

Who we are

We are a wholly government owned DFI promoting inclusive agricultural and rural development for improved food security and economic growth.

Our wholly owned insurance subsidiaries, Land Bank Insurance SOC (LBIC) and Land Bank Life Insurance SOC (LBLIC) complement our other financial services by providing insurance and risk management solutions to the agricultural community.

Our Mission

To collaborate with all stakeholders to build an adaptive and competitive agricultural sector that drives environmental, social and economic development and contributes to food security.

Our Vision

To be a world-class agricultural development bank that stimulates growth, drives solid performance, and spurs innovation.

Our Values

Meaningful contribution
Empowerment
Organisational synergy
Accountability
Pro-activity

LAND BANK
We stand by you

Our purpose

Provide appropriate financial services to:

- Transform and foster an inclusive agricultural sector by increasing agricultural land ownership and promoting greater participation by previously disadvantaged persons;
- Promote sustainable agrarian reform;
- Develop land and other agricultural resources on a sustainable basis; and
- Promote a competitive and profitable agricultural sector.

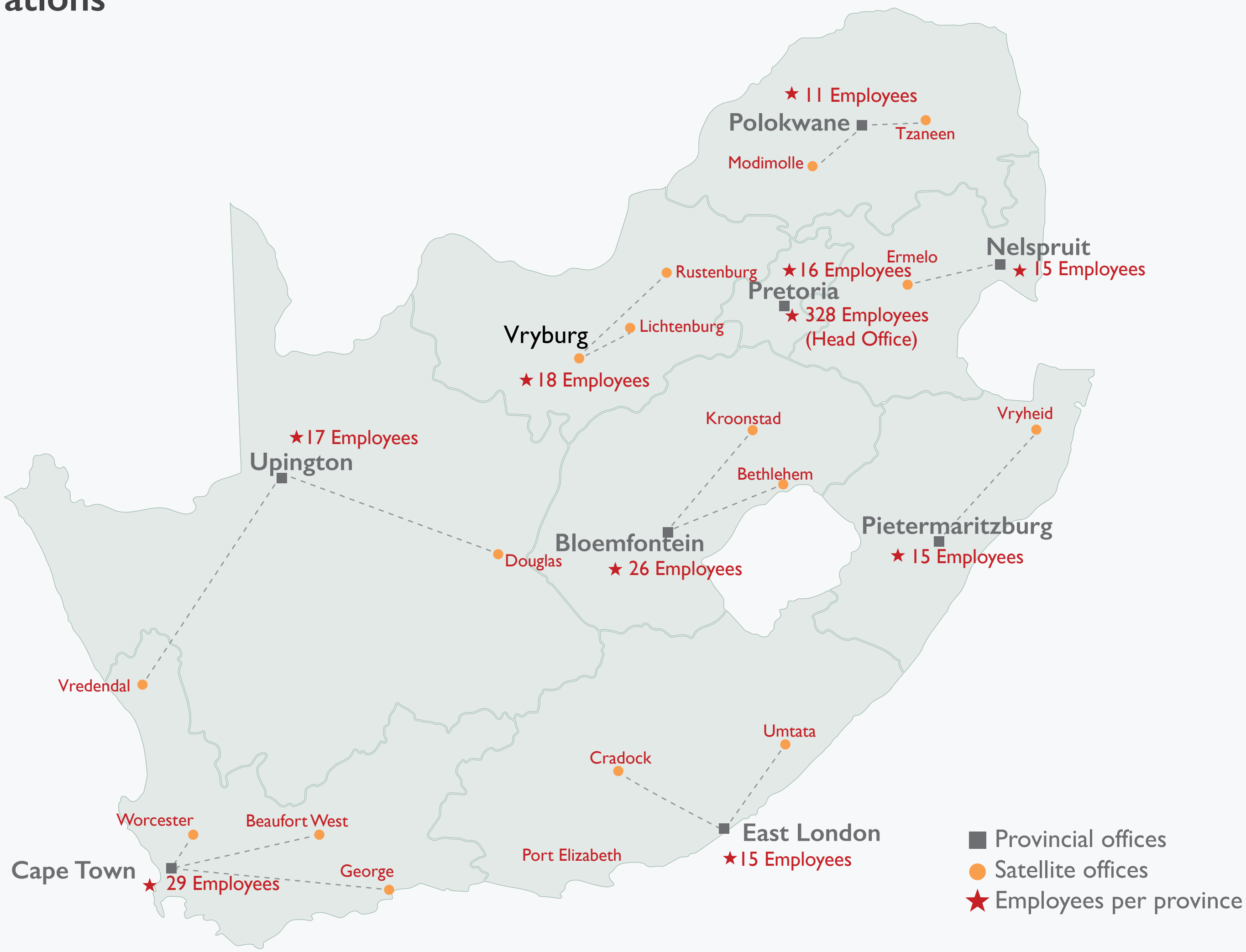
Our objectives

As set out in Section 3(I) of the Land Bank Act, align with the national and international goals as encapsulated by the NDP and SDGs to promote, facilitate and support:

Objectives	National Development Plan	Sustainable Development Goals
- Equitable ownership of agricultural land, particularly increasing the ownership of agricultural land by historically disadvantaged persons - Agrarian reform, land redistribution or development programmes aimed at historically disadvantaged persons for the development of farming enterprises and agricultural purposes - Removal of the legacy of past racial, gender and generational discrimination in agriculture	- Make land reform work to unlock the potential for a dynamic, growing and employment creating agricultural sector	5 GENDER EQUALITY 10 REDUCED INEQUALITIES
- Programmes that contribute to agricultural aspects of rural development and job creation - Agricultural entrepreneurship - Enhancement of productivity, profitability, investment and innovation in the agricultural and rural financial systems	- Support job creation in the upstream and downstream industries - Develop strategies that give new entrants access to product value chains and support from better resourced players	1 NO POVERTY 4 QUALITY EDUCATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- Commercial agriculture - Land access for agricultural purposes - Better use of land	- Commercialise some under used land in communal areas and land reform projects - Pick and support commercial agriculture sector and regions that have the highest potential for growth and employment	8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES
- Food security	- Everyone should have access to sufficient, nutritious and safe food at all times	2 ZERO HUNGER 3 GOOD HEALTH AND WELL-BEING
- Promote and develop the environmental sustainability of land and related natural resources	- Expand irrigated agriculture; find creative partnerships between opportunities	6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION 14 LIFE BELOW WATER 15 LIFE ON LAND 16 PEACE, JUSTICE AND STRONG INSTITUTIONS 17 PARTNERSHIPS FOR THE GOALS

ORGANISATIONAL OVERVIEW

Our operations



The Land Bank Group has headquarters in Centurion with operations across South Africa. We service our clients through nine provincial and 16 satellite offices. Seven provincial and 12 satellite offices are in provinces that had an annual income per capita of less than R70,000 per year in 2016.

Our functional structure

The Bank conducts its operations across two business segments, namely Corporate Banking and Structured Investments (CB & SI) and Commercial Development and Business Banking (CDBB). It provides products and services across these two business lines through direct delivery channels, i.e. the Bank's own operational footprint and infrastructure; and through indirect channels, i.e. the operational footprint and infrastructure of the Bank's partners, either by way of intermediaries or Service Level Agreements (SLAs). The banking operations are supplemented with insurance services through our two insurance subsidiaries.

LAND BANK

LAND BANK INSURANCE COMPANY

Land Bank Insurance Company (a short-term insurance company) is registered with the Financial Sector Conduct Authority (FSCA) is the second largest crop insurer in the country, providing cover to farmers for hail, fire and yield losses due to weather conditions.

LAND BANK LIFE INSURANCE COMPANY

Land Bank Life Insurance Company is a licensed life assurance provider that has been providing individual and group credit life insurance products as well as disability cover to Land Bank clients and farmers.

CORPORATE BANKING AND STRUCTURED INVESTMENTS

Provides debt, structured finance and equity solutions to agri-corporate and mega- and large-farmer client segments

COMMERCIAL DEVELOPMENT AND BUSINESS BANKING

DIRECT LENDING

Financial solutions to large- medium- and smallholder farmer-client segments via provincial lending network. Further segmented into direct and indirect lending channels.

INDIRECT LENDING SLA PARTNERS

Loans obtained from SLA partner balance sheets, appoint them to originate loans on Bank's behalf. SLA partners assist with end-to-end credit process from loan disburse-ment, monitoring, collection and legal recoveries. Partners are paid a management fee. Risk and profit-sharing ensure quality assets.

INDIRECT LENDING WWF

Wholesale financing facility

Provides wholesale funding to intermediaries who on-lend to smallholder farmers. Inter-mediaries give technical assistance to these farmers to develop their farming skills and provide market access.

Our clients

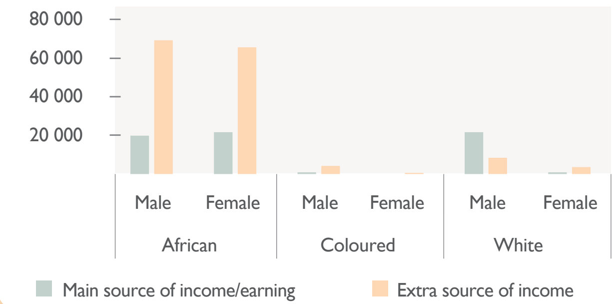
According to the 2018 General Household Survey, approximately 2.4 million households were engaged in agricultural activities, which equates to 15% of total households. Only 9% of these households produce food either as the main sources of income (approximately 64,700) or an additional source of income (152,000). Nearly two million households engage in agriculture to provide food, and 90% of households indicated their backyard as the main place for these activities

There is a nearly equal split between male- (57%) and female-headed households (43%) who produce food for income, of which more than 80% are African. Most of such households are located in the Eastern Cape and Limpopo. More than 60% of household heads of families engaged in production of food for income are 50 years or older, which reinforces the imperative for Land Bank to support more youth to enter the sector. These households that produce food for economic purposes form the foundation of the Bank's potential client base and contributed to the R277 billion in gross value of agricultural production in 2017/18.

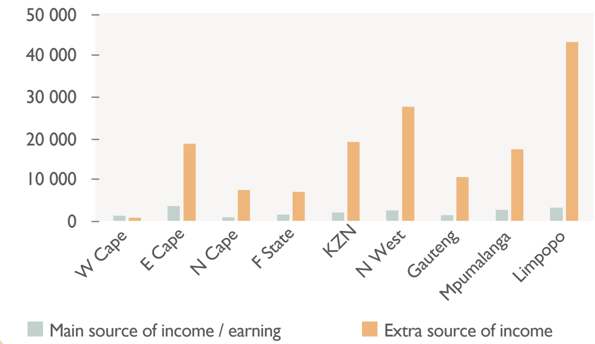
The DALRRD estimated the total value of agricultural debt to be R168.5 billion at December 2018, a year-on-year increase of 6%, of which Land Bank finances approximately 27% and commercial banks another 60%.

During FY2019 we updated our client segmentation to align more closely with the DALRRD criteria in the draft Policy on Comprehensive Producer Development Support and the Amended AgriBEE code. We considered our transformation ambitions for each client segment as transformation occurs at all levels in the value chain and our financial solutions should support farmers across the segments. We are unable to support subsistence farmers as their production is aimed at ensuring household food security and they are typically unable to sustain bank loans. Subsistence farmers typically rely on grants provided through a variety of mechanisms and government institutions.

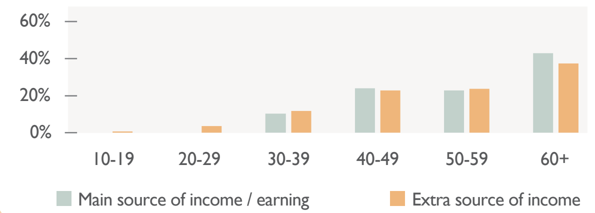
Households growing farm produce for income by race and gender



Number of households per province engaged in agricultural production for income



Age group of household head engaged in agricultural production for income



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Client segmentation: Primary sector

Primary agriculture client segment	Estimated market size General Household Survey 2018	Definition	Land Bank offering	Land Bank transformational focus	Delivery channel
Mega/Corporate Farmers	Approximately 4 000 farmers	Well-established agriculture enterprise; high-end production and processing capabilities; and distribution networks. Most revenue from value-adding activities Turnover more than R50 million	Mortgage and other term loans Revolving credit facilities Equity investments Off-balance sheet facilities Inventory and trade finance Working capital and guarantees	Create appropriate equity investment structures and opportunities for a generation of Black agri-entrepreneurs to enter the sector	CB & SI Intermediaries (SLA partners)
Large Scale Commercial Producer	Approximately 60 000 farmers – the final split will only be available once the StatsSA agricultural is completed. Represent approximately 40,000 male- and 20,000 female-headed households: Nearly two thirds African; approximately 900 Coloured; remaining households White	Established primary farming enterprises producing for market; make a profit with an annual turnover ranging between R10 million– R50 million	- Mortgage and medium-term loans to acquire land, livestock and equipment, establish perennial crops and physical infrastructure - Production loans	Enable existing farmers to undertake transformational projects and grow their enterprises to support inclusive growth in the sector	CDBB Intermediaries (SLA partners)
Medium Farmers		Established primary agriculture farming enterprises Sound agricultural skill set and firm market access Growth phase business life cycle Turnover between R1 and R10 million	- Mortgage and medium-term loans to acquire land, livestock and equipment, establish perennial crops and physical infrastructure - Production loans	Enable existing farmers to undertake transformational projects and grow their enterprises to support inclusive growth in the sector	CDBB Intermediaries (SLA partners)
Market-oriented Smallholder farmers	Production as an additional source of income: Approximately 150,000 farmers of which about 80,000 are male-headed and 70,000 are female-headed households 135,000 African; 12,000 White and 5,000 Coloured households	Practising primary agriculture on a viable piece of land, use technology, possess some skills and have adequate access to market to service a loan Turnover less than R1 million	- Mortgage and medium-term loans to acquire land, livestock and equipment, establish perennial crops and physical infrastructure - Production loans	Support smallholder farmers to graduate to commercial status and grow the size of the agricultural sector overall, contributing to the creation of employment and reduction in poverty	CDBB Intermediaries (WFF partners) Training through our CSI programme
Household producers (subsistence farmers)	Approximately 2 million households	Agricultural activities mainly undertaken to meet household food security needs, often located in a back yard, any surplus sold/bartered within community Little profit and no ability to service a loan	- Not part of the Bank's client market as these households require grants which Land Bank cannot provide. Grants available from various government departments	Limited support to food garden projects through our Corporate Social Investent (CSI) programme (p59)	None

Client segmentation: Secondary agriculture

Secondary agriculture client segment and market size	Definition	Land Bank offering	Land Bank transformational focus	Delivery channel
Agri-corporates AgBiz, the agricultural business chamber has approximately 70 members, excluding financiers	Established organisations that use agri-produce as an input in the manufacturing of their goods, or provides services or inputs to the agricultural sector Not involved in primary agriculture, either food processing, commodity trading, input manufacturers or distributers of inputs and financing Turnover more than R50 million	- Mortgage and other term loans - Revolving credit facilities - Equity investments - Off-balance sheet facilities - Inventory and trade finance - Working capital and guarantees - Structured finance - Preference shares - Convertible notes - Project finance	Transformation financing (BEE with a growth focus) Align the application of intermediary funds with the Bank's mandate of transforming the sector Optimise Land Bank's footprint through the intermediary channel Provide syndicated loans to large commercial business with commercial banks where banks may not have the appetite to take on large single obligor risks	CB & SI
Small agribusinesses	Small companies that use agri-produce as an input in the manufacturing of their goods, or provides services or inputs to the agricultural sector No significant involvement in primary agriculture, either processing, commodity trading, input manufacturers or distributers of inputs and financing. Turnover less than R50 million	- Mortgage and other term loans - Revolving credit facilities - Equity investments - Off-balance sheet facilities - Inventory and trade finance - Working capital and guarantees	Support small agribusinesses to access supplier and enterprise development programmes and expand operations	CDBB Intermediaries (SLA partners)

Note: The turnover values used in the secondary agriculture definitions are aligned to the Amended AgriBEE Sector Code

The Bank has commissioned in a number of research studies that focus on small-scale agribusinesses to understand the needs of the secondary agricultural sector and to deepen our participation in agro-processing.

Operating context

The following factors have a material impact on our ability to create value and to deliver on our development mandate. Although these factors have been identified in the past, some have escalated. Overall, there is increased volatility affecting performance in the sector attributable to prevailing natural and climatic conditions and policy uncertainty. These factors impose natural limitations on what can be achieved by Land Bank in terms of deriving positive impact and good financial performance from its business activities.

Agricultural sector

The health of the agricultural sector is the most significant contextual influence on our ability to create value and to deliver development impact. Sector growth declined (-4.8% year-on-year) due to sustained drought in several areas, a late start to the grain planting season and diseases in various livestock sectors. After being severely depressed for the first half of the year, agriculture's contribution to GDP showed a sharp recovery in in the second half of 2018. The sector grew by 13.7% in Q3 and 7.9% in Q4 following massive contractions of -42.3% in Q2 and -33.7% in Q1. However, the negative trend returned in Q1 in 2019 as the sector again contracted by -13.2%.

The sector also faced a number of unexpected challenges such as the listeriosis crisis, outbreaks of foot-and-mouth disease that halted meat and wool exports, uncharacteristic hail in usually hail-free areas and drier weather conditions in some parts of the country. Plantings of summer grains and oilseeds reduced by 4.4% year-on-year, to 3.68 million hectares and production is expected to be approximately 13% lower at 10.9 million tons for maize. The western parts in particular have experienced continuous drought conditions over a number of seasons that are reducing agricultural outputs and affecting rural communities.

We welcomed the recovery in the final half of 2018, though it is likely to remain short-lived as unfavourable weather conditions continued their adverse effect on the sector. The Agbiz/IDC Agribusiness Confidence Index fell to 42 points in Q4 of 2018, its lowest level since 2008, and eased slightly to 46 points in Q1 2019. It remains in negative territory, which is a strong indication that conditions in the sector are expected to deteriorate.

Confidence regarding employment in the agricultural sector remains low. Given the loss of 38,000 jobs since Q1 2017, the sector currently employs only 837,000 workers. A lesser reported trend has been the 32% decline in skilled agricultural jobs over the same period to 47,000 workers in Q1 2019.

Debt and net farm income in the sector grew significantly in the year under review, while gross capital formation grew marginally. In terms of a broader trend, this is indicative of greater capital efficiency, but could also indicate producers opting to invest their profits outside of the sector, potentially eroding capacity to sustain and expand the current increase in net farm income over the long term.

Implications for value

The delayed planting season affected some farmers' drawdowns on their planned loans, in some cases rendering them unable to plant at all. Consequently, we earned less interest income than expected as the portfolio grew at a slower pace. Some of our clients continue to struggle with losses due to the ongoing drought, which reflected in our loan book under non-performing loans. The situation was exacerbated by lower commodity prices and increased input costs.

Our insurance business also absorbed hail claims and lower premium income as farmers purchased less insurance for the season due to reduced hectares and late plantings. Foot-and-mouth disease also affected cattle prices – further compounded by drought, while various other agricultural sectors are still in recovery. On the positive side, counteracting ongoing fragility, the rand's depreciation has benefited some exporting farmers.

Our strategic response

We worked alongside the Industrial Development Corporation (IDC) to provide drought relief to many farmers, typically in the form of loans at below the prime lending rate.

Our risk modelling has been improved to better quantify our portfolio risk and to develop mitigating actions. We have developed tools within our Post-Investement Management Services unit to anticipate and proactively support clients who are at risk. We are also diversifying our loan book by developing a pipeline of secondary agricultural market clients. Furthermore, we have taken a long-term loan book view on climate risk to understand how we can increase our resilience by studying climate change and how it affects our credit extension.

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South African economic context

The South African economy has been struggling to gain momentum despite political changes, an economic stimulus and recovery plan as well as an investment drive in late 2017 and early 2018, as businesses and foreign investors seek real reforms. Most analysts attribute this year's contraction in multiple sectors to low demand, sharply rising fuel prices and Eskom's load-shedding. The utility had trouble maintaining power supply to the economy in February and March, resulting in the deepest electricity outages in a decade, knocking business and investor confidence to multi-year lows.

Implications for value

Stagnant growth, political uncertainty, the weakened reputation of SOEs and subsequent sovereign credit downgrades have resulted in higher costs of funding. The Bank's interest expenses in absolute ZAR terms have increased as a result of the increased funding liabilities in line with loan book growth; and increased the cost of funding. Interest rates were negatively impacted by increases in the three-month Johannesburg Interbank Average Rate (JIBAR) reference rate and investor yield expectations. An intended interest rate subsidy from the DALRRD was ultimately reallocated and did not materialise. The increased cost of funding had a negative impact on our financial sustainability and, in turn, our ability to affect development in the sector.

Further, the thin margins in agriculture also negatively impacted farmers, for whom changes in pricing are significant. Farmers also face general market volatility, production and market risks.

Our strategic response

We have lengthened our funding portfolio to reduce the refinancing risk and have issued five, seven and ten-year loans. We de-risked our book by pre-paying some liabilities in the anticipation of higher pricing linked to sovereign credit downgrades. This ultimately meant a penalty cost of R56.8 million, which affected our net interest income and net profit this year. However, it positions us for better profitability and a stronger balance sheet in future.

“Sector growth declined (-4.8% year-on-year) due to sustained drought in several areas, a late start to the grain planting season and diseases in various livestock sectors.

South African political uncertainty

Uncertainty around regulatory proposals for land expropriation without compensation remains a strategic risk for the Bank. In the election year, uncertainty also had to be managed in respect of changing government priorities. The regulatory proposal regarding Expropriation without Compensation that was instigated on 27 February 2018, remains uncertain. The report by the Advisory Panel on Land Reform and Agriculture that was released by the President on 28 July 2019 pointed towards a holistic approach to land reform. In our opinion, if the proposal is well executed as part of the broader land reform programme, expropriation (with or without) compensation has the potential for some significant economic and social benefits for the economy of South Africa and to the agricultural sector in particular. The agricultural sector relies heavily on the availability of land as one of its key factors of production. The land reform process may have a potential positive result though if more land is brought into production.

Land Bank's mandate is aligned to the imperative of land reform in South Africa and its development objectives support the priorities contained within the NDP. As such, the Bank supports all efforts to advance an effective land reform programme that will achieve transformation in tandem with increased agricultural production, secured tenure, employment creation and food security. The risks and opportunities posed by this option for land reform depend on the manner in which it is implemented. We anticipate an approach that will shield the economy from undesirable negative impacts and strengthen agricultural production, employment creation and food security.

Implications for value

Land expropriation without compensation threatens the financial sustainability of the Bank as a creditor from local debt providers, capital markets and international multilateral institutions, which fund the Bank. Investors may be unwilling to continue funding or continue at an added risk premium due to perceived higher risk levels in agriculture. This poses serious risks to our business model if the rights of lenders are not protected in the execution of the expropriation policy.

In addition to uncertainty around the workings of the land expropriation process, uncertainty around the availability of government support for smallholder farmers remains. Without predictable government support in the form of grants, these potential clients are not bankable. Refer to the discussion on Development Outcomes (p52) for more information on the funds available to Land Bank and partnerships with government to address these issues.

Our strategic response

The Bank made a submission to the parliamentary committee on land reform and the panel of advisors for land reform. We believe government must bed this issue down to provide certainty for investors in the sector and maintain food security and employment opportunities.

We have entered into agreements with DALRRD wherein the Bank is entrusted to assist with the administration of blended finance programmes. The Bank administers the programme for an administration fee, and also participates in the DALRRD blended-finance Black Producer Commercialisation Programme.

As a participating financial institution, the Bank is the first and currently only financial institution participating in the programme as a lender that may access grant funding in support of its lending activities for Black producers. Seven projects were approved and in the process of disbursement, but the Bank requested DALRRD to defer further applications until a review could be completed of the pilot project. This matter is unresolved and is a priority for resolution in the near-term.

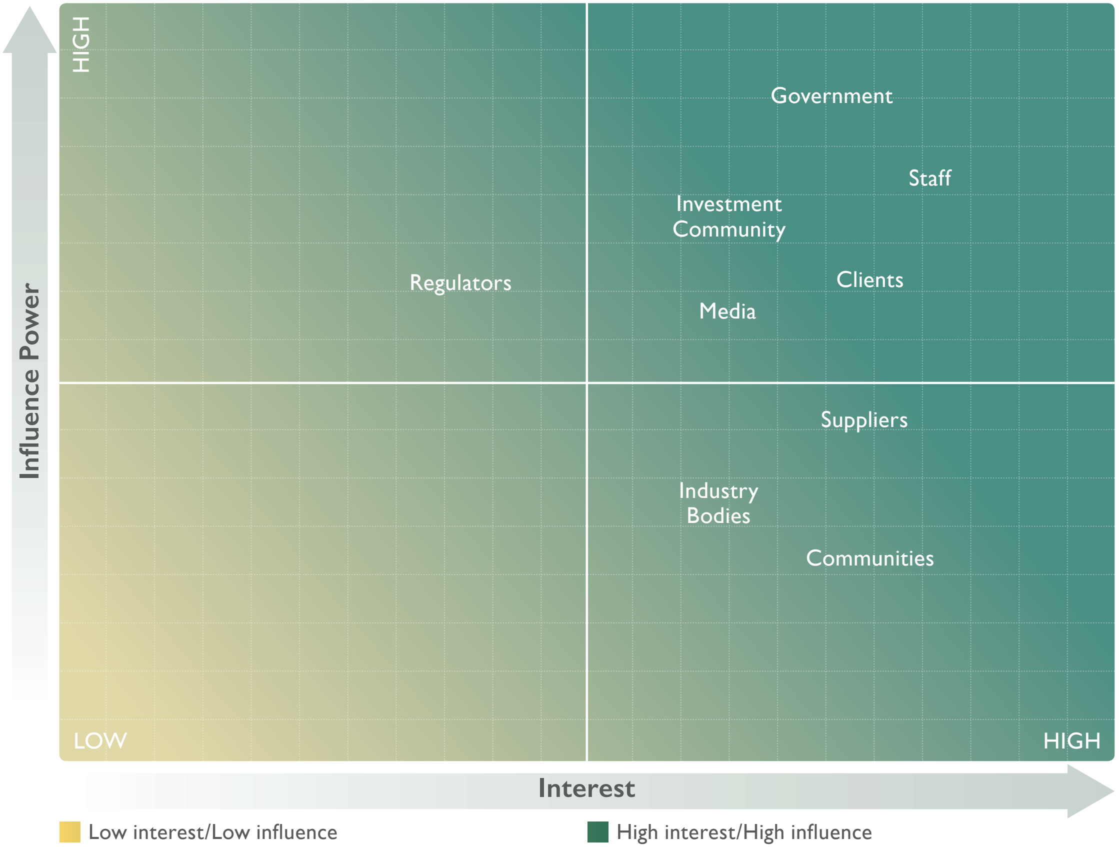
Our stakeholders

We consider our various stakeholders as key partners in the Bank's activities. Agriculture as a sector is predisposed to co-dependence and delivers best when we recognise our stakeholder's needs in the business. Our strategy for stakeholders is to maintain and strengthen our relationships, and to develop and promote a good understanding of their needs, interests, and expectations. From this understanding, we identify opportunities and threats arising from stakeholders' material issues, which in turn, assist with strategic decision-making.

We consulted with our business units to identify and prioritise our stakeholders based on their influence on the Bank's ability to create value and their level of interest to engage with the Bank. We assessed that our Tier 1 stakeholders require regular intensive interaction, multimedia engagement and one-on-one meetings. Our Tier 2 and 3 stakeholders require awareness and occasional engagement as necessary.

The Bank's improved stakeholder engagement planning facilitates structured and constructive engagements at identified levels of the organisation. Each plan includes themes that are material to the stakeholder and organisational responsibility for each theme. All engagements are driven by our strategic priorities with a clear understanding of what we want to achieve and are guided by the principles of inclusivity, transparency and timeliness, while remaining aware of our stakeholders' objectives. We have an interest in our stakeholders' mandate and business agenda and aim to contribute to their business goals. The process enabled us to improve our relationship with National Treasury and will guide the development of engagement plans for other stakeholders.

Looking ahead, we plan to develop and implement formal plans for all priority stakeholders. We have scoped the implementation of a shared information repository to document formal engagements, enabling multiple managers to access information regarding individual stakeholder.



Our stakeholder interests and concerns are grouped based on our interactions with them. This exercise contributed to our risk and material matters identification process, and subsequently, our strategic response. Their concerns are shown in the stakeholder concerns and expectations table (p35) and the Material Matters section (pp36-39).

Stakeholder concerns and expectations	Priority stakeholders impacted	Related material matter	Related capital
- Generating financial returns in an inclusive manner - The cost of finance - Reliance on short-term funding remains relatively high - Finding new funding sources for anticipated growth and funding maturities in an environment where the capital and debt markets remain volatile - Stronger capital buffers to enhance risk-bearing capacity and absorb unexpected losses - Challenging operating environment, which could lead to elevated credit risks - Potential impact on financial sustainability of Land Bank if Expropriation without Compensation is poorly executed without due regard for creditors rights	National Treasury Investment community Ratings agencies Clients		R
- Development outcomes, providing sufficient support to Black enterprises in the agricultural value chain - Lack of support to Black farmers including technical and enterprise support - Social impact (jobs created and sustained, participation by women and youth) - Competitive client pricing and affordable pricing for smallholder farmers	National Treasury Government departments Multi-lateral investors and agencies Clients Media		R
- Environmental change as it affects our clients, their businesses and the Bank's financial sustainability - Drought and water scarcity that limits the future prospects of the sector	National Treasury Clients Investment community		
- Political interference and risk of exposure to state capture effects - Quality of governance and board independence - Commitment to principles of responsible business and responsible investment - Maintaining a healthy board and management culture focused on good stewardship principles - Effective integration of ethics and compliance management in the business - Reputational risk associated with lending and procurement activities	National Treasury Regulators Investment community Employees Clients Media		R
- Ability to attract and retain appropriate and experienced executive and management level leadership capability to lead the Bank's execution of its strategy to perform its mandated functions - Competitive remuneration regarding the variable pay and benefits that Land Bank can offer compared with commercial banks - Transparent remuneration practices - Career prospects	Employees Trade Unions Investment community Regulators		
- IT interface so that clients can easily engage with the Bank - Turnaround times for credit application and approval processes including duplication of processes and administrative effort from both clients and employees - Full service offering for clients to place their agricultural lending needs all at one bank - Lack of innovative culture and failure to tap into the ideas of employees	Clients Employees		

What matters most – Material matters

We identify our material matters by determining those issues that substantively affect our ability to create value over the short, medium and long term. These matters have changed slightly compared to last year. As our macroeconomic operating environment changes, new trends develop, and the needs and expectations of our stakeholders evolve, we expect these to change again over time. Risk management is not listed as a material matter this year, due to progress in our risk management process and improved maturity. However, it is discussed extensively under Intellectual capital (p37).

To identify material issues that might impact Land Bank, we carefully study our risk management framework, expectations from stakeholders, the macroeconomic and political operating environment as well as evolving industry trends. Our formalised stakeholder engagement process, described in the Stakeholder Engagement section (pp34-35), informed the process.

While we consider the relevance of the needs and expectations of all our stakeholders, the needs and expectations raised by our priority stakeholders determine how we prioritise our material matters.

We have not yet formalised our materiality determination process. The Board considered and approved the disclosed material matters and was involved in the determination process. During the coming year we intend to undertake a formal external and internal stakeholder engagement process to strengthen our approach for identification and prioritisation of material matters. We outline below the process we have used to determine and prioritise our material matters:

Step 1
Identify

Material matters are identified throughout the year during:
- Board strategy sessions, meetings and committee meetings
- Executive management deliberations
- Enterprise Risk Management mapping and monitoring
- Investor roadshows, rating agencies and multi-lateral funder discussions
- Ongoing interaction with our shareholder
- Discussions with shareholders in the agriculture sector, i.e. DARD, Environmental Affairs and industry bodies
- Continuous engagements with current and potential clients

Step 2
Prioritise

Relevance of all stakeholders' needs and expectations

Identified material matters for their known or potential effect on value creation (based on magnitude of effect on value creation and likelihood of occurrence

Seven material matters most relevant to the achievement of our mandate and sustainability objectives were consistently raised as priorities across our stakeholder platforms.

Step 3
Apply

Embedding material matters in the Corporate Plan, which outlines our long-term strategy as well as our annual strategic plan and targets.

Material matters inform our KPIs directly at the beginning of each year and are, in turn, reflected in management performance scorecards.

Step 4
Report

Quarterly to the Board and our shareholder

Annually to our stakeholders

Annually as requested to Parliament

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Material matter	SDGs	Covered under:	Performance indicator	Performance FY2019
Financial sustainability Land Bank operates on a financially sound basis to sustainably support the sector and provide adequate rates of return to investors. Potential poor strategic and financial management means non-repayment to funders and placing pressure on the fiscus. **Financial** R **Associated risks:** Financial sustainability; Capital and funding risks; Corporate Plan risks	2, 17	**Our strategic plan** **Financial capital**	Achieve R310 million in profit	R130.6 million
			3.1% interest income margin to equate to R1.38 billion in net interest income generated	2.7% (R1.2 billion net interest income generated)
			Cost-to-income ratio ≤ 54%	57.1%
			Gearing Ratio ≤ 535% calculated as Interest Bearing Debt divided by Capital at a Group level	649.5%
			NPL ≤ 7% (IFRS 9 definition)	8.8%
			CAR: ≥ 15%	16.4%
			NSFR: ≥ 100%	102.0%
			LCR: ≥ 80%	549.8%
Development outcome and transformation Land Bank has a specific mandate to address historical injustices on land ownership and participation in the agricultural sector. Stakeholders are concerned about development outcome and many have perceptions that our contribution is insufficient towards development of smallholder farmers in the sector. **Social and relationship** **Associated risks:** Development impact and transformation; Corporate Plan risks	1, 2	**Our strategic plan** **Social and relationship capital** **Divisional overviews**	Disburse R2.5 billion to increase ownership of agricultural land and enable agricultural production by historically disadvantaged individuals: CRITERIA: (i) At least 50% of disbursements to majority Black ownership; or BBBEE Level 4 and higher and ≥ 30% Black ownership	R5.07 billion
			Provide R0.5bn proprietary equity financing/investments (including preference shares) to enable economic ownership transformation	R611.9 million
			Originate transactions to provide R500 million Land Bank funding to leverage third party funding to co-finance majority Black-owned transactions including grants, private equity, syndicated debt, etc.	R2.25 billion
			Finance projects/ enterprises with majority Black participation by women, youth and/or employees to support inclusivity in the sector with aggregate value of R600 million, as part of the total disbursement of R2.5bn (or, in addition to R2.5bn above)	R2.468 billion
			Finance projects/enterprises aimed at expanding productive capacity (greenfields and brownfields) in the sector with an aggregate value of R300 million, as part of the total disbursement of R2.5bn	R307.3 million
Corporate Governance Sound governance enhances confidence that we are applying our available funding in a transparent, prudent and accountable manner, according to applicable law and documented controls. Investors are concerned with good governance, how we address political interference, ethical behaviour, ethical business conduct and anti-money laundering and corruption. **Financial** R **Associated risks:** Governance ethics and fraud	16	**Financial capital** **Intellectual capital** **Corporate governance report (online)**	Classify 0% (R value) of operating expenses as irregular, fruitless or wasteful expenditure	R140,000 irregular expenditure R0 fruitless and wasteful expenditure
			No findings on unethical behaviour by a staff member	2 findings
			Achieve clean audit	

Material matter	SDGs	Covered under:	Performance indicator	Performance FY2019
Employee development, retention and remuneration In the current difficult economic and agricultural context, we must attract and retain talented leadership and a strong complement of capable management to lead and manage the organisation and achieve our strategic objectives. We must develop our capability through ongoing development of our human capital, and cultivating the right conditions for a high-performance culture. **Human** **Associated risks:** Human Capital risks; Corporate Plan risks		**Human Capital**	% of Black women in Senior and Executive Management: 25%	25.0%
			% of Black women in Professional qualified & Mid-Management: 25%	21.8%
			% of ACI staff: 65%	68.7%
			90% of critical roles retained (average over year)	92.3%
			Implement 50% of culture survey initiative plan based on survey results from 2018/2019 to improve employee value proposition	60.0%
			At least 65% of training budget spend on ACI staff	72.0%
Technical advancement (Innovation) Advances in technology could improve risk management increase productivity and lower entry barriers to the sector. We lag commercial banking sector in terms of technology and workflow automation. We need additional skills in agriculture on top of traditional technical farming expertise to improve and strengthen our IT capability and to deploy technological advances and capacity effectively. **Intellectual** **Associated risks:** Technology and information risks		**Intellectual capital**	New material matter – no indicators	N/A
Climate Risk and Environmental sustainability Climate risk poses a major challenge to the Bank and our clients. Our long-term sustainability depends on a climate and socially resilient agricultural sector, stakeholder understanding of our management approach and oversight of this risk category. **Natural** **Associated risks:** Climate Risk and Environmental sustainability		**Intellectual capital** **Natural capital**	Utilisation of at least R80m of EIB climate facility	R118 million
Poorly executed Land Expropriation without Compensation Poorly executed land expropriation without compensation by Government, which could affect national food security, sustainable farming and the economy, also threatens the financial sustainability of the Land Bank. Expropriation without compensation may affect Land Bank's rights as a creditor which could limit available funding to support the organisation's activities and increase non-performing loans. This risk, while not within our top 10 risks, remains a concern. **Financial; Social and Relationship** **Associated risks:** Poorly executed Land Expropriation without Compensation		**Statement from the Chairman** **Operating context** **Social and relationship capital** **Financial capital**	No indicator	

04

OUR STRATEGY

> During the year under review we identified and determined what support could enable mechanisms for more small-holder farmers and increase transactions that promote transformations and inclusive growth.

Ms K Gugushe
Acting Chief Executive Officer

Message from the **Acting CEO**

The year under review was characterised by taxing operating conditions. While we had expected our economic context to be difficult this year, we encountered some unexpected challenges in the agricultural sector as well as internal challenges due to leadership changes. Despite our somewhat disappointing financial results, we are pleased with the strong progress made advancing our development mandate. Furthermore, a strong balance sheet is evident of our resilience amidst these challenges.

Context

The South African economy has been struggling to gain momentum, failing to grow by more than 2.5% a year since 2013.

The economy contracted by 3.2% (quarter-on-quarter) in Q1 2019, which was more than expected, and was the biggest quarterly fall in economic activity in more than a decade.

The agricultural sector also surprisingly contracted by 13.2% in Q1 2019, following growth of 7.9% in the last quarter of 2018. Conditions in the sector proved strenuous with continuing drought in large parts of the country, especially in grain-growing areas. Farmers may have planned for the forecasted El Niño year which typically results in dry conditions however, unexpected hailstorms had a significant impact on many of our clients. Some areas indicated climate changes,

> “Our current strategy remains as the base on which to build. That said, our focus will shift further towards assisting the development of smallholder farmers.

with the planting season shifting towards later in the year, while others experienced unknown volatility in weather patterns.

Performance

Our financial performance reflects this context with Group profit of R181.2 million (FY2018: R254.2 million), a decline of 28.7 % compared to last year. The deterioration in our loan book bears testimony to our clients' difficulties. Some further challenges arose due to the sovereign credit rating downgrades. The Bank quickly responded to these, more specifically by prepaying some debt in response to the downgrades to reduce our exposure to high-interest liabilities. While these prepayments position our liabilities at a lower future cost of funds, we incurred penalties for early settlement with a consequent effect on the income statement.

Moreover, we had a R662 million exposure to Tongaat Hulett, and resolved some long-dated distressed assets which materially impacted the book. On a normalised basis our cost-to-income is more positive. Removing the above effects, our non-performing loans would have been reported at 8.3% instead of the current 8.8%.

A strong balance sheet counters our income statement, which reflects our ability to respond quickly and effectively to mitigate unexpected negative impacts. Liquidity is good and our access to funding continues along a positive trend. Fundraising efforts have been very successful, with oversubscribed offerings. We appreciate our investors' trust, particularly within the South African background for SOEs. We know that just a few years ago such investor support and confidence was rare.

Capital adequacy remains strong, although the downward trend is cause for concern. This trend supports the notion that some level of capitalisation is required to bolster the Bank, particularly as we expand the development mandate towards better support for smallholder farmers.

We have made good progress towards monitoring and tracking our development contributions. By applying additional structures to tighten controls applied to our credit and disbursement processes, we have ensured availability of our support to true empowerment clients, and we are now also able to track women and youth ownership. The transformation proportion of our book increased to 17% from 12% and we disbursed funding of R103.0 million to women-owned businesses.

Resilience amidst change

Land Bank is directed by a robust strategy and clear objectives, and therefore, the drive towards development effectiveness and operating in a financially sustainable manner remains intact. Communication of our intention to stay the path has been critical during the latter half of the year and in the months after our year-end, particularly with our own people and our investors.

We experienced an unusual succession of leadership changes in a short period of time. The unexpected departure of our CEO, Mr TP Nchocho in December 2018, brought the immediate challenge for the leadership team and we had to work hard to maintain a level of stability and continuity amongst our key stakeholders. Mr BJ Van Rooy stepped in as acting CEO, however he would also subsequently leave the Bank in June 2019.

One of Mr Van Rooy's first initiatives as acting CEO was to embark on a roadshow across our provincial offices to reduce any uncertainty and isolation that our staff might have felt following Mr Nchocho's resignation. I have continued this initiative and will do so for as long as is needed. Our team also went on an investor roadshow to build investors' confidence and to ensure them that the strategy adopted by our board and management still stands. We shared our ambitious goals for 2020 and beyond and re-assured investors of our determination and commitment to achieve these goals.

We are conscious that such leadership changes can adversely impact morale and recognise therefore we must remain united in our efforts to achieve our goals.

Strategy

Our current strategy remains as the base on which to build. That said, our focus will shift further towards assisting the development of smallholder farmers. In the past we have leaned towards larger transformation transactions due to the challenges inherent in supporting development farmers and the extensive pre-disbursement support it often requires. As we further change our focus towards the development of smallholder farmers we will adopt behaviours and practices that advance both financial and environmental sustainability.

In the next financial year, we will embark on a transition in which the organisation will be repurposed to improve our development effectiveness and financial sustainability. We will engage with the Minister of Finance to restructure the organisation for improved development effectiveness. In our corporate plan we proposed a forward-looking strategy critical to achieving that objective, the crux of which is to separate the Bank's business into a Development and a Commercial unit. These units will serve as strong platforms for achieving the dual goal of accelerated and appropriately funded development.

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While we have been able to show progress towards achieving our development mandate under the current structure, we believe that an accelerated achievement of the development mandate is dependent on this forward-looking strategy. Hence, our priority is to ensure that we are appropriately structured for achieving our development mandate while continuing to safeguard the financial sustainability of the Bank. Re-capitalisation is required to support the commercial book but this is not expected to come from our shareholder under the current fiscal conditions. Accordingly, we are focused on raising capital in other ways, including through further diversification of our income streams through enhanced, multiple service offerings for our clients.

A division of the Bank into commercial and development units is being considered, but we recognise the amount of work required before this move will be formally approved and implemented. The structures, support mechanisms and regulatory requirements that feature in the business model require review. For example, our business activities are currently limited to lending, which constrains our ability to engage and capitalise commercial clients that want access to a full-service facility within one financial institution. Associated with the pursuit of this change in scope of our business offerings we will explore obtaining a full banking licence for the Commercial unit to better support our clients in that portfolio.

We have also recommended a Development unit that can better support pre- and post-disbursement to ensure the integrity of our loan book and is better equipped to make a significant impact on smallholder farmers and small-scale agribusinesses.

Outlook

After a period of stagnant growth, our priority for FY2020 is to grow our profit by driving top-line growth. As our current business model is driven largely by people rather than infrastructure, opportunities to improve our overall cost-to-revenue ratio will mainly depend on reconfiguring significant components of the business model to a digital format, a trend that is increasingly the norm in the financial services sector. Our forward-looking strategy will therefore include identifying business transformation opportunities through digitalisation of some core business processes. In the shorter term, we will, however, continue to assess and enhance our risk management, portfolio management processes and tools to mitigate risks and improve efficiencies. Addressing the quality of the book is also critical to arrest the current trend of increasing non-performing loans. More importantly for the medium- and long-term, we will apply our resources towards laying down the foundation steps for a division. If approved, we expect completion in three to five years.

Amid the leadership changes, boosting staff morale is critical. In a competitive environment with strong competition from commercial banks, we need energised and motivated people who are driven to attract and maintain targeted customers in any way they can. I am committed to keeping our staff engaged in dialogue, and also to delivering our vision and our strategy to maintain stability for the near-term.

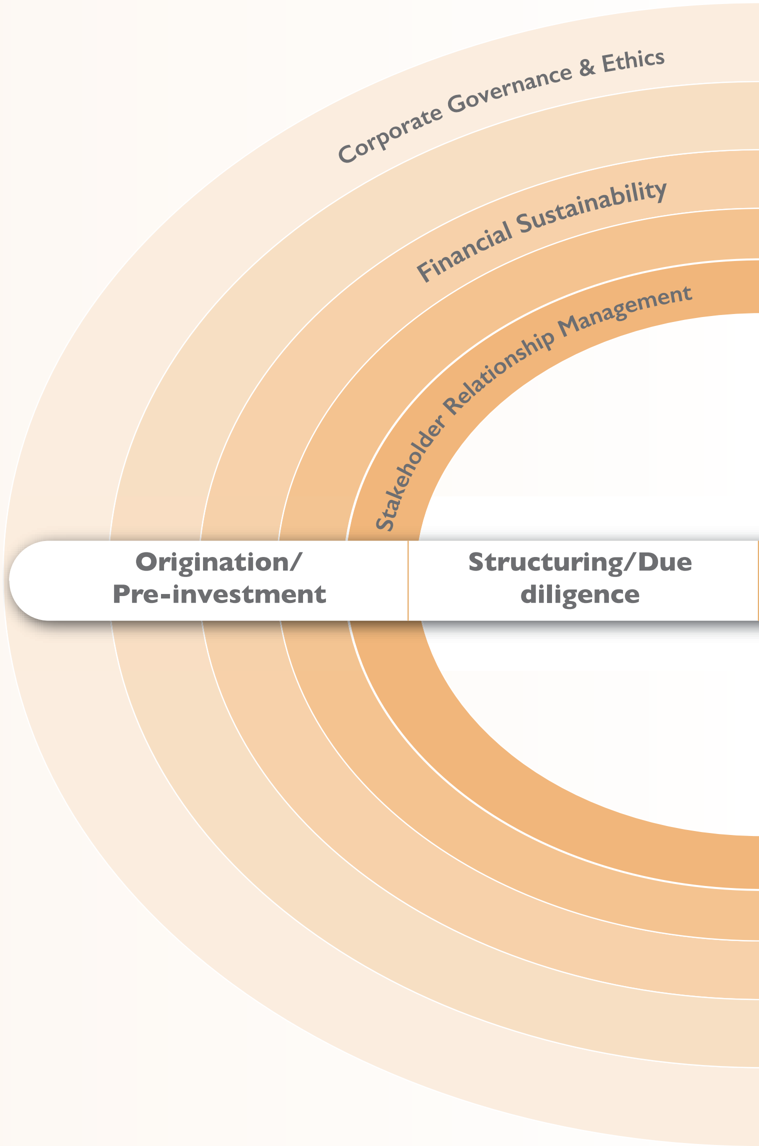
As we embark on this new chapter, we do so in an economic and agricultural context that remain unsettled in the short term. I believe that our people's effort and resilience provide a strong foundation for the change that will position the Bank to contribute substantial positive impact for the ongoing agricultural development of the country.

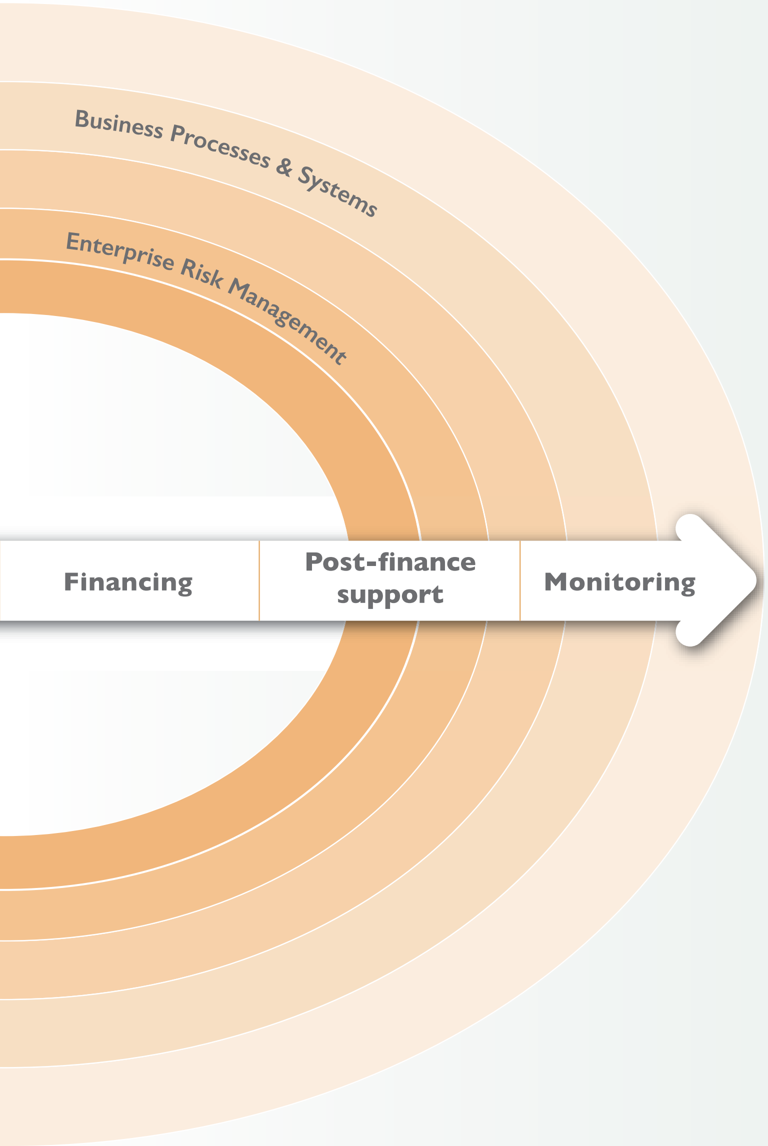
Ms K Gugushe
Acting Chief Executive Officer

OUR STRATEGY

Our Value Creation Model

Capitals	Activities resulting in change		
	FY2019	FY2019	FY2018
Financial	Capital Adequacy Ratio: Net Stable Funding Ratio Gross loan book: Non-performing loan ratio:	**16.4%** **102.0%** **R45.2 billion** **8.8%**	17.3% 108.6% R45.6 billion 6.7%
Intellectual	Computer software:	**R13.5 million**	R20.3 million
Human	Employees including learners and contract workers Total remuneration including contributions and bonuses: Average training spend per employee	**491** **R418.2 million** **R18,678**	474 R461.3 million R12,201
Social and relationship	Disbursements classified as transformational: Supplier development: CSI expenditure	**R5.07 billion** **R5.1 million spent on 5 suppliers** **R5.2 million**	R1.5 billion R6.5 million spent on 9 suppliers R5.1 million
Natural	Crop insurance claims paid: Material consumption values: • Water (kl): • Fossil fuels (L): • Electricity (kwh): Loans screened for environmental risks	**R548.5 million** **6 090** **100 529** **2.09 million** **390**	R513.0 million 13 916.0 139 735.4 1.96 million 10
Manufactured	Land and buildings Furniture and equipment: IT systems and hardware:	**R24.4 million** **R2.7 million** **R4.0 million**	R24.5 million R2.9 million R8.9 million





Corporate citizenship commitment

The Bank's conduct is governed by the democratic values and principles enshrined in section 195(1) of the Constitution and linked to its business model which aims to create value for the organisation, its shareholder, clients and the wider agricultural sector. I am pleased to report our commitment to good corporate citizenship and the progress the executive team and all employees have made against section 195(1) based on some key achievements.

Section 195(1) of the Constitution	Progress/Output during FY2019
Promote and maintain a high standard of professional ethics	Appointed another ethics officer (total 3) and provided face-to-face ethics training to 217 employees (FY2018: 114) and online ethics training to 211 employees
Promote efficient, economic and effective use of resources	R143.6 million profit from banking operations (FY2018: R242.7 million)
Orientate public administration to development	R7.9 billion of gross loan book classified as transformational (F2018: R5.5 billion)
Provide services impartially, fairly, equitably and without bias	3 548 shareholders of entities screened in terms of our anti-money laundering and politically-exposed persons policy (FY2018: 3 568)
Respond to people's needs and encourage the public to participate in policy-making	81 customer complaints (FY2018: 84) were received and responded to within the prescribed timelines
Make public administration accountable	2018/19 Integrated Annual Report was tabled in Parliament and Land Bank representatives appeared three times at meetings in Parliament
Foster transparency with timely, accessible and accurate information to public	Regular investor roadshows held and information distributed publicly via the Bank's website and SENS announcements regarding changes in executive management, Board members and Board Committees, as well as Financial and Interim Financial results
Cultivate good human-resource management and career development practices to maximise human potential	Employees attended an average of 47 hours (FY2018: 22.0) hours of training per employee
Public administration must broadly represent South Africans, with employment and personnel management practices based on ability, objectivity, fairness and the need to redress the imbalances of the past to achieve broad representation	68.7% of employees are Black, Asian or Coloured (FY2017: 68%)

OUR STRATEGY

Our strategic plan

Over the past year we have engaged with many stakeholders to understand their expectations of and concerns with the Bank's role in the sector. Stakeholder input included feedback from clients, organised agriculture, funders and investors, regulators, as well as our shareholder. Notably, we received strategic guidance from the following engagements with the shareholder and the relevant Parliamentary Committees:

- Meetings and written correspondences from the Asset and Liability Management team at National Treasury (NT)
- A parliamentary oversight visit by the Portfolio Committee on Agriculture, Forestry and Fisheries
- Appearances in Parliament at the Standing Committee on Finance and Portfolio Committees on Agriculture, Forestry and Fisheries; and Rural Development and Land Reform.

A number of stakeholders have exerted pressure on the Bank to fulfil our development mandate, which has been an area of strategic focus. During year under review we identified and determined what essential support could enable sustainable financing for smallholder farmers. Such support would include pre- and post-investment support mechanisms for more smallholder farmers and increase transactions that promote transformation and inclusive growth. (See Intellectual capital section, p87 for further information showing the initiatives we have developed the pave the way for increased activity in this area).

Pre Financing Advisory / Projects Planning	Financing & Insurance	Post Financing Support Services
Business Planning Credible business planning Proper land use planning **Development Planning** Agro-spatial areas Targeted programmes in traditional areas / former homelands high potential agri areas	**Funding** Debt Own Equity Grant Mezzanine **Insurance** Assets Crop Life **A structured funding system for built-in blended financing**	Farm Establishment Operations and Management Agronomy Veterinary Advisory Marketaccess Financial management

Our leadership has identified the following as foundation principles for a more effective development finance model for agriculture:

- Expand the role of the Bank beyond merely providing financial services to smallholder farmers and agri-entrepreneurs
- Debt financing alone is not sustainable or adequate to address the challenges
- Technical support and extension type services are an integral part of the solution
- Secure access to suitable land at an affordable cost and for a reasonable term is critical
- Pre-investment support to develop business cases that are directly applicable to the farmer's operations and respond to both the bank and client's needs
- Blended financing that includes private sector funding and government grants administered by Land Bank is one aspect of the solution towards affordable finance.

Collaboration between multiple stakeholders and funders is important to deliver a comprehensive solution that addresses the challenges identified across the life cycle of a project. The elements that make up such an institutional and funding structure are shown in the above framework focused on pre-investment, funding and post-investment support.

In order to successfully support smallholder farmers, we have to provide seamless pre- and post-investment solutions to these clients. To this end we must expand and fund our current financial-services-only model appropriately to address the challenges faced by smallholder farmers at each phase in the establishment and expansion of their enterprises.

However, our current funding model does not support this objective since:

- The cost of funding – all raised in the capital and debt markets – is too high for us to offer affordable pricing to smallholder farmers
- The credit risk of supporting smallholder farmers is high, especially when many do not have equity or collateral
- All farmers face considerable risk from the weather, commodity prices, pests and diseases, but smallholder farmers have less capacity to absorb losses as these events increase the risk of non-performing loans.

Our FY2020 strategy therefore seeks to achieve two objectives:

Firstly, continue with our initiatives to support the development of the agricultural sector by providing R3.0 billion in financing to develop smallholder farmers and contribute to the transformation in the sector which supports SDG 2 and SDG 10 directly.

Secondly, respond to the issues and expectations raised in our stakeholder engagements to direct our organisation's focus towards development. This process will entail at least a year of transition during which the organisation will maintain business as usual whilst laying the foundation for the Land Bank of the future.

The new strategic trajectory will be implemented from FY2021. It is expected to be undertaken over at least four years to maintain the organisation's stability and eliminate systemic risk on both the agricultural and banking sectors.

Short-term focus

During FY2020 the Bank will continue its operations based on the existing funding model. The emphasis will be on establishing pilot projects to test our ability to provide sustainable funding to smallholder farmers.

We will continue to apply specific support measures to support these farmers during the pre- and post-investment phase of the projects:

- Enhance post-investment assessment and mitigation initiatives
- Develop pre- and post-investment support initiatives, including technical and enterprise support
- Leverage on appropriate funding to support development farmers, including through the blended financing facility
- Explore and develop partnerships for other creative financing facilities
- Implement changes to SLA partner agreements to promote inclusive financing through intermediaries.

Long-term focus

We propose to review and adjust the role of Land Bank towards a fit-for-purpose DFI with a dedicated Development unit (focused on smallholder farmers and agri-entrepreneurs). The preparatory work will commence in FY2019/2020 and it is envisaged that by 2023/24 the Bank's operations will have been completely separated into Commercial and Development units within the Group structure. The Commercial unit's purpose will be to generate profits and to provide partial financial support to the Development unit within the Group.

05

OUR PERFORMANCE

"The absolute value of transformational loans on our book has increased to R7.9 billion representing 17% of the loan book, up from 12% in FY2018. This is according to our definition of transformation as any entity that is majority Black-owned (51% or more Black ownership; or BBBEE level4 or at least 30% Black shareholding).

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Social and Relationship Capital

Material matters: Development impact and transformation
Poorly executed Land Expropriation without Compensation

Land Bank's mandate established in the Land Bank Act, which is derived from South Africa's Constitution, imparts a dual responsibility on the organisation. We are responsible for sustaining a financially viable organisation while supporting and impacting the social and economic development of the agricultural sector. Specifically, we are required to contribute to the achievement of transformation and inclusion in the sector.

Development outcomes

We work with all stakeholders to build an adaptive agricultural sector that drives economic, environmental and social development. Our development impact contributes to multiple SDGs:

The role of a DFI is to work to address areas of market failure, and in the case of Land Bank, within the agricultural sector. Market failure refers to a situation where goods and services are not allocated efficiently in a free market due to issues such as monopoly power or negative externalities. In South Africa, various aspects of market failure specifically affect the ability of smallholder farmers to become productive and financially sustainable commercial agri-businesses (see box 53). We are proud of the progress we have made towards addressing these through the financial solutions that we provide. However, we will need to continue to do more to do to make a significant positive impact on the sector. A particular challenge for Land Bank is that this task often poses a trade-off with the objective of securing Land Bank's own financial sustainability. Smallholder farmers sometimes require unique solutions and lower pricing in order to access financial facilities, which in turn, have a negative impact on our financial outcomes.

Smallholder farmers often also require significant support beyond the financial solution such as technical and business mentoring and support. Although we have embarked on some initiatives towards this end, our current structure, both financially and operationally, does not enable the Bank to provide this to the extent that is needed.

Identified areas of market failure affecting success of smallholder farmers and agri-entrepreneurs

Lack of:
- access to capital, scarcity of opportunities to raise equity
- affordable finance
- availability/scarcity of collateral
- readily available climate/environmental models for risk management in the sector
- coordination of private sector funds/availability of related skills to support smallholder farmers and agri-entrepreneurs

Underdeveloped market access or lack of ability to obtain entry to value chains coupled with lack of ability to command market-related prices for marketed product

Inadequate skills and limited access to technical knowledge, which affects productivity and also the likelihood of adoption of effective farming and agri-entrepreneurship practices.

In response to this challenge, we propose to review and adjust the role of Land Bank as a DFI to enable the Bank to establish a Development unit that will be mandated to address issues of market failure in order to contribute meaningfully to the development of smallholder farmers and agri-entrepreneurs.

The process of reviewing and gaining approvals for a new structure will take some time. Therefore, we will continue to develop our current approach, which entails growing the development loan book, reducing and mitigating risk and reducing non-performing loans.

Our intention is to achieve further growth in the development book by growing the development and transformation proportion of our loans in this sub-sector, partnering with government departments and industry bodies to promote access to finance and to markets and to establish new points of entry to the agricultural value chain for smallholder farmers and agri-entrepreurs. Our SLA partner improvement plan also contains some elements that are intended to attract smallholder farmers to their books. Risk reduction and mitigation is achieved by applying robust credit processes and models that are customised for the agricultural sector. Our Post Investment Management Services division concentrates on reducing the incidence of non-performing loans through the availability of shared services directed to monitoring loans from disbursement throughout the loan lifespan and working with clients to proactively reduce the prospects of default.

OUR PERFORMANCE

Land Reform and Expropriation without Compensation

Land reform is a considerable factor that potentially affects our ability to impact development in the sector. In our view land reform should be conducted in conjunction with the provision of comprehensive support to the beneficiaries, which include both financial and non-financial elements.

We have a central role to play in facilitating this support to the new beneficiaries towards a competitive, sustainable and transformed agricultural sector. While there are potential opportunities for the Bank associated with a well-executed land reform programme, it is difficult to quantify as the final scope of the programme is not known. We have identified opportunities around the implementation of Expropriation without Compensation, however if this process is poorly executed, it could have grim consequences for the Bank as a creditor, bringing the organisation's sustainability under threat.

As the Bank is generally funded by the local debt and capital markets (and more recently international multilateral institutions such as AfDB, World Bank, KfW and the EIB), a poorly executed Expropriation without Compensation could result in the main sources of funding drying up as investors might not be willing to continue funding Land Bank or the sector. Where funders remain willing to provide funds, these would be expected to come at an added risk premium due to perceived higher risk levels. Consequently, downward pressure would be exerted on our thin interest margins and levels of profitability. Over time, this may further contribute to a deterioration of our financial sustainability.

Furthermore, our funding agreements typically include Event of Default; Cross Default and Financial Covenant clauses to provide lenders certainty of performance against their loans. These clauses put our entire funding portfolio at risk through various cross-default clauses, if Expropriation Without Compensation were to be enacted without protection for the Bank's rights as a creditor.

In response, the Bank has participated in numerous forums and discussions including appearances at parliamentary portfolio committees to articulate our position on Expropriation without Compensation and made a formal submission to the responsible parliamentary committee. It has modelled and assessed the impact of various outcomes of the Expropriation without Compensation process on its loan book and funding arrangements.

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Our performance

The absolute value of transformational loans on our book has increased to R7.9 billion, which represents 17% of the loan book, up from 12% in FY2018. This is according to our definition of transformation as any entity that is majority Black-owned (51% or more Black ownership; or BBBEE level 4 and at least 30% Black shareholding). We recognise that this definition is broad and does not always contribute to the development of the sector in terms of advancing smallholder farmers.

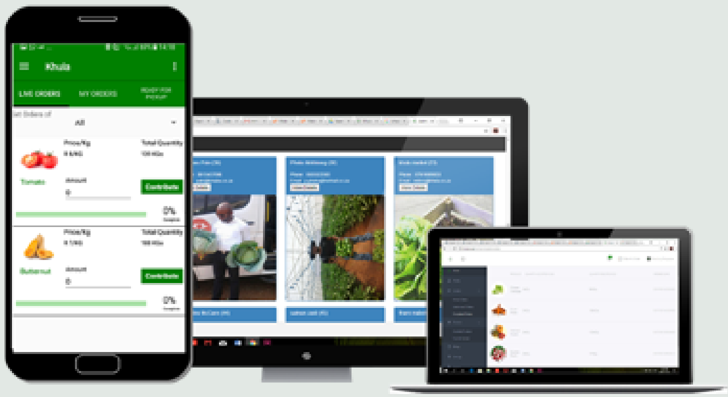
Monitoring development performance was a big achievement this year, as it was an administratively heavy endeavour. We contacted numerous clients through our direct and intermediary channels and incorporated new measures into our application process to track new clients. In many cases it required site visits to rural areas for BEE affidavits from farmers.

We are now able to accurately report transactions for Black-owned, women-owned and youth-owned enterprises. As shown by the examples below, this has enabled us to directly track alignment of our activities with the relevant SDGs. We disbursed loans for transformation to the value of R5.07 billion, thereby contributing to the achievement of SDG 10. We seek to support gender inclusivity in the sector, by entering into transactions with women-owned enterprises and some that allow female employees to become shareholders. We provided financing to 33 women-owned enterprises through our CDBB division through 64 transactions to the value of almost R103 million, thereby contributing to both SDG 5 and 10.

Land Bank, in its alignment to the SDGs for Goal 2 (Zero Hunger), Goal 5 (Gender Equality), Goal 10 (Reduced Inequalities) and the NDP, seeks to address the inclusion of youth in the agricultural sector. According to the 2016 Community Survey of Agricultural Households, less than 20% of agricultural household heads are younger than 35 years. We provided financing to youth-owned enterprises through 17 transactions to the value of R19 million.

In the aftermath of the 2015/16 drought, Land Bank and IDC partnered to create a R400 million drought relief fund for affected farmers that provided low-interest rate loans. The fund was extended to cater for the subsequent drought in the Western Cape and applications were considered from other drought-affected areas during FY2019. As at 31 March 2019, R377.4 million (FY2018: R344.0 million) had been approved for 258 applicants under the facility with a further R57.5 million in applications under consideration.

One of our greatest challenges to growing the development book has been the shortage of funding to subsidise development interest rates. For example, the Bank forfeited R51.1 million in interest income by providing subsidised interest rates to these farmers. We believe that providing blended financing instruments in partnership with other funders is one solution to this challenge. As ready reference for the effectiveness of such arrangements, we increased development approvals by 50% within two months of launching blended finance as part of the Funding Forum.



The young entrepreneurs of Khula! developed an application that links smallholder farmers directly to buyers of their produce. The application facilitates the logistics of collecting produce from the smallholder and delivering it to the buyer, and won these entrepreneurs the MTN Business application of the Year award in 2018. More than 2,000 smallholder farmers have registered to use the application, but they need to have their farming operations assessed before they can start supplying on the platform. Through our CSI programme we have provided Khula! with R500 000 to assess and include more smallholder farmers on their platform. Land Bank's funding will be used to assess new applicants and thus increase the number of smallholder farmers who are able to sell their produce via the application.

We improved our credit processes and built in conditions to mitigate risks and improve sustainability. We are also building capability in agricultural economics to ensure accurate modelling assumptions. Structures were put into place around loan disbursement and enhanced post-disbursement monitoring (see Intellectual capital p87).

We have also embarked on projects and partnerships to provide structures for business and technical skills development and mentorship around loans to ensure sustainable transformation. This is a work in progress and currently not the Bank's area of speciality. The proposal for a re-model of the Bank will assist in accessing the resources to provide this type of support at the needed levels.

Land Bank as fund administrator

The Bank partners with DALRRD (formerly the Department of Agriculture, Forestry and Fisheries) to act as fund administrator for certain grants on behalf of the Department. Land Bank acts as the administrator and manager of the AgriBEE (Agricultural Broad-Based Black Economic Empowerment) Fund. The purpose of the AgriBEE Fund is to support small, medium and micro enterprises within the sector who wish to acquire a shareholding in existing commercially viable and sustainable enterprises and to advance enterprise development through agro-processing and value-adding activities to historically disadvantaged people who could not participate in the sector value chain. To date, the Bank has been purely the administrator of the AgriBEE fund and made payments according to instructions from the Department that selects qualifying projects. However, DALRRD has requested the Bank to assist in assessing the commercial viability of projects and to refer qualifying projects for grant assessment in an effort to increase the outreach of the Fund.

DALRRD developed the Black Producers Commercialisation Programme Blended Finance Facility (BPCP BF) policy in 2018 and requested Land Bank in September 2018 to administer this fund on its behalf. The Bank received R120 million (FY2018: R100 million) from then DAFF and R152.5 million was transfered from the Emerging Farmers Support Facility from then DRDLR to manage in accordance to the fund policy. A pilot project was launched to assess the initial fund criteria and ability of the parties to identify suitable projects. In its capacity as a bank, the Bank may receive loan applications, conduct a due diligence on the applications and, if they qualify for blended financing, apply for grant funding on behalf of the projects. Grant funding is approved by an independent Funding Forum consisting of representatives from various government departments. Once the Funding Forum has approved an application, Land Bank, in its capacity as fund manager, may disburse the grant funding to the successful applicants. The Bank then follows its normal loan disbursement process for that component of the facility. The intention is that any accredited financier will eventually be able to apply to the funding forum on behalf of qualifying projects. Upon approval by the Funding Forum, the Bank will disburse the grant funding to the financier in its role as fund administrator.

To date, seven projects with a cumulative grant value of R99.8 million and loan value of R58.8 million have been approved. Grants and loans are being disbursed to these projects, but Land Bank was requested by DALRRD on 30 April 2019 to defer further applications until a review could be completed of the pilot project.

Looking ahead

Planned initiatives:

- Plan disbursements of R3.0 billion to development and transformational transactions
- Pilot a programme of projects aimed at testing models of smallholder farmer support including pre- and post-funding support
- Launch a credit guarantee facility in conjunction with a multi-lateral agency to address collateral shortfalls on development loans
- Introduce a mezzanine fund aimed at medium-scale farmers in collaboration with the Jobs Fund
- Expand our role as fund administrator on behalf of government.

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Corporate Social Investment

CSI forms an important part of our B-BBEE scorecard and supports multiple SDGs, as our projects focus on training, youth development and support for smallholder farmers.

Our CSI programmes concentrates on subsistence farmers and schools, and contributes to SDG 1: No poverty and SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Our education programmes contribute to SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Our focus on youth and women promotes SDG 10.

Our CSI programme compliments our business activities by focusing primarily on the subsistence and community-based farming sector with the emphasis on supporting women and youth in the agricultural sector. Our CSI programmes take a developmental and a long-term approach towards sustainable development impact with a small number of selected projects. These projects support our operational strategy on agriculture and rural development and focus on relief measures for the subsistence farming segment in both urban and rural areas. We facilitate partnerships with reputable institutions that are involved with rural, social and agricultural development.

Our broad CSI focus areas have not changed over the long term and relate to food security for vulnerable households, education and training of small-holder farmers, and nutrition and social upliftment for those living and working on farms.

We must sensitise the communities and South Africans about the work of the Bank in the sector. Farmers, especially in rural areas, often misunderstand our purpose, mandate and role, which sets up unrealistic expectations. Since our CSI programmes tend to be grassroots in rural areas, we use them to create awareness and understanding.

Our performance

Land Bank spent R5.2 million on CSI initiatives during the year, a similar amount to FY2018. We received full points on our BEE scorecard for CSI.

A summary of our activities is shown in CSI projects table. We revised our focus from foundational to graduated programmes. In the past our programmes provided basic skills and needs, such as upskilling subsistence farmers in farming techniques to enhance their farming output and improve their employment opportunities.

This year we selected farmers who had successfully implemented previous training initiatives and who showed the potential to upscale to sustainable enterprises. Some of these have become productive and were supplying the local market and communities. Those selected will work with our service providers and divisions that assist smallholder farmers to support their individual business needs. The aim is to elevate them to a bankable status, thereby providing a pipeline of bankable clients and accelerating a positive impact. The programme continues to be implemented in partnership with the Industrial Development Corporation, and this year we also attracted the National Youth Development Agency as a partner.

Our goal for the school academies was similar. Our focus has always been on providing the skills and tools, such as seedlings for schools to sustain themselves. We have supported the expansion of the food gardens to produce surplus food beyond their own needs. This may be sold to the community to enable the schools to attract revenue, improving the overall sustainability of the programme.

We continued to conduct awareness campaigns in the sector, exposing youth to opportunities in the agricultural sector along the full value chain. The focus is on responsible agriculture for young people and technology relating to new ways of farming.

SDGs impacted	CSI projects	Partners
1 No poverty; 2 Zero hunger	Farm development support for agri-cooperatives in Gauteng	Gauteng Department of Agriculture and Rural Development
	Development of a database of smallholder farmers linked to buyers	Khula!
	Staff volunteerism	World Food Day with Raise Against Hunger, Mandela Day activation with Food & Trees for Afrika
2 Zero hunger; 4 Quality education	Nutrition, horticulture and HIV Education programme for Refilwe informal settlement and farm schools	Cullinan Nutrition
	Communal wool growers to support selected youth for commercialisation	National Wool Growers Association
4 Quality education; 10 Reduced inequalities	Farmer Training and AgriBusiness Development Programme	Buhle Farmers Academy, IDC, National Youth Development Agency
	Youth agricultural camps for agricultural students in five provinces	Khulisa Agricultural Youth Programme
	Agri-teen symposiums	Youth in Agriculture

Looking ahead

Planned initiatives:

- Identify agri-entrepreneurs through our sector training projects that require start-up funding for small enterprises to support employment creation and design a pipeline of future Land Bank clients;
- Pursue our involvement with youth initiatives to expose young people to the various opportunities in the sector, and
- Continue our involvement and mentorship with food gardens to alleviate poverty and support community building.

Black-owned SME suppliers of corporate gifts

Land Bank found a unique way to support small Black-owned business by supporting small, local Black-owned businesses at certain events. The first initiative was at the launch of our 2018 financial results at the JSE. Unlike other corporate events, where attendees are given a bag of branded gifts, attendees were handed three vouchers, each worth R50, which they could use to buy their own corporate gifts from suppliers.

Each voucher was numbered and recorded. After the event, each supplier would receive the cash value for the items they sold. Attendees who did not wish to buy a product but still wanted to support a supplier, could 'donate' their voucher to the supplier so that the cash value of the voucher ends up with the supplier anyway. It provides a fun and failsafe way to provide delegates with a gift they want, while speaking to our mandate of helping small, Black-owned businesses.

The first three participating suppliers were Meloso Coffee, Mapula Embroideries and Setsong, a producer of indigenous teas. We have since used this format at regional events such as the SADC-DFI Forum and New Development Bank Forum, both held in Cape Town.

As a result of these initiatives, Meloso Coffee has been able to increase sales and purchase their own coffee bean roaster which has created additional job opportunities. Both Setsong and Meloso Coffee received introductions to other companies where they are now suppliers and participate in supplier development programmes. Khayelitsha Cookies who participated in our Cape Town events have become a supplier to our own canteen management company and we can now enjoy their biscuits on our own premises in Centurion.

We are identifying new suppliers to register on an enterprise database so that they can be discovered or booked online.

Supply Chain Management

Our procurement processes and supplier development programme are focused on supporting SDG 10: 10.2 "By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status".

We aim to procure from local Black-owned SMEs and provide supplier development support to a selection of our suppliers.

Our procurement activities are guided by the requirements of the PFMA, National Treasury Supply Chain Regulations and Instructions and the Bank's Supply Chain Management Policy. The procurement function reports to the CFO and all decisions are based on a Delegation of Powers (DOP). The Bank's Procurement Committee is the independent committee responsible for procurement decisions and operates based on a Board approved DOP. The Procurement Committee, chaired by the Executive Manager: Strategy and Communications, consists of members of the executive committee with continuous oversight from the internal audit function.

The Committee operates independently from the Board and regular reports on procurement activities are submitted to the Risk and Governance Committee.

As a financial institution, we have a limited chain of suppliers who provide inputs to our business. Our approach is simply to ensure that we remain compliant with changing procurement legislation and National Treasury regulations applicable to the financial sector. It is a compliance-heavy function with very strict governance. As a DFI and SOE, cost containment underpins our procurement approach. We track and monitor our expenditure through contract management and supplier performance management initiatives.

The 2018 financial year was the first year that we have implemented a formal supplier development programme, aimed at closing the growth and developmental gaps of our small qualifying suppliers. This initiative will not only benefit Black-owned SMEs, but will also benefit the Bank in terms of value-for-money acquisitions, innovation, BBBEE rating, service offerings, and improvement in delivery times.

Our performance

Our priorities for the year were containing costs and ensuring good governance. A code of conduct for external suppliers was drafted, which will be implemented in 2020. The Supply Chain Management Policy and Process Manual was also revised and is awaiting approval from the Board for implementation. There has been a marked behavioural change amongst the staff, such as proactive requests for information on procurement in advance of decisions.

Finally, in FY2018 the Bank declared R2.1 million as irregular expenditure due to a contravention of supply chain management legislation. In FY2019 we are pleased that the irregular expenditures have decreased significantly to an amount of R140,000.

We had one irregular expenditure for which disciplinary action was taken. Training and awareness remains a focus area for the Bank. As a result of the stringent controls in our procurement process over the past three years, we received no audit findings this year.

We spent a total of R91.6 million on procurement, of which R86.8 million was on suppliers with level 1-4 B-BBEE ratings, thereby contributing towards SDG 10: reduced inequalities.

Total procurement spend	R 91 622 646
Total BEE compliant spend	R 105 095 786
Spend on suppliers with BBBEE 1-4	R 86 805 710
Total exempted micro enterprise spend	R 20 310 727
Total qualifying small entity spend	R 4 021 403
Total 51% and greater Black-owned spend	R 39 481 101
Total 30% and greater Black women-owned spend	R 13 431 344

Footnote: these are sub-categories of procurement spend and do not balance to the total spend. Total BEE compliant spend exceeds total procurement spend based on the BEE code formulas.

Two percent of NPAT or a value of R5.1 million was spent on five small suppliers, who benefited from a range of projects. This year, the selection process remained unchanged and utilised a set of criteria in line with relevant BEE legislation and Codes of Good Practice. There is no single approach to enterprise and supplier development, so entities select the most appropriate approach to suit their needs. Our largest expenditure supported Career Pathing Solutions Learning and Development. The company invested our contribution towards adding accredited programmes to its portfolio offerings, converting their learning programmes to e-learning platforms, establishing a call centre and a computer centre for unemployed youth. We are pleased to contribute to SDG 4 through the lifelong learning and quality education opportunities it offers.

Looking ahead

Our procurement focus for the coming year will be on cost containment, including further reductions to spending and more closely monitoring expenditures. We also plan to continue to invest 2% of our NPAT on supplier development programmes in the future. Next year's initiatives will align to the Bank's Environmental and Social Sustainability (ESS) programme, which aims to address the environmental sustainability of land and related natural resources, as well as social development through employment creation and poverty reduction. The Bank is concentrating on 'greening' its value chain. To this end we prioritise procurement from service providers who use clean production mechanisms or adhere to sustainability principles in producing and supplying their services. By so doing, the Bank aims to directly influence the sustainability behaviours of its service providers and, in turn, indirectly contributes to environmental conservation.

Our Supply Chain Management team delivered a clean procurement audit with no findings.

OUR PERFORMANCE

Principles for Responsible Banking

According to UNEP-FI civil society has been challenging the global banking sector for some time to address society's needs. More recently finance ministries (e.g. G20 Green Finance Study Group), central banks (the Financial Stability Board) and the investment community have been exerting increasing pressure on banks to disclose information about their climate-related risks and opportunities, to withdraw from lending to unsustainable economic activities and to increase the share of financing for green technologies and sustainable economic activities. The banking industry is increasingly expected to provide leadership, be accountable and make a positive contribution to society's wider sustainable development goals.

The PRB represents the most progressive comprehensive framework to guide banks towards a sustainable future and aims to achieve the following:

- Establish clear and specific principles for the banking industry that are relevant to today's banking realities and sustainability objectives
- Define the banking industry's role and responsibilities in shaping and financing a sustainable future, i.e. clearly define banking's societal purpose
- Set the global benchmark for what it means to be a responsible bank and provide actionable guidance on how to achieve this
- Direct banks' efforts to align with society's goals as expressed in the SOGs, the Paris Climate Agreement, as well as national and regional frameworks
- Show banks' contribution to society's goals by linking banks' targets to national, regional and international objectives
- Drive ambition and ensure focus where a bank has the largest (potential for) impact
- Ensure accountability and transparency and create a trusted brand that, signals a credible commitment to serving society.

Our performance

During the year under review, we established a working group to assess our current strategy, business activities and processes concerning the implementation requirements of the PRB. The working group also evaluated the Group's alignment to the SDGs and identified specific areas for further consideration in order to improve alignment to material SDGs.

The Bank participated in the development of the principles with the Core Group of 29 banks from across the world. Our former CEO, Mr TP Nchocho, participated in a panel discussion at the launch of the principles for consultation in Paris in November 2018. Subsequently, the Bank engaged with a number of stakeholders to introduce the principles and invite participation in the consultation process. These included official representatives from the SADC Central Banks at a consultation session hosted by the South African Reserve Bank, participants of the SADC-DFI CEO's Forum as well as other DFIs. We participated in a local consultation event in Cape Town with other South African banks to promote the principles.

Our former CFO, Mr BJ van Rooy, took part in a panel discussion at a regional event in Egypt to provide Land Bank's perspective on the relevance of the principles.

Looking ahead

- Concentrate integrating the PRB, specifically the SDGs and NDP, into our strategy to enhance our focus on long-term value-creation for our stakeholders and society
- Introduce a process to explicitly consider material SDGs when reviewing existing and developing new Land Bank policies
- Continue to develop our disclosure and reporting processes in accordance to the PRB
- Expand the identification of positive and specifically negative impacts of our actions
- Develop new partnerships and expand existing relationships to identify additional opportunities to increase positive impacts and minimise negative impacts.

Financial capital

Material issue: Financial sustainability

Land Bank deploys its financial capital to provide loan and equity financing solutions to deepen investment across the sector. Providing financial capital to the sector directly and indirectly contributes to the following SDGs:

1 NO POVERTY, 2 ZERO HUNGER, 8 DECENT WORK AND ECONOMIC GROWTH, 10 REDUCED INEQUALITIES, 11 SUSTAINABLE CITIES AND COMMUNITIES, 13 CLIMATE ACTION

Message from the CFO

We continued to balance our financial and development mandates in FY2019 with some difficulty, since they often pose a natural conflict. In the agricultural sector ongoing drought and changing weather patterns significantly curtailed our ability to grow the loan book with a significant impact on our financial results.

The South African economic environment including sovereign credit downgrades over the past few years have resulted in increasingly costly funding. Persistent drought in several parts of the country has affected our loan book growth and non-performing loans. Several livestock diseases had a negative effect on exports but a positive effect on livestock pricing in the country. Moreover, the shift in the summer grain planting season towards later in the year affected loan growth, ultimately impacting on revenue generation.

We are responsible for raising sufficient funding to support inclusive growth in the agricultural sector and increased resilience against the challenges rising from climate change. Over the last two-and-a-half years, we have successfully differentiated ourselves from other SOEs by our commitment to good governance and strong fundraising efforts. In addition, our investor engagement and strong balance sheet in terms of debt and capital markets have positioned us well for fundraising. We continue to receive positive feedback on our proactive and transparent engagements with investors, particularly concerning the executive management changes during the year, as well as on our contingency and succession plans. We have expanded and diversified our investor base to the point that our last fundraising effort was three times over-subscribed.

Despite this positive position, the cost of funding is higher than that required to affect our development mandate. Therefore, meeting our development objectives requires sacrificing profit to support new generation farmers through more affordable interest rates.

We have positive engagements with our shareholder and whilst there is implicit support for the Bank, we acknowledge that given the current fiscal constraints and escalating Government debt, a capital injection by Government is unlikely in the short-term. However, without this critical support, we might not meet our development objectives and continue to grow.

Highlight	Key consideration
Investor response	- At the end of FY2017 we revised the conditions contained in our DMTN programme memorandum and included a number of governance-related information undertakings as well as prepayment events, which have since become the yardstick for investors in the SOE environment; these are available on our website under Investor Relations section. - In line with our commitment to investors, we made a number of SENS announcements during FY2019 related to ratings agency actions; interim financial results and changes to the Board, Board sub-committees and executive management.
Strong balance sheet position	The following ratios provide a clear indication of balance sheet strength: - Capital Adequacy Ratio of 16.4% (FY2018: 17.3%) - Liquidity Coverage Ratio of 549.8%[1] (FY2018: 214.3%) - Net stable funding ratio of 102.0% (FY2018: 108.6%) *1 - Excl. Available committed facilities. LCR = 919.0% incl. Available committed facilities (R2.15 billion)*
Improved market acceptance and recognition by domestic and multi-lateral funders	During the year: We had two listed bond auctions which were well supported by a broad base of investors: - September 2018: we raised R1.5 billion over 3-, and 5-year tenors at improved yields, with the auction oversubscribed by 1.4 times - March 2019: we raised R1.0 billion over 5-, 7- and 10-year tenors at improved yields, with the auction oversubscribed by 3.3 times We further concluded a number of listed private placements: - During May 2018, we issued an unguaranteed 10-year fixed-rate bond of R0.63 billion - Further placements of R1.25 billion over 5- and 7-year tenors These funding activities contributed to further extending the Bank's yield curve.
Maintained national scale credit rating of Aa1.za	Moody's Investor Services upheld the Bank's global scale rating of Baa3.za in line with that of the sovereign, as well as the national scale rating of Aa1.za, confirming our belief that the risk profile of the Bank has improved. The rating's Outlook was however changed from STABLE to NEGATIVE.
Debt redemption plan/Sinking Fund	During the year, we started a debt redemption plan/ sinking fund. The purpose of the fund is two-fold: - Primary: build up longer term liquidity resources to aid the Bank with redemption of future longer dated funding maturities; and - Secondary: support smaller/ emerging Black fund managers and brokers The Bank currently supports four such fund managers (one is majority women-owned) and the fund size is approximately R1.0 billion
Improved investor confidence, thus a lower Land Bank yield curve across the maturity curve	The improved investor confidence reduced listed bond yields by between 20 basis points and 50 basis points across 3- and 7-year tenors during the year and as well as allow us to establish a 10-year price point.
Increased pool of funders	Reduced our reliance on a limited number of funders, primarily the PIC over this period and received funding from a wide spectrum of investors. This includes new asset managers with at least five new managers being attracted to the Bank. These funders are further analysed on p68.
Reduced reliance on short term funding	Reduced our reliance on short-term funding significantly from 69.4% (excl. drawn facilities) in FY2015 to 50% (excl. drawn facilities) as of 31 March 2019, which is in line with the Bank's target range.
Interest rate risk management	We accelerated the implementation of our interest rate risk management strategy, whereby our Prime vs. JIBAR basis risk is managed. The Bank borrows in JIBAR, but our loans to clients are made at the prime lending rate. Our interest rate swap portfolio does not qualify for hedging and we recognised our hedging gain as a profit.

OUR PERFORMANCE

Gross loan book

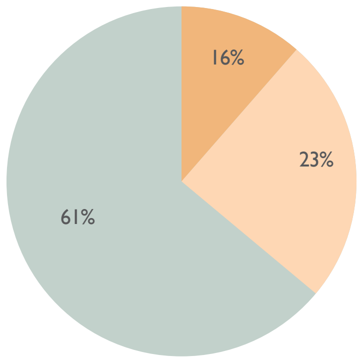
We use our financial capital to provide loans to farmers and agribusinesses, enabling them to produce food, earn income and create employment opportunities. Total gross loans declined marginally to R45.2 billion (FY2018: R45.6 billion). Our loan book normally peaks at year-end due to the seasonal nature of agriculture. However, the late start to the summer grain season and reduced hectares planted in the Free State and North West delayed our clients' drawdowns in that part of the country. In addition, we completed two major transactions in March that reduced the overall loan book by approximately R3.0 billion.

During the final quarter of FY2019, the Competition Commission permitted the Bank to conclude a transaction on one of our long-standing distressed assets, Profert. The Bank had been seeking a solution that would allow the company to remain in business thus protecting creditors and job opportunities. This transaction allowed us to swap our outstanding loans for equity in Bosveld Phosphates, part of the ETG/Kynoch Group.

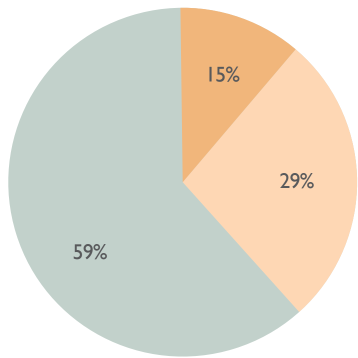
The Afgri Grain Silo Company transaction is a milestone transformation event in the grain management value-chain as it created the first Black-owned grain handler in the country. This transaction further reduced the gross loan book by R600 million as the grain silos were sold by an existing Land Bank client that used the proceeds to settle some outstanding debt.

These transactions had the effect of reducing the gross loan book by R3 billion, which had contributed to increased NPLs at year-end as a result of base-effect and will adversely affect interest income and NPLs in the next financial year.

FY2019 Loan book split per business segment



FY2018 Loan book split per business segment

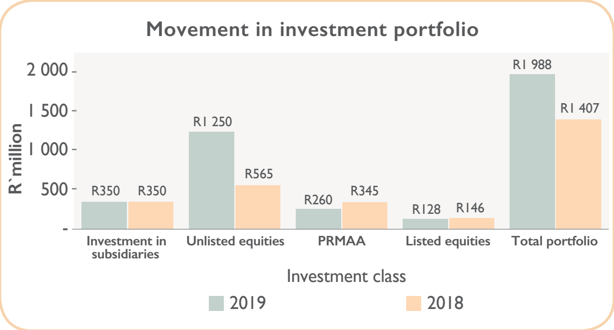


Investments

In FY2018 we undertook to support transformation in larger enterprises in the agricultural value-chain by holding equity for the purpose of transferring the shares to investors from historically disadvantaged groups over the medium term. The majority of these are unlisted enterprises and details are found in note 8 to the financial statements. We have also undertaken some investments in the course of restructuring of distressed assets which we will sell for transformation purposes when the assets are performing at sufficient level to attract new investors. In FY2019, our investment portfolio amounted to R2.0 billion (FY2018: R1.4 billion) consisting of investments in subsidiaries and other entities. The increase in the value of investments was mainly due to acquisitions in the year that included ETG (including Bosveld Phosphates), Afgri Grain Silo Company and Riverside. Included in the investments, is a balance of R260.1 million (FY2018: R345.0 million) related to a fund set up to hedge against our post-retirement medical aid liability.

Our investment into ETG and specifically Bosveld Phosphates came about when we concluded the Profert transaction, which has been a severely distressed asset in our book for a number of years. Land Bank and IDC (through its Foskor subsidiary) became investors in Bosveld Phosphates. The intention is to refurbish the existing fertilizer plant which will receive feedstock from Foskor and create new job opportunities in Limpopo. The transaction has moved the majority of the asset from our loan book into our investment portfolio.

Gross loans and balance sheet impairments reduced. The unintended consequences of this successful transaction have resulted in the NPL percentage increasing at year-end as a result of the base effect of gross loans reducing, while interest income will be impacted in FY2020.

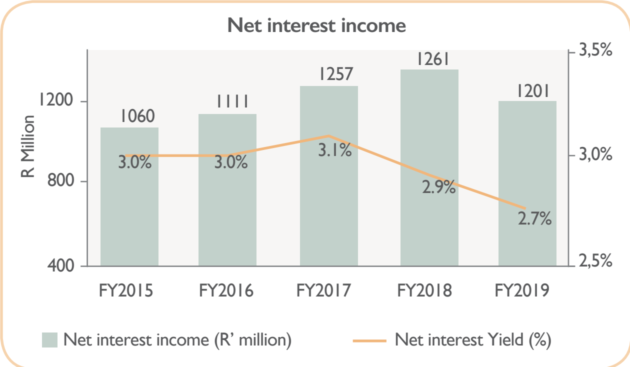


Interest Income

The Bank's main source of income is derived from the interest we earn on the money that we provide to clients through lending activities. During FY2019, our interest income earned remained essentially flat at R5.0 billion (FY2018: R4.8 billion). Loan book growth did not materialise at the expected levels in part due to the adverse weather conditions in certain parts of the country. Furthermore, our focus has shifted towards supporting our developmental mandate. It takes longer now to conclude transactions as development deals often require significant effort to find solutions for client equity shortfalls and lack of suitable collateral.

As already mentioned, the conclusion of the Profert and Afgri Grain Silo Company transactions resulted in a decline in our loan book which will reduce interest income during FY2020. Due to the seasonality of the agricultural sector, and particularly our exposure to the grain sector, the loan book will continue to shrink until August as production loans are repaid during the harvest season. The weather outlook at the start of summer will determine drawdowns on new season production loans – an early start to the season with sufficient rain during the planting and early growth phases of the crops will have a positive impact on the demand for loan finance. We will be actively pursuing new transactions to grow our loan book.

The uncertainty about the policy on Expropriation without Compensation has delayed certain investment decisions in the sector. We expect that new investments may follow once the matter has been resolved.



Interest expenses

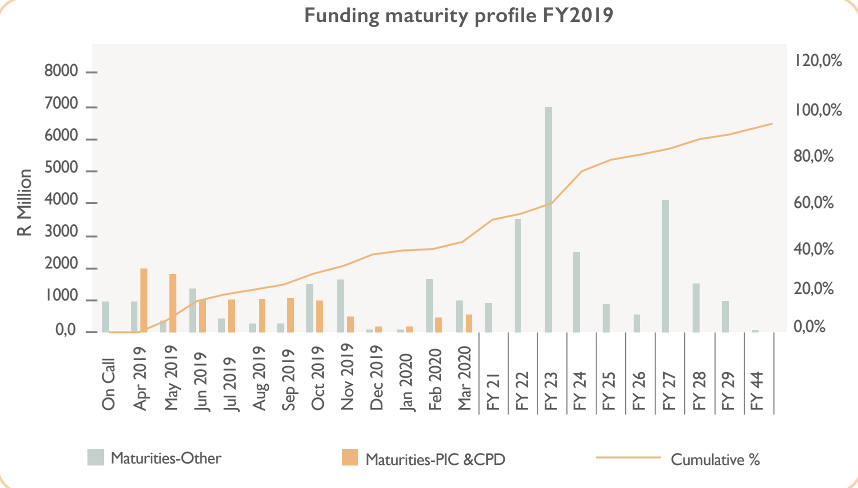
The Bank receives no direct government funding by way of annual fiscal appropriation. We are therefore completely reliant on the local debt and capital markets as well as multi-lateral development finance institutions to fund the Bank's operations.

In 2015, a vast amount of our funding was short term and depended on a small pool of investors. Since then, we have proceeded with a pro-active enhanced investor relations strategy aimed at lengthening the tenor of our funding profile and diversifying the composition of our investors.

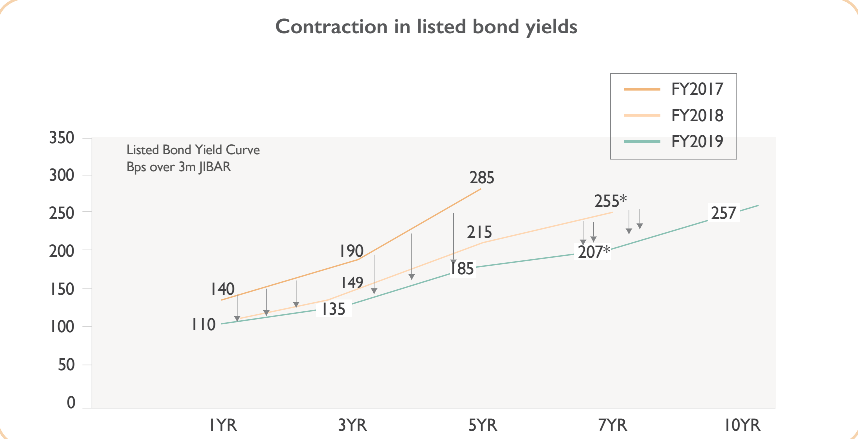
The Bank currently has a broad base of investors which spans a wide range of investor types. A summary of our investor types and their expectations of Land Bank is set out below.

Investor profile	Sovereign support required	Investor expectations	Funding tenors
Commercial investors			
Includes: - Commercial banks - Foreign banks - Institutional Investors such as: Asset managers Brokerages Medical aid/pension funds Security houses - Agri-companies	Commercial investors typically do not require sovereign support in the form of funding guarantees. However, these investors might from time to time require such guarantees. During the year, Land Bank prepaid the R2.7 billion guaranteed syndicated loan in full. As at 31 March 2019, the Bank had no government guaranteed commercial funding.	Includes: - Strong corporate governance - Profitability and financial sustainability - Financial covenants (only on bi-lateral basis) - Market-related returns commensurate with risk undertaken by investor - Responsible business including strengthened focus on environmental and social governance and sustainability matters	Commercial paper - Call - 0-1 years Bonds - 1-10 years Loans - Overnight facilities - 1-5 years - Guaranteed syndicated loans up to 7 years
Government entities			
Includes: - Corporation for Public Deposits (CPD) - Public Investment Corporation (PIC) - Development Bank of South Africa (DBSA) - Industrial Development Corporation (IDC) - Other	No support required	Includes: - Strong corporate governance - Profitability and financial sustainability - Market-related returns commensurate with risk undertaken by investor - Responsible business including strengthened focus on environmental and social governance and sustainability matters	Shorter dated investments - Call - 0–1 years Specific purpose funds such as disaster relief funds could have tenors in excess of 1 year
Multi-lateral Investors			
- Includes: - African Development Bank (AfDB) - World Bank - EIB - KfW	Sovereign to sovereign guarantee - Unguaranteed - Sovereign to sovereign guarantee	Includes: - Strong focus on responsible business including strengthened focus on environmental and social governance and sustainability matters - Strong corporate governance - Lessor return expectations, as impact of funds is more important - Profitability and financial sustainability	- Longer dated funds often accompanied by capital payment holidays - 10-25 years

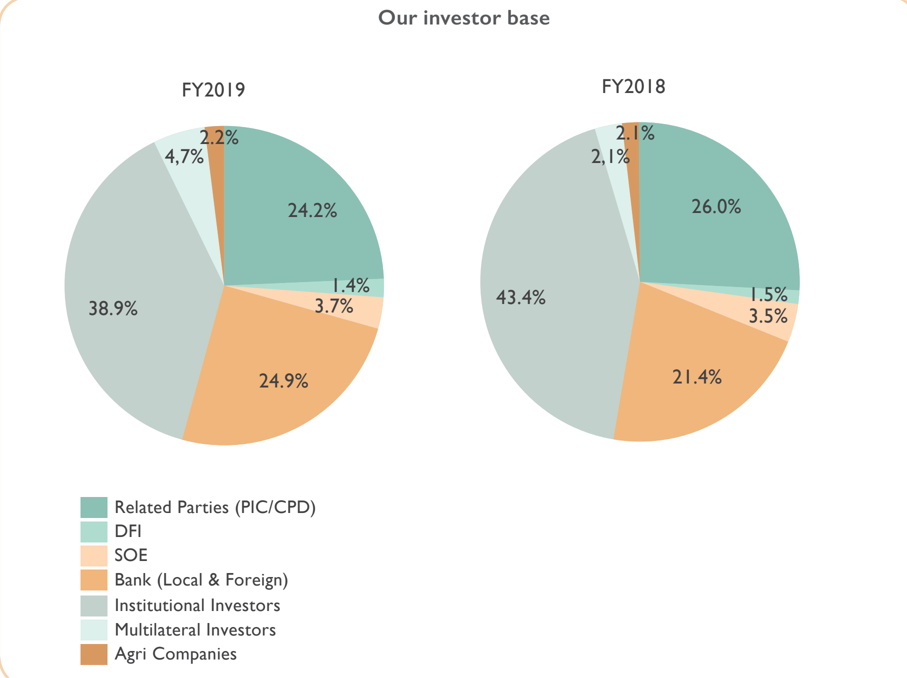
Both our debt auctions in FY2019 were oversubscribed with 18 and 19 investors participating respectively. In addition, we have managed to maintain the reduced value of investments maturing within a one-year term which approximates 50% of total investment compared to more than 80% in FY2016.



We managed to raise unguaranteed R555 million 7-year funding as well as R925 million 10-year funding in FY2019. Whilst we are now better able to withstand liquidity shocks, the change in tenor had a negative impact on our interest expenses as the longer dated funding come at an increased cost.



Notwithstanding our recent successes in the local debt and capital markets which have resulted in compressed bond spreads, our overall cost of funds has increased since FY2016, primarily as a result of movements in the underlying JIBAR reference rate, and the extension of our funding profile. That said, we are currently able to raise five-year funding at 100 basis points below the level charged in FY2017.



OUR PERFORMANCE

1. Introduction
2. Leadership perspective
3. Organisational overview
4. Our strategy
5. Our performance
6. Governing our business

Purpose of guarantee	Units	Issue date	Capital amount	Utilised amount	Available amount	Status
Guarantees						
Multi-lateral funding						
Multi-lateral funding	R'bn	Oct 2012	1.0	1.0	-	Guarantee in support of R1.0 bn AfDB Loan
Multi-lateral funding	R'bn	March 2015	1.3	0.1	1.2	Guarantee in support of R1.3 bn World Bank Loan; to date drawdowns have been only R90 million
			2.3	1.1	1.2	
Commercial funding						
Financial sustainability	R'bn	Oct 2016	3.0	-	3.0	R4.5bn funding guarantee in support of terming out the Bank's funding profile R1.5bn partial drawdown in May 2017 leaving R3.0bn available for funding purposes
			3.0	-	3.0	
Balance sheet support						
Financial sustainability	R'bn	May 2017	1.5	-	1.5	Guarantee will only be used in if the Bank becomes insolvent
			1.5	-	1.5	
Total support			6.8	1.1	5.7	

During the year under review we prepaid R2.7 billion in liabilities, government guaranteed syndicated loans that was raised in 2015. The loans included a pricing ratchet clause that increased the costs of the funds every time the sovereign credit rating was downgraded by ratings agencies.

Given our ability to replace the guaranteed funding with less costly, unguaranteed funds we made the decision to prepay the funds and incur breakage cost of approximately R56.4 million which was less costly than the ongoing cost of funding. This prepayment also reduced our outstanding government guarantees. Land Bank was congratulated by the Minister of Finance during the recent budget speech for being one of the few SOEs that repay government guarantees.

The majority of outstanding guarantees are linked to R2.3 billion in multi-lateral loans from the World Bank and African Development Bank (AfDB). We also have unguaranteed facilities from KfW and the European Investment Bank. The current total of these facilities is R4.0 billion which is the single largest contributor SDG indicator 2.A.2 that relates to total official flows to the agricultural sector.

Non-interest expenses

One of the main reasons that we entered into the SLA model, is that it provides us with coverage to reach farmers throughout the country through an intermediary at a lower cost than having to build a direct branch network. Our non-interest expenses mainly consist of SLA administration and margin fee expenses of R340.7 million (FY2018: R308.0 million). The fees increased by 10.6% year-on-year due to a higher average loan balance on the SLA loan portfolio of R24.0 billion (FY2018: R21.8 billion) as a result of growth within the portfolio. The interest received on this portfolio of R2.7 billion (FY2018: R 2.4 billion) is included in net interest income.

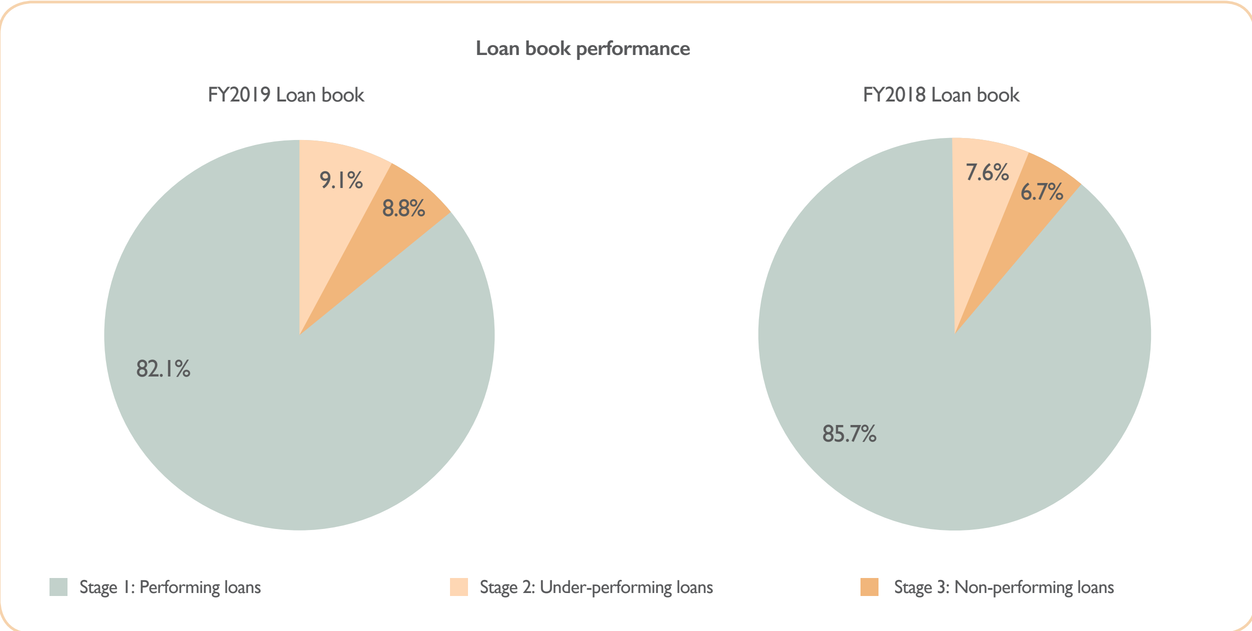
The fees payable to the SLA partners were partially offset by internal administration fees, rental and sundry income of R105.5 million (FY2018: R85.7 million). We charge clients fees for the money that we provide and the 40.8% increase in fee income was mainly driven by earnings from the structured investment transactions. Compared to other commercial banks, fee income is a small portion of our overall income as Land Bank does not provide transactional products and other services unrelated to our mandate.

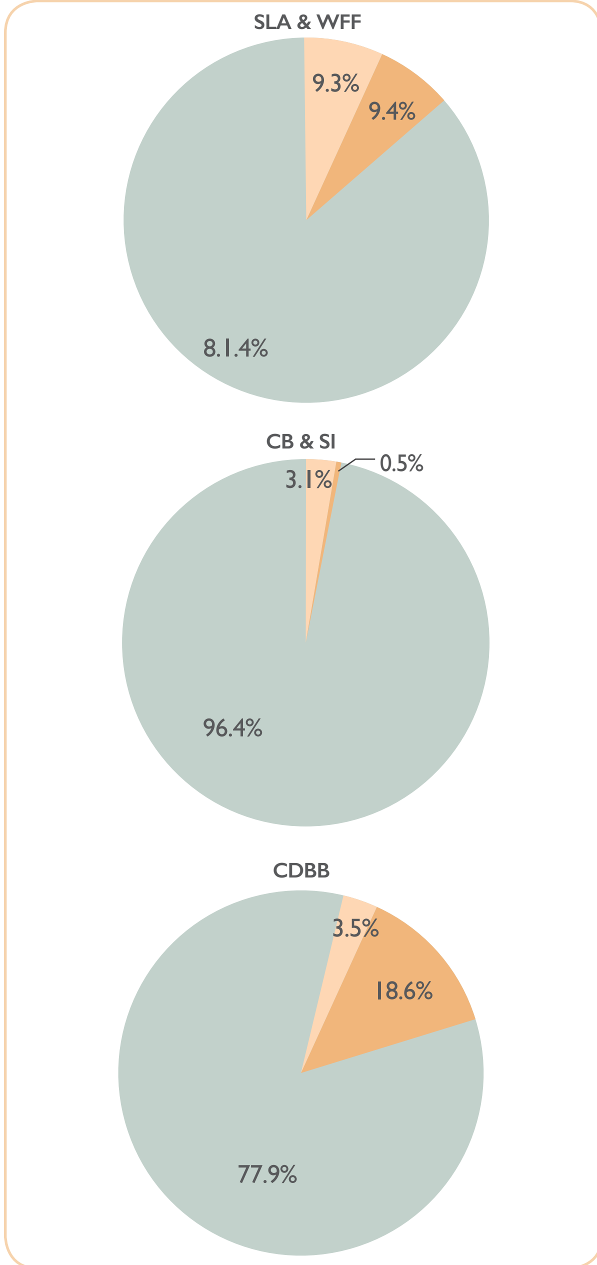
	FY2019 R million	FY2018 R million	Variance
Non-interest income	**105.5**	**85.7**	**23.1%**
Account admin fee and commission income	73.5	52.2	40.8%
Investment property rentals and income from properties in possession	17.6	14.9	18.1%
Sundry income	14.4	18.6	(22.6%)
Non-interest expense	**(340.7)**	**(308.0)**	**10.6%**
Account admin fee expenses	(340.7)	(308.0)	10.6%

Impairments and non-performing loans

In certain areas climate risk effects are impacting the quality of our loan book and some farmers are struggling to repay loans. The 2015/16 drought was preceded by two dry seasons which put farmer balance sheets under pressure. The record crop in 2016/17 was not followed by further good seasons in areas in the western parts of the country and farmers are struggling to recover under these conditions. These conditions impact not only our clients, but also farm workers and rural communities that rely on income from farming activities to sustain local businesses and social infrastructure such as schools. In line with our mandate, we offer assistance to clients by restructuring debt over a longer term where feasible and only repossess properties as a last resort. In absolute terms, the value of our Stage 2 loans increased by R643.5 million over the past year.

Our impairment charges have increased and includes the reclassification of our exposure to Tongaat-Hulett to under-performing as a precautionary action. We believe that our impairments should stabilise over the course of the year to these levels and are closely monitoring all exposures deemed high-risk to manage this risk.





OUR PERFORMANCE

Operating expenses

Some of our operational expenses directly support other capitals and address the material matter of employee development and retention. We strive to conduct our business responsibly and manage our expenses with care in the light of reduced in income from interest, yet we showed a year-on-year reduction in overall operating expenses of R25 million. We managed the expense reduction while providing an annual increase in salaries and making significant investments in training to improve staff skills.

Profits from continuing operations

Despite operating under difficult conditions, the Bank showed a profit of R130.6m. The Bank is a tax-exempt entity and does not pay dividends to its shareholder. However, we forego some of our profits in the form of interest rate subsidies to support our development mandate. In FY2019 that equated to R58.6 million (FY2018: R74.0 million) just to carry the cost our WFF facility where loans to the end-farmer are priced at 4%. We further provide subsidised mortgage loans to first-time purchasers of farmland from historically disadvantaged groups to encourage new entrants to the agricultural sector. Our profits are retained to strengthen our equity base as it is currently our only source of equity and contributes to our Basel-like total CAR of 16.4% (FY2018: 17.3%).

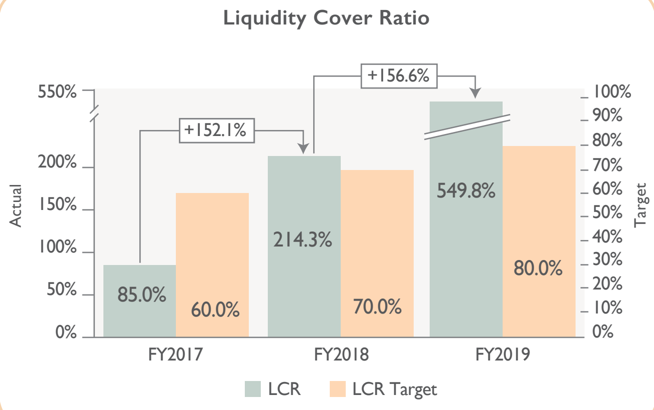
Captital, funding and liquidity management

With our voluntary adoption of Basel-like risk management practices of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) (with certain Board-approved deviations from the regulations), we aim to hold high quality liquid assets to provide sufficient liquidity buffers to mitigate re-financing risk and prevailing operational demands.

While uncertainty existed about the sovereign debt rating, the Bank retained higher levels of cash to withstand any liquidity events that could have emanated from sovereign risk, as our credit rating is linked to the sovereign rating. The late planting season contributed to a lower demand for cash from our clients and the conclusion of the Afgri Grain Silo Company transaction resulted in an influx of R600 million of cash at year end. We will continue to carry elevated levels of cash which may increase over the short term during the harvest season until the second half of the year. As excess cash comes with negative carry which affects our interest expenses, we are investigating options to prepay more expensive liabilities where possible.

Liquidity Coverage Ratio

The LCR aims to ensure that banks maintain adequate levels of unencumbered high-quality assets (numerator) against net cash outflows (denominator) over a 30-day significant stress period.



Deviation from the banking regulations

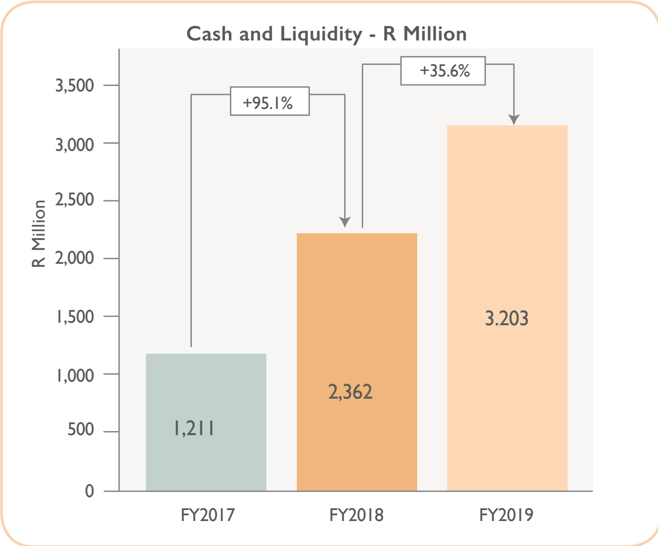
Deviations from certain banking regulations are agreed with the Bank's lenders, in accordance with practical considerations, based on the following principles:

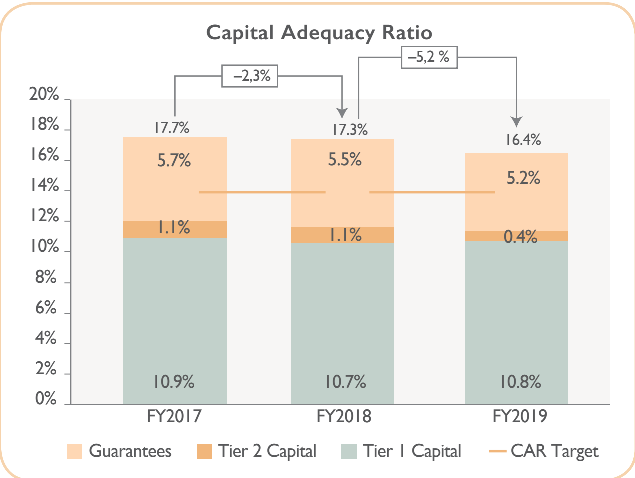
Our previous liquidity ratio required us to invest surplus cash with counterparties with rating A and above. Due to operational requirements, investing surplus funds in government bonds will cause excessive trading in bonds which increases the market risk and potential capital losses on cash. Therefore, we deviate from the Banks Act 94 of 1990 in terms of classifying cash deposits and available committed facilities as high quality liquid assets. In the past we have enjoyed a 100% roll-over rate from PIC and CPD debt investments and this behaviour is expected to continue. For this reason, the Bank excludes contractual maturities from these institutions from the 30-day maturity profile.

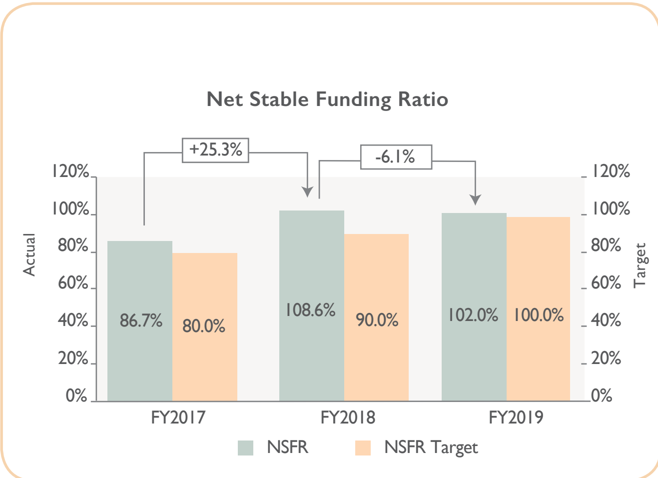
We acknowledge a deviation from the regulation in terms of assumptions made regarding roll-over rates with investors to assess the likelihood of roll-over. We will always apply the minimum roll-over rate (between historic roll-overs and investor discussions) to the calculations of the LCR.

These deviations from the banking regulations were negotiated with investors in bilateral loan covenants and they are comfortable that we apply these principles.

For FY2019 the Bank achieved an LCR of 549.8% (FY2018: 214.3%) against a target of 80%, while total cash and cash equivalents amounted to R3.2 billion (FY2018: R2.4 billion). To further strengthen its emergency liquidity position, the Bank has access to R2.65 billion in facilities of which R2.15 billion is committed and R0.5 billion is uncommitted.







OUR PERFORMANCE

Divisional overview

Land Bank is structured with two operating divisions, Commercial Development and Business Banking, and Corporate Banking and Structured Investments. Our Land Bank Insurance companies operate as separate subsidiaries.

Commercial Development and Business Banking (CDBB)

The CDBB division provides financial solutions to the large-, medium- and smallholder farmer client segments via its provincial lending network.

The division is further segmented into direct lending and indirect lending channels. The indirect lending channel comprises Service Level Agreement (SLA) partners and Wholesale Financing Facility (WFF) which are discussed separately below.

The CDBB loan book makes up 15.7% of the gross loan book.

During FY2019, 548 loans (FY2018: 738) (including re-advances) to the value of R1.2 billion (FY2018: R1.4 billion) were approved for this division with an average loan value of R2.3 million (FY2018: R1.8 million).

Our non-performing loans are increasing due to a combination of climate stress and difficult economic conditions for farmers.

CDBB	FY2019	FY2018
NPLs	18.6%	15.6%

Performance highlights

The developmental component of the loan book has increased over the past three years due to ongoing focus on this area. We introduced a new data capturing process on our SAP system and can report accurately with supporting evidence on the composition of new business.

The provincial network significantly increased its pipeline of developmental transactions.

We achieved an above average Net Promoter Score of 28% on a response rate of 39%. Clients appreciate the professional and knowledgeable staff who are solutions-oriented with a deep understanding of the sector. We focused on improving loan turnaround times, application processes and feedback to clients.

Our newly appointed senior management team brought key skills and a refreshed approach to our business practices.

CDBB staff participated in the Learning Academy Programme and more than 90% of them achieved the required 80% overall pass rate for the eight learning modules.

We managed our cost-to-income ratio closely by reviewing the location of offices and cost of owning versus renting these premises. Profitability has been achieved (excluding head office costs) at the majority of our branches compared to 2015, when fewer than a third of branches were profitable.

Four projects were implemented in conjunction with the Jobs Fund and sector partners to benefit smallholder farmers in various agricultural sub-sectors, including deciduous and citrus fruit.

Challenges

Development transactions take longer to complete as clients need additional support and grant funding is not always available timeously. This consumes staff time, but may not result in profitable returns being generated on a continuous basis.

Many developmental transactions depend on grant funding and the Black Producers Commercialisation Programme Blended Finance Facility (BPCP BF) enabled a number of transactions to be structured. However, the uncertainty of funding availability and changes in the policy have affected our ability to disburse these loans and complicated client relationships due to a lack of communication from the policy departments.

Investments in IT systems have lagged changes in the operating model, consequently many processes are still ineffective and paper bound. The new IT architecture and resource plan is a high priority to improve the effectiveness of our operations and improve cost management.

Climate events such as the ongoing drought and the higher credit risk of developmental transactions have resulted in an increase in NPLs which requires additional monitoring and enhanced credit screening of transactions.

Looking ahead

Identify additional sources of funding like the Jobs Fund to support development transactions.

Invest in IT systems to improve turnaround times, client feedback cycles and reporting while enabling bankers to spend more time with clients.

Investigate alternative products to support smallholder farmers with little collateral and equity and to support all farmers to become more client resilient.

Optimise our income through effective collection of debts due and correct fee structures to generate non-interest income.

Find the right partners to pilot transactions that involve pre- and post-investment

Service Level Agreement Partners

Seven SLA partners assist the Bank with the end-to-end credit lending process from loan origination, disbursement, monitoring, collection and legal recoveries. These partners are paid a management fee for their services while risk and profit-sharing arrangements ensure that quality assets are originated. These loans are carried on Land Bank's balance sheet, allowing the SLA partners to use their assets to expand their own operations and the Bank's gains coverage and operational support at a lower cost.

The SLA book makes up 58.6% of our total loan book.

SLA	FY2019	FY2018
NPL%	9.6%	7.0%

Performance highlights

The SLA loan book grew 8.8% versus FY2018 to R26.5 billion.

Challenges

The size of the SLA portfolio has continued to increase without a significant focus on development. We are in the process of developing a clear credit and pricing framework to increase traction in the development area that we expect to roll out in FY2020.

The transformational proportion of the loan book remained at a similar level compared to FY2018.

Non-performing loans increased to R2.5 billion, a ratio of 9.6% (versus 7.0% in FY2018). This was predominantly linked to one SLA intermediary whose operations are located in the drought-stricken western Free State and North-West province.

Net profit declined by 24% to R343.9 million and the cost-to-income ratio grew to 52% (versus 42% in FY2018), largely as a result of our increased funding costs. We identified some flaws in the SLA remuneration model. The current model neither incentivizes optimisation of margin by the SLA partners, nor results in a fair distribution of margin between the Bank and the SLA partners.

As a result of our audits, we converted one SLA arrangement into a direct facility due to the SLA partner's inadequate performance. In addition, we have identified an SLA partnership to be discontinued due to the poor quality of credit decisions and lack of adherence to good credit management principles. We will transfer the existing facility to a combination of our branch network and a third-party administrator to manage the credit process and will manage the non-performing loans in-house with the assistance of the existing SLA partner.

Looking ahead

Optimise our intermediary channel through implementation of the SLA improvement plan Improve our IT systems to allow for more efficient monitoring of SLA loans

Increase the transformation and development impact of our SLA partnerships by express contracting for support We have developed an SLA improvement plan which seeks to strengthen the following across the SLA portfolio:

- Financial dispensation
- Credit policy dispensation
- Operational management, governance and risk, Compliance and Legal dispensation
- Framework for Development and Transformation.

OUR PERFORMANCE

SLA improvement plan

Over the past 18 months, the Bank has audited and evaluated its intermediary arrangements and has identified several areas for improvement that it will apply during the implementation of a new channel strategy. This creates an opportunity for Land Bank to identify local partners that are majority Black owned and that can be supported through appropriate tools and systems to become fully-fledged financial intermediaries while providing pre- and post-investment support to new generation farmers.

The plan entails four initiatives: strengthening financial dispensation; credit policy dispensation; operational management, governance, compliance and legal dispensations; framework for development of farmers.

Strengthening financial dispensation

This initiative aims to unlock net interest margins and boost the profitability of Land Bank, by:

- Aligning pricing principles between the Bank and its partners
- Matching associated cost of funds with asset tenors
- Changing the remuneration structure from a fixed cost basis to variable cost basis.
-

We believe that the above will ensure that strategic imperatives between the Bank and its partners are aligned and provide appropriate incentives.

Credit policy dispensation

The purpose of this initiative is to align credit policies more closely with our own policies and remove discretionary components that previously resided with the partner. It aims to enhance the risk profile by improving partner credit practice and includes the adoption of the Land Bank's credit risk tools and risk-based pricing methodology. We are also incorporating our Development Impact Strategy assessment, screening for Politically Exposed Persons (PEPs), as well as Environmental and Social Sustainability processes into the contracts.

Operational management, governance, compliance and legal dispensations

This initiative ensures alignment between Land Bank and SLA partners to ensure better oversight of operations at the SLAs. It entails conducting portfolio performance overviews of all partners and remediation plans for non-performing partners to assess whether their operating processes are consistent with those of the Bank.

Framework for development

Our SLA partners have generally not been effective contributors to the Bank's development mandate. This initiative seeks to provide a credit policy and pricing framework in which partners can originate development transactions that meet the affordability needs of emerging farmers within the credit risk requirements of the Bank. It includes a remuneration structure to enable partners to originate development loans with appropriate margin share and risk-sharing mechanisms.

A new relationship management configuration will facilitate implementation of the SLA improvement plan. The new structure will streamline the relationship from multiple points of contact between the Bank and the partner to two points of contact, loan origination processes and portfolio administration. We have started to implement the plan and are renegotiating three of our existing SLAs in line with the terms of the SLA improvement plan. We aim to have these concluded by the first half of FY2020. For other SLAs, certain components of the improvement plan are already being aligned by way of feedback on Annual Reviews, and a request for an increased limit.

Wholesale Financing Facility

The programme aims to address three issues that impact on smallholder farmers' ability to expand production and profitability, namely affordability of finance, reliable access to markets for production and quality technical skills.

We provide wholesale funding to nine intermediaries who on-lend to smallholder farmers, and further provide technical and market access to assist these farmers to increase the commercial scale of their operations.

A R150 million grant received between 2012 and 2016 from DALRRD enabled us to offer these loans at a deeply subsidised rate and compensate the intermediaries for their support.

This has been a cornerstone in our programme to support the commercialisation of smallholder farmers, but in the absence of continued grant funding to support the programme, it has become financially unsustainable as the Bank has to carry the cost of the subsidies on its own.

The non-performing loan ratio remains low as the Bank has direct recourse to the intermediaries.

Performance highlights

In the absence of interest subsidies from DALRRD, we negotiated a revised pricing dispensation with some of the partners to allow access to funding for smallholder farmers, albeit at a higher cost, which reduces the impact on our income statement.

Improved monitoring of these facilities resulted in a better understanding of the types of smallholder farmers, their dependents and project employees supported.

Increased oversight based on an audit conducted in the previous financial year resulted in improved credit management of the facilities.

More than 700 smallholder farmers are supported and the projects have contributed to the creation and maintenance of approximately 8,000 permanent and 8,000 seasonal job opportunities.

Challenges

The WFF loan book of R980.2 million did not increase as new facilities are no longer granted under the product.

The product was premised on ongoing support through a government grant which would have allowed us to subsidise interest rates and pay intermediaries for technical support provided to these clients.

Since the discontinuation of the support, Land Bank has continued to carry the cost of the subsidised interest rates to farmers which in FY2019 amounted to R58,7 million (FY2018: R74 million).

Our initial monitoring of these facilities was not structured well enough, consequently we had to address a number of reporting and credit management shortcomings temporarily through manual, spreadsheet-based arrangements.

Looking ahead

We are exploring alternative sources such as enterprise development funds, as well as collaborating with impact investors to replace the grants from government.

We will invest in systems to manage smallholder farmer intermediaries more effectively and improve our reporting.

In the absence of alternative funding, we will redesign the product in partnership with intermediaries to ensure cost of funds and some operational costs are covered, without pricing the smallholder farmers at a full market price.

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Corporate Banking and Structured Investments

The CB & SI division provides debt, structured finance and equity solutions to the agri-corporate as well as mega- and large-farmer client segments. It services clients through two regional offices based in Centurion and Cape Town respectively.

During FY2019, we approved R6.6 billion (FY2018: R3.6 billion) in loans for CB & SI clients (which excluded approvals for annual renewals of existing production credit facilities and other existing revolving loan facilities).

CB & SI	FY2019	FY2018
NPL	0.5%	2.0%

The CB & SI division contributes 23% to the Land Bank's loan book.

Performance highlights

- The size of transactions within this division are large and 'mega', so its contribution to development impact lies within transformation rather than smallholder farmer development. We contributed toward this goal by transforming the lending book, which now consist of 43% clients with a BBBEE rating of 4 and higher (FY2018: 18%).
- We incorporated full environmental and social sustainability conditions into our due diligence and credit processes, thereby setting up processes for improved loan performance in future.
- Non-interest income grew by 97% driven by fees, investment income and realized fair value gains.
- Land Bank provided R1.9 billion in loan funding and invested a further R231 million of proprietary funds in a transaction with Afgri Grain Silo Company. The transaction created the first majority Black-owned grain management company in South Africa in one of the largest transformation deals ever concluded in the agricultural sector.
- In partnership with the Jobs Fund and Deciduous Fruit Producers Trust, we launched the R600 million Hortfin Fund, which will provide loans to majority Black-owned smallholder and medium scale commercial farmers in the deciduous fruit sector.
- We received approval from the Jobs Fund to launch a R300 million mezzanine fund to provide subordinated mezzanine debt to medium-scale Black commercial farmers. Jobs Fund is providing R200 million in grant funding which of which R150 million will be for mezzanine lending. Land Bank will blend this with R150 million to create the mezzanine facility. Land Bank will provide an additional R300 million senior debt to create a total fund of R600 million.

Challenges

- The lending book has not grown due to the sector conditions. In addition, certain transactions and resolving some distressed assets reduced the overall loan book by approximately R3.0 billion.
- Transformation clients often do not have equity to contribute which compromises the effective structuring of transactions.
- Climate change and the associated unpredictability of rainfall and shifting of the planting seasons affected a number of our clients, specifically in the western parts of the country.
- The cost of compliance increased, particularly regarding politically exposed persons and the associated processes which lengthens loan turnaround times and thus affect interest income.

Looking ahead

- We have a strong pipeline of transformation transactions to contribute to lending book and transformation growth.
- The secondary market or high-value part of the value chain, such as packaging will be prioritised to diversify the loan book, offering a source of new business and reduced risk.
- We will concentrate on managing impairments and growing the loan book profitably.

Joint venture between Land Bank, Jobs Fund and the Deciduous Fruit Producers Trust

During the past year, Land Bank embarked on an innovative initiative to drive transformation across the deciduous fruit value-chain. The Deciduous Fruit Producers Trust provided a 15-year, R100 million loan at no-interest rate and Jobs Fund contributed an additional R200 million grant to create the Hortfin SPV. Land Bank will blend these funds with a R300 million senior debt facility to provide loans to qualifying Black farmers at a reduced interest rate. The loan funding will be combined with technical support and market access from the deciduous fruit industry to provide a comprehensive solution to these farmers. The intention is to disburse R500 million over a three-year period and to create a long-term funding structure to expand the deciduous fruit sector while contributing to transformation and job creation.

The team that deliverd the Afgri Grain Silo Company transaction. The transaction created the first majority Black-owned grain management company in South Africa in one of the largest transformation deals ever concluded in the agricultural sector.

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Land Bank Insurance Company

Land Bank Insurance Company (LBIC) is registered with the Prudential Authority (PA) as a Non-Life insurer and is the second largest crop insurer in the country, providing cover to farmers for hail, fire and yield losses due to weather conditions, amongst others.

Financial performance:

- LBIC reported a net combined operating ratio of 136.4% in the current reporting period (FY2018: 149%) reflecting a net loss of R37.7 million (FY2018: R35.6 million loss). As a monoline insurer, the adverse weather patterns continue to strain its profitability as a result of high claims ratios.
- Gross written premium declined by 7.2% to R504.4 million (FY2018: R543.3 million) while operating expenses increased to R19.9 million (FY2018: R20.3 million).

Performance highlights

- Maintained our market share even though our premium income was slightly less than last year.
- Adapted our risk under-writing processes to weather volatility
- Achieved our objectives to expand our Black Broker Programme.
- Launched a Black Assessors Programme in partnership with the Walter Sisulu University.
- LBIC insurance is one of the participants in sector discussions with NT to bring about insurance solutions for smallholder farmers. We are proud to contribute to this initiative and are excited about the potential of the initiative for the greater good of the sector. We hope to disclose details of the initiative in the next reporting cycle.
- Achieved a clean audit.

Challenges

- Financial performance was unfavourable, largely due to volatile weather conditions. Many farmers did not purchase insurance for the year as they either planted outside the official cut-off dates to obtain cover or did not plant at all as a result of the late onset of the rain. Farmers are also converting from crop production to livestock in certain areas of the country where a persistent risk of drought is reducing the profitability of grain crops. This resulted in a decline in premium income.
- Claims increased to their highest level ever due to persistent drought in some areas and unexpected hail in other areas. In some cases, farmers suffered up to 100% damage to their crop. Consequently, we reported a bottom-line loss.
- Premiums have been increasing due to weather volatility, yet they are not high enough to cover the claims. The paradox is that we are charging lower premiums than required, yet farmers cannot afford the premiums. South Africa remains the only country in the world where government assistance is not available for crop insurance.
- Market volatility impacted negatively on the income from our investment portfolio on the life insurance side of the business. We have reviewed our investment strategy as a result.

LBIC	FY2019 R million	FY2018 R million	Variance
Gross premiums	504.4	543.3	(7.2%)
Net premium income	153.5	138.4	9.1%
Operating expenses	(19.9)	(20.3)	31.5%
Underwriting loss	(54.9)	(68.1)	(18.0%)
Net loss	(37.7)	(35.6)	8.1%
Combined operating ratio	136.4%	146%	(8.0%)

Land Bank Life Insurance Company

Land Bank Life Insurance Company (LBLIC) is a licensed life assurance provider that has been providing individual and group credit life insurance products as well as disability cover to Land Bank clients and farmers since its inception in 1954.

Its appointed asset managers support responsible investment and are either signatories of the United Nations Principles for Responsible Investment (UNPRI), a framework for achieving better long-term investments and more sustainable markets or subscribe to the Code for Responsible Investing in South Africa (CRISA,) that guides institutional investors on conducting investment analyses and activities, as well as exercise rights to promote sound governance.

Financial performance

- Net profit for LBLIC increased by 59.4% to R75.3 million (FY2018: R47.1 million) owing mainly to the increase in investment income which grew by 34.9% to R75.3 million.
- Gross written premiums declined by 42.2% to R5.9 million (FY2018: 10.2 million) owing to the cancellation of some of the group life schemes.
- Operating expenses increased marginally to by 3.0% to R6.9 million (FY2018: R6.6 million). Total excess assets over liabilities increased to R1.2 billion (FY2016: R1.2 billion), as a direct result of the Investment increase of R75.3 million.

Performance highlights

- Our profits increased by 59.4% under difficult market conditions.

Challenges

- LBLIC's product offering is limited by its ministerial mandate which severely affects its ability to remain relevant within the sector.
- Due to weak performance by markets, profits related to its asset under management were negatively affected.

Looking ahead

- Transfer management of investment portfolio to Land Bank Treasury division
- Conduct ongoing discussions with NT to expand the product offering by LBLIC to cater for smallholder farmers and other relevant segments in the market.

LBLIC	FY2019 R million	FY2018 R million	Variance
Gross premiums	**5.9**	10.2	(42.2%)
Net premium income	**3.4**	4.6	(26.1%)
Operating expenses	**(6.8)**	(6.6)	3.0%
Underwriting loss	**(1.2)**	(9.9)	(87.9%)
Investment income	**75.3**	55.8	34.9%
Net profit	**75.3**	47.1	59.4%
Excess assets over liabilities	**1,245**	1,169	6.6%
Investments	**1,346.5**	1,271.2	5.9%

"In FY2019, we broadened our reach by designing and developing a Black Assesor Development Programme to identify and train Black agriculture economists or equivalent graduates in crop assessment protocols.

Land Bank Insurance Company Transformation Projects

Part of Land Bank Group's mandate is to support the entry of previously excluded farmers to the commercial farming sector. LBIC's business objective is to provide the necessary tools within its scope to support smallholder farmers and farming communities. One such tool is providing financial solutions through insurance and risk management. We also aim to contribute to SDG 4, quality education.

Before July 2016, predominantly White male intermediaries or brokers sold crop insurance in South Africa. However, in 2016 LBIC introduced its Black Broker Development Programme to develop and support Black broker entities. Since then, 22 majority Black-owned broker entities have been accredited who collectively raised R6.9 million in gross written premiums. This translates to a total Black farmer value at risk underwritten at R174 million. We plan to continue with this programme beyond FY2019.

In FY2019, we broadened our reach by designing and developing a Black Assessor Development Programme (BADP), to identify and train Black agriculture economists or equivalent graduates in crop insurance assessment protocols. This programme is being rolled out in partnership with the Walter Sisulu University in the Eastern Cape. This forms part of LBIC's efforts to develop all participants in the agriculture value chain.

There are many young people with different levels of agricultural qualifications from universities and colleges in the Eastern Cape, as well as other rural regions of South Africa. They are mostly unemployed, regardless of their qualifications and therefore, a prime target to attract for participation in LBIC's BADP.

We are extremely proud of these initiatives and our contribution towards the SDGs 4 and 10. In particular, the project will increase the number of youth and adults who have relevant skills for employment, decent jobs and entrepreneurship. It also supports the social and economic inclusion of all and, through education of smallholder farmers about crop insurance, it promotes the stability and growth of the sector, assisting farmers to mitigate their environmental risk.

Natural capital

Material matter: Climate risk and environmental sustainability

Land Bank uses relatively little natural capital in its own business operations, but risk associated with climate change pose a fundamental risk to the Bank's business to the extent that these factors affect our clients' ability to repay their debt and even their business viability. The heightened risk profile of our lending and investment value chain therefore requires close management to mitigate risk to Land Bank's medium- and long-term viability.

The impact on the natural environment of the Bank's application of financial capital to support activity in the agricultural sector is also considerable, through the downstream impact of our clients' farming enterprises and practices. We therefore contribute to the following SDGs through our activities:

Our approach to climate risk

Climate change has been identified as one of the most significant risks for a South African organisation that is wholly committed to the agricultural sector. The Risk and Governance Committee (RGC) governs climate risk and provides oversight on the assessment and response to the transitional and physical risks it poses to the organisation. Management is responsible for developing and implementing the climate strategy for the Group, and its implementation pervades across functional areas. During the past year the we engaged with scientists from a number of institutions, including the CSIR and Agricultural Research Council, to glean an understanding of climate change and to determine what type of climate information would be appropriate for its analysis of risks and opportunities. Through these interactions it became evident that increases in temperature, drier conditions and drought, soil degradation and the loss of biological diversity are critical risks to southern Africa.

These translate into the following risks for the Group:

- More frequent and longer lasting droughts in certain parts of the country
- High variability in rainfall patterns which affect soil moisture and therefore growing periods
- More instances of heat-wave days and fire-danger days
- Unpredictable outbreaks of diseases in location and commodity.

Such adverse weather events affect crop yields (a shorter growing season exposes the plants to less photosynthesis which reduces yields) and livestock productivity, including increased mortality rates. They have a negative effect on the potential income of farmers and thus increase the risk of loan defaults and non-performing loans for the Bank. Further, the quantum and value of claims received by LBIC are also affected and may influence the value of the Bank's equity investments.

In the short term, we rely on various strategies that we have developed over the past century to manage our exposures such as diversification of commodities, geographical locations and components of the agricultural value chain. These strategies and the drive to increase exposure to secondary agriculture, provide us with the necessary resilience to continue its operations at a sustainable level under conditions consistent with 1.5°C scenario. We have developed concentration risk limits per commodity and debtor, and these are monitored regularly and reported to RGC on a quarterly basis.

The next level of assessment for the Bank deals with risks and opportunities related to a 2°C or higher scenario and the development of strategic measures to operate sustainably at such levels over the medium to long-term.

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Our team responsible for environmental and social policy and implementation

Our perfomance

During the past year we undertook our first high-level assessment of the opportunities posed by climate change and identified certain areas for further investigation. Some of these are related to technological advancement which allows for better monitoring of exposures and products based on the development of such technologies. We also consider climate offsets to finance farmers' mitigation and adaptation projects. To reduce the costs of these initiatives we could access a number of specialised sources of funding for climate related solutions.

The Bank has set out to develop a climate change strategy, including processes and tools – in conjunction with organisations such as NAMC, ARC and CSIR – which will guide strategic engagements with key stakeholders and the development of commodity-specific climate strategies. This is necessary to increase our access to green funding to address climate change risks, such as through the Global Climate Fund.

Our investors place increasing emphasis on assessing the climate resilience of the Bank and its clients. Therefore, we must seek alignment between the Bank and our investors in this regard. We will prioritise proactive engagement with investors on their policies and risk assessments with regard to climate change and climate disclosures.

Looking ahead

Over the next year we will:

- Conclude the development of a comprehensive climate change strategy
- Assess the opportunity to develop specialised products and access suitable funding to assist clients to manage the transition risk posed by climate risks
- Continue our engagements with specialists, clients and other stakeholders to assess climate risks and opportunities over the medium and long-term
- Identify additional measures and improve the monitoring and reporting of climate risks.

Over the next two to three years we will focus on:

- Tools to measure, monitor and report climate risk at a portfolio level
- Specialised products for farmers to manage transition risks
- A methodology to assess Scope 3 emissions which result from our lending activities
- Metrics to monitor climate risks and Scope 3 emissions
- Incorporating TCFD reporting in our financial disclosures.

Our approach to Environmental and Social Sustainability

Our Environmental and Social Sustainability (ESS) strategy informs our policy and processes throughout the Bank's workflow – from loan applications to loan management – because climate change and water scarcity, environmental and social risk, compliance, national government policy and market changes must all be accounted for in the way we do business.

The Bank plays an important role in contributing to the regional, national and global environmental agenda in meeting SGDs. Failure to adapt to changes which impact on the agricultural sector would severely reduce our resilience as a funding organisation.

In short, the ESS function provides direction to the broader Bank regarding environmental and social sustainability, including compliance with regulation, funder requirements and trends. The ESS team works closely with the credit risk team and post-investment management services team to ensure that we incorporate ESS assessment into the credit assessment process and post-disbursement management process.

Our four main objectives through FY2019:

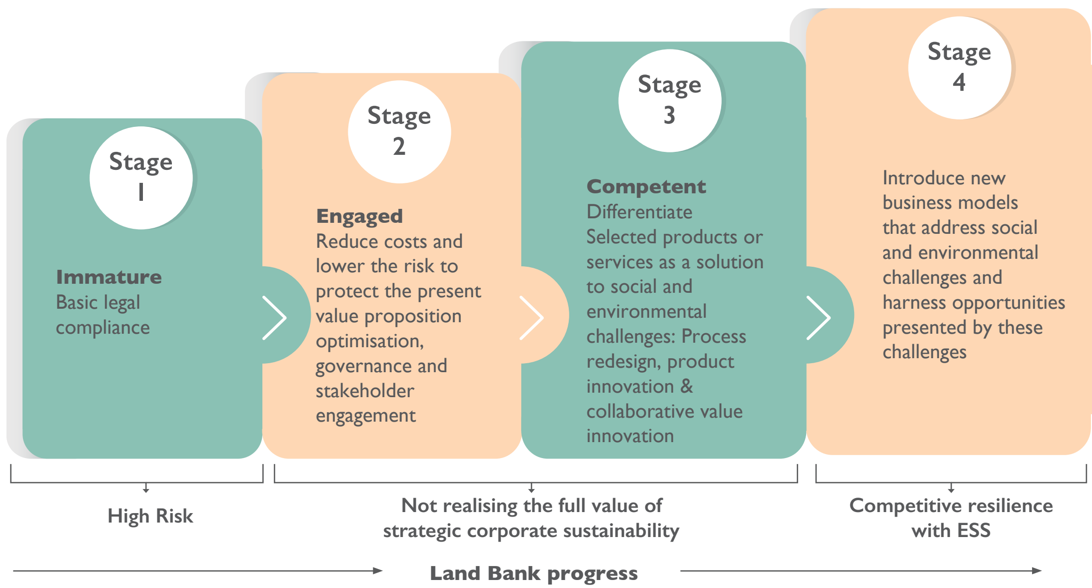
- Strengthen procedures for conducting ESS due diligence
- Develop opportunities for Sustainable Agriculture Practices (SAP) to build climate change resilience
- Enhance our ESS risks and opportunities research
- Promote material-use efficiency and sustainable waste disposal in the agricultural sector.

We must use our influence to instil ESS goals in the agricultural sector so that our clients take actions to improve social and environmental conditions not only for those directly involved in agriculture, but also for communities who are indirectly affected by their environmental resource management, labour practices and climate change. We have thus worked diligently to develop innovative strategies to ensure that South African agriculture is ethically sound and environmentally responsible.

Our performance

In FY2019 we demonstrated commitment to environmental and social sustainability by increasing our capacity in this function to integrate the assessment of Environmental and Social risk. We are proactive about ESS not only to ensure compliance with our funders, such as the World Bank, but also to take a leading role in South Africa's response to the climate change problem. We believe we have made good progress in the implementation and achievement of our objectives. Through these initiatives the Bank has built on its ESS maturity to form a robust part of our direct and indirect lending procedures. We thoroughly reviewed our loan application processes and fully implemented the ESS risk assessment – whether through direct review for clients or an indirect approach – from loan application phase to loan management phase.

Frontline office and management staff received training on the assessment and management of ESS risks and opportunities. Our Agricultural Advisory Services division supports the implementation of ESS assessments as part of their broader advisory mandate for the Bank. All new loan applications undergo comprehensive screening and monitoring as per our Environmental and Social Management System. This screening process helps us to reduce risk in our loan book by ensuring that our clients are managing their resources sustainably. This, in turn, enhances their likelihood of accessing finance. In FY2019 we reviewed 351 applications of which 55 were deemed medium risk and the remainder low risk.



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In terms of challenges faced, we frequently receive inadequate supporting documentation for compliance with legislative requirements in terms of labour. The social research planned by our Research and Intelligence department, once completed, should provide insights on social compliance issues relating to our clients. We are working with our clients to improve submission of key information such as transaction context, water sources and water rights, intensive facilities on farms, and the number of permanent and temporary employees.

Research is a fundamental part of expanding our understanding of environmental and social risks and opportunities. However, the environmental impact baseline assessment on farms engaged in direct lending with Land Bank has experienced delays. We are expecting to complete the assessment in the current financial year to use the outputs to inform our future ESS actions and climate strategy

We have invested considerable effort towards changing the relationship with SLA partners and improving the performance of the SLA book and are incorporating new areas of obligation that include ESS commitments. Further, we conducted a survey of intermediaries that included all on-lending processes as well as an assessment of whether or not ESS goals were incorporated into lending processes and contracts. When contracts are up for renewal, we incorporate ESS conditions. We have therefore made progress in rolling out environmental and social risk analysis to our SLA partners, though it has been slow. They do show a willingness and commitment to partner with us and are following our credit policies that have ESS commitments. However, have further work to do with our partners to reflect environmental and social conditions in all legal covenants.

In terms of mobilising funding, we continue to develop a EUR 100 million Climate-Resilient Agriculture Fund underwritten by the European Investment Bank. We are currently refining the form of fund structuring, financial modelling and fundraising. An application for the Global Climate Fund (GCF) online account is underway. GCF accreditation will allow the Bank to become the main conduit of international funds to the South African agricultural sector to support farmers as they adopt sustainable practices which will reduce the sector's contribution to climate change and improve the use of energy, water and land.

By identifying risks and providing advice on best practice, the Bank is driving behavioural change. We believe our clients are becoming more aware of risks and area taking mitigating actions. We also actively work with our clients to help them mitigate their ESS risks; firstly, by gaining a thorough understanding of their business, and secondly by a developing guidelines and tools in support.

We have also partnered with the National Agricultural Marketing Council in a proposal to develop a carbon calculator tool to assist with the collation of information on greenhouse gas emissions in the agricultural sector, in order to understand the sector's carbon footprint.

We continue to develop material consumption and waste disposal metrics to calculate baseline consumption measures for the sector. Recording scope 3 emissions is an area we plan to address over the next three years.

Engagements and collaboration with the Department of Environmental Affairs (DEA) continue the formalisation of efforts to scale up the implementation of the Agriculture, Food Systems and Food Security Flagship Programme. Finance and investments are being mobilised to support and enable the deployment of low-carbon and adaptation technologies, as well as building the capacity to govern, regulate, install and operate these technologies. As part of this collaboration, the Bank, Food and Agricultural Organisation and DEA are exploring possibilities of partnering on a project for funding by the GCF.

Looking ahead

We remain committed to the Bank's re-focus on the sustainability of its natural capital which commenced in FY2016.

In FY2020 we will to continue developing a climate change framework, investigating climate change analysis tools, and engaging in activities which bring our clients and stakeholders into closer collaboration to move beyond compliance towards a sustainable agricultural sector for South Africa and beyond.

Intellectual capital

Material matter: Technical advancement

Our accumulated knowledge and experience applied to our development finance and corporate banking business activities, enabl eus to be an adaptive organisation and to spur innovation to create a transformed and resilient sector.

Our application of these resources contribute to the following SDGs:

Managing risk

Land Bank's enterprise risk management, financial and credit models, ethics policies, organisational procedures and culture make up a significant portion of intellectual capital in what is a niche sector with volatile risks. A challenging economic environment coupled with natural environment challenges such as drought and disease require the Bank to maintain a strong risk compliance, governance and ethics culture in order to meet our value-creation objectives.

We maintain our ambition of becoming a world-class risk management organisation. We began maturing our risk environment in FY2016 and have continued on this trajectory towards international and local best practice. We will continue with the Risk Champion model, as we perceive it to be the best for our organisational structure. We have implemented a decentralised risk model to give greater effect to risk accountability. Further entrenchment of the model will require investment in terms of people, upskilling existing risk champions and potentially employing additional risk specialists in key operational areas.

The Bank utilises an ERM framework that takes into account legislative and government regulations and sets out clear roles and responsibilities in our assurance function. See the Governance section for more detail. The ERM framework is independently overseen by the board and senior management, with risks reported though various board committees. Executive management control is maintained through management committees, which focus on specific risk types. Policies and procedures support the overall framework, with clear reporting lines and allocated hierarchical responsibilities. Our appointed risk champions in each business unit play an important role as the point of contact between the business unit and risk management division.

We continue embedding and maturing the ERM framework through various interventions including ongoing training and awareness. We are also implementing additional modules within the current ERM tool, CURA.

The Bank has elected to continue with its existing risk taxonomy, with a review scheduled for April 2020. An operational risk policy, a standard operating procedure and processes were approved in February 2019.

Our performance

Since we made significant progress against our risk maturity in the last two years, we prioritised compliance during the year under review and made significant progress in that regard (refer to the Land Bank Governance report for compliance information). However, we continued to adjust our risk management processes to maintain momentum towards risk maturity.

We conducted policy and procedural updates during the year, including operational risk policy and standard operating procedures, incident management procedures and our registered risk types. Due to frequent changes in the agricultural sector it is imperative to conduct annual policy reviews in the credit space. Credit decisions are guided by our credit policy and risk appetite.

We have applied consistent risk methodologies throughout the Bank, developing granular key risk indicators aligned to our operational risks. This required enhancements to our ERM systems capability to connect our tracking tools with risk indicators, mitigating actions and progress. By July 2020 the Bank should have an optimised systems approach in line with leading practices.

An IT implementation validation for loan origination models was also done to enhance the credit risk assessment function. With our improved assessment and scenario testing capabilities, we are more confident about the potential quality of a loan in the years after disbursement and we have contingency measures in place for when loans do not perform.

OUR PERFORMANCE

We extended our understanding of the credit risks associated with transformational transactions. We have also become proactive by ensuring our credit teams accompany the client-facing delegations to identify risks appropriately at the source of the information.

We have thus continued to enhance our risk rating, credit tools and pricing for the last two years, identifying gaps to improve our risk control level and efficiency. Our credit team is fairly new but features ex-commercial bank employees who bring a wealth of commercial experience. This has enhanced our credit quality and ensured that we are comparable with parameters used by other banks, notwithstanding our broader mandate.

Anti-money laundering and Politically Exposed Persons (PEPS) monitoring

During the year we approved the Anti-Money Laundering (AML)/Combat of Financial Terrorism Framework, Policy and Risk Management and Compliance Programme (RMCP) to give effect to the requirements of the Financial Centre Intelligence Act. The Financial Intelligence Centre (FIC) also conducted an inspection of the Bank in the latter half of 2018, with no administrative enforcement action imposed on the Bank.

We enhanced our due diligence processes for identifying PEPS. During the year under review 3,548 entities related to new loan applications and procurement transactions were screened using the Dow Jones Risk Management screening tool.

Beneficial owners and shareholders and directors screened

Total number of entities screened	3,548
Number of clients screened	2,237
Number of suppliers screened	1,311
Total number of PEPs	47
Number of client PEPs	28
Number of supplier PEPs	19
Total number of high risk entities	28
Number of high risk clients	26
Number of high risk suppliers	2
Number of high risk client PEPs where business has been concluded	26
Number of high risk supplier PEPs where business has been concluded	2

In order to increase effectiveness and efficiency of the AML screening and risk rating process, the Bank has approved a budget to procure a new AML system. This procurement will go out on tender in FY2020. Under FICA regulations the Bank is obliged to report all cash transactions above the threshold of R24,999.99 to the FIC within 48 hours of becoming aware of the transaction via our portal. As of 31 March 2019, a total of 96 cash threshold transactions were reported.

We uncovered external fraud in relation to a loan disbursed to a client not being used for its intended purpose. There were also two findings of unethical behaviour in Q4 relating to an IT investigation and another regarding the use of Land Bank fleet vehicles.

Looking ahead

While we are comfortable with Land Bank's risk maturity rating of '3 out of 5', we endeavour to reach '4 out of 5' maturity across all elements of the Risk Function Framework. To this end, we will continue to embed and mature the ERM Framework through various interventions, such as effectiveness surveying and reporting, and ongoing training. Moreover, we will link our granular key risk indicators to further entrench the risk appetite framework.

We continuously enhance our credit risk environment, and to work with our front-line to align with our view of risk. The Bank is engaging in ongoing coaching and capacity-building in monthly sessions with our front-line and partners in order to deal effectively with our concerns. We have also undertaken loan post-mortem analysis and sharing of information with our partners.

Linked to this alignment of risk is our increase in efficiency levels and stress testing of deals. Training is an essential element in identifying risks up front before the credit team is involved. We have also engaged the services of agri-specialists to gain a deeper expertise in assessing environmental risks. Our portfolio management services team is also engaged in a process of continuous monitoring for breaches of our covenants through the creation of watch lists.

Risk appetite

The Bank's Risk Appetite Framework, which defines the amount and nature of risk we are willing to take was revised in FY2018, with an updated policy and metrics. The RAF parameters are identified at the start of each strategic planning cycle and are adaptable to circumstantial changes in the agricultural sector.

Our risks are determined firstly through a process of profiling the business context and a risk assessment to identify the potential sources of risk associated with each element. Secondly, a risk analysis is conducted to calculate the probability of risk events, their potential impact and their ranking in order of priority.

During the risk evaluation step, we calculate the residual risk and develop the control requirements. Our Enterprise Risk Rating Matrix is shown below and corresponds to the risk ratings of each material issue.

LIKELIHOOD					
5 – Very Likely >100%			- Poorly executed land expropriation	- Development impact and transformation	
4 - Likely 75 - 100%				- Technology and information risks - Environmental and Social Sustainability. - Legal and regulatory non-compliance, fraud, theft and corruption - Human capital risks	- Financial sustainability - Capital and funding risks - Corporate plan risks. - Climate change. - Leadership continuity.
3 – Moderate 50 - 75%					
2 – Unlikely 25 - 50%					
1 – Rare 0 - 25%					
	IMPACT				
	1 – Insignificant > R8m	**2 - Minor >R8m to >R50m**	**3 - Moderate >R50m to <R100m**	**04 - Major > R100m to < R200**	**5 - Catastrophic > R200m**

Our principal risks

The Bank's risks are determined through an ongoing analysis of our business context and risk assessments to identify potential sources of risk. We calculated the probability of risk events, their potential impact on our business and their ranking in order of material priority. Upon this we base the formulation of our control measures.

Financial sustainability
This risk is defined as the Bank's potential inability to achieve sustainable business growth due to a combination of factors. This risk has increased since the previous year.

Key risks:
- Slow growth of loan book result in lower interest income
- Increased cost-to-income ratio as costs are increasing at a faster pace than income
- Increased impairments and NPLs due to weather and related sector risks.

In the absence of a capital injection by the shareholder, the long-term outcome could be a breach of our main loan covenants with funders which will reduce the capital available to the Bank and require additional cost-cutting and a reduction in the loan book size which will aggravate the financial pressures.

Mitigating actions

- We have enhanced service delivery and client engagements to drive loan book growth.
- We have considered re-pricing certain clients to increase income and are actively seeking to reduce our cost of funds.
- We are analysing the appropriateness of our operating model and channel strategy, the pricing structure of the book and finding areas to improve client service and reduce costs.
- We are adjusting performance targets to focus on the financial outcomes that we require.
- We are engaging with investors to assess the financial situation of the Bank and manage expectations with regards to loan covenants.

Strategic opportunities

In the short-term we will continue with current initiatives to support the development of the agricultural sector. Over the long-term, we have a goal to re-purpose the organisation to create a more developmentally focused organisation.
To optimise organisational efficiency in the short-term, we will re-assess our delivery strategy to find the most efficient balance between our direct and indirect channels. We have a placed a significant emphasis on improving our management of our intermediaries and cost-effectiveness of our intermediary partnerships.

For more information see Financial Capital p64.

Development impact and transformation

Slow growth of the development book relative to the portfolio size may result in poor stakeholder perceptions of Land Bank's ability to contribute to the development of smallholder farmers and transformation in the sector. This risk remained stable during the year under review.

Key risks:

- Development ineffectiveness and sector non-transformation through the direct lending book as these transactions take time to develop into bankable models
- Slow pace of development loans through SLA network due to lack of focus and appropriate instruments to address collateral shortfalls and lack of equity
- Fund Administrator programmes: Unpredictable availability of Blended Finance, AgriBEE fund and other funds managed under governmental agreements affects planning and implementation of projects

Mitigating actions

- Within our current structure we are creating capacity to structure development transactions at scale, such as through blended finance programmes. We are also developing smallholder farmer support programmes.
- We incorporated development and transformation performance indicators into performance contracts.
- As part of an SLA improvement plan, we reviewed our relationships with our SLA partners and are developing delivery strategies and negotiating revised targets with them.

Strategic opportunities

Although we already provide funding to smallholder farmers, our opportunity and mandate is to grow this portion of the book. We will establish pilot projects to test our ability to provide sustainable funding to emerging farmers and identify specific support measures required to support these farmers during the pre- and post-investment phase of the projects.

We intend to crowd in funding to provide loans at more affordable interest rates. To address shortfalls that smallholder farmer business models often encounter, we need to find solutions in areas such as credit guarantees; grant funding; equity funds in partnership with other entities; blended finance offerings.

For more information see Message from the Acting CEO p42 and Development Outcome p52.

Capital and funding risks

Failure to raise sufficient capital to fund loan book growth and liquidity risks associated to external events. This risk remained high during the year under review and is directly linked to the risk of financial sustainability

Key risks:

- Government is the sole provider of equity to the Bank and is unable to contribute capital given existing fiscal constraints
- Macro-economic and political risks may result in a sovereign debt downgrade by ratings agencies which will reduce funding available and increase the cost of funds
- Potential breach of funding covenants as discussed under financial sustainability risk

Mitigating actions

- There are sufficient sources of capital available to support the current Balance Sheet. However, to mitigate future risk, exploring investor funding activities and alternative sources of capital is a continuous endeavour. Maintaining strong investor relationships and continuing engagements with investors through regular roadshows and ad hoc meetings are important elements of this initiative.
- We have engaged with National Treasury to discuss potential funding options of the development mandate of the loan book.

Strategic opportunities

Engagement with the Minister of Finance to find a long-term sustainable funding structure.

We have proposed a restructuring of the Bank to ring-fence the commercial loan book and liabilities from the development loan book to increase transparency in the performance of each element and enable appropriate performance indicators and funding arrangements to be structured.

For more information see Financial Capital p64.

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Corporate plan risks
Risk associated with the FY2020 Corporate Plan and with future of Land Bank as it relates to the dual mandate (dependency on ministerial approval).
This is a new risk and relate to our ability to implement our proposed strategy.

Key risks:
- Dependency on external support from government through grants and capitalisation
- Execution of structural separation of development and commercial business units
- Human capital implications.
- Reputational risk from shareholder/stakeholder misalignment
- Availability of grant funding to ensure the R3bn financing projected disbursements can be realised.

Mitigating actions	Strategic opportunities
- Developing a detailed implementation plan to ensure effective execution of structural separation is a critical part of its success. - We have made a proposal to government on the creation of endowment fund structures to support pre- and post-investment which will allow us to invest a once-off grant from government and use the returns to provide support to smallholder farmers to access markets and technical support. - Leadership is ensuring detailed consultation and communication with relevant staff and will ensure communication with all staff throughout the process once approved. - In the meantime, we will continue to crowd in support from public and private sector institutions to facilitate R3bn in disbursements. - We are developing a new approach with intermediaries and better controls combined with regular audits.	Ongoing consultation with the shareholder is needed to gain approval for the proposal and manage reputational risks. For more information see Message from the Acting CEO p42 and Development Outcome p52

Technology and information risks

Persisting business processes and people capacity limitations which impacts loan turnaround times and monitoring. This remains an important risk as it impacts our operational costs and controls.

Key risks:

- Business Inefficiency due to manual processes
- Strategy execution and systems/ technology capability gaps
- IT Governance accountabilities
- Data management optimisation
- Information (records) management

Mitigating actions

- IT governance is a priority to clarify roles and responsibilities, ensure monitoring and reporting and security of information. An audit, IT gap analysis and evaluation of the IT architecture have been completed. These will inform an over-arching IT strategy which will be implemented over the short- to medium term.
- We are emphasising skills development and process improvement to enhance our technical capability to support client service and turnaround times. We have completed training and awareness for various aspects.
- A considerable data clean-up and automation project is in progress.
- IT projects have commenced to improve the digitisation of Land Bank processes and data to take advantage of technology advancements and to manage and control risks.

Strategic opportunities

An IT strategy and architecture that is aligned to our business needs has been developed. The critical short-term actions are to invest in technology and systems to support workflow within the Bank and provide better client service to farmers. We will also develop an innovation strategy and implement a knowledge management framework to foster a culture of innovation and information-sharing across the organisation.

Investments in technology to assess farm capacity and monitor ongoing risks to crops is being piloted and will be incorporate into our loan monitoring and credit processes.

For more information see IT governance in the Land Bank Governance report

OUR PERFORMANCE

Climate risk and environmental sustainability

Impact of climate change, environmental and social risks on the Bank long-term existence and financial sustainability.
These are major risks to the long-term sustainability of the Bank and have increased in prominence over the past year.

Key risks:
- Insufficient access to water resources for clients as a result of drought, failing irrigation infrastructure and delays in obtaining water licenses
- Increased non-performing loans and impairments as clients are unable to repay loans due to adverse weather conditions
- Rising social discontent and racial polarities affect security and increase pressure on the Bank to be effective in the execution of its mandate.

Mitigating actions

- We have been integrating ESS into the loan process and embedding its monitoring and reporting. The assessment tools have been operationalised and social factors have been introduced into the due diligence process.
- We are investigating opportunities to provide incentives for sustainable agricultural practices.
- Research is fundamental for better understanding of climate risk. We continue to conduct research in phases on clients' agricultural practices in terms of environmental risks to determine level of awareness of environmental risks, existing adaptation and mitigation actions by clients. The first phase is complete.

Strategic opportunities

We are developing a climate change strategy, processes and tools with input from key stakeholders. This includes commodity-specific climate strategies, increasing access to "green" funding and increasing internal capacity.
We plan to continue on the path of improving the environmental and social risk processes to identify and manage related risks and co-operate with clients to increase climate resilience and expand to SLA partners.
To address stakeholder concerns and potential discontent, we are conducting research that will inform and monitor our clients' labour practices, minimum wages, health and safety.

For more information see Natural Capital p83

Governance, ethics and fraud

Breach of legislation, regulations, policies and procedures. Unauthorised use and manipulation of information with the intent to commit fraud, misappropriation of property, circumventing of regulations, the law, or company policy by an employee and/or a 3rd party.
This risk has remained stable and is a risk to all financial institutions.

Key risks:
- Legal and regulatory non-compliance
- Theft, fraud and corruption
- Certain loan covenants with funders are explicitly tied to events of fraud, money-laundering and corruption by Board members or executives

Mitigating actions

- We placed a significant focus on compliance during the year, including the creation of compliance risk profiles and compliance plans for each business unit, monitoring, and training.
- We revised our policies concerning fraud and corruption and updated our forensic methodology.
- We continue to conduct fraud awareness training.
- The Anti-Money Laundering Office is in the process of back-screening existing clients. We reviewed relevant policies and implemented screening for all new clients and report to EXCO on a monthly basis and to the Board on a quarterly basis.
- We separated the Fraud line from the Ethics helpline and held an Ethics launch focused on the Ethics helpline.

Strategic opportunities

We will continue to phase two of our three-year implementation plan for the Compliance programme, which included an overhaul of our compliance framework, policy and methodology.

For more information see Managing risk p87

Human capital risks

In the difficult economic and agricultural context that the Bank faces, it is important that we have the right people and conditions for a high-performance culture. This remains an important risk to the Bank and the recent changes in Executive Management has increased the risk over the short-term.

Key risks:
- Leadership continuity
- Critical skills retention and development
- Culture risk

Mitigating actions	Strategic opportunities
- The appointment process for a new CEO and CFO is underway. - We have a talent management framework that is utilised on an ongoing basis for identification of internal talent. - A Learning Academy was established, and several modules have been completed. Further modules will be offered in FY2020. - Ethics training and awareness has been a focus during the year to support our ethics culture, and further modules will be rolled out in FY2020. - We have implemented 60% of the initiatives identified in our FY2018 corporate culture survey.	One of our biggest strategic initiatives for the upcoming year is to support the successful repurposing of the Bank by providing skills analysis and input on organisational design. In the interim, we are focused on our human capital plan, which has the aim of recruiting and retaining top staff, developing human capital and improving our culture. We are optimising recruitment for relevant capabilities, reduced placement fees and enhancing the diversity of our workforce. We have and will continue with skills development plans. There is a plan in place to address the culture survey results, which is in progress and will be completed during the year. For more information see Human Capital p99

Land Expropriation without Compensation

Land Bank's mandate is clearly aligned to the imperative of land reform in South Africa and its development objectives support the priorities contained within the NDP. As such, the Bank supports all efforts to advance an effective land reform programme that will achieve transformation in tandem with increased agricultural production, secured tenure, employment creation and food security. The risks and opportunities posed by this option for land reform depends on the manner in which it is implemented.

The key risks to the Bank in the case of a poorly executed programme of Expropriation without Compensation relates to:
- Investor funding drying up or becoming more expensive;
- Increased NPLs and impairments if creditors' rights are not acknowledged and loans cannot be repaid;
- Increased costs to clients if land values deteriorate and pricing is implemented to reflect the higher risk of exposure at default.

Mitigating actions	Strategic opportunities
We are of the opinion that the risk posed to the organisation by Expropriation without Compensation has reduced during the year based on increased awareness of affected parties and the shareholder of the potential impact on Land Bank of this policy. We participated in numerous forums and contributed to the work of the Advisory Panel on Land Reform and Agriculture established by the President. We submitted a detailed analysis of the potential positive and negative impact of such actions to the Minister of Finance as our shareholder representative.	The report by the Advisory Panel on Land Reform and Agriculture includes certain opportunities for Land Bank to pursue including the issuance of so-called land reform bonds. We will study the report and await further feedback from our shareholder to determine our next actions. For more information see Material matters p36, Operating context p31 and Development outcomes p52

OUR PERFORMANCE

Financial models

Climate change and technological advancement have led to significant changes in the agricultural sector over the last few decades, and Land Bank has more than a century of institutional knowledge to draw upon. The Bank therefore possesses a wealth of intellectual capital and corporate memory. We face a significant challenge to preserve these insights and prioritise the conversion of our intellectual capital into models that inform our assessments of weather and production cycles, risk patterns, financing, and pricing. Given that this type of modelling is a scarce skill set, the Bank acknowledges that progress in the modelling environment has been slower than hoped due to difficulty in recruiting appropriate skills. We now have a full team of expertise across agriculture and commercial banking that will accelerate our progress.

Using the combination of institutional knowledge and IT systems capable of sophisticated data handling, we have started to formulate our credit and portfolio risk modelling and mitigation strategies with a view to being interconnected with the global and local risk landscape, and internal risks to the Bank. We are still strongly reliant on cumbersome manual spreadsheet work, which we have been shifting to automated procedures on our IT platform with a scheduled completion date of 2020 year-end. Our IT infrastructure is also driving our modelling maturity, and in FY2020 we anticipate refining our workflow process to improve the credit value chain. During the year, we added human resources with a deep level of experience in agricultural economics and commercial banking to our modelling functions, in order to achieve this goal.

Post-investment monitoring

As soon as any loan is approved, Post-Investment Management Services (PIMS) becomes involved, which was a structural change to the division's operating model that began in FY2017. During FY2019 we ensured the full separation of risk by adding two more portfolios to our PIMS responsibility – structured investments and the intermediary portfolio, moving the portfolio risk management of the portfolio out of the origination process. Substantial investment was made into the portfolio management function, enhancing our ability to identify risk and early distress and improving our collections capability and ability to detect payment gaps.

The PIMS function was separated into a subdivision that deals with loan establishment, another that deals with the phases of the loan post-disbursement and one that deals with distress exposures that require workout and restructure solutioning.

The first subdivision takes care of administrative actions, compliance and risk mitigation required to establish the loan and disburse the funds. This subdivision ensures that loan terms and conditions are met and attached to the agreement.

The second subdivision was created to manage the phases of loans, to monitor performance and ensure that a high percentage of the loan book is paying and conducts monitoring and inspections. With this focus, the subdivision can more proactively identify problem areas and take action before the loan becomes impaired.

Creating this second subdivision also bolstered our client reach and support functionality. The Bank now has more resources going out to farms to provide structural support and helping to diagnose problems at an early stage.

The third subdivision provides capability for identification, analysis and solutions to distress exposures to mitigate the risk for the bank. Combined with our improved assessment capabilities and historical information, we are now able to come up with more effective credit risk solutions. We can draw on detailed monthly analysis and reporting with performance triggers across all portfolios.

Our performance

In FY2019 we conducted our annual review of credit policies, charters and frameworks. Our credit committee evaluated their effectiveness through self-assessment and we conducted model IT implementation for loan origination models. Our education and training programmes combined with improved Enterprise Risk Committee participation are evident in the improvement in the quality of our risk modelling and management capability.

An important move for the Bank this year was to deepen our understanding of credit risks specifically associated with transformational transactions and pre-investment readiness of development farmers. Quarterly measurement based on our enterprise risk management framework has enabled us to also track drought, listeriosis, foot and mouth disease and hail, stress-testing for impact in terms of potential increases in non-performing loans.

The Bank trained front-line staff in all nine provinces on credit policies, obtaining valuable feedback to help us identify gaps in our models, such as the dynamic pricing of cattle that differs across regions through our agricultural assessment tool. We have customised our model and dashboard where necessary for continuous monitoring which has enabled us to quantify our risk better, and to see the spread of risk across our portfolios. Building data is improving our prediction capability. Our entire portfolio is now 80% rated.

In terms of governance, our loan approvals process has changed, enhanced by including the audit and finance committees as part of the process. A dual review of the portfolio for financial half-year approvals has improved the governance from Board subcommittees. We have also developed detailed policies and procedures for managing governance and risk associated with the portfolio from end to end. This is an improvement on our arrears policy on non-performing loans.

We concentrated on building capability to get to know our clients and better understand the stresses and strengths of our portfolio to mitigate risks. The Bank invested in reporting tools and people, and we accomplished several initiatives which enhanced our governance and management of technology and information.

Looking ahead

- Improving our risk mitigation effectiveness to better manage risks that are within our control
- Enhancing our ability to forecast foreseeable risks before they materialise
- Increasing our ability to influence and mitigate risks that are external to the Bank's direct control, but which are critical to our long-term performance and sustainability
- Enhancing the credit risk and risk modelling environment
- Structuring the strategic direction of the Bank in the light of our material strategic risks including development effectiveness, climate change and financial sustainability.

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2. Leadership perspective
3. Organisational overview
4. Our strategy
5. Our performance
6. Governing our business

Geographic Information Systems: Banking and Crop Insurance

Land Bank uses cutting-edge, geographic information system (GIS) intelligence to improve its loan origination and credit processes.

Location is a critical component in almost every transaction we undertake. We have an opportunity to maximise the utility of large volumes of data and improve business performance by incorporating location into our analyses. Coupled with Business Intelligence (GIS Intelligence), it unlocks the value held in the business's disparate databases by turning it into knowledge and insights, and delivering it at the right time and in the right format.

GIS can be applied in agriculture to create more effective and efficient farming techniques, analyse soil data and to determine the best crop to plant in certain locations. For the Bank, benefits include soil mapping, resource allocation, performance management, disaster management and mitigation.

For example, GIS can be used for soil mapping, which identifies and classifies soil to provide information about soil suitability for land use activities, preventing environmental deterioration and delineating soil boundaries. Therefore, within our credit processes, our analysts can enhance their ability to assess the viability of farming projects and transactions, thereby mitigating credit risk. GIS can help with risk management and analysis by identifying geographic areas that are prone to natural or man-made disasters. When such disasters are identified, preventive measures can be developed. The technology can further be used for resource allocation and anticipating business volumes in our branches, as well as for predicting performance of branches.
The GIS Intelligence technology has been approved for full implementation at Land Bank as part of the loan origination process, and currently the reports form part of the pre-screening process. For the 2018/2019 season, 341 reports were completed using GIS intelligence. Discussions are ongoing with managers of the other components of the workflow such as Post-Investment Services, as well as with LBIC to understand their requirements. A pilot exercise to monitor crops for post-investment services has identified some areas of value for post-investment monitoring.

The main focus for the near-term is to migrate to web-based capability, which enables real-time and remote reporting as opposed to the manual data upload process used previously. We can then roll out the technology to multiple users. We also intend to link GIS capability to Environmental and Social sustainability data in support of the environmental and social risk analysis assessment (ESRA) efforts. Further integration with other technical tools such as Enterprise budgets and cash flow models is being developed and a common user-platform will harvest maximum benefit. We are monitoring developments in this tech area to identify possible improvement areas.

Human Capital

Material Matter: Employee development, retention and remuneration

Land Bank employees, clients and other persons contribute to growing and transforming the sector through the application of their skills and time. We also directly support the following SDGs through our employment practices:

With a diverse and productive cohort of employees with the right skills and experience, we are best equipped to meet our development objectives. Sourcing, on-boarding and supporting critical skills is essential to our success in fulfilling our mandate, which means our human capital division plays a crucial role in creating our capacity for tackling a difficult external operating environment.

The Bank is now in its third year of a human capital strategy designed to address the challenges in our unique context within South African development finance and to add value to the business. This strategy was created to ensure that we employ and retain the right people and skills, and that we maintain sound people management practices.

In the first year of implementation, FY2017, we concentrated on building the Bank's human capital foundation as well as embedding policies, processes and frameworks to suit our development needs. Last year, we focused on talent management through a rigorous assessment of our talent pipeline and the actions we would need to take to build capabilities and succession plans.

In FY2019, building on these first two phases, we continued to expand capacity, diversify the workplace, evaluate pay structures and competitive rewards to retain critical talent, and cultivate a high-performance culture through staff engagement programmes. While we were successful in these areas, we acknowledge ongoing work in succession management, critical skills acquisition, knowledge management and discipline management.

As we update our divisional strategy through FY2020, we will continue to address our key challenges of sourcing scarce skills and retaining talent in order to execute our corporate strategy. Our strategy entails creating innovative funding solutions to help South Africa's new generation of farmers to thrive. Therefore we require a unique set of skills that straddles the financial services and agriculture sectors. The relative rarity of such a combination of skills and experience sets the backdrop for our challenges in both sourcing and retaining talent.

OUR PERFORMANCE

Our performance

We support SDG 8 through our commitment to creating a fair and equal work environment that adheres to all correct policies and procedures, and which is aligned to the enterprise risk framework outlined for the Bank.

Productive employment and decent work

Driven by our strong focus on leadership development, we reviewed our employee offerings. Our aim is to provide the ideal employee value proposition to attract suitably skilled professionals. A key aspect of this value proposition – particularly as an SOE – is ensuring that the Bank embodies an organisational culture which subscribes to ethical values, integrity and a clear leadership charter. We continue to monitor and evaluate our demonstration of these values in our conduct both as an organisation and as individual employees. We conducted a detailed climate and culture survey during February 2018 and thereafter developed a plan with initiatives to address areas that required improvement and responded to the employees' survey feedback. The plan was to implement a minimum of 50% of the initiatives. Out of 37 initiatives we were successful in achieving 24, at 60%.

We operate in a highly competitive sector, particularly as an SOE, and follow National Treasury's and other bodies' stipulated remuneration structure requirements. Therefore, it is increasingly difficult for us to compete on remuneration and benefits offerings. To retain and attract talent we try to align pay scales with the market and within our affordability, and continue to evaluate and enhance our pay structures and competitive rewards for our employees.

We continued to build and enhance our employee value proposition by implementing favourable legislated benefits, where we recently aligned our Leave Management Policy to the changes in legislation. While the additional leave categories including adoption and surrogacy leave were not yet promulgated, we made changes to our policies in advance of the gazetting of the Act. We also increased the paternity leave benefits from 5 to 10 days.

We also initiated corrective measures in dealing with matters relating to ethical and governance misconduct. All other breaches of policies were dealt with appropriately. The finance union, SASBO represents our employees in the workplace. We foster a positive relationship with the union through negotiated collective bargaining and consultation processes on various matters.

After several years of leadership stability, our Executive Manager Corporate Banking and Structured Investment (CB & CI) and the Chief Executive Officer resigned. The CEO had completed three years of his five years contract. We have subsequently appointed a Black female Executive Manager for our Corporate Banking and Structured Investment division.

Leadership continues to embed our leadership charter. To maintain staff morale, the acting CEO has committed to regular staff engagement sessions.

Quality education

We support SDG 4 through our investment in the development of capability and skills through various training and development interventions. The Bank continues to provide financial assistance to employees furthering their studies. The building of internal capability remains a key focus area for Land Bank.

In FY2019 we rolled out a talent management programme, through which we can identify talent within the organisation. Furthermore, a future focus-orientated talent forum was created to discus succession planning on an ongoing basis. This forum will lay the groundwork for our succession management plans.

Individuals who were identified for the talent management programme were presented with formal letters communicating to them the Bank's recognition of their contribution and the intent to further develop them. These individuals completed various assessment to have a good understanding of their strengths and development areas. The development plans will be completed to form a succession pipeline based on the available talent pool.

Through this programme, the Land Bank hopes to develop capable people to provide career paths for our employees, ensure the achievement of our strategic objectives, align investment in leadership and development with our business needs, promote performance excellence at organisational and individual level, continue to develop our managers and leaders, and support a positive workplace culture which values learning and continuous improvement.

A notable achievement for the year was our successful rollout of the Land Bank Learning Academy, which is now SETA accredited. The Learning Academy's mandate is to develop technical skills relevant for our business and the agricultural sector.

In terms of developing our future talent pipeline, our university student bursary scheme sponsors undergraduate students in qualifications which have been identified as scarce and critical skills for the agricultural sector – primarily the Bachelor in Agricultural Sciences qualification.

Three sponsored students completed their studies in FY2019 and will progress to the Land Bank Graduate Learner Programme during FY2020. We anticipate an intake of seven students for the bursary scheme in FY2020.

Our Graduate Learner Programme is designed to alleviate pressures in divisions with staff constraints, and the 28 current learners are contracted for 18 months. Upon completion they may be placed across any of our functional units. In order to further their knowledge and skills, the Bank also placed them into an Advanced Certificate in Banking qualification in conjunction with Milpark Business School.

We are also investing in childhood education and expanded to our employee value proposition to include their family education needs. We spent R793 790 on school fees for the children of employees.

Reduced inequalities

The approved Land Bank Group permanent headcount as at March 2019 was 486, up from 484 in March 2018. The Bank filled 52 positions in FY2019 including nine internal employees. Our vacancy rate was 8.89% with 37 active vacancies in FY2019 (FY2018: 9%).

We remain within our target range for headcount, which informs our acquisition of new talent. An organisational review in FY2016 has led to a reduction in permanent headcount over the last three years, which allowed the Bank to become a leaner and more agile organisation.

Retention and attrition

During the year, 30 permanent employees resigned, reflecting an attrition rate of 6.8%, which is lower than the previous year (7.9%) and well below the market norm of 12%.

The resignation of our CEO in December 2018 necessitated executive management changes and our CFO was appointed as the acting CEO, while the CRO was appointed as acting CFO. Other internal acting arrangements are in place for continuity at leadership level. The recruitment processes to fill vacant positions are currently underway.

In general, staff turnover was contained below 10%, and we operated at 90% capacity, which we regard as an achievement in an organisation with niche skills requirements.

A revision of our organisational strategy has seen a shift in the number of staff employed at different job grade levels over the last three years. We have seen an increase in senior management and middle management, with a decrease in junior management and semi-skilled workers. The Bank has a young workforce, with 83% of employees between 31 and 54 years old.

We are however concerned that most exits occur within a year of service, with the main reasons cited by candidates as compensation, promotion or better position offers. Our observations from analysis of attrition over the last three years is that a strong drive for performance in our revised organisational strategy, coupled with intense intra-sectoral competition for African, Coloured and Indian candidates, particularly females, has led to a loss of skills to the private sector. The cost to recruit and retain these candidates with specialised skills is increasing, leading to a revision of our competitive offering within our sector.

The Bank remains committed to transformation. The human capital division continuously monitors appointments in line with our employment equity targets. We made significant progress in the last three years, from 57.8% in 2015 to 69.6% in 2019.

We achieved our transformation target for senior and executive level, which we had not done in previous years. However, we have much to do in transformation at middle management level, where we face challenges in filling a broad category of roles. We have identified vacant positions for targeting the appointment of black candidates and appointed three black learners into permanent positions in FY2019.

The Human Capital division undertook an analysis of equal pay for equal work within the organisation and the findings indicated some positive movement towards equal pay. We will continue to balance our representation and rewards in line with our employment equity targets. We continue to set high standards in embedding our organisational performance culture to enhance our reputation as a world-class organisation within our industry.

OUR PERFORMANCE

	Male Employees	Female Employees	Total Employees
Nationality			
South African:	259	220	479
Foreign:	8	3	11
Employee group			
Permanent:	250	191	441
Contractor:	9	12	21
Learner:	8	20	28
Composition:			
Top management:	6	4	10
Senior management:	23	14	37
Middle management:	155	68	223
Skilled & junior management:	58	63	121
Semi-skilled & unskilled:	25	74	99

	Male Employees	Female Employees	Total Employees
Employee group			
Permanent:	250	191	441
Contractor:	9	12	21
Learner:	8	20	28
Age (years)			
21-30:	13	20	33
31-54:	210	159	369
55-65:	27	12	39
Ethnic Origin			
African:	124	123	247
Coloured:	28	14	42
Indian:	13	14	27
White:	85	40	125

Employee wellness

We believe that employee well-being is an important matter which extends beyond health. All permanent employees qualify for medical aid which includes their dependants. During the year, we also gave employees the option to change to a comprehensive cover option in terms of the Dread Disease and Critical Illness Policy under our retirement fund which expands the benefits available to employees. In addition, we have procured the services of a wellness service provider for employees. The service includes counselling for all employees and provides health-related news and advice through various communication channels. Our annual wellness day was held in October 2018 where staff were given the opportunity to access a range of services including assessments for blood pressure, insulin and cholesterol as well as breast screening. No injuries on duty were reported during the year.

Looking ahead

Our Human Capital strategy remains largely unchanged for FY2020, as we continue to monitor our performance and identify tactics for supporting the Bank's Corporate Plan at an operational level so that we achieve our deliverables for the financial year.

- Review our remuneration policy, retention framework and mechanisms
- Develop a robust succession planning policy and systems
- Continually review human capital policies to remain aligned to changes in legislation
- Continued implementation of the organisational climate and culture initiatives
- Continued rollout of our talent management programme
- Continue driving a high-performance culture
- Continue with system and process efficiencies.

Internal Audit

Our approach

The independent Internal Audit (IA) function is established by the Board of Directors and Audit and Finance Committee. The Board is ultimately responsible for overseeing the effectiveness of risk and compliance management systems, and related internal control and governance processes. Governed by the Internal Audit Charter approved by the Audit and Finance Committee, IA provides an independent and objective assurance service to the Executive and ultimately to the Board through its functional reporting to the Audit and Finance Committee, on:

- The design adequacy and operational effectiveness of the Bank Group's financial reporting information system and related procedures
- Accounting records and related internal controls
- Its fraud risk assessment, prevention and detection information systems and operations.

Our IA Department is governed by the PFMA, Treasury Regulations, King IV Code of Corporate Governance, the Standards for the Professional Practice of Internal Auditing (IIA Standards) and the Protocol on Corporate Governance in the Public Sector. Internal Audit reports functionally to the Chair of the Audit and Finance Committee and administratively to the CEO. The independence of the IA function is maintained through its functional relationship and reporting status with the Committee and established governance structures. The Board approves an annual audit plan to which the IA department adheres to when conducting its activities. Internal audits are conducted in accordance with the Code of Ethics and Standards of the Professional Practice of Internal Auditing. The Audit and Finance Committee evaluates the performance of the IA Function annually and subjects it to an external quality review at least once every three years. An external quality review was conducted during the current financial year and noted the IA function to be generally compliant. To deliver a high-quality service, IA uses a combination of internal resources and co-sourced service providers to ensure adequate assurance on technical areas such as Information Technology and Credit Risk Modelling.

Our performance

In line with the evolution of the Bank's business strategies and the assessed significant risks, the FY2019 Audit Plan introduced new audits on new business processes and also to processes that had received low assurance attention in prior years. The Audit Plan also included audits on the Credit Risk Models (Internal Ratings Based Models) as well as the IFRS9 Impairment Model.

The Information Technology Audits were revised to focus on value-adding reviews. This enabled IT Management to define their own controls to prevent emerging risks such as security risks, and specifically cyber-attacks. Management studied Business Continuity reviews to consider detailed risk assessments for technology related risks to ensure a more robust business continuity plan with the intentional inclusion of technology risks posed to the organisation. The FY2019 Audit Plan placed more focus on management preparedness to deal with cyber security and data risks.

Forensics

The Land Bank Group is committed to the highest standards of openness, integrity and accountability. We are determined to maintain an ethical culture underpinned by our zero tolerance for fraud and corruption. All matters reported to Internal Audit are investigated and reported to the Audit and Finance Committee, and also where necessary to the relevant law enforcement agencies for further investigation. The forensic division has two primary focus areas: forensic investigation and fraud risk management.

During FY2019, a case of fraud was investigated which was found to be an external fraud related matter. A loan of R100,000 was disbursed to a client to purchase cattle, however the client utilised the loaned funds for other non-agricultural business. The client was required to have his livestock mirco-chipped, however it was discovered that the service provider who conducts the micro-chipping of livestock did not actually chip the livestock, yet issued the client and Land Bank with the necessary documentation which stated that the livestock had been chipped. This matter will reported to the SAPS for further investigation.

Our fraud risk management policies and processes align to best practice, including:

- Our fraud and corruption policy, whistleblowing policy and the fraud prevention strategy; (see ethics management in the Land Bank Governance report for further information)
- Conducting of fraud risk assessments
- Our whistleblowing hotline service provider

Fraud risk assessment is a vital tool for assessing the adequacy of internal controls and their susceptibility to fraud. Such assessments have been completed for the entire organisation which includes our Underwriting Management Agent for Land Bank Insurance.

OUR PERFORMANCE

Business unit fraud risk registers have been compiled as part of the fraud risk assessment process, and this activity will be incorporated into our IA and Risk Management activities.

Tip-offs Anonymous is our independent Whistleblowing hotline service provider. We envisage that employees will be encouraged to utilise Tip-offs as the channel is widely utilised and respected in the financial services industry. One report was received in FY2019, which was investigated and closed.

Combined assurance

The Bank's implementation of combined assurance is currently being reviewed to achieve better alignment with the King IV recommended practices on combined assurance. This framework encompasses co-ordination of all assurance functions and activities, including from both internal assurance functions and external assurance service provider, to establish an effective control environment to regulate the quality of information applied to internal decision-making and external reporting (for further information refer to Intellectual capital p87). We apply a three lines of defence and five lines of assurance framework as illustrated in the Land Bank Governance report.

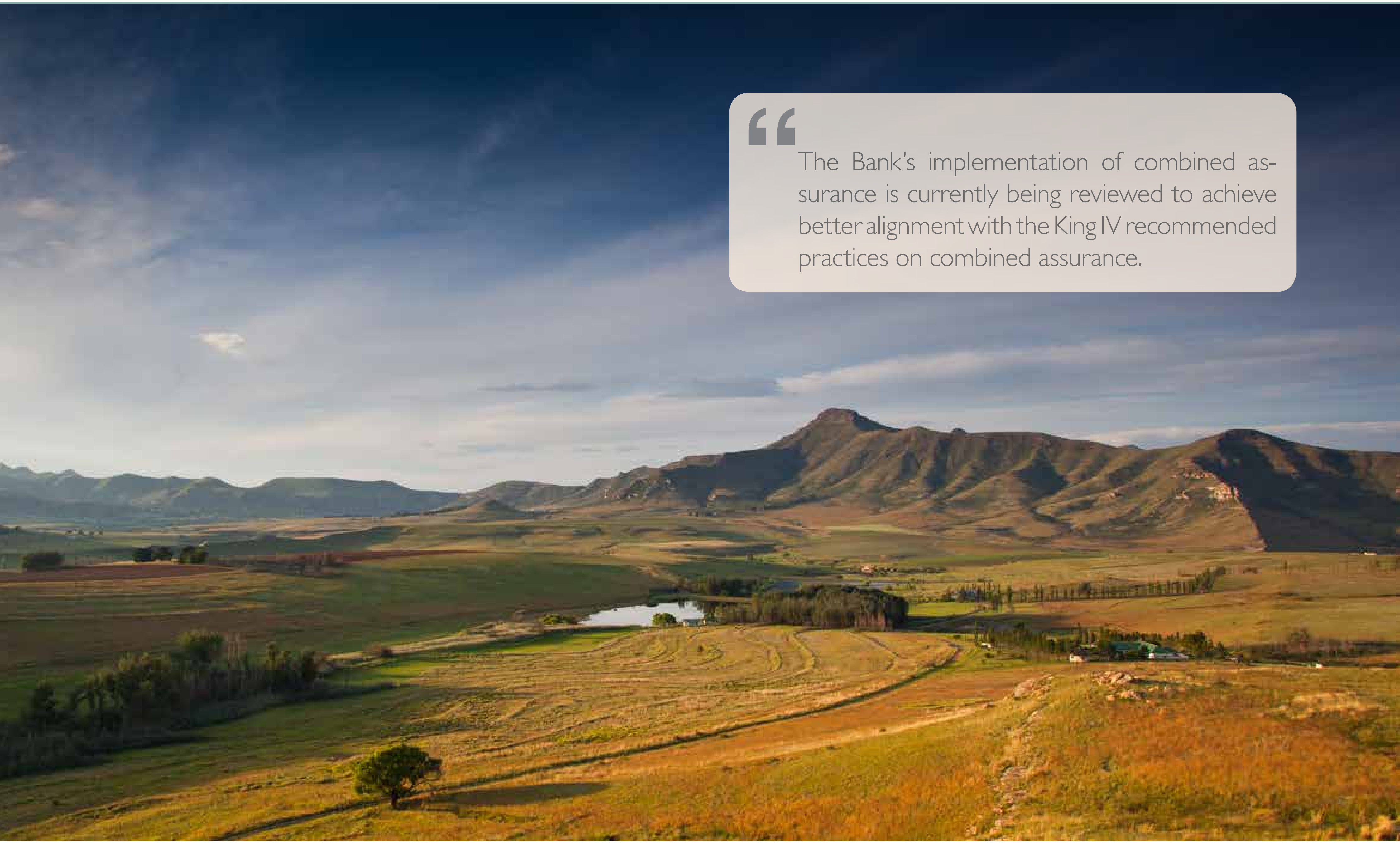
The Combined Assurance model integrates the Bank's key strategic and operational risks and management processes and controls in place designed to mitigate the occurrence or impact of those risks, specifically as it relates to ensuring the integrity of information considered material to the Bank's internal decision-making and external reporting. The current combined assurance model includes certain assurance functions provided to Land Bank by external assurance service providers. Assessments of these key risks are reported to the Audit and Finance Committee on a quarterly basis, and reporting focuses on whether adequate assurance is in place across all categories of material information. The outputs of these assessments are used to direct internal audit plans and priorities regarding risk management and mitigation, as opposed to utilising standard audit sheets. In addition, internal audit may direct management attention to the need for better controls to be established to for key areas of risk where management controls are assessed as being inadequate.

All strategic risks reflected on the strategic risk register were assessed and reported on in FY2019. Where necessary, IA has provided an assessment of the level of assurance provided in respect of those risks and has provided recommendations for improvement. Operational risks were assessed and will be formally reported on in FY2020.

Looking ahead

Execute the approved 2020 Audit Plan.

Monitor that the Group's financial systems, processes and controls are adequately designed and operating.



> The Bank's implementation of combined assurance is currently being reviewed to achieve better alignment with the King IV recommended practices on combined assurance.

06

GOVERNING OUR BUSINESS

"We are responsible for raising sufficient funding to support inclusive growth in the agricultural sector and increased resilience against the challenges rising from climate change. Over the last two-and-a-half years, we have successfully differentiated ourselves from other SOEs by our commitment to good governance and strong fundraising efforts.

GOVERNING OUR BUSINESS

Material Matter: Corporate governance

Our commitment to corporate governance

Our governance philosophy

As an SOE with a mandate to contribute to the development of the agricultural sector in South Africa, we are committed to strong corporate governance. Our Board subscribes to the principles of good governance and considers these as fundamental to a sustainable Bank and value creation for our stakeholders through ethical leadership, transparency and adequate controls.

Members of the Board assume collective responsibility for steering and setting the direction of the Bank, approving policy and planning, overseeing and monitoring of implementation by management, and ensuring accountability for organisational performance.

Our values and approach to ethics

The Board of Directors endorses our commitment to conducting its business with the highest standard of integrity and ethics. The Board expects that all employees share its commitment to moral, legal and ethical standards, and holds management accountable to ensure this commitment manifests throughout the organisation.

The Board of Directors' Code of Ethics and Business Conduct establishes and clarifies the rules that govern the business and ethical conduct of members of the Board. It provides a framework to guide directors' conduct in a way that upholds the integrity and reputation of the Bank. The Board, supported by the Social and Ethics Committee, ensures that management embeds ethical culture and behaviours throughout the organisation.

Board responsibilities

The Bank is controlled by an independent Board of Directors appointed by the Minister of Finance, as required by the Land Bank Act. The Board's role and functions are established in a formal written charter which is reviewed annually. The key responsibilities of the Board are to:

- Determine the Bank's strategic direction
- Exercise prudent control of the Bank and its affairs
- Provide effective leadership based on an ethical foundation
- Appoint a CEO in conjunction with the Minister of Finance and a capable executive team
- Direct and control the operations of the Bank
- Ensure that assets are adequately safeguarded, verified, maintained and accounted for
- Provide governance oversight of the Bank's policies and their implementation
- Ensure that the Bank complies with relevant laws, regulations and codes of good practice.

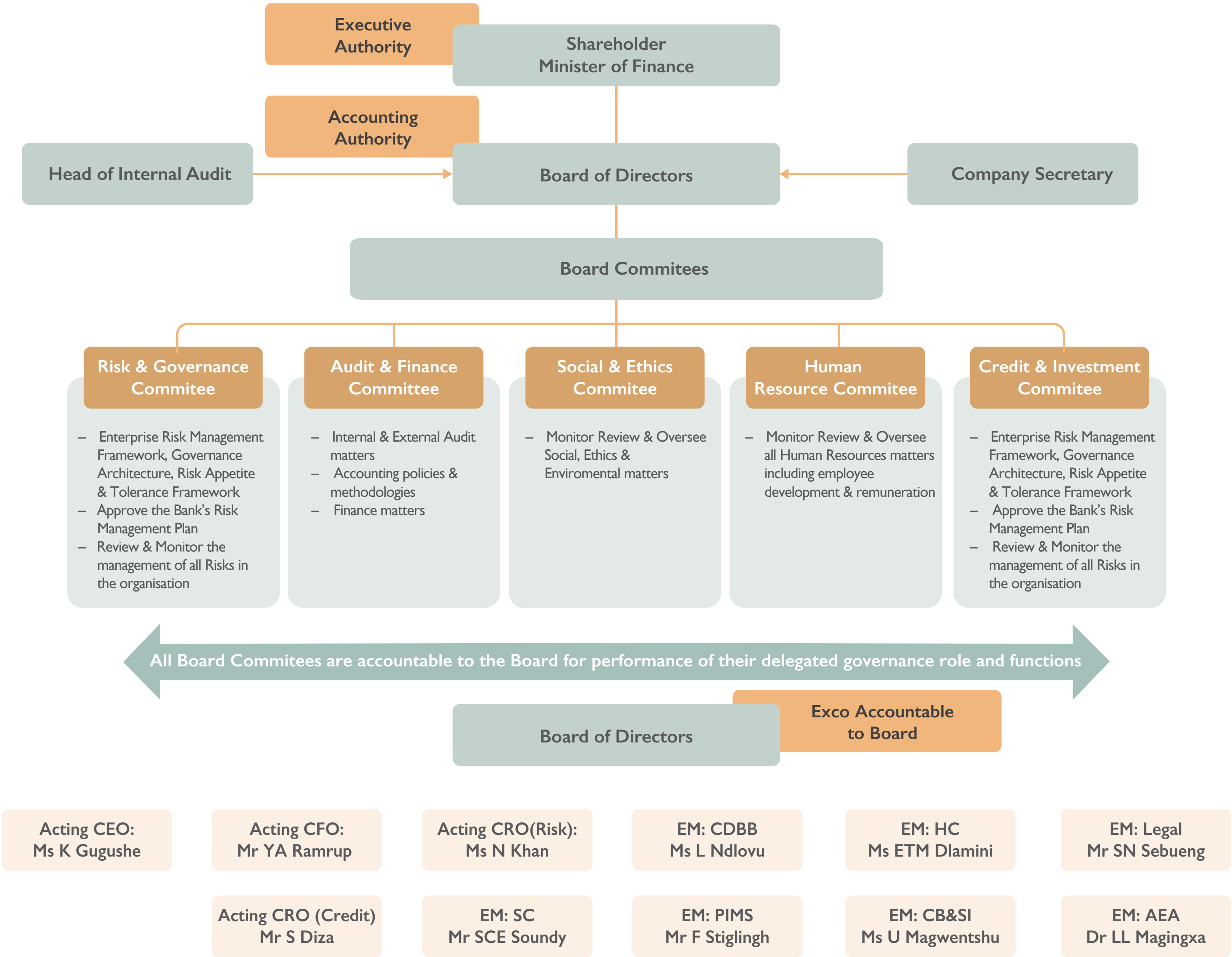
Our governance framework

Our Board

In terms of the Land Bank Act, members of the Board are individually and collectively accountable to the Minister of Finance for the direction and control of the operations and business of the organisation and for implementation of policies and strategies for the efficient management of the Land Bank. Land Bank Board acts at all times in the best interests of the Bank and takes ultimate responsibility for it.

Framework

The Land Bank Board is supported by the five Board Committees that have delegated responsibility to assist in specific matters and report to the Board on a quarterly basis. The delegated responsibility and the powers, limits and authorities attached to Board Committees are approved by the Land Bank Board. Each committee has its own charter or terms of reference, which sets forth its purpose, composition and duties.


Executive Authority
Shareholder Minister of Finance
Accounting Authority
Head of Internal Audit
Board of Directors
Company Secretary
Board Commitees
Risk & Governance Commitee
– Enterprise Risk Management Framework, Governance Architecture, Risk Appetite & Tolerance Framework
– Approve the Bank's Risk Management Plan
– Review & Monitor the management of all Risks in the organisation
Audit & Finance Committee
– Internal & External Audit matters
– Accounting policies & methodologies
– Finance matters
Social & Ethics Commitee
– Monitor Review & Oversee Social, Ethics & Enviromental matters
Human Resource Commitee
– Monitor Review & Oversee all Human Resources matters including employee development & remuneration
Credit & Investment Commitee
– Enterprise Risk Management Framework, Governance Architecture, Risk Appetite & Tolerance Framework
– Approve the Bank's Risk Management Plan
– Review & Monitor the management of all Risks in the organisation
All Board Commitees are accountable to the Board for performance of their delegated governance role and functions
Board of Directors
Exco Accountable to Board
Acting CEO: Ms K Gugushe
Acting CFO: Mr YA Ramrup
Acting CRO(Risk): Ms N Khan
EM: CDBB Ms L Ndlovu
EM: HC Ms ETM Dlamini
EM: Legal Mr SN Sebueng
Acting CRO (Credit) Mr S Diza
EM: SC Mr SCE Soundy
EM: PIMS Mr F Stiglingh
EM: CB&SI Ms U Magwentshu
EM: AEA Dr LL Magingxa

GOVERNING OUR BUSINESS

Board composition

In terms of Section 4(1) of the Land Bank Act, the Minister of Finance appoints directors to the Board. The Board membership comprises an independent non-executive chairperson, ten independent non-executive members considered sufficiently independent to provide independent oversight of the Bank and its activities, and two executive directors. At the time of the release of this report, the CEO and CFO were acting and were therefore, not considered to be directors on the Board.

We have a diverse Board with a membership that reflects a strong collective skill set well aligned to the business of the Bank. The Board is satisfied that its current composition regarding the mix of skills, knowledge and experience that members contribute, and its diversity concerning the attributes of age, race and gender, is appropriate to enable effective performance of its role and functions.

Board changes

Retired/resigned

Director	Designation	Effective date
Ms N Zwane	Non-executive Director	31 May 2018
Mr TP Nchocho	Executive Director	6 December 2018
Mr BJ van Rooy	Executive Director	30 June 2019
Ms NV Mtetwa	Non-executive Director	31 August 2019

Appointments

Director	Designation	Effective date
Dr ST Cornelius	Non-executive Director	1 June 2018
Mr MS Makgoba	Non-executive Director	1 June 2018

Members: 11

Historically disadvantaged: 7 (64%)

Male: 4 (36%)
Female: 7 (64%)

Executive: 1 (9%)
Independent Non-Executive: 10 (91%)

Mr MA Moloto, 51 (Chairperson)
Independent Non-executive Chairman

- Appointed:
  01 January 2015 – present
- Committee:
  Human Resources; Social and Ethics; Credit and Investment

Ms DR Hlatshwayo, 55 (Deputy Chairperson)
Independent Non-executive Director

- Appointed:
  06 January 2015 - present
- Committee:
  Human Resources; Social and Ethics; Credit and Investment

Ms DN Motau, 56
Independent Non-executive Director

- Appointed:
  1 October 2013 – present
- Committee:
  Credit and Investment (Chairperson)

Ms SA Lund, 57
Independent Non-executive Director

- Appointed:
  5 September 2011 – present
- Committee:
  Risk and Governance (Chairperson); Audit and Finance

Dr ST Cornelius, 62
Independent Non-executive Director

- Appointed:
  01 June 2018 – 31 May 2021
- Committee:
  Credit and Investment, Human Resources, Audit and Finance

Ms TT Ngcobo, 70
Independent Non-executive Director

- Appointed:
  1 October 2013 – present
- Committee:
  Human Resources (Chairperson); Social and Ethics (Chairperson), Risk and Governance

Adv SJ Coetzee, 57
Independent Non-executive Director

- Appointed:
  3 August 2015 – present
- Committee:
  Human Resources; Social and Ethics, Risk and Governance

Ms ME Makgatho, 48
Independent Non-executive Director

- Appointed:
  3 August 2015 – present
- Committee:
  Audit and Finance; Credit and Investment

Ms NV Mtetwa, 40
Independent Non-executive Director

- Appointed:
  01 March 2017 – 29 February 2020
- Committee:
  Audit and Finance (Chairperson), Risk and Governance

Mr MS Makgoba, 45
Independent Non-executive Director

- Appointed:
  01 June 2018 – 31 March 2021
- Committee:
  Risk and Governance; Credit and Investment

Mr TP Nchocho, 51
Executive Director

- Appointed:
  1 February 2015 – 6 December 2018
- Committee:
  None

Mr BJ van Rooy, 44
Executive Director

- Appointed:
  3 August 2015 – 30 June 2019
- Committee:
  None

Mr MK Mzaidume, 63
Company secretary

- Appointed:
  9 October 2017 – present

Board report

We regularly review and benchmark the Group's governance structures and processes to promote effective and ethical leadership, good corporate citizenship and sustainable development, and to ensure that those structures and processes are applied to serve the best interests of the Bank taking account of the reasonable needs of its key stakeholders. In this regard, we are satisfied that the Bank has fulfilled all its duties and obligations in FY2019.

Board meeting attendance

The Board held four regular meetings and three Board strategy sessions. There were six exceptional Board meetings due to exceptional matters such as the resignation of the CEO and strategic matters.

Key focus areas FY2019

Provided oversight on implementation of ethics strategy and culture

- Deliberated and provided guidance to executive management regarding alternatives and strategies to maintain the financial sustainability of the Bank
- Considered and actioned areas to improve governance with the purpose of improving the overall audit outcome. This included providing guidance on a revised Governance framework, and compliance and ethics matters.
- Considered and approved executive strategies towards increasing the development and transformation of the loan book
- Provided guidance and oversight of the plans to improve the management of SLA Book
- Advised on the crowding-in of third-party sources of funding
- Oversaw the 50/50 split of short-dated to long-dated funding
- Focused on improving in IT governance and ensuring that management developed a strategy and actions to improve its management.

Looking ahead

- Stakeholder engagement and guidance to ensure the financial sustainability of the Bank
- Stabilise executive management by working with the shareholder to conduct a thorough search for and appoint a permanent CEO and executive team. Ensure that appropriate succession planning is in place for executives and critical roles.
- Achieve strategic clarity with shareholder on dual mandate.
- Oversee the capacitation of branch network and implementation of the channel strategy proposed in the Corporate Plan.
- Provide oversight on the testing and rolling out of parametric insurance
- Provide oversight on the alignment to and implementation of the UNEP-FI Principles for Responsible Banking

GOVERNING OUR BUSINESS

Our Executive Committee

The Chief Executive Officer and the Executive Committee are responsible for the Bank's day-to-day management and operations. The CEO is appointed by the Minister in consultation with the Board and reports to the Board. The CEO reports to the Board on the executive team's performance, implementation of the Bank's strategy and achievement of the Bank's strategic objectives set out in the Corporate Plan. At the time of the release of this report, the Executive Committee was led by Ms Konehali Gugushe, the Acting CEO, and the process for appointing a new CEO was underway.

The Board is confident that the diversity and collective skills, qualifications and experience of the Executive Committee is sufficient to successfully manage the operations of Land Bank. The profiles of the Executive Committee members are provided below.

Members: 11

Historically disadvantaged: 11

Male: 6
Female: 5

Ms K Gugushe, 43
Acting Chief Executive Officer

- Appointed:
  15 September 2015

Mr YA Ramrup, 42
Acting Chief Financial Officer

- Appointed:
  1 July 2016

Mr SN Sebueng, 39
Executive Manager:
Legal Services

- Appointed:
  1 January 2018

Mr SCE Soundy, 54
Executive Manager:
Strategy & Communications

- Appointed:
  17 August 2015

Ms ETM Dlamini, 59
Executive Manager:
Human Capital

- Appointed:
  15 August 2013

Mr F Stiglingh, 48
Executive:
Post Investment Management Services

- Appointed:
  1 June 2016

Ms U Magwentshu, 43
Executive Manager:
Corporate Banking and Structured Investments

- Appointed:
  1 March 2019

Dr LL Magingxa, 45
Executive Manager:
Agricultural Economics & Advisory

- Appointed:
  1 March 2018

Ms N Khan, 49
Acting Chief Risk Officer: Risk

- Appointed:
  27 June 2016

Mr S Diza, 41
Acting Chief Risk Officer: Credit

- Appointed:
  20 September 2016

Ms L Ndlovu, 48
Executive Manager: Commercial Development and Business Banking

- Appointed:
  1 August 2015

Remuneration report

Background statement

The Bank has completed a three-year remuneration strategy revision for submission to the Human Resources Committee for consideration. This strategy contains retention policies and mechanisms specifically designed to cater for our unique needs as an employer with a rare combination of skills required. We are continuously revising our retention policies with a view to retaining employees not just through guaranteed pay packages but also through other mechanisms. A non-monetary reward scheme has been approved by the Executive Committee as an informal way of recognising exceptional performance and both individuals and teams who are deemed to be living the Bank's values. A quarterly nomination process and awards will elevate the Bank's EVP beyond financial rewards. In terms of areas for improvement, the Bank is constrained in its alignment with King IV requirements and the pending approval of SOE remuneration guidelines, including malus and clawback provisions and its measures to attract, retain and motivate talent.

Our approach

Our remuneration policy is aligned with the King IV Code of Corporate Governance, including its principles relevant to governance of remuneration and reward. This year's Integrated Annual Report provides transparency in the disclosure of our remuneration policies, practices and implementation thereof. We acknowledge however, that there are inevitable deviations from the King IV recommended practice on remuneration in some areas as Land Bank is an SOE. Remuneration guidelines are regulated by the SOE Remuneration Guidelines requirements, PFMA and the Land Bank Act, relating to the remuneration of the Board and executives.

In accordance with the Act, the Minister of Finance determines the remuneration, allowances and associated benefits of the CEO, as well as approving the bonuses of the CEO, CFO and executive management. While this represents a misalignment with King IV in terms of it being the Board's responsibility to approve CEO and executive remuneration, the Bank continues to engage with the Minister to find an appropriate resolution that will ensure the interests of all relevant parties play a role in approving remuneration in order to give effect to the intention and spirit of the King IV Code, principles and recommended remuneration policy practices.

During the preparation of the Corporate Plan – our annual strategic plan which is submitted to our shareholder and tabled in Parliament upon approval – corporate performance indicators (Key Performance Indicators) are identified and agreed between management and Board. These indicators are submitted for approval by the Minister and contained in the Shareholder Compact.

The corporate scorecard forms the basis of the CEO's performance management agreement which is then cascaded and adjusted to match the responsibilities of Executive Manager. On a quarterly basis, progress against each KPI is reported to the Board and shareholder. The scorecard is audited quarterly by Internal Audit against available evidence of performance and twice a year by the Auditor-General. The final audited scorecard is published on pp162-166 of our Annual Financial Statements.

During the year under review it was agreed that the majority of the Executive Management team's individual final performance ratings will linked to the corporate performance scorecard. Bonuses also depend on achievement of an agreed overall minimum score.

The Board approves a mandate for management to implement Bank staff annual salary increases based on individual performance as informed by the performance management process of the Bank. All employees enter

into performance agreements at the start of each financial year, which are reviewed twice during the year. The individual performance agreements are aligned to the corporate performance scorecard, adjusted to consider individual roles and responsibilities.
The CEO evaluates the executives' performances using the agreed scorecards and recommends their salary increases. This is included in a proposal submitted to the Human Resources Committee and the Board for approval. Remuneration for executives and employees is determined through benchmarking using best practice principles under guidance of the Human Resources Committee. Directors' remuneration is paid in accordance with National Treasury guidelines on remuneration for SOE board members, as determined by the Minister of Finance.

The Bank utilises annual salary survey reports from various survey houses for benchmarking purposes. The benchmarking information is used to compare the Land Bank Remuneration range and offering against market, which in turn is used to inform the annual pay scales per level. The Land Bank Group remuneration philosophy aims to set the Annual Guaranteed Package at a competitive level and is benchmarked at the market median. Benchmarks are set using the survey data for the following industries, National, Financial Services, SOEs, Banking and Insurance.

The DOP authorises the Board to approve the annually reviewed pay scales for critical and non-critical skills.

The executives evaluate the performance and determine the salary increases of the non-bargaining unit employees in accordance with the Board approved mandate, while the salary increases for bargaining unit employees are negotiated with the union. (72.5% of Bank employees are covered by collective bargaining agreements as members of the SASBO union.) The Board approves a bonus pool and the distribution model for management to determine employee bonuses, based upon relative individual performance.

Our policy does not specify in executive management contracts any obligations that in the future may result in payments upon termination of employment or office.

Our performance

The Minister considers the Board's recommended bonus allocation in view of the previous year's audited financial statements and performance of the Bank, with the result that bonuses paid in the 2018/19 financial year pertain to performance from the 2017/18 financial year. The Board approved and implemented the bonus allocation for employees below General Manager level. The Board considered the financial sustainability, development impact and overall performance of the Bank as well as individual performance and the retention of staff.

We continue to benchmark our Employee Value Proposition (EVP) and the Board has approved new offerings to enhance the EVP for the purposes of talent attraction and retention. This is in conjunction with a talent management identification process begun in FY2019 which forms part of the Bank's talent management strategy aimed at linking policy to our talent pipeline and succession planning objectives.

In terms of overall employee attrition, the Bank performed better in FY2019 than the prior year (6.34%). While the CEO and CFO resigned from the Bank during the year, the Human Resources Committee is confident that remuneration was not the major factor in driving their decisions, and that the Bank's remuneration policy remains sound and effective in terms of talent acquisition and retention. The Bank made no special payments to departing executives.
We acknowledge that the Bank is constrained by SOE guidelines and has therefore implemented a range of measures such as learning and development opportunities to compensate for the constraints of our remuneration policies. The Human Capital Committee is satisfied that pay for its executives is fair, responsible and transparent in line with KING IV and SOE requirements.

We believe it is important to build a capable organisation therefore as a committee we will focus on retention and succession planning at all levels during the next financial year.

Ms TT Ngcobo
Chairman of the Human Resources Committee

Element	Strategic Intent	
Annual guaranteed package (Including contributions to benefit funds and allowances)	1. Attraction 2. Skills and knowledge 3. Accountability and decisions 4. Impact of the job	Annual guaranteed package
Short-term incentive (STI)	1. Performance related 2. Organisation/ division/ individual 3. Significant performance differentiation	Variable pay/ performance reward
Work-life balance	1. Addresses the unique individual/ intrinsic needs of the employee 2. Less tangible than remuneration Examples include caring for dependants, supporting health and wellness, workplace flexibilty, financial support, culture change and community involvement initiatives	
Recognition	1. Reinforce desired behavious and delivery at all levels and culture of belonging, performance and affinity 2. Recognition acknowledges employee actions, efforts, behaviour and performances	
Development and career opportunities	1. Includes learning experiences designed to enhance knowledge, skills and competencies of employees 2. Leadership development including coaching and mentoring 3. Employee Personal Development Plan to pursue career goals e.g. advancement into a different or more responsible position	

FY2019 implementation report

Land Bank and its subsidiaries measure performance and progress based on a set of key indicators that represent the priority objectives and allow the Bank to continue its focus on financial sustainability, risk management and development impact (see Material matters pp36-39). This set of indicators is agreed with the Shareholder on an annual basis, included in the Corporate Plan and Shareholder Compact, and accordingly considered to be the foundation of FY2019 remuneration decisions. Decision-making concerning the distribution of bonus pool is based on these measurable scorecards.

Short-term incentives

The Board made provision for a short-term incentive (performance bonus) pool allocation for the CEO, Executive Managers and the Managing Director of LBIC based on 18.2% of the Bank's group net profit from continuing operations (before bonuses) for FY2018, which amounted to approximately R5.1 million. The calculation is made 18 months in advance when the Corporate Plan is submitted to the Minister. The amount allocated to the pool is based on executive remuneration and an assumption that an average score of 3/5 will be achieved by all executives.

The allocation of the pool occurs after finalisation of the year end and is based on a combination of the Corporate Scorecard outcome and individual performance. The Minister also takes into consideration the corporate performance before any final allocation is approved. The performance bonus pool in FY2018 took into consideration the Bank's achievement of 100% of its development targets and 80% of financial sustainability targets outlined in the Corporate Plan.

In light of the Bank's performance during the period of the previous financial year, and based on National Treasury SOE Remuneration Guidelines, the Minister implemented a 51% average downward adjustment to the allocation and payment of Board-approved bonuses of the CEO, Executive Managers and the Managing Director of both the parent and subsidiary public entities of the Land Bank Group. (see the Annual Performance Report pp155-162 in the FY2018 Annual Integrated Report for details on the performance against these targets.)

Pay scales

Our methodology for FY2019 did not change from FY2018 and was based on the following considerations:

- The current standard pay scales and the premium pay scales form the baseline
- Market-related data
- Alignment with the organisation's work level structure (job grades)
- The median of the market, to which pay scales are anchored; we compare Land Bank roles to similar roles in the National (Financial Services sector) and SOE context based on current job grades
- Identified business critical and scarce skills using a consistent set of criteria; skills that are typically difficult to source or retain within the Financial Services sector
- Premium pay scale for business critical and scarce skill roles – anchored approximately to the 75th percentile of the market.

FY2019 remuneration commentary

During FY2019, salary increases for bargaining unit employees ranged from 7% – 7.5% and for non-bargaining unit and executive management, excluding the CEO, from 6.8% – 7.25%. The CEO's salary increase was determined separately by the Minister of Finance.

Total non-executive director remuneration increased by 30% in FY2019 due to the need for a number of additional, unplanned Board meetings. These additional meetings were called in response to the resignation of the CEO, to perform oversight of certain executive disciplinary matters where the CEO was deemed to be conflicted. Additional Board strategy sessions were also held to give certain material matters due time and attention and approve the Corporate Plan for submission to the shareholder

The remuneration of the executive directors decreased due to the reduced bonuses paid for 2017/18 performance and non-payment of bonuses for 2018/19 following the resignations of the CEO and CFO.

Remuneration: Land Bank non-executive directors for FY2019 (R 000)

	Board	AGM	AFC	RGC	CIC	HRC	SEC	Ad hoc Meetings	Fees & Expenses	2019 Total
Non-executive directors										
MA Moloto	831	8	-	-	260	91	61	36	-	1 287
DR Hlatshwayo	274	8	-	-	214	61	76	35	6	674
N Zwane	53	-	44	-	-	15	15	-	-	127
SA Lund[1]	292	8	107	93	-	-	-	44	6	550
NV Mtetwa	273	8	197	61	-	-	-	45	2	586
TT Ngcobo	311	8	-	61	-	123	109	62	4	678
DN Motau	311	8	-	-	308	-	-	45	8	680
SJ Coetzee	311	8	-	61	-	76	61	45	2	564
ME Makgatho	311	8	121	-	229	-	-	28	5	702
MS Makgobo	258	8	-	46	202	-	-	70	63	647
ST Cornelius	258	8	77	16	94	61	-	70	13	597
Subtotal	**3 483**	**80**	**546**	**338**	**1 307**	**427**	**322**	**480**	**109**	**7 092**

[1] 50% was paid to Transnet Foundation in terms of Ms Lund's employer policy on non-exective directorship

Remuneration: Land Bank non-executive directors for FY2018 (R 000)

	Board	AGM	AFC	RGC	CIC	HRC	SEC	Ad hoc Meetings	Fees & Expenses	2018 Total
Non-Executive Directors										
MA Moloto	752	23	-	-	212	114	15	24	-	1 140
DR Hlatshwayo	239	17	-	-	184	114	15	24	5	598
N Zwane	273	17	85	-	-	100	15	24	-	514
ASM Karaan	100	-	-	-	93	-		-	-	193
SA Lund[1]	273	17	100	87	-	-		24	7	508
TT Ngcobo	273	17	-	57	-	144	20	49	4	564
DN Motau	239	-	-	-	232	-		16	9	496
SJ Coetzee	238	17	-	57	-	114	15	33	1	475
ME Makgatho	239	17	71	-	170	-		24	4	525
NV Mtetwa	221	-	148	43	-	-		24	2	438
Subtotal	**2 847**	**125**	**404**	**244**	**891**	**586**	**80**	**242**	**32**	**5 451**

[1] 50% was paid to Transnet Foundation in terms of Ms Lund's employer policy on non-exective directorship

Remuneration: Land Bank non-executive directors for FY2018 (R 000)

Executive Directors	Guaranteed Package	Performance bonuses	Other benefits[1], fees & expenses	2018/2019 Total	% Salary increase
TP Nchocho[2] Chief Executive Officer	3 141	Bonuses for performance during 2018/19 will not apply due to resignation of both executive directors	83	3 224	5,50%
BJ van Rooy[3] Chief Financial Officer & Acting Chief Executive Officer	3 489		28	3 517	7,25%
Total Executive Directors	**6 630**		**111**	**6 741**	

[2] Resigned as at 6 December 2019
[3] Acting Chief Executive Officer from 8 December 2019

Remuneration of Land Bank executive directors for FY2019 (R 000)

Executive Directors	Guaranteed package	Performance bonuses	Other benefits[1], fees & expenses	2017/2018 Total	Moderated performance rating	Performance range
TP Nchocho Chief Executive Officer	4 362	1 092	102	5 556	3,43	3.00 - 3.49
BJ van Rooy Chief Financial Officer	3 254	668	27	3 949	4,02	4.00 - 4.49
Total Executive Directors	**7 616**	**1 760**	**129**	**9 505**		

Remuneration: Land Bank executive officers for FY2019 (R 000)

Title	Guaranteed package	Bonus	Cellphone allowances	Other benefits[1]	Total	% salary increase
Ms ETM Dlamini Executive Manager: Human Capital	2 729	Bonuses for performance during 2018/19 will only be determined after completion of the year-end audit and submitted to the Minister of Finance for approval	24	3	2 756	7,25%
Ms L Ndlovu Executive Manager: Commercial Development and Business Banking	2 594		24	-	2 618	6,80%
Mr SCE Soundy Executive Manager: Strategy and Communications	2 797		24	4	2 825	7,00%
Mr GJM Conway[2] Executive Manager: Corporate Banking and Structured Investements	748		8	1	757	None - resigned on 18 July 2018
Ms K Gugushe Chief Risk Officer	2 915		24	3	2 942	7,25%
Mr F Stiglingh Executive Manager: Portfolio Management Services	2 777		24	4	2 805	7,00%
Mr SN Sebueng Executive Manager: Legal	2 200		24	-	2 224	Appointed on 1 January 2018, not eligible for an increase
Dr LL Magingxa Executive Manager: Agricultural Economics & Advisory	2 500		24	4	2 528	Appointed on 1 March 2018, not eligible for an increase
Mrs U Magwentshu[3] Executive Manager: Corporate Banking and Structured Investements	225		2	-	227	Not applicable during period
Total	**19 485**		**178**	**19**	**19 682**	

[1] Other benefits include vitality benefits
[2] Resigned as at 13 July 2018
[3] Appointed as at 01 March 2019

Remuneration: Land Bank executive officers for FY2018 (R 000)

Title	Basic salary	Bonus[1]	Cell phone allowances	Other benefits[2]	Total	Moderated performance rating	Performance range
Ms ETM Dlamini Executive Manager: Human Capital	2 544	520	24	4	3 092	4	4.00 - 4.49
Ms L Ndlovu Executive Manager: Commercial Development and Business Banking	2 429	430	24	-	2 883	3,46	3.00 - 3.49
Mr SCE Soundy Executive Manager: Strategy and Communications	2 614	502	24	4	3 144	3,78	3.50 - 3.99
Mr GJM Conway[3] Executive Manager: Corporate Banking and Structured Investements	2 599		24	4	2 627	3,6	3.50 - 3.99
Ms K Gugushe Chief Risk Officer	2 718	576	24	3	3 321	4,15	4.00 - 4.49
Mr F Stiglingh Executive Manager: Portfolio Management Services	2 595	519	24	4	3 142	3,91	3.50 - 3.99
Mr SN Sebueng[4] Executive Manager: Legal	550	452	6	-	1 008	4,3	4.00 - 4.49
Dr LL Magingxa[5] Executive Manager: Agricultural Economics & Advisory	209		2	-	211	Joined on 1 March 2018	
Total	**16 258**	**2 999**	**152**	**19**	**19 428**		

[1]Bonuses relate to performance in 2017/18 as reported, but were paid in 2018/19 after approval received from the Minister of Finance
[2]Other benefits include vitality benefits
[3] Resigned as at 13 July 2018
[4] Appointed as at 01 January 2018
[5] Appointed as at 01 March 2018

Abridged Group annual financial statements

for the year ended 31 March 2019

These abridged Group annual financial statements comprise a summary of the complete audited Group annual financial statements for the year ended 31 March 2019 that were approved by the Land Bank Board on 29 July 2019. This abridged report is extracted from audited information, but is not subjected to an assessment. The abridged Group annual financial statements do not contain sufficient information to allow for a complete understanding of the results of the Group, as would be provided in the complete audited Group annual financial statements. The Auditor-General of South Africa has audited the Group annual financial statements, and their unqualified audit opinion is presented in the complete consolidated annual financial statements. The completed consolidated annual financial statements is available at www.landbank.co.za.

GENERAL INFORMATION

LAND BANK

SHAREHOLDER
National Treasury

PUBLIC ENTITY
Governed by the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002) and is a schedule 2 Public Entity in terms of the PFMA.

COUNTRY OF INCORPORATION
South Africa

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES
The Land Bank provides retail and wholesale finance to emerging, commercial farmers and Agri-Businesses. In addition to its banking operations, the Land Bank extends its services to the insurance sector through its subsidiaries.

HEAD OFFICE PHYSICAL ADDRESS
Block D Eco Glades 2
Witch Hazel Avenue
Ecopark
Centurion
0046

POSTAL ADDRESS
P. O. Box 375
Tshwane
0001

BANKERS
First National Bank, division of FirstRand Limited
ABSA Bank Limited
Nedbank Limited
The Standard Bank of South Africa Limited

FUNDING SPONSORS
The Standard Bank of South Africa Limited

AUDITOR
The Auditor-General of South Africa

COMPANY SECRETARY
Mashumi Mzaidumi (appointed 9 October 2017).

GENERAL INFORMATION

LAND BANK GROUP SUBSIDIARIES

Land Bank Life Insurance Company (SOC) Limited (LBLIC)
Land Bank Insurance Company (SOC) Limited (LBIC)
Land Bank Insurance Services (SOC) Limited (LBIS) [1]

All of the above entities are incorporated in South Africa

HOLDING COMPANY
Land and Agricultural Development Bank of South Africa (the Land Bank)

COUNTRY OF INCORPORATION
South Africa

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES
Land Bank Life Insurance Company (LBLIC) and Land Bank Insurance Company (LBIC) operate in the insurance sector. LBLIC offers credit life insurance products and LBIC offers primarily crop insurance products to the wider agricultural sector. LBLIC and LBIC are incorporated in terms of the Companies Act of South Africa, 2008 (Act No. 71 of 2008) and are schedule 2 Public Entities in terms of the PFMA.

HEAD OFFICE PHYSICAL ADDRESS
Block D Eco Glades 2
Witch Hazel Avenue
Ecopark
Centurion
0046

POSTAL ADDRESS
P. O. Box 375
Tshwane
0001

BANKERS
LBLIC: ABSA Bank Limited
LBIC: RMB Private Bank, division of FirstRand Limited

AUDITOR
The Auditor-General of South Africa

COMPANY SECRETARY
Mashumi Mzaidumi (appointed 9 October 2017).

PUBLIC OFFICER DESIGNATE
Jenny Ragavan (appointed 4 December 2017).

[1] Dormant entity

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Bank 2019 R'000	Bank 2018 R'000
Assets					
Cash and cash equivalents		**3 213 121**	2 421 069	**3 202 568**	2 362 130
Trade and other receivables		**829 366**	320 171	**351 562**	131 302
Short-term insurance assets		**254 017**	282 382	**-**	-
Repurchase agreements		**30 257**	15 706	**30 257**	15 706
Investments		**3 181 534**	2 619 887	**1 988 001**	1 406 650
Derivatives assets		**80 587**	8 106	**80 587**	8 106
Loans and advances	2	**44 465 456**	43 418 462	**44 465 456**	43 418 462
Assets of discontinued operation classified as held-for-sale		**6 259**	147 328	**6 259**	147 328
Long term insurance assets		**8 287**	10 753	**-**	-
Non-current assets held-for-sale		**163 036**	10 085	**163 036**	10 085
Investment property		**15 250**	174 590	**15 250**	174 590
Property, plant and equipment		**32 154**	38 202	**31 992**	37 996
Right of use of leased assets		**68 093**	-	**67 672**	-
Intangible assets		**13 548**	20 279	**13 548**	20 279
Total assets		**52 360 587**	49 487 020	**50 416 188**	47 732 634
Equity and liabilities					
Equity					
Distributable reserves		**6 720 931**	6 547 725	**5 581 484**	5 445 930
Other reserves		**93 467**	100 978	**93 467**	100 978
		6 814 398	6 648 703	**5 674 951**	5 546 908
Liabilities					
Trade and other payables		**499 079**	355 404	**72 645**	160 715
Short-term insurance liabilities		**329 860**	398 859	**-**	-
Long-term policyholders' liabilities		**47 124**	55 939	**-**	-
Funding liabilities	3	**44 257 919**	41 576 302	**44 257 919**	41 576 302
Lease liabilities		**70 518**	-	**70 089**	-
Provisions		**40 373**	82 632	**39 268**	79 528
Post-retirement obligation		**301 316**	369 181	**301 316**	369 181
Total equity and liabilities		**52 360 587**	49 487 020	**50 416 188**	47 732 634

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

AS AT 31 MARCH 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Bank 2019 R'000	Bank 2018 R'000
Continuing operations					
Net interest income		**1 206 038**	1 278 406	**1 201 101**	1 261 391
Interest income		**5 030 321**	4 846 716	**5 023 465**	4 826 977
Interest expense		**(3 824 283)**	(3 568 310)	**(3 822 364)**	(3 565 586)
Net impairment charges, claims and recoveries	2	**(324 655)**	(55 524)	**(324 655)**	(55 524)
Total income from lending activities		**8 81 383**	1 222 882	**8 76 446**	1 205 867
Non-interest expense		**(262 667)**	(313 627)	**(251 361)**	(308 015)
Non-interest income		**113 977**	89 855	**105 452**	85 727
Operating income from banking activities		**732 693**	999 110	**730 537**	983 579
Net insurance premium income		**156 826**	143 002	**-**	-
Net insurance claims		**(165 886)**	(153 008)	**-**	-
Other costs from insurance activities		**(20 085)**	(41 073)	**-**	-
Investment income and fees		**104 645**	62 639	**21 299**	16 584
Interest on post-retirement obligation		**(22 533)**	(29 757)	**(22 533)**	(29 757)
Interest on lease liability		**(6 703)**	-	**(6 686)**	-
Fair value (losses) gains		**90 208**	34 027	**83 275**	7 219
Operating income		**869 165**	1 014 940	**805 892**	977 625
Operating expenses	4	**(628 341)**	(654 531)	**(602 845)**	(628 740)
Net operating income		**240 824**	360 409	**203 047**	348 885
Non-trading and capital items		**634**	(1 247)	**634**	(1 247)
Net profit before indirect taxation		**241 458**	359 162	**203 681**	347 638
Indirect taxation		**(73 170)**	(68 922)	**(73 045)**	(68 922)
Net profit from continuing operations		**168 288**	290 240	**130 636**	278 716
Net profit / (loss) from discontinued operations		**12 930**	(36 023)	**12 930**	(36 023)
Profit for the year		**181 218**	254 217	**143 566**	242 693
Other comprehensive income					
Items that will be reclassified into profit or loss					
Net losses on financial assets designated at fair value through other comprehensive income		**(279)**	(44 892)	**(279)**	(44 892)
Cash flow hedges: (release) gains on cash flow hedging instruments		**(8 106)**	8 106	**(8 106)**	8 106
Items that will not be reclassified subsequently to profit or loss					
Actuarial loss on the post-retirement obligation		**(8 012)**	(23 841)	**(8 012)**	(23 841)
Revaluation of land and buildings		**874**	269	**874**	269
Total other comprehensive income		**(15 523)**	(60 358)	**(15 523)**	(60 358)
Total comprehensive income for the year		**165 695**	193 859	**128 043**	182 335

STATEMENTS OF CHANGES IN EQUITY
AS AT 31 MARCH 2019

	Capital fund R'000	Insurance reserve R'000	MTM reserve R'000	Revaluation reserve R'000	General reserve R'000	Cash flow hedge reserve R'000	Total R'000
Group							
Balance at 1 April 2017	4 397 655	1 440 300	1 288	136 207	479 394	-	6 454 844
Profit for the year	-	11 524	-	-	242 693	-	254 217
Total other comprehensive income for the year	-	-	(44 892)	269	(23 841)	8 106	(60 358)
Balance at 31 March 2018	4 397 655	1 451 824	(43 604)	136 476	698 246	8 106	6 648 703
Profit for the year	**-**	**37 652**	**-**	**-**	**143 566**	**-**	**181 218**
Total other comprehensive income for the year	**-**	**-**	**(279)**	**874**	**(8 012)**	**(8 106)**	**(15 523)**
Balance at 31 March 2019	**4 397 655**	**1 489 476**	**(43 883)**	**137 350**	**833 800**	**-**	**6 814 398**

STATEMENTS OF CHANGES IN EQUITY
AS AT 31 MARCH 2019

	Capital fund R'000	MTM reserve R'000	Revaluation reserve R'000	General reserve R'000	Cash flow hedge reserve R'000	Total R'000
Bank						
Balance at 1 April 2017	4 397 655	1 288	136 207	829 423	-	5 364 573
Profit for the year	-	-	-	242 693	-	242 693
Total other comprehensive income for the year	-	(44 892)	269	(23 841)	8 106	(60 358)
Balance at 31 March 2018	4 397 655	(43 604)	136 476	1 048 275	8 106	5 546 908
Profit for the year	**-**	**-**	**-**	**143 566**	**-**	**143 566**
Total other comprehensive income for the year	**-**	**(279)**	**874**	**(8 012)**	**(8 106)**	**(15 523)**
Balance at 31 March 2019	**4 397 655**	**(43 883)**	**137 350**	**1 183 829**	**-**	**5 674 951**

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Group		Bank	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Working capital adjustments:	**(407 880)**	73 164	**(283 330)**	4 364
(Increase)/ decrease in trade and other receivables	**(509 195)**	63 564	**(195 260)**	7 647
Decrease in trade and other payables	**143 675**	(23 797)	**(88 070)**	(3 283)
(Decrease)/ Increase in short-term and long-term insurance liability	**(68 999)**	136 026	**-**	-
Decrease/ (increase) in short-term and long-term insurance assets	**26 639**	(102 629)	**-**	-
Cash flow from operating activities	**3 443 753**	3 827 271	**3 625 105**	3 811 150
Cash flows from operations	**(5 338 940)**	(6 040 830)	**(5 337 021)**	(6 038 106)
Interest paid	**(3 824 283)**	(3 568 310)	**(3 822 364)**	(3 565 586)
Interest in post-retirement obligation	**(22 533)**	(29 757)	**(22 533)**	(29 757)
Increase in funding to clients	**(1 492 124)**	(2 442 763)	**(1 492 124)**	(2 442 763)
Cash flow from investing activities	**33 132**	(622 395)	**(101 829)**	(358 911)
Proceeds from disposal of property and equipment	**257**	143	**165**	143
Purchase of property and equipment	**(1 201)**	(1 685)	**(1 090)**	(1 685)
Proceeds from sale of non-current assets held-for-sale	**7 710**	33 091	**7 710**	33 091
Proceeds from sale of assets of discontinued operations	**141 069**	-	**141 069**	-
Proceeds from sale of financial instruments	**123 066**	68 236	**13 086**	39 652
Net loan to subsidiary	**-**	-	**(25 000)**	-
Purchase of financial instruments	**(237 769)**	(722 180)	**(237 769)**	(430 112)
Cash flow from financing activities	**2 654 107**	3 736 692	**2 654 183**	3 736 692
Funding raised	**9 073 311**	13 631 658	**9 073 311**	13 631 658
Funding repaid	**(6 391 694)**	(9 894 966)	**(6 391 694)**	(9 894 966)
Lease liability repaid	**(27 510)**	-	**(27 434)**	-
Net decrease in cash and cash equivalents	**792 052**	900 738	**840 438**	1 150 825
Cash and cash equivalents at beginning of year	**2 421 069**	1 520 331	**2 362 130**	1 211 305
Cash and cash equivalents at end of year	**3 213 121**	2 421 069	**3 202 568**	2 362 130

SEGMENT REPORTING (GEOGRAPHIC)
FOR THE YEAR ENDED 31 MARCH 2019

	Group		Bank	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Net profit from continuing operations	**168 288**	290 957	**130 636**	278 716
Net Profit (loss) from discontinued operations	**12 930**	(36 023)	**12 930**	(36 023)
	181 218	254 934	**143 566**	242 693
Adjustments to reconcile profit to net cash flows:				
	3 670 415	3 499 173	**3 764 869**	3 564 093
Interest expense	**3 824 283**	3 568 310	**3 822 364**	3 565 586
Interest on post-retirement obligation	**22 533**	29 757	**22 533**	29 757
Interest on lease liabilities	**6 703**	-	**6 686**	-
Fair value movement (financial instruments)	**(79 929)**	1 165	**(79 929)**	1 165
Fair value movement (investments)	**(10 279)**	(35 192)	**(3 346)**	(8 384)
Dividend income	**(33 999)**	(32 322)	**(17 143)**	(13 335)
Interest income	**(77 093)**	(38 848)	**(5 234)**	(5 955)
Fund management fees	**6 447**	5 825	**1 078**	-
Depreciation and impairment of property and equipment	**7 846**	8 411	**7 781**	8 349
Depreciation of Leased Assets	**23 232**	-	**23 164**	-
Amortisation and impairment of intangibles	**6 731**	6 810	**6 731**	6 810
Fair value adjustments (investment properties)	**(650)**	(6 790)	**(650)**	(6 790)
Fair value movement in policyholders' liabilities	**(4 245)**	3 790	**-**	-
Fair value adjustment on non-current assets held-for-sale	**1 339**	(165)	**1 339**	(165)
Movement in provisions	**(42 259)**	(26 199)	**(40 260)**	(27 566)
Movement in post-retirement medical aid liability	**24 959**	7 130	**24 959**	7 130
Loss on disposal of property and equipment	**22**	227	**22**	227
Loss on disposal/ write off of intangible asset	**-**	185	**-**	185
(Profit)/ loss on disposal of properties in possession	**(2 010)**	9 080	**(2 010)**	9 080
Foreign exchange loss / (gain)	**673**	(1 089)	**673**	(1 089)
Impairment relating to loan commitments and guarantees	**(3 881)**	(711)	**(3 881)**	(711)
Impairment of other assets	**(8)**	(201)	**(8)**	(201)

SEGMENT REPORTING (GEOGRAPHIC)
FOR THE YEAR ENDED 31 MARCH 2019

Group

2019

Statement of profit or loss and other comprehensive income

	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	Interest on post retirement medical aid and lease liability R'000	Depreciation and amortisation R'000	Staff costs R'000	Net profit/ (loss) R'000	Other[1] Comprehensive Income R'000	Total comprehensive income R'000
Northern region	4 305 009	(3 221 028)	1 083 981	(302 471)	(173 977)	-	105 210	(225 798)	(29 219)	(32 860)	(352 192)	72 674	(15 523)	57 151
Southern region	718 456	(601 336)	117 120	(22 184)	28 068	-	(2)	(10 280)	-	(4 816)	(49 944)	57 962	-	57 962
Insurance operations	6 856	(1 919)	4 937	-	(2 781)	(29 145)	90 279	(13 436)	(17)	(133)	(12 052)	37 652	-	37 652
Continuing operations	5 030 321	(3 824 283)	1 206 038	(324 655)	(148 690)	(29 145)	195 487	(249 514)	(29 236)	(37 809)	(414 188)	168 288	(15 523)	152 765
Discontinued operation - LDFU				12 930								12 930		12 930
	5 030 321	(3 824 283)	1 206 038	(311 725)	(148 690)	(29 145)	195 487	(249 514)	(29 236)	(37 809)	(414 188)	181 218	(15 523)	165 695

[1] Details on Other Comprehensive Income are disclosed under the Business Segment

Statement of financial position

	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment R'000	Working Capital (incl. loans and advances) R'000	Other assets R'000	Total assets R'000
Assets				
Northern region	2 259 301	65 090 038	-	67 349 339
Southern region	20 198	(16 959 608)	-	(16 939 410)
Insurance operations	1 194 116	488 927	261 926	1 944 399
Continuing operations	3 473 615	48 618 787	261 926	52 354 328
Discontinued operation - LDFU	-	6 259	-	6 259
	3 473 615	48 625 046	261 926	52 360 587

	Working Capital (incl. funding) R'000	Other liabilities R'000	Total liabilities R'000
Liabilities			
Northern region	32 326 754	394 634	32 721 388
Southern region	12 003 811	16 038	12 019 849
Insurance operations	426 434	378 518	804 952
Continuing operations	44 756 999	789 190	45 546 189
Discontinued operation - LDFU	-	-	-
	44 756 999	789 190	45 546 189

Group

2018

Statement of profit or loss and other comprehensive income

	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	Interest on Post Retirement Medical Aid R'000	Depreciation and amortisation R'000	Staff costs R'000	Net profit/ (loss) R'000	Other Comprehensive Income R'000	Total comprehensive income R'000
Northern region	3 893 159	(2 885 510)	1 007 649	(61 875)	(211 935)	-	21 832	(237 758)	(29 757)	(14 556)	(376 344)	97 256	(60 358)	36 898
Southern region	933 818	(680 076)	253 742	6 351	(10 353)	-	724	(12 525)	-	(603)	(55 876)	181 460	-	181 460
Insurance operations	19 739	(2 724)	17 015	-	(1 485)	(51 079)	72 863	(10 527)	-	(62)	(15 201)	11 524	-	11 524
Continuing operations	4 846 716	(3 568 310)	1 278 406	(55 524)	(223 773)	(51 079)	95 419	(260 810)	(29 757)	(15 221)	(447 421)	290 240	(60 358)	229 882
Discontinued operation - LDFU				(36 023)								(36 023)	-	(36 023)
	4 846 716	(3 568 310)	1 278 406	(91 547)	(223 773)	(51 079)	95 419	(260 810)	(29 757)	(15 221)	(447 421)	254 217	(60 358)	193 859

Statement of financial position	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment R'000	Working Capital (incl. loans and advances) R'000	Other assets R'000	Total assets R'000
Assets				
Northern region	1 641 702	37 855 439	-	39 497 141
Southern region	7 898	8 080 267	-	8 088 165
Insurance operations	1 213 444	247 807	293 135	1 754 386
Continuing operations	2 863 044	46 183 513	293 135	49 339 692
Discontinued operation - LDFU	-	147 328	-	147 328
	2 863 044	**46 330 841**	**293 135**	**49 487 020**

Liabilities	Working Capital (incl. funding) R'000	Other liabilities R'000	Total liabilities R'000
Northern region	34 312 733	439 059	34 751 792
Southern region	7 424 284	9 650	7 433 934
Insurance operations	194 689	457 902	652 591
Continuing operations	41 931 706	906 611	42 838 317
Discontinued operation - LDFU	-	-	-
	41 931 706	**906 611**	**42 838 317**

The geographical segments consist of 9 provincial offices and 16 satellite offices within the boundaries 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.

Group

2019

Statement of profit or loss and other comprehensive income

	Commercial Development and Business Banking R'000	Corporate Banking and structured Investment R'000	Group Capital and Inter-segment eliminations[1] R'000	Total Bank (Excluding LDFU) R'000	Insurance Operations[2] R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group R'000
Net interest income/ (expense)	811 371	406 602	(16 872)	1 201 101	4 937	1 206 038	-	1 206 038
Interest income	3 724 220	1 299 245	-	5 023 465	6 856	5 030 321	-	5 030 321
Interest expense	(2 912 849)	(892 643)	(16 872)	(3 822 364)	(1 919)	(3 824 283)	-	(3 824 283)
Impairment releases/(charges) on loans and advances	(173 832)	(150 858)	35	(324 655)	-	(324 655)	12 930	(311 725)
Total income/(loss) from lending activities	637 539	255 744	(16 837)	876 446	4 937	881 383	12 930	894 313
Non-interest expense	(253 594)	2 233	-	(251 361)	(11 306)	(262 667)	-	(262 667)
Non-interest income	30 683	45 557	29 212	105 452	8 525	113 977	-	113 977
Operating income/(loss) from banking activities	414 628	303 534	12 375	730 537	2 156	732 693	12 930	745 623
Operating loss from insurance activities	-	-	-	-	(29 145)	(29 145)	-	(29 145)
Investment income	-	2 000	19 299	21 299	83 346	104 645	-	104 645
Interest in Post Retirement Obligation	-	-	(22 533)	(22 533)	-	(22 533)	-	(22 533)
Interest on Lease Liability	(1 689)	(172)	(4 825)	(6 686)	(17)	(6 703)	-	(6 703)
Fair value loss	-	-	83 275	83 275	6 933	90 208	-	90 208
Operating income/(loss)	412 939	305 362	87 591	805 892	63 273	869 165	12 930	882 095
Operating expenses	(19 544)	(2 177)	(141 312)	(163 033)	(13 311)	(176 344)	-	(176 344)
Staff costs	(76 603)	(20 734)	(304 799)	(402 136)	(12 052)	(414 188)	-	(414 188)
Depreciation and amortisation	(6 064)	(1 460)	(30 152)	(37 676)	(133)	(37 809)	-	(37 809)
Net operating (loss)/income	310 728	280 991	(388 672)	203 047	37 777	240 824	12 930	253 754
Non-trading and capital items	(91)	-	725	634	-	634	-	634
Net profit/(loss) before indirect taxation	310 637	280 991	(387 947)	203 681	37 777	241 458	12 930	254 388
Indirect taxation	-	-	(73 045)	(73 045)	(125)	(73 170)	-	(73 170)
Net profit/(loss)	310 637	280 991	(460 992)	130 636	37 652	168 288	12 930	181 218

Group

2019

Statement of profit or loss and other comprehensive income (continued)

	Commercial Development and Business Banking R'000	Corporate Banking and structured Investment R'000	Group Capital and Inter-segment eliminations[1] R'000	Total Bank (Excluding LDFU) R'000	Insurance Operations[2] R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group R'000
Net profit / (loss)	310 637	280 991	(460 992)	130 636	37 652	168 258	12 930	181 218
Other comprehensive income	-	-	(15 523)	(15 523)	-	(15 523)	-	(15 523)
Actuarial losses on the post-retirement obligation	-	-	(8 012)	(8 012)	-	(8 012)	-	(8 012)
Revaluation of land and buildings	-	-	874	874	-	874	-	874
Cash flow hedges: gains on cash flow hedging instruments	-	-	(8 106)	(8 106)	-	(8 106)	-	(8 106)
Profit on financial assets at fair value through other comprehensive income	-	-	(279)	(279)	-	(279	-	(279)
Total comprehensive income/(loss) for the year	310 637	280 991	(476 515)	115 113	37 652	152 765	12 930	165 695
Interest income								
External customers	3 724 220	1 299 245	-	5 023 465	6 856	5 030 321	-	5 030 321
Non-interest income/(expense)								
External customers	(222 911)	47 790	29 212	(145 909)	(2 781)	(148 690)	-	(148 690)

Group

2019

Statement of financial position

	Commercial Development and Business Banking R'000	Corporate Banking and structured Investment R'000	Group Capital and Inter-segment eliminations[1] R'000	Total Bank (Excluding LDFU) R'000	Insurance Operations[2] R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group R'000
Assets								
Segment assets	**12 149 005**	**(4 066 053)**	**42 326 977**	**50 409 929**	**1 944 399**	**52 354 328**	**6 259**	**52 360 587**
Working capital (incl. net loans and advances)	11 976 749	(4 790 516)	40 944 197	48 130 430	488 357	48 618 787	6 259	48 625 046
Investments	122 000	723 379	1 142 622	1 988 001	1 193 533	3 181 534	-	3 181 534
Investment properties	31 244	-	(15 994)	15 250	-	15 250	-	15 250
Property and equipment	19 012	1 084	79 568	99 664	583	100 247	-	100 247
Non-current assets held-for-sale	-	-	163 036	163 036	-	163 036	-	163 036
Intangible assets	-	-	13 548	13 548	-	13 548	-	13 548
Insurance assets	-	-	-	-	261 926	261 926	-	261 926
Liabilities								
Segment liabilities	**32 339 715**	**12 139 694**	**261 828**	**44 741 237**	**804 952**	**45 546 189**	**-**	**45 546 189**
Working capital (incl. funding liabilities)	32 313 187	12 137 736	(120 359)	44 330 564	426 434	44 756 998	-	44 756 998
Provisions	5 424	710	33 134	39 268	1 105	40 373	-	40 373
Post-retirement obligation	-	-	301 316	301 316	-	301 316	-	301 316
Lease Liabilities	21 104	1 248	47 737	70 089	429	70 518	-	70 518
Insurance liabilities	-	-	-	-	376 984	376 984	-	376 984

[1] Includes reconciliation to Group results in terms of IFRS 8.
[2] The Insurance Operations consists of LBLIC (Life Insurance) and LBIC (Short term asset and Crop Insurance).

Group

2018

Statement of profit or loss and other comprehensive income

	Commercial Development Banking R'000	Corporate Banking[2] R'000	Group Capital and Inter-segment eliminations[1] R'000	Total Bank (Excluding LDFU) R'000	Insurance Operations[3] R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group R'000
Net interest income/(expense)	912 112	349 279	-	1 261 391	17 015	1 278 406	-	1 278 406
Interest income	3 405 057	1 421 920	-	4 826 977	19 739	4 846 716	-	4 846 716
Interest expense	(2 492 945)	(1 072 641)	-	(3 565 586)	(2 724)	(3 568 310)	-	(3 568 310)
Impairment releases/(charges) on loans and advances	203 500	(261 983)	2 959	(55 524)	-	(55 524)	(36 023)	(91 547)
Total income/(loss) from lending activities	1 115 612	87 296	2 959	1 205 867	17 015	1 222 882	(36 023)	1 186 859
Non-interest (expense)	(308 015)	-	-	(308 015)	(5 613)	(313 628)	-	(313 628)
Non-interest income	20 807	24 124	40 796	85 727	4 128	89 855	-	89 855
Operating income/(loss) from banking activities	828 404	111 420	43 755	983 579	15 530	999 109	(36 023)	963 086
Operating profit from insurance activities	-	-	-	-	(51 079)	(51 079)	-	(51 079)
Investment income	-	-	16 584	16 584	46 055	62 639	-	62 639
Interest in Post Retirement Obligation	-	-	(29 757)	(29 757)	-	(29 757)	-	(29 757)
Fair value loss	-	-	7 219	7 219	26 808	34 027	-	34 027
Operating income/(loss)	828 404	111 420	37 804	977 625	37 314	1 014 939	(36 023)	978 916
Operating expenses	(22 351)	(2 916)	(156 094)	(181 361)	(10 527)	(191 888)	-	(191 888)
Staff costs	(93 898)	(15 544)	(322 778)	(432 220)	(15 201)	(447 421)	-	(447 421)
Depreciation and amortisation	(1 438)	(73)	(13 648)	(15 159)	(62)	(15 221)	-	(15 221)
Net operating (loss)/income	710 717	92 887	(454 719)	348 885	11 524	360 409	(36 023)	324 386
Non-trading and capital items	718	(18)	(1 947)	(1 247)	-	(1 247)	-	(1 247)
Net profit/(loss) before indirect taxation	711 435	92 869	(456 666)	347 638	11 524	359 162	(36 023)	323 139
Indirect taxation	-	-	(68 922)	(68 922)	-	(68 922)	-	(68 922)
Net profit/(loss)	711 435	92 869	(525 589)	278 716	11 524	290 240	(36 023)	254 217

Group

2018

Statement of profit or loss and other comprehensive income (continued)

	Commercial Development Banking R'000	Corporate Banking[2] R'000	Group Capital and Inter-segment eliminations[1] R'000	Total Bank (Excluding LDFU) R'000	Insurance Operations[3] R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group R'000
Net profit/(loss)	711 435	92 869	(525 589)	278 716	11 524	290 240	(36 023)	254 217
Other comprehensive income								
Actuarial losses on the post-retirement obligation	-	-	(23 841)	(23 841)	-	(23 841)	-	(23 841)
Revaluation of land and buildings	-	-	269	269	-	269	-	269
Cash flow hedges: gains on cash flow hedging instruments	-	-	8 106	8 106	-	8 106	-	8 106
Profit on financial assets at fair value through other comprehensive income	-	-	(44 892)	(44 892)	-	(44 892)	-	(44 892)
Total comprehensive income/(loss) for the year	711 435	92 869	(585 947)	218 358	11 524	229 882	(36 023)	193 859
Interest income								
External customers	3 405 057	1 421 920	-	4 826 977	19 739	4 846 716	-	4 846 716
Non-interest income/(expense)								
External customers	(287 208)	24 124	40 796	(222 288)	(1 485)	(223 773)	-	(223 773)

Group

2018

Statement of financial position

	Commercial Development and Business Banking[2] R'000	Corporate Banking and structured Investment [2] R'000	Group Capital and Inter-segment eliminations [1] R'000	Total Bank (Excluding LDFU) R'000	Insurance Operations[3] R'000	Total Group (Excluding LDFU) R'000	Discontinued Operations LDFU R'000	Total Group (Excluding LDFU) R'000
Assets								
Segment assets	**30 251 865**	**12 170 769**	**5 162 673**	**47 585 306**	**1 754 386**	**49 339 692**	**147 328**	**49 487 020**
Working capital (incl. net loans and advances)	30 220 343	11 459 492	4 255 872	45 935 706	247 808	46 183 514	-	46 330 842
Investments	-	711 228	695 422	1 406 650	1 213 237	2 619 887	-	2 619 887
Investment properties	31 244	-	143 346	174 590	-	174 590	-	174 590
Property and equipment	278	49	37 669	37 996	206	38 202	-	38 202
Non-current assets held-for-sale	-	-	10 085	10 085	-	10 085	-	10 085
Intangible assets	-	-	20 279	20 279	-	20 279	-	20 279
Insurance assets	-	-	-	-	293 135	293 135	-	293 135
Liabilities								
Segment liabilities	**30 795 642**	**12 811 083**	**(1 420 999)**	**42 185 726**	**652 591**	**42 838 317**	**-**	**42 838 317**
Working capital (incl. funding liabilities)	30 778 262	12 807 304	(1 848 549)	41 737 017	194 689	41 931 706	-	41 931 706
Provisions	17 380	3 779	58 369	79 528	3 104	82 632	-	82 632
Post-retirement obligation	-	-	369 181	369 181	-	369 181	-	369 181
Insurance liabilities	-	-	-	-	454 798	454 798	-	454 798

[1] Includes reconciliation to Group results in terms of IFRS 8.

[2] During FY 2018 the Bank undertook an organisational review in which the previously reported segment "Business & Corporate Banking" was rebranded to "Corporate Banking", while the previously reported "Retail Commercial Banking" and "Retail Emerging Markets" were rolled up into a new segment "Commercial Development Banking".

[3] The Insurance Operations consists of LBLIC (Life Insurance) and LBIC (Short term asset and Crop Insurance).

1. Basis of preparation and accounting policies

The abridged financial statements have been prepared in accordance with IFRS (with consent from the National Treasury to 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 accordance 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. These policies have been consistently applied to all the years presented, unless otherwise stated. These abridged financial statements have also been prepared in compliance with the requirements of the International Accounting Standards (IAS) 34: Interim Financial Reporting.

2. Loans and advances

2.1 Gross loans per business segment

	Group		
	Gross loans R'000	Expected Credit Loss (ECL) [1] R'000	Net loans R'000
2019			
Corporate Banking and Structured Investments	**10 604 785**	**(120 010)**	**10 484 775**
Commercial Development and Business Banking	**34 605 245**	**(619 885)**	**33 985 360**
Loan commitments and guarantees	**-**	**(4 679)**	**(4 679)**
	45 210 030	**(744 574)**	**44 465 456**
2018			
Corporate Banking and Structured Investments	13 261 165	(1 644 933)	11 616 232
Commercial Development and Business Banking	32 290 154	(479 364)	31 810 790
Loan commitments and guarantees	-	(8 560)	(8 560)
	45 551 319	(2 132 857)	43 418 462

[1] Included in the ECL is an amount of R50.9 million (FY2018: R56.4 million) relating to interest in suspense. 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. 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	Nature of interest rate	Average term of repayment	Average interest rate 2019	Average interest rate 2018
Short term loans	Variable	1 year	**11.10%**	11.60%
Medium term loans	Variable	1 to 5 years	**11.80%**	11.65%
Long term loans	Variable/Fixed	> 5 years	**10.64%**	11.00%

		Group		Bank	
		2019	**2018**	**2019**	**2018**
2.2	**Loans by maturity profile [1]**	**R'000**	**R'000**	**R'000**	**R'000**
	< 3 months	**5 828 827**	7 964 107	**5 828 827**	7 964 107
	3 - 6 months	**4 843 555**	3 674 340	**4 843 555**	3 674 340
	6 - 9 months	**1 717 825**	3 417 370	**1 717 825**	3 417 370
	9 - 12 months	**2 349 087**	1 356 877	**2 349 087**	1 356 877
	1 - 5 years	**6 761 331**	5 503 718	**6 761 331**	5 503 718
	> 5 years	**23 707 260**	23 615 117	**23 707 260**	23 615 117
	Total	**45 207 885**	45 531 529	**45 207 885**	45 531 529

[1] This maturity profile excludes the insolvent loan balances of R2.1 million.

2.3 Loans by credit quality	Performing loans [1] R'000	Under performing loans [2] R'000	Non performing loans [3] R'000	Total R'000
2019				
Corporate Banking and Structured Investments	9 199 043	1 354 849	50 893	10 604 785
Commercial Development and Business Banking	27 924 933	2 774 907	3 905 405	34 605 245
Gross loans and advances	37 123 976	4 129 756	3 956 298	45 210 030
Expected Credit Loss (ECL)	(168 934)	(73 140)	(502 500)	(744 574)
Net loans and advances	36 955 042	4 056 616	3 453 798	44 465 456
Guarantees				9 790
Loan commitments				5 062 053
Gross loan commitments and guarantees				5 071 843
Expected Credit Loss (ECL)				(4 679)
Net loan commitments and guarantees				5 067 164
2018				
Corporate Banking and Structured Investments	10 875 737	2 125 079	260 349	13 261 166
Commercial Development and Business Banking	28 150 886	1 361 186	2 778 082	32 290 153
Gross loans and advances	39 026 623	3 486 265	3 038 431	45 551 319
Expected Credit Loss (ECL)	(159 874)	(1 417 756)	(555 227)	(2 132 857)
Net loans and advances	38 866 749	2 068 509	2 483 204	43 418 462
Guarantees				815 573
Loan commitments				6 751 717
Gross loan commitments and guarantees				7 567 290
Expected Credit Loss (ECL)				(8 560)
Net loan commitments and guarantees				7 558 730

Included in the ECL is an amount of R50.9 million (FY2018: R56.4 million) relating to interest in suspense.

[1] Performing loans: A significant increase in credit risk could not be recorded. These loans are of an acceptable credit quality. Repayment is expected in compliance with the credit agreement.

[2] Under performing loans: Loans are exposed to a significant increase in credit risk as identified based on probability of defaults (PDs) and warning signals that materialises between origination and reporting. As a minimum, loans that are in arrears for 30 days and more are classified as under performing loans.

[3] Non-performing loans: Loans that have failed to meet the terms and conditions of the credit agreement and there are further indicators of the unlikeliness to repay the loan. Loans that are as a minimum 90 days in arrears, are classified as non-performing.

	Group 2019 R'000	Group 2018 R'000
2.4 Loans and advances past due not impaired		
0 to 30 days past due	161 011	169 180
31 to 90 days past due	236 888	144 856
90+ days past due	2 393 481	1 747 349
Total loans and advances past due but not impaired	**2 791 380**	2 061 385

Gross past due loans not impaired are covered in full by underlying collateral.
Refer to note 11.7 for details on the collateral.

2.5 Expected Credit Loss provision: reconciliation of movement per business unit

Group and Bank	Corporate Banking and Structured Investments R'000	Commercial Development and Business Banking R'000	Loan commitments and guarantees R'000	Total R'000
2019				
Balance at the beginning of the year [1]	1 639 354	428 560	8 560	2 076 474
Movement for the year				
Credit losses written off:	(210 521)	(33 326)	-	(243 847)
- Statement of financial position write off (utilisation)	(166 244)	(12 751)	-	(178 995)
- Statement of comprehensive income write off	(44 277)	(20 575)	-	(64 852)
Utilisation due to client restructuring	(1 472 766)	-	-	(1 472 766)
Impairment related to second loss sharing not raised in comprehensive income	-	135 691	-	135 691
Net impairment raised/ (released) to the statement of comprehensive income	157 659	44 303	(3 881)	198 081
Balance at the end of the year [1]	113 726	575 228	4 679	693 633
2018				
Balance at the beginning of the year [1]	1 650 370	640 884	7 849	2 299 103
Movement for the year				
Credit losses written off:	(252 508)	(35 515)	-	(288 023)
- Statement of financial position write off (utilisation)	(216 494)	(26 795)	-	(243 289)
- Statement of comprehensive income write off	(36 014)	(8 720)	-	(44 734)
Net impairment raised/ (released) to the statement of comprehensive income	241 492	(176 809)	711	65 394
Balance at the end of the year [1]	1 639 354	428 560	8 560	2 076 474

[1] The balances exclude suspended interest of R50.9 million (FY2018: R56.4 million).

2.6 Impairment releases/ (charges), claims and recoveries

Group and Bank	Corporate Banking and Structured Investments R'000	Commercial Development and Business Banking R'000	Loan commitments and guarantees R'000	Total R'000
2019				
Net impairments raised/ (released) to the statement of comprehensive income	**157 659**	**179 994**	**(3 881)**	**333 772**
Recoveries in respect of amounts previously written off	**(6 190)**	**(2 927)**	**-**	**(9 117)**
	151 469	**177 067**	**(3 881)**	**324 655**
2018				
Net impairments raised/ (released) to the statement of comprehensive income	241 492	(176 809)	711	65 394
Recoveries in respect of amounts previously written off	(1 772)	(8 098)	-	(9 870)
	239 720	(184 907)	711	55 524

2.7 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 value of the collateral are determined with reference to the realisable value of security under forced-sale conditions.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. In general, the Group does not occupy repossessed properties for business. The repossessed properties are accounted for as non-current assets held-for-sale in terms of IFRS 5. The bank did not reposses any assets against loans in the current year (FY2018: collateral value taken in possession was R4.1 million).

The Group has the following assets held as security against its loan portfolio:

Nature of assets	Estimated value %	Bank 2019 R'000	Bank 2018 R'000
Biological assets	10% - 100%	**3 359 049**	1 426 665
Commodities	50% - 90%	**694 772**	786 724
Debtors	30% - 70%	**4 948 012**	7 336 709
Deposits	90% - 100%	**313 921**	121 645
Guarantee	95% - 100%	**543 935**	44 629
Land and buildings*	10% - 75%	**48 422 694**	37 977 141
Office equipment and computers	10%	**-**	39 987
Plant and equipment	30% - 50%	**1 533 562**	1 985 734
Shares and investments	30% - 100%	**3 593 900**	4 295 800
Specialised infrastructure	50%	**-**	163 291
Stock	10%-70%	**1 630 937**	2 112 011
Trademarks	50%	**16 807**	18 021
Vehicles	30% - 50%	**120 932**	235 909
Suretyship	10%	**1 611 532**	-
Cessions held over unpaid shares	30%	**-**	1 417
Other	10%	**3 885 369**	497 695
Total		**7 0 675 420**	57 043 378

* The Land and buildings is disclosed net of the collateral agreement limits.

Concentration of credit risk

By the very nature of the Bank's business it is exposed to credit concentration risk in the agricultural sector, as well as to certain counterparties / group of connected parties mainly within the Corporate Banking loan portfolio. Notwithstanding these risks, there is strategic benefit to the Bank by holding such exposures as the traditional large agri-businesses are often better positioned than financiers to mitigate risk in the agricultural value chain. Furthermore large agri-businesses are characterised by a spread in geographical locations, product /commodity diversification, vertical or horizontal integration in their respective value chains and diverse 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 20% (FY2017: 25%) (50% for certain strategic clients who meets specific credit criteria) of the Bank's own equity[1] to any counterparty or group of connected parties. Furthermore, all acquired loan books managed through Service Level Agreements have credit concentration risk limits imposed by the Bank to mitigate concentration risk.

As at year-end there was one counterparty (FY2018: one) with individual exposure of more than 25% of the Bank's own equity[1]. This counterparty is also a strategic partner and falls below the 50% threshold. The total exposure of this counterparty at year-end amounted to R2.61 billion (FY2018: R3.5 billion). The exposure was approved by Credit and Investment Committee and the Land Bank Board. The counterparty is abiding to its loan repayment terms and conditions.

[1] Own equity is defined as equity plus unutilised government guarantees

3. Funding liabilities

At amortised cost	**44 257 919**	41 576 302	**44 257 919**	41 576 302

The carrying value of funding liabilities comprise of amounts measured at amortised cost.

3.1 Analysis of funding

Group and Bank 2019	Opening balance R'000	Non-cash: Re-alignment of amortised cost [1] R'000	Cash: New issues/ utilisation R'000	Cash: Repayment/ settlements R'000	Non-cash: Accrued interest R'000	Cash: Discount/ premium R'000	Cash: Prepaid arranging fees R'000	Closing balance R'000	Fair value R'000
Commercial funding									
Commercial paper	17 656 416	773 440	1 646 358	(114 282)	1 188	(699 886)	-	19 263 234	19 461 039
Bills	997 981	329 390	250 000	-	-	(264 974)	-	1 312 397	1 370 515
Call bonds	175 968	(1 038)	-	(25 930)	888	-	-	149 888	149 853
Floating rate notes - 1 year	683 573	3 512	1 350 450	-	-	(19 741)	-	2 017 794	2 033 632
Floating rate notes - 2 to 5 years	2 648 345	36 331	45 908	-	-	(39 754)	-	2 690 830	2 771 487
Promissory notes	13 150 549	405 245	-	(88 352)	300	(375 417)	-	13 092 325	13 135 552
Deposits	707 233	-	10 847	(22 396)	-	-	-	695 684	695 667
Agri-related business deposits	254 493	-	-	(22 396)	-	-	-	232 097	232 094
Forced stock sale deposits	452 699	-	10 844	-	-	-	-	463 543	463 529
Small institutional deposits	41	-	3	-	-	-	-	44	44
Facilities	992	(1 126)	2	-	4 441	-	-	4 309	-
Committed	992	(1 126)	2	-	3 011	-	-	2 879	-
Uncommitted	-	-	-	-	1 430	-	-	1 430	-
DMTN issuances	10 946 917	(197 115)	5 125 000	(2 620 000)	194 983	9 198	(1 615)	13 457 368	13 434 792
Floating rate notes	8 548 406	(88 604)	3 426 000	(2 620 000)	63 968	2 576	(1 419)	9 330 927	9 385 638
- LBK05	757 674	(5 673)	-	(752 000)	-	-	-	1	-
- LBK08	329 906	(4 905)	-	-	4 916	-	-	329 917	325 115
- LBK14U	511 043	(11 043)	-	(500 000)	-	-	-	-	-
- LBK15	1 413 876	(38 876)	-	-	29 442	-	(548)	1 403 894	1 427 877
- LBK16	191 239	(1 439)	-	-	1 523	-	(32)	191 291	189 813
- LBK17	523 949	(949)	-	-	1 297	-	(170)	524 127	526 504
- LBK18	736 693	(3 693)	-	-	2 008	-	(376)	734 632	760 409
- LBK21	874 321	(6 321)	-	(868 000)	-	-	-	-	-
- LBK22	573 111	(5 111)	-	-	3 791	-	-	571 791	568 790
- LBK23	617 156	(6 156)	-	-	4 249	-	(8)	615 241	623 222

3.1 Analysis of funding

		Non-cash	Cash		Non-cash	Cash			
Group and Bank **2019**	**Opening balance R'000**	**Re-alignment of amortised cost [1] R'000**	**New issues/ utilisation R'000**	**Repayment/ settlements R'000**	**Accrued interest R'000**	**Discount/ premium R'000**	**Prepaid arranging fees R'000**	**Closing balance R'000**	**Fair value R'000**
Floating rates (continued)									
- LBK25	501 014	(1 014)	-	(500 000)	-	-	-	-	-
- LBK26	245 520	(520)	-	-	406	-	-	245 406	246 282
- LBK27	1 272 904	(2 904)	750 000	-	3 603	-	(39)	2 023 564	2 038 358
- LBK30	-	-	306 000	-	855	-	(25)	306 830	306 005
- LBK31	-	-	920 000	-	2 752	-	(82)	922 670	920 011
- LBK32	-	-	500 000	-	6 475	-	(46)	506 429	500 041
- LBK33	-	-	500 000	-	1 985	2 576	(48)	504 513	503 216
- LBK35	-	-	450 000	-	666	-	(45)	450 621	449 995
Fixed rate notes	2 398 511	(108 511)	1 699 000	-	131 015	6 622	(196)	4 126 441	4 049 154
- LBK11	506 014	(16 014)	-	-	16 014	-	-	506 014	491 617
- LBK12U	201 809	(1 809)	-	-	1 862	-	-	201 862	204 664
- LBK20	849 444	(54 444)	-	-	24 882	-	(32)	819 850	817 788
- LBK24	841 244	(36 244)	-	-	39 261	-	(72)	844 189	830 655
- LBK28		-	925 000	-	25 305	6 622	(27)	956 900	923 220
- LBK29		-	774 000	-	23 691	-	(65)	797 626	781 210
Term loans - amortising	4 855 754	499 630	-	(1 170 262)	13 946	-	(456 517)	3 742 551	4 708 404
5 year syndicated loan	389 171	(282)	-	(222 222)	125	-	-	166 792	168 310
7 year syndicated loan (Government guaranteed) [2]	942 286	5 754	-	(948 040)	-	-	(5 191)	(-5 191)	-
10 year syndicated loan (MIGA supported)	3 524 297	494 158	-	-	13 821	-	(451 326)	3 580 950	4 540 094
Term loans - bullet term	1 598 231	5 769	1 000 000	(1 604 000)	4 767	-	(9 155)	995 612	1 045 602
3 year syndicated loans	-	-	1 000 000	-	4 767	-	(3 952)	1 000 815	1 045 602
6 year syndicated loan (Government guaranteed) [2]	1 598 231	5 769	-	(1 604 000)	-	-	(5 203)	(5 203)	-
Step rate notes	4 299 866	(47 866)	-	(291 000)	53 047	-	-	4 014 047	4 140 158
Total commercial funding	40 065 409	1 032 732	7 782 207	(5 821 940)	272 372	(690 688)	(467 287)	42 172 805	43 485 662

3.1 Analysis of funding

Group and Bank 2019	Opening balance R'000	Non-cash: Re-alignment of amortised cost [1] R'000	Cash: New issues/ utilisation R'000	Cash: Repayment/ settlements R'000	Non-cash: Accrued interest R'000	Cash: Discount/ premium R'000	Cash: Prepaid arranging fees R'000	Closing balance R'000	Fair value R'000
Total commercial funding	40 065 409	1 082 732	7 789 207	(5 821 940)	272 372	(690 688)	(467 287)	42 172 805	43 465 662
Development and multilateral funding									
Term loans - amortising	**1 193 149**	**(2 513)**	**662 250**	**(90 909)**	**12 457**	**-**	**(7 815)**	**1 766 619**	**1 939 258**
10 year term loan - KFW [3]	318 494	8 506	572 250	-	487	-	(7 815)	891 922	1 027 566
12 year term loan - EIB [4]	-	-	-	-	-	-	-	-	-
15 year term loan - AfDB	874 655	(11 019)	-	(90 909)	9 955	-	-	782 682	803 497
25 year term loan - World Bank [5]	-	-	90 000	-	2 015	-	-	92 015	108 195
Total development and multilateral funding	**1 193 149**	**(2 513)**	**662 250**	**(90 909)**	**12 457**	**-**	**(7 815)**	**1 766 619**	**1 939 258**
Disaster relief funding									
Drought relief									
10 year amortising term loan - IDC	317 744	(635)	1 522	-	3 607	-	(3 743)	318 495	299 029
Total disaster relief	**317 744**	**(635)**	**1 522**	**-**	**3 607**	**-**	**(3 743)**	**318 495**	**299 029**
Total funding liabilities	**41 576 302**	**1 029 584**	**8 445 979**	**(5 912 849)**	**288 436**	**(690 688)**	**(478 845)**	**44 257 919**	**45 723 949**

[1] Realignment of amortised cost includes reversals of prior year, year end accruals in relation to accrued interest, premium/discounts and prepaid arranging fees.

[2] As of 28 September 2018, the Bank's R2.7 billion guaranteed syndicated loan has been prepaid in full.

[3] As of 31 March 2019 the funding line of EUR 55 million (R899 million) was fully drawn.

[4] During the year under review there have been no draw downs against the EUR 50 million funding line from the European Investment Bank.

[5] During the year under review an amount of USD 3 million (R90 million) was drawn down under the USD 93 million World Bank funding line.

The Land Bank carries no foreign currency risk on any of its US Dollar or EUR denominated multilateral or international funding lines supported by multilateral agencies, as the Bank converts these facilities as well as interest rates into ZAR denominations and South African JIBAR-linked interest rates on day one.

		Non-cash	Cash		Non-cash	Cash			
Group and Bank **2018**	**Opening balance R'000**	**Re-alignment of amortised cost [1] R'000**	**New issues/ utilisation R'000**	**Repayment/ settlements R'000**	**Accrued interest R'000**	**Discount/ premium R'000**	**Prepaid arranging fees R'000**	**Closing balance R'000**	**Fair value R'000**
Commercial funding									
Commercial paper	20 215 160	310 016	607 371	(2 702 691)	1 038	(774 478)	-	17 656 416	17 885 259
Bills	756 432	13 568	557 371	-	-	(329 390)	-	997 981	1 081 678
Call bonds	658 924	(4 294)	-	(479 700)	1 038	-	-	175 968	174 900
Floating rate notes - 1 year	2 687 077	(29 077)	-	(1 970 915)	-	(3 512)	-	683 573	687 140
Floating rate notes - 2 to 5 years	2 926 670	(32 670)	-	(209 324)	-	(36 331)	-	2 648 345	2 752 382
Promissory notes	13 186 057	362 489	50 000	(42 752)	-	(405 245)	-	13 150 549	13 189 159
Deposits	736 405	(4 465)	23 285	(47 992)	-	-	-	707 233	707 233
Agri-related business deposits	231 076	135	23 282	-	-	-	-	254 493	254 493
Department of Agriculture, Forestry and Fisheries Funds	4 600	(4 600)	-	-	-	-	-	-	-
Employee deposits	26	-	-	(26)	-	-	-	-	-
Forced stock sale deposits	500 665	-	-	(47 966)	-	-	-	452 699	452 699
Small institutional deposits	38	-	3	-	-	-	-	41	41
Facilities	2 899 587	2 135	-	(2 901 856)	3 690	-	(2 564)	992	992
Committed	2 399 587	2 135	-	(2 401 856)	3 690	-	(2 564)	992	992
Uncommitted	500 000	-	-	(500 000)	-	-	-	-	-
DMTN issuances	5 643 750	(68 950)	6 317 000	(1 142 000)	154 347	44 597	(1 827)	10 946 917	10 835 927
Floating rate notes	4 935 980	(51 180)	4 717 000	(1 142 000)	74 332	15 973	(1 699)	8 548 406	8 478 711
- LBK05	757 764	(5 764)	-	-	5 706	(32)	-	757 674	749 986
- LBK07	388 605	(1 605)	-	(387 000)	-	-	-	-	-
- LBK08	330 033	(5 033)	-	-	4 906	-	-	329 906	325 331
- LBK14U	499 252	748	-	-	11 043	-	-	511 043	500 013
- LBK15	1 409 709	(34 709)	-	-	30 230	9 411	(765)	1 413 876	1 375 207
- LBK16	191 352	(1 552)	-	-	1 518	-	(79)	191 239	189 894
- LBK17	524 323	(1 323)	-	-	1 293	-	(344)	523 949	523 295
- LBK18	233 650	(650)	500 000	-	2 003	2 193	(503)	736 693	750 960
- LBK19	601 292	(1 292)	155 000	(755 000)	-	-	-	-	-
- LBK21	-	-	868 000	-	5 313	1 008	-	874 321	868 284

		Non-cash	Cash		Non-cash	Cash			
Group and Bank **2018**	**Opening balance R'000**	**Re-alignment of amortised cost [1] R'000**	**New issues/ utilisation R'000**	**Repayment/ settlements R'000**	**Accrued interest R'000**	**Discount/ premium R'000**	**Prepaid arranging fees R'000**	**Closing balance R'000**	**Fair value R'000**
Floating rates (continued)									
- LBK22	-	-	568 000	-	3 645	1 466	-	573 111	568 298
- LBK23	-	-	611 000	-	4 237	1 927	(8)	617 156	611 314
- LBK25	-	-	500 000	-	1 014	-	-	501 014	500 283
- LBK26	-	-	245 000	-	520	-	-	245 520	245 138
- LBK27	-	-	1 270 000	-	2 904	-	-	1 272 904	1 270 708
Fixed rate notes	707 770	(17 770)	1 600 000	-	80 015	28 624	(128)	2 398 511	2 357 216
- LBK11	506 014	(16 014)	-	-	16 014	-	-	506 014	494 695
- LBK12U	201 756	(1 756)	-	-	1 809	-	-	201 809	209 529
- LBK20	-	-	795 000	-	25 327	29 159	(42)	849 444	822 890
- LBK24	-	-	805 000	-	36 865	(535)	(86)	841 244	830 102
Term loans - amortising	1 506 208	7 592	4 018 455	(176 871)	14 917	-	(514 547)	4 855 754	5 367 790
5 year syndicated loan	500 128	(128)	-	(111 111)	282	-	-	389 171	389 992
7 year syndicated loan (Government guaranteed)	1 006 080	7 720	-	(65 760)	847	-	(6 601)	942 286	958 012
10 year syndicated loan (MIGA supported)	-	-	4 018 455	-	13 788	-	(507 946)	3 524 297	4 019 786
Term loans - bullet term	3 893 134	5 866	-	(2 295 000)	1 377	-	(7 146)	1 598 231	1 619 148
1 year term loan	506 773	(6 773)	-	(500 000)	-	-	-	-	-
3 year syndicated loans	1 791 003	3 997	-	(1 795 000)	-	-	-	-	-
6 year syndicated loan (Government guaranteed) [2]	1 595 358	8 642	-	-	1 377	-	(7 146)	1 598 231	1 619 148
Step rate notes									
Step rate notes	1 836 741	(25 741)	2 441 000	-	47 866	-	-	4 299 866	4 268 169

Group and Bank 2018	Opening balance R'000	Non-cash: Re-alignment of amortised cost [1] R'000	Cash: New issues/ utilisation R'000	Cash: Repayment/ settlements R'000	Non-cash: Accrued interest R'000	Cash: Discount/ premium R'000	Cash: Prepaid arranging fees R'000	Closing balance R'000	Fair value R'000
Total commercial funding	36 730 985	226 453	13 407 111	(9 266 410)	223 235	(729 881)	(526 084)	40 065 409	40 684 518
Development and multilateral funding									
Term loans - amortising	966 444	(11 899)	327 000	(90 909)	11 196	-	(8 683)	1 193 149	1 150 015
10 year term loan - KFW	-	-	327 000	-	177	-	(8 683)	318 494	330 283
12 year term loan - EIB [3]	-	-	-	-	-	-	-	-	-
15 year term loan - AfDB	966 444	(11 899)	-	(90 909)	11 019	-	-	874 655	819 732
25 year term loan - World Bank	-	-	-	-	-	-	-	-	-
Total development and multilateral funding	966 444	(11 899)	327 000	(90 909)	11 196	-	(8 683)	1 193 149	1 150 015
Disaster relief funding									
Drought relief									
10 year amortising term loan with IDC	142 181	(631)	175 559	-	3 515	-	(2 880)	317 744	290 723
Total disaster relief	142 181	(631)	175 559	-	3 515	-	(2 880)	317 744	290 723
Total funding liabilities	37 839 610	213 923	13 909 670	(9 357 319)	237 946	(729 881)	(537 647)	41 576 302	42 125 256

Commercial funding

The R30 billion Domestic Medium Term Note Programme

- Original Programme of R10bn established 18 October 2010;
- Program size increased to R20bn on 3 November 2015; and
- Program size increased to R30bn on 11 May 2018.

To enhance transparency, investor protection mechanisms and investor confidence, the DMTN Programme was amended in March 2017, to include:

* Information undertakings regarding matters of governance
* Information undertakings regarding changes in board members/ Board committees and Executive Management
* Mandatory redemption events in relation to:
  - Change in control specific w.r.t. Land Bank's Executive Authority
  - Change in the Land Bank's business (linked to a change in the Land Bank Act.)
  - Breach of anti corruption laws or corporate governance (linked to material adverse change)
  - Disposal of all or greater part of the business
  - Breach of environmental matters
* Inclusion of notes that may qualify as "Regulatory Capital" following the Land Bank's recent adoption of a Basel like Capital Adequacy Ratio

Reconciliation of notes in issue [1]			2019 R'000	2018 R'000
Opening balance			**10 749 800**	5 574 800
Notes issued:	**Issue date**	**Maturity date**		
LBK19 1st Tap	13 April 2017	23 March 2018	-	155 000
LBK18 1st Tap	18 April 2017	22 March 2022	-	500 000
LBK20	8 June 2017	8 June 2022	-	150 000
LBK21	4 September 2017	4 September 2018	-	331 000
LBK22	4 September 2017	4 September 2020	-	243 000
LBK23	4 September 2017	5 September 2022	-	426 000
LBK20 1st Tap	12 September 2017	8 June 2022	-	500 000
LBK21 1st Tap	14 September 2017	4 September 2018	-	307 000
LBK20 2nd Tap	18 September 2017	8 June 2022	-	145 000
LBK21 2nd Tap	27 September 2017	4 September 2018	-	180 000
LBK22 1st Tap	27 September 2017	4 September 2020	-	325 000
LBK23 1st Tap	27 September 2017	5 September 2022	-	105 000
LBK21 3rd Tap	3 October 2017	4 September 2018	-	50 000
LBK24	10 October 2017	10 October 2024	-	305 000
LBK24 1st Tap	27 October 2017	10 October 2024	-	500 000
LBK23 2nd Tap	16 November 2017	5 September 2022	-	80 000
LBK25	23 March 2018	25 March 2019	-	500 000
LBK26	23 March 2018	21 March 2021	-	245 000
LBK27	23 March 2018	23 March 2023	-	1 270 000
LBK28	15 May 2018	15 May 2028	**625 000**	-
LBK27 1st Tap	18 May 2018	23 March 2023	**750 000**	-
LBK29	07 June 2018	07 June 2023	**500 000**	-
LBK29 1st Tap	20 September 2018	07 June 2023	**274 000**	-
LBK30	20 September 2018	20 September 2021	**306 000**	-
LBK31	20 September 2018	20 September 2023	**920 000**	-
LBK32	08 November 2018	08 November 2023	**500 000**	-
LBK33	07 December 2018	07 December 2025	**250 000**	-
LBK28 1st Tap	26 March 2019	15 May 2028	**300 000**	-
LBK33 1st Tap	26 March 2019	07 December 2025	**250 000**	-
LBK35	26 March 2019	26 June 2024	**450 000**	-

Notes redeemed:				
LBK07	16 September 2014	16 September 2017	-	(387 000)
LBK19	23 March 2017	23 March 2018	-	(755 000)
LBK05	28 February 2014	28 February 2019	**(752 000)**	
LBK14U	31 March 2016	31 March 2018	**(500 000)**	
LBK21	04 September 2017	04 September 2018	**(868 000)**	
LBK25	23 March 2018	25 March 2019	**(500 000)**	
Closing balance			**13 254 800**	10 749 800

[1] Excludes accrued interest, discount premium and prepaid arranging fees.

Step rate notes

Step rate notes secures long dated funding for the Bank but provides investors a put option every 3 months (notes are automatically reinvested if put option is not exercised). Interest rates under these notes increase quarterly if the put potion is not exercised.

Reconciliation of step rate notes in issue [1]			**2019 R'000**	**2018 R'000**
Opening balance			**4 252 000**	1 811 000
Notes issued:	**Issue date**	**Maturity date**		
SRN 1, tranche 1	19 October 2016	19 October 2019	-	-
SRN 1, tranche 2	28 October 2016	28 November 2019	-	-
SRN 1, tranche 3	25 November 2016	25 November 2019	-	-
SRN 2, tranche 1	1 November 2016	1 November 2019	-	-
SRN 3, tranche 1	8 November 2016	8 November 2019	-	-
SRN 4, tranche 1	10 May 2017	11 May 2022	-	500 000
SRN 4, tranche 2	11 May 2017	17 May 2022	-	500 000
SRN 5, tranche 1	24 May 2017	24 May 2022	-	482 000
SRN 5, tranche 2	25 May 2017	25 May 2022	-	418 000
SRN 6, tranche 1	26 July 2017	26 July 2018	-	41 000
SRN 7, tranche 1	26 March 2018	26 March 2021	-	500 000
SRN 5, tranche 1	24 February 2019	24 May 2022	**575 000**	
SRN 5, tranche 2	25 February 2019	25 May 2022	**575 000**	
Notes redeemed:				
SRN 6, tranche 1	26 July 2017	26 July 2018	**(41 000)**	
SRN 7, tranche 1	26 March 2018	20 December 2018	**(500 000)**	
SRN 5, tranche 1	24 May 2017	24 February 2019	**(482 000)**	
SRN 5, tranche 2	25 May 2017	25 February 2019	**(418 000)**	
Closing balance			**3 961 000**	4 252 000

[1] Excludes accrued interest, discount premium and prepaid arranging fees.

3.2 Development and multilateral funding

Land Bank has the following development and multilateral funding lines available:

- R1.0 billion loan with the African Development Bank. The purpose of the loan is to on-lend to the Land Bank's commercial and development clients whom meet qualifying usage criteria. To date R743 million has been utilised with a further R257 million available for qualifying projects.
- $93 million funding line with the World Bank. This facility is earmarked to give financial aid to participating financial intermediaries and direct beneficiaries. As at 31 March 2019 R90 million has been utilised.
- R899 million funding line with KfW Development Bank. This facility is earmarked to finance small-sized and medium-sized agricultural enterprises. To date the facility has been fully drawn and the Bank expects utilisation to commence in FY2020.
- EUR50 million funding line from the European Investment Bank. The facility is project based and will be drawn as and when qualifying projects are financed. As of 31 March 2019, there had been no draw downs against the facility and the Bank expects utilisation to commence during FY2020.

  This is a general purpose funding facility which aims to promote "Climate Adaption" within the agricultural sector.

Disaster relief

The Land Bank has secured a R400 million facility with the Industrial Development Corporation for the sole purpose of providing concessionary loans to drought affected customers and is applicable to declared disaster areas as per the Government Gazette.

The loan may be used for :

* Production rehabilitation
* Working capital and operational expenses required minimising further losses to current farming operations
* Re-stocking of live stock
* Preparing for future seasons necessary to continue the farmers' normal sustainable farming operations
* Enabling "carry-over" debt and consolidation of debt.

Loans under this arrangement would only be extended where there is a viable business case with repayment ability, as well as sufficient collateral to cover the potential losses to the Bank. To date R317 million has been utilised with a further R83 million available for qualifying projects.

3.3 Financial Loan Covenants

In terms of section 2(b)(ii) of the Banks Act, 1990 (Act No 94 of 1990), the Land Bank is exempt from the requirements of calculating the Capital Adequacy Ratio (CAR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Notwithstanding the aforementioned exemption from the Banks Act, and although the Land Bank is not Basel compliant, the Bank, with effect 1 April 2016, voluntarily adopted certain capital, funding and liquidity risk management principles from the Basel accord with certain Board approved deviations (to cater for the Land Bank's unique business model) in an effort to enhance the risk management principles relating to Capital, Funding and Liquidity management.

As at 31 March 2019, the Bank has deviated from the standard Regulations to the Banks Act and Circulars, Directives and Guidance notes in issuance in respect of the CAR and LCR calculations as follows:

Deviations from CAR requirements:

As the Bank only has the Government as shareholder and is not allowed to issue shares in the market to raise capital. Therefore should these government guarantee be excluded from capital the only other resource of capital would be retained earnings. The Land Bank's funding covenants all include the unutilised portion of government guarantees, which are not ring-fenced for funding purposes as Tier 1 Capital, (those of capital/ sustainability nature) as a source of capital supply.

Deviations from LCR requirements:

Given the unique business model of the Land Bank, including the inability to take deposits and the requirement to have cash available, the Bank deviates from the Banking Regulations in the following areas:

- The Land Bank's previous liquidity ratio required the Bank to invest surplus cash with counterparties with rating A and above. Due to operational requirements, investing surplus funds in government bonds will cause excessive trading in bonds which increase the market risk and potential capital losses on cash. The Bank shall therefore deviate from the Banks Act in terms of classifying cash deposits and available facilities as High Quality Liquid Assets.
- The Bank has historically enjoyed a 100% roll-over rate from PIC and CPD debt investments and this behaviour is expected to continue. For this reason, the Bank excludes contractual maturities from these institutions from the 30 day maturity profile.
- Acknowledge a deviation from the regulation in terms of assumptions made regarding roll-over rates with investors to assess the likelihood of roll-over. The Bank will always apply the minimum roll-over rate (between historic roll-overs and investor discussions) to the calculations of the LCR.

These deviations from the Banking Regulations were negotiated with investors and have been included in the funding agreements as financial loan covenants.

Below a summary of the financial loan covenants included in the funding agreements:

Performance Measure

	2019		2018	
	Target	**Actual**	**Target**	**Actual**
Financial Loan Covenants	%	%	%	%
Total Capital Adequacy Ratio	≥15%	**16.46%**	≥15%	17.3%
Liquidity Coverage Ratio [3]	≥80%	**549.8%**	≥70%	214.3%[2]
Net Stable Funding Ratio	≥100%	**102.0%**	≥90%	108.6%
Cost to Income Ratio (Continuing Operations) [1]	≤65%	**57.1%**	≤65%	60.5%
NPL (IFRS 9)	≤10%	**8.8%**	≤10%	6.7%
Open Credit Exposure [4]	≤25%	**56.6%**	≤25%	

[1] CTI is negatively impacted by certain FY2018 audit outcomes which included a reclassifications in respect of the Bank's legacy LDFU portfolio from a "Discontinued Operations: Disposal Group" to "Discontinued Operations. Excluding the impact of the LDFU adjustment CTI is 57.1% (FY2018: 60.5%).
On 24 October 2018, the Bank approached all its funders to renegotiate the Cost-to-Income covenant level from current level of 65% to 70%. Many of the funders were supportive of the amendment, and the funding agreements are in the process of being amended to include the revised CTI ratio.

[2] Excl. Available committed facilities. LCR = 452.3% (FY2018: 409.3%) incl. Available committed facilities of R2.65 billion (FY2018: R2.65 billion)

[3] Target of 90% in respect of the financial year ending 31 March 2020 and 100% in respect of the financial year ending 31 March 2021 and each financial year thereafter.

[4] The Open Credit Exposure ratio is only applicable to a multilateral loan agreement with KfW in lieu of the NPL covenant

On 12 April 2019 the Bank advised the lender of a potential Event of Default ("EOD") as a result of the resolution of the last remaining "legacy distressed asset", which would be resolved for the reporting date. The "EOD" has since manifested and discussions are ongoing with the lender to resolve the matter. These discussions include assessing whether this covenant in its current form is still appropriate. Key to note is that the lender has agreed not to call on the "EOD"

If a fully Basel compliant view were to be presented in respect of the CAR, LCR and NSFR the following is noted:

Performance Measure

Financial Loan Covenants	**2019 Actual %**	**2018 Actual %**
Total Capital Adequacy Ratio [5]	**11.4%**	11.9%
Liquidity Coverage Ratio [6]	**0.0%**	0.0%
Net Stable Funding Ratio	**102.8%**	108.9%

[5] The minimum capital requirement of the SARB is currently 9.25%, excluding any Bank specific (Pillar 2B) capital charge, any Domestic Systemically Imported Bank capital charge, any capital conservation buffer and any countercyclical buffer capital charge per Directive 5/2013.

[6] Cash in Bank accounts does not qualify as Liquid Assets

	2019 * Spread to 3 month Jibar	**2018 * Spread to 3 month Jibar**
3.4 Weighted average interest cost of commercial funding (NACM)		
Short-term: ≤ 1 year	**1.00%**	0.68%
Medium-term: > 1 year ≤ 5 years	**2.34%**	2.47%
Long-term: > 5 years	**3.12%**	3.22%
Total Cost of Funding	**1.72%**	1.73%
Weighted average interest cost of development and multilateral funding (NACM)		
Long-term: > 5 years **	**1.62%**	0.68%
Weighted average interest cost of natural disaster relief funding (NACM)		
Long-term: > 5 years	**(0.36%)**	(1.41%)

* Weighted average Jibar

** Only includes those funding lines for which there has been utilisation.

4. Operating expenses	Group 2019 R'000	Group 2018 R'000	Bank 2019 R'000	Bank 2018 R'000
Depreciation - owned assets	**7 846**	8 411	**7 781**	8 349
Depreciation - leased assets	**23 232**	-	**23 164**	-
Amortisation - computer software	**6 731**	6 810	**6 731**	6 810
Audit fees	**15 476**	15 923	**12 729**	14 409
- External	**9 655**	8 410	**7 224**	6 896
- Internal	**5 821**	7 513	**5 505**	7 513
Directors' emoluments	**21 170**	20 665	**16 799**	15 816
- Executive	**12 472**	13 775	**8 501**	10 365
- Non-executive	**8 698**	6 890	**8 298**	5 451
Leases	**5 422**	30 437	**5 275**	30 437
- Actual payment	**5 422**	31 047	**5 275**	31 047
- Effect of straight-lining	**-**	(610)	**-**	(610)
Management fees	**963**	646	**963**	646
Professional fees	**31 304**	22 986	**27 582**	20 764
Staff costs	**405 687**	447 489	**393 635**	432 220
- Salaries and contributions	**359 971**	341 365	**348 598**	331 371
- Staff related provisions and other	**45 716**	106 124	**45 037**	100 849
Cost of restructuring	**-**	2 611	**-**	2 611
- Staff cost	**-**	2 611	**-**	2 611
Other operating expenses	**110 510**	98 553	**108 186**	96 678
- Computer and data costs	**18 371**	23 559	**18 291**	23 559
- Repairs and maintenance	**5 724**	7 075	**5 712**	7 075
- Rates and taxes	**9 209**	8 000	**9 209**	8 000
- Travel and accommodation	**11 764**	15 384	**10 965**	14 698
- Corporate social investment	**11 792**	11 053	**11 792**	11 053
- Other[2]	**53 650**	33 482	**52 217**	32 293
	628 341	654 531	**602 845**	628 740

[2] This includes sundry operating expenses such as security, legal fees, cleaning and marketing amongst others.

Capital management

The primary source of capital used by the Group is shareholder's equity funds. The amount of capital required is directly linked to risks arising from insurance business underwritten, as well as the Group's credit and operational risk. Accordingly risk management is an important component of effective 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 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 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;
- To maintain healthy capital ratios in order to support its business objectives; and
- To support the credit rating of the Bank.

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:

- Effective management of credit risk;
- Effective management of underwriting risk,

- 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.

Capital Adequacy Requirements (CAR) - the Land Bank

The Bank has adopted a Basel-like Total Capital Adequacy Ratio (TCAR) with Board approved deviations from the Regulations to determine the amount of capital needed to ensure solvency and liquidity. The TCAR calculation is underpinned by the Standardised Approach principles. The Bank targets a minimum total capital adequacy ratio of 15%. The Basel Accord requires that banks meet three minimum capital adequacy ratios, in order to ensure that banks have an acceptable mix between high quality, expensive capital and lower quality, less expensive capital,

these are:

- Common Equity Tier 1 (CET1) minimum = CET1 / total Risk Weighted Assets (RWA);
- Tier 1 minimum = (CET1 + Additional Tier 1 (AT1)) / total RWA; and
- Total minimum = (CET1 + AT1 + Tier 2) / total RWA.

The only deviation from the Banking Regulations with regards to total CAR is:

- Land Bank only has Government as shareholder and is not allowed to issue shares in the market to raise capital. Therefore should the government guarantee be excluded from capital the only other resource of capital would be retained earnings. The Land Bank's funding covenants all include the unutilised portion of government guarantees (those of capital/ sustainability nature) as a source of capital supply.

Risk-weightings are risk sensitive, in other words, riskier assets receive higher weightings and the Basel Capital Accord allows for basic and advanced approaches to determine RWA dependent on the sophistication of a bank.

The Land Bank (Bank) capital adequacy was estimated based on the following approaches:

- Credit risk: The Standardised Approach;
- Operational risk: The Basic Indicator Approach;
- Equity risk in the banking book: The Simple Risk-weight Approach;
- Market risk: Standardised approach; and
- Credit and operational risk have been identified as the major risk types affecting the Land Bank.

It is the intention of the Land Bank to move towards more sophisticated approaches, such as the Foundation Internal Ratings Based (F-IRB) approach for credit risk measurement. In this regard has the Bank already commenced with the development of Internal Ratings Based models.

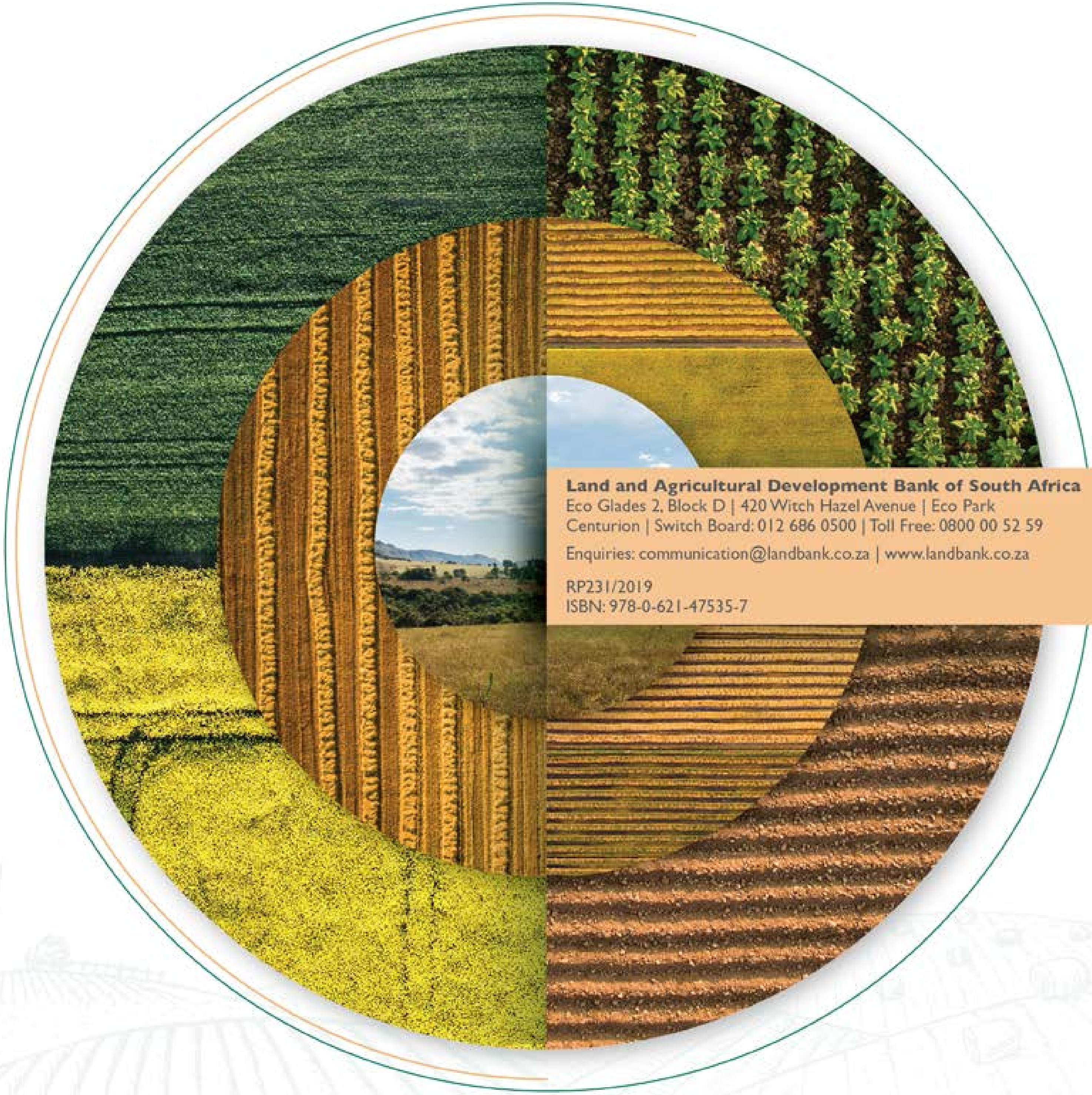
The Land Bank is an SOE and therefore does not have the ability to issue share capital. For this reason the bank includes Government Guarantees which are not ring-fenced for funding purposes as Tier 1 Capital.

To further strengthen capital management, the Bank adopted the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

	Bank 2019	
Capital adequacy		
Total capital adequacy	16.4%	17.3%

Capital supply	2019 R'000	2018 R'000
Ordinary shareholders' equity	4 401 597	4 397 655
Retained earnings	1 183 829	1 048 275
Accumulated other comprehensive income	93 467	100 978
Property revaluation reserve	137 350	136 476
Other reserves	(43 883)	(35 498)
Common Equity Tier 1 (CET1) Capital: Instruments and reserves	5 678 893	5 546 908
Common Equity Tier 1 Capital: Regulatory adjustments	(17 490)	(20 279)
Distributable reserves relating to the discontinued operation	(3 942)	
Intangible assets	(13 548)	(20 279)
Total available Common Equity Tier 1 capital	5 661 403	5 526 629
Total available Tier 2 capital	201 395	586 162
General allowance for credit impairment	201 395	586 162
Total available capital	5 862 798	6 112 791
National Treasury guarantee *	2 710 000	2 800 000
Capital demand		
Risk weighted assets		
Credit risk	46 251 814	46 847 991
Counterparty risk	138 878	45 003
Operational risk	2 535 342	2 445 016
Equity risk	1 591 719	998 899
Market risk	38 273	43 657
Other assets risk	861 582	360 333
Threshold items	875 075	875 075
Total	52 292 682	51 615 974

* Refer to the Note 39.2 on related parties.



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