



Annual Report 2006/07





## **Vision**

We aspire to utilise the Bank's financial resources towards the development of farmers and the rural economy.

## **Mission Statement**

Land Bank supports economic growth in South Africa through the development of farmers and rural economies by way of prudent investments that support the agricultural sector.

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# Statement by the Minister of Agriculture and Land Affairs

**Ms Lulama Xingwana**  
Minister of Agriculture and Land Affairs



## Introduction

The Departments of Agriculture and Land Affairs derive their core mandates from Section 37(ii) of the Constitution and are currently responsible for over 30 pieces of legislation. Underpinning this definition of the scope of the mandate of the National Department of Agriculture is the understanding of agriculture as being inclusive of all economic activities, from the provision of farming inputs, farming and value adding. In view of the reality that the agricultural sector is continuously subjected to changes in the production and marketing environment, the policy and legislative environment that governs the sector needs to continuously adjust through amendments, and sometimes through the replacement of service-delivery approaches.

In November 2006, the Departments of Agriculture and Land Affairs held a Lekgotla to review progress, align the priority programmes of the two Departments and public entities, identify challenges and assess their capacity to deliver.

The Land Bank was identified as one of the principal institutions and it was decided to reinforce this institution's 'Turnaround Strategy' in order to ensure that it delivers on its mandate, particularly with regard

to its contribution to the promotion of the previously disadvantaged individuals in the agricultural sector. Furthermore, it was agreed that the Land Bank had a key role to play in the development of the agricultural sector, and in ensuring the continued sustainability of AgriBEE. The Bank will be required to assist Government with the redistribution of 30% of agricultural land by 2014, and also in the attainment of other key land-reform objectives.

Recently, the government has reaffirmed its commitment to supporting the Land Bank by extending a capital guarantee of R1,5 billion, and a further cash injection of R700 million, to support it and to reinforce the 'Turnaround Strategy'. The provision of this level of capital adequacy will ensure that the Bank fulfils its mandate.

## Challenges

The first and key challenge for the Bank is finding a proper mix of resources that will allow it to direct its activities towards the sectors that are experiencing the greatest need, thus ensuring that emerging black farmers and the agri-businesses or ventures that are created will be consistent with the development aspirations of the country.



Secondly, we are continuously challenged to come up with actions that support quality service delivery, improve food production and rural development, create public/private partnerships and ensure sustainable development. As a Department and sector, we are now better positioned to pursue a programme of active engagement within the African continent, using the NEPAD-CAADP (Comprehensive Africa Agriculture Development Programme), SADC and our bilateral engagements as entry points.

### **The role of the Land Bank**

The Land and Agricultural Development Bank Act, No. 15 Of 2002, considerably expanded the scope of the Bank's activities to include a focus on both the financial and the non-financial rural economic issues of the agricultural sector. This focus emphasises the Bank's duty to pay greater attention to the emerging farmers and rural small and medium-sized agricultural businesses as major players in its client base. The AgriBEE framework will further expand the role and responsibilities of the Bank in the transformation of South Africa's agricultural sector.

The current focus of the Bank on commercial farmers presents a challenge which must be met by strategies to shift the emphasis to development financing to support the development mandate, and focusing in

particular on the black emerging farmers and agri-business. One of the most strategic roles the Bank has to play in the transformation of agriculture is to engage with the sector in order to drive the reform of its structures, systems and the way business is conducted, so as to assist the emerging farmers to enter important networks within the value chain continuum with a view to access markets for their products.

In this regard some of the most critical and sensitive areas in which the Bank has to participate are:

- Land use and administration for greater transparency and equity in the distribution of land in the Bank's possession for agricultural production;
- Investment in productive infrastructure such as land and access roads, marketing, irrigation and drainage systems, all of which are critical in achieving the desired increase in aggregate sector output and performance;
- Input in institutional capacity and public administration reform to improve agricultural support services and sector-policy programming and budgetary functions.

## Task team

Following the recapitalisation of the Bank by cash injection and guarantees to support the Land Bank's turnaround strategy and ensure a prudent level of capital adequacy, my Ministry seconded a task team to conduct a due diligence on the affairs of the Land Bank. On completion of its work, the task team recommended the development of a new business model for the Bank. In line with the Land Bank mandate, the new model emphasises rural development through addressing three levels of the rural economy. These levels are subsistence farming and emerging farmers and, to a lesser extent, commercial farming.

## Forensic audit

Following the due diligence conducted by the Task Team seconded to the Bank, Cabinet commissioned a forensic audit through an independent audit firm on the affairs and operations of the Land Bank in line with the Shareholder's mandate to ensure adherence to good corporate governance and compliance with the Public Finance Management Act. We are still awaiting the results of this audit.

## The future

The era of capacity building and service excellence in the Land Bank brings with it not only great

challenges, but also great opportunities. One of the main challenges faced by this Bank is the alignment of its objectives and resources to successfully meet the needs of farmers, and in particular those of emerging farmers. An obvious opportunity is that of being able to act as a catalyst for the growth of the South African farming sector in general.

## Acknowledgements

I would like to express my appreciation to the Land Bank's Board of Directors, and the Acting CEO for their continued support to the Ministry, as well as for the work they do for the Bank on behalf of the farming community. The success of any organisation depends on the contributions of each stakeholder. We are positive that the Land Bank will grow in stature, thanks to the sustained inputs of its sector partners, management and staff.



**Ms Lulama Xingwana**  
Minister of Agriculture and Land Affairs







# Chairperson's Report

**Mr L Mazwai**  
Chairperson of the Land Bank

## Introduction

I am writing this statement in my second year as Chairman of the Land Bank, covering a year in which the Bank has taken major strides towards transformation. The Bank is currently also engaging in a new, vigorous business model with a strong emphasis on bringing new players into the mainstream of the agricultural sector as a primary priority. This is being accomplished through the accelerated commercialisation of subsistence and emerging farmers.

This is an opportunity for me to share our views on the policy, regulatory and economic developments that affect our business both positively and negatively. It is also an opportunity to share our assessment of how the Land Bank fares under current circumstances.

During the year under review, the Bank has implemented measures to improve its performance. Among these is the reinforcement of the 'Turnaround Strategy', which is currently in its second year of implementation. The turnaround strategy is aimed at improving the financial performance and service delivery of the Bank through the modernisation and streamlining of systems and processes, brand and image, and the alignment of resources to deliver in

six strategic focus areas, namely people, systems, risk, capital, revenue and costs.

## Transformation

The current focus of the Bank on commercial farmers presents a challenge that must be met by strategies to shift the emphasis to development financing, focusing particularly on black emerging farmers and agri-business in support of the development mandate, whilst continuing to support commercial farmers.

The board welcomes government's commitment to support the Land Bank by extending a capital guarantee of R1,5 billion and a further cash injection of R700 million to support and reinforced the 'Turnaround Strategy'.

## The New Business Model

The lesson learnt during the year under review is that there should be strategic alignment with respect to the new business model, which is driven by a dichotomous approach involving an attempt to strike a balance between financial sustainability and the development mandate. The old business model tended to be premised on the notion of 'financial sustainability first and development later'. This has proved not to be a completely workable model, since



we were expected to deliver simultaneously on both financial sustainability and development mandates.

The area of emphasis is now on growing the Bank's business by concentrating on economic activities that will transform both subsistence and emerging farmers into commercial farmers. This will be achieved through the utilization of co-operatives, provincial development finance institutions and other support structures.

### **Economic outlook**

The positive economic performance can be attributed to a number of factors, including a favourable international macroeconomic environment, a sharp recovery in commodity prices since 2003, and the growth-inducing benefits of a stable domestic macroeconomic environment. However, there is also a downside: increasing global competition, rising interest rates and volatility in commodity and oil prices all contributed to a challenging operating environment for the Agricultural sector in 2006.

In 2007, the global economy is expected to grow at a more moderate pace, but still above the long-term trend which supports commodity prices. The production activities within the SADC region are on the upswing. Domestic growth is also expected to ease, primarily as consumer demand slows down.

The CPIX inflation has risen above the target range and may remain there for the next nine months. The rand has shown renewed strength on the back of US\$ weakness and has a neutral impact on inflation. Bond yields and the rand have decoupled. Upside risks to interest rates remain. Therefore, overall, there is an outlook of improved investment in agriculture.

### **Social environment**

In the light of the Economic Outlook mentioned above, the Socio-economic environmental factors influencing the Bank can be summarized as follows:

- Poverty;
- Inequality;
- The Reconstruction and Development Programme;
- Service delivery;
- Emerging farmer development.

### **Joint Initiative on Priority Skills Acquisition (JIPSA)**

Some of the highlights of the Land Bank's contribution to the Joint Initiative on Priority Skills Acquisition during the year under review include, but was not limited to, the following:

The Bank received a total of 989 applications from the nine provinces. Of this, 102 potential bursars



were short-listed and 50 were selected. Another nine special bursary awards were made whereby partial bursary payments were granted. Out of the 50 successful applications, two bursars declined their bursary awards. One new bursary was re-granted to another student. Bursaries were awarded to 24 females and 25 males. A total of 48 bursaries were awarded to African students and one to a coloured student.

The demographic breakdown is as follows:

Eastern Cape	5
KwaZulu-Natal	7
Free State	4
Gauteng	22
Limpopo	6
North West	4

In the year 2006, R 3.2 million was spent on bursaries.



### Environmental issues

The nature of the Bank’s business is inseparably tied to the land, and thus environmental factors are critical for viability and sustainability. The Bank’s activities and processes must take into cognizance all relevant environmental issues and their implications for the Bank’s business.

Issues of environmental impact are important and can be summarized as, but are not limited to:

- Land degradation;
- Land use;
- Tenure;
- Environmental impact assessment;
- Aridity;
- Water use and rights.

### Corporate governance

The Land Bank, like all legal entities, operates within an environment that is governed by specific legal frameworks that are binding and influence the way the Bank operates. The key legal frameworks are:

- The Constitution;
- The legislative environment;
- The Land and Agricultural Development Bank Act;
- The National Credit Act;
- The Public Finance Management Act;
- National Treasury Regulations.

### Risk Management Strategy

Risk management is an integral part of our business. The Land Bank group has adopted seven risk-culture attributes namely:

- Equal attention is paid to both quantifiable and unquantifiable risks;
- Risks are identified, reported and quantified to the greatest possible extent;
- An awareness of risk pervades the enterprise;
- Risk management is everyone’s responsibility;
- Risk managers have a power to veto and the power to drive the risk awareness and management agenda;
- Uncertainty is accepted and managed as

deemed necessary;

- The risk culture is defined and enshrined.

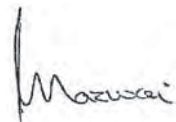
The Bank will further strengthen its Fraud and Corruption Prevention Plan to prevent and detect corruption from any source within the organisation, including among employees, customers, suppliers and other service providers. The Plan is updated annually and will continuously evolve as the Bank implements changes and improvements in its drive to promote ethics and fight fraud and corruption.

### Appreciation

I appreciate the continued support received from Minister Lulu Xingwana, MP, and would like to convey my sincere gratitude for the commitment she has shown to our New Model Programme. Her leadership is indispensable to our work and the emerging farming community. I want to welcome Mr Rubben Mohlaloga, MP, the new Chairperson of the Parliamentary Portfolio Committee on Agriculture and Land Affairs, and thank his colleagues on the committee for their continued encouragement and interest in our work. I would also like to use this opportunity to welcome Dr R P Mohlahlane, our Acting CEO (after taking the reins from former CEO: Mr Alan Mukoki), Mr T Gwanya, Dr A T M Mokogokong, Ms N Qanta and Ms F N Msimang to the Land Bank Board.

In my tenure as Chairperson of the Land Bank Board, I have been rewarded by the presence of my colleagues on the board, whose wise counsel and active contribution over the years have been noted. Furthermore, their commitment in serving on the governance structures of the board not only ensured compliance with corporate governance requirements, but also enhanced the quality of decisions made.

My gratitude is extended to the entire staff of the Land Bank for constantly applying themselves with diligence and dedication to the challenges facing farmers. Finally, I would like to thank the investors, rating agencies, strategic partners, and invaluable clients who continue to support the Land Bank.



**L Mazwai**  
Chairperson of the Land Bank





# Acting Chief Executive Officer's Report

Dr Philemon Mohlahlane

Acting Chief Executive Officer of the Land Bank



## Introduction

The challenge faced by government is to sustain the economic growth and national food security that has been achieved, whilst addressing the imbalance that exists in terms of access to resources, services and economic benefits from agriculture by the majority of rural black populations, in particular emerging farmers. The increase in unemployment and decreasing incomes are forcing the rural poor to become more dependent on production for household consumption. Yet, their ability to raise production is constrained by a number of issues, including limited access to land and finance, and poor agricultural know-how. This, therefore, is the context in which we focused our business activities and performance in the period under review.

## Empowering developing farmers

Over the past five years, the Bank has given direct assistance to black businesses. This can be translated into an impact on a number of households within rural and farming communities as well as individual black farmers. At R793 million with 15 000 accounts, retail loans alone are estimated to have benefited 9 600 individual farmers.

## Operational overview

The Land Bank grapples with the fundamental imperative to strengthen and maintain its financial sustainability, while at the same time expanding its developmental role as enunciated in its mandate. To this end, the Land Bank focused on addressing key areas that formed the pillars of its Turnaround Strategy. These include:

- the improvement of management capacity from top to bottom;
- the review of the Bank's revenue model and controlling costs;
- the implementation of information systems and processes;
- Risk Management;
- Capital Management and Protection, and
- the enhancement of the Land Bank brand.

It is with gratitude to the entire Land Bank staff that we are able to report that we managed not only to develop a better understanding of the problems and potential solutions, but also of appropriate responses that would lead to the timely resolution of the issues that we face.



### Cost and Revenue Model

In line with reviewing the Bank's revenue and cost model, we are currently reviewing the current or existing client or loan portfolio to improve profitability in a sustainable manner. The cost and revenue model will be enhanced through the improvement of asset utilization, cost reduction, the improvement of business efficiency, and the improvement of product sales mix and increment of loan pricing.

### Human capital

To enhance the level of skills within the organisation, the Bank made a number of significant appointments at senior levels, including those of General Manager for Human Resources and General Manager for Corporate Development. Attempts have been made to improve the performance management processes, particularly by reviewing the key performance outputs, and with regard to key organizational objectives. In an effort to enhance human resource development for better service delivery, the Bank also trains its middle managers through a management programme partnership with the Gordon Institute of Business Science (GIBS). This forms part of the succession plan. The Land Bank has sought to strengthen the relations within the sector by participating in various

forums and congresses organised by the Unions, associations and provincial departments.

### Information Systems and Processes

The Land Bank is in the process of implementing a new IT system that is intended to provide best practice in financial, procurement, human resources management, management information, core-banking and loan-origination functionality.

The financial and procurement modules have been running live since November 2005. The human resources management module is due to be launched in the second quarter of the 2007/08 financial year, and loan origination (customer service) and management information modules are due to be delivered during the third quarter of the 2007/08 financial year.

### Enhancement of the Land Bank brand

The Land Bank's brand and image are critical components of the Turnaround Strategy. A leading agency in the advertising industry was appointed and has already made some inroads in revitalizing and positioning the Bank's brand. The agency will be coming up with a uniform corporate brand proposition that will be utilized to reposition the Bank as the leading financial institution in agricultural development.



### Operationalising - New Business Model

Following the completion of an analysis of the high failure rate of the projects in the emerging market sphere, the Land Bank identified a number of areas that need special attention. These include, but are not limited to, the structuring of funding to ensure that farmers have access to other supplementary resources, for example grants to augment the funding requirements, active facilitation of linkages between the farmers and the market and, finally, the creation of an enabling environment for them to effectively benefit from the resultant skills transfer, market access and penetration of strategic networks.

In order to be able to address the new challenges in agriculture, a new orientation for the Land Bank has been identified. In defining its role, the Land Bank will have to take into consideration the factors that

affect the agricultural playing field as outlined in the introduction. The new orientation will necessarily mean a decline in the Land Bank's exposure in some of its current activities to provide room for new initiatives. The Land Bank will, however, continue to finance commercial farmers. The approach of the Land Bank for the commercial book will be to finance the exposure of commercial farmers whom commercial banks are unable to, or not willing to finance. The Bank will also finance Broad-based Black Economic Empowerment transactions and Cooperatives that assist the Land Bank in the distribution of loans to emerging farmers.

The Bank plans to disburse R300 million to developing farmers in the 2007/2008 financial year, R1 billion and R2 billion in the 2008/2009 and 2009/2010 financial years respectively, in order to increase their participation, which is targeted at the following:

- The rehabilitation of struggling projects - there are a number of projects in the Bank's book that lack support, have poor funding structures and have no access to markets;
- The existing entrepreneurial projects in the agriculture value chain, in particular those that need funding to create more jobs and for BEE;
- New projects as identified by ASGISA;
- Bio fuels.

Special emphasis will be placed on growing the Bank's business by concentrating on economic activities that will launch both subsistence and emerging farmers into commercial streams. This will be achieved through the utilization of Co-ops, Provincial DFIs and other support structures.

The successful implementation of the model must be measured against the following performance indicators:

- Employment creation and maintenance;
- Establishment of emerging farmers;
- Conclusion of BBEE transactions;
- Percentage growth of the development loan book over three years;
- Performance of the development loan book;



- Provision of advisory services;
- Geographic spread;
- Working closely with DOA and DLA in respect of the integrated grant management process;
- Food security at both the national and household levels.

### The future

The outlook for 2007/2008 has improved as producer prices rose in response to the weaker rand and the firming of grain prices internationally. Optimism in agriculture has improved and land prices are rising. This indicates opportunities in both farm improvement products and process-related activities.

Although the credit risk in agriculture is still looming, opportunities along the value chain have created and invited a different focus for the Bank. All stakeholders in the food value-chain, including input suppliers, should benefit from the improvement in the financial position of agriculture. The Land Bank is also

positioning itself along the value-chain to re-adjust its assets in order to benefit from this positive outlook.

### Acknowledgement

Within a very short space of time, I have witnessed the constant commitment of the Minister of Agriculture and Land Affairs, Ms Lulu Xingwana. I am grateful to our Board of Directors for their commitment and direction. Our management team and staff have continued to rise to the challenges through innovative performance.



**Dr Philemon Mohlahlane**

Acting Chief Executive Officer of the Land Bank





# Report of the Audit Committee

Mr LM Nyhonyha  
Chairperson: Audit Committee



Report of the Audit Committee in terms of regulations 27 (1) (7) (b) and (c) of the Public Finance Management Act of 1999, as amended

For the purposes of this report, Land Bank means Land and Agricultural Development Bank of South Africa, and Land Bank Group means the Land Bank and its subsidiary Land Bank Insurance Company Limited (LBIC).

The audit committee reported that it had adopted appropriate formal terms of reference as its audit committee charter, had regulated in compliance with this charter, and had discharged all of its responsibilities contained therein.

In the execution of its duties during the past financial year, the Committee has:

- Received and reviewed reports from the internal auditors, and from forensic investigations concerning the effectiveness of the company's internal control systems;
- Considered whether the independence, objectives, organisational staffing plans, financial budgets audit plans and standing of the Internal Audit function provides adequate support to enable the Committee to meet its

objectives;

- Reviewed the results of the work performed by the Internal Audit function regarding financial reporting, corporate governance, internal control and any significant investigation and management response;
- Considered the effectiveness of the Internal Audit and the adherence of the Internal Audit to its annual programme;
- Reviewed the coordination between the Internal Audit function and the External Auditors, and dealt with any issues of significant dispute or concern;
- Reviewed such significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees of Land Bank, as were brought to its attention.
- Reviewed the controls over significant financial, and certain operational risks;
- Reviewed any other relevant matters referred to it by the Board;
- Reviewed the annual report and financial statements, taken as a whole, to ensure that they present a balanced and understandable assessment of the position, performance and prospects of Land Bank and the Group;
- Reviewed the report of the external auditors detailing concerns arising from their audit



and ensured that appropriate responses were received from management, which would result in their concerns being addressed.

Where weaknesses were identified in internal controls, corrective action has been recommended to eliminate or reduce the concomitant risks; management has undertaken to implement the appropriate corrective action to mitigate the weaknesses identified. Accordingly, in our opinion, the internal controls of Land Bank improved from the previous financial year. However, more effort is still required to ensure the effective operation of internal controls, and to ensure that the assets of the Land Bank's are safeguarded, that proper accounting records are maintained, and resources are utilized efficiently.

Following our review of the group annual financial statements for the year ended 31 March 2007, and

based on the information provided to the audit committee, we are of the opinion that, in all material respects, these statements comply with the relevant provisions of the Public Finance Management Act of 1999, as amended, and of the International Financial Reporting Standards (IFRS), and that they fairly present the results of the operations, cash flow and financial position of Land Bank and the group.

On behalf of the Audit Committee

Mr. LM Nyhonyha  
Chairperson: Audit Committee



# Board, Management and Structure

## Board of Directors



### **Lungile Gcinumzi Mazwai - Chairperson of the Land Bank**

Mr. Mazwai, a practicing attorney and partner in the firm, Ledwaba Mazwai is Chairperson of the Land Bank Board of Directors.

He holds BA LLB from the University of Natal.

Mr. Mazwai has a vast knowledge and great experience in various areas of law including drafting, commenting and reviewing of commercial documentation.

He advises on various commercial transactions and corporate governance related matters.



### **Nopasika Vuyelwa Lila - Deputy Chairperson of the Land Bank**

Ms Lila is a qualified Chartered Accountant. Ms Lila is currently the Deputy Chairperson of the Land Bank, a member of the Audit Committee of the Department of Foreign Affairs and a director and founder of Astute Intellect (Pty) Ltd.

She started her work career at Deloitte and Touche as an auditor and has also worked for Gobodo Incorporated responsible for general auditing, consulting services and project management. She gained corporate exposure when she worked for Portnet (now National Port Authority) as Compliance and Performance Review Manager. She has also worked at Stotaville Press (Pty) Ltd as Head of Finance division. She has been a member of the Compliance Institute of South Africa since 2000.

Ms Lila holds, among others, Certificates in International Trade and Financial Markets and Instruments. She also has Post Graduate Certificate in Corporate Governance (Cum Laude) and Management Development Programme (MDP).

She has extensive knowledge and experience in corporate governance and compliance.



**Sam Mahosha Mkhabela- Director of the Land Bank**

Sam Mkhabela is currently executive director of Scorpion Legal Protection (Pty) Ltd where he is responsible for marketing, sales and human resources. He is also non-executive director in several entities including financial services provider Legal Expenses Insurance Southern Africa Ltd (LegalWise) and employee benefits consulting firm Eluleka Consulting (Pty) Ltd. Sam has been on the board of the Land Bank since 1999. Previous positions include directorship of 3M South Africa where he was employed from 1999 to 2006 and headed Corporate Operations for Sub-Saharan Africa, Evander Gold Mines where he was Human Resources Director and Gold Fields Limited where he was Senior Manager for Human Resources and Corporate Affairs. His varied work experiences include being an artisan at Highveld Steel and Vanadium Corporation, development finance, land reform processes, human resources management, corporate security, outsource manufacturing, marketing and corporate affairs.



**Litha Mveliso Nyhonyha - Director of the Land Bank**

Mr. Nyhonyha is a qualified Chartered Accountant. In 1992 he established Thebe Investment Holdings with Mr. Vusi Khanyile. He is credited with building the Financial Services Portfolio of Thebe Investments as well as spearheading the entry of Thebe into banking. He played a critical role in restructuring and developing the financial services strategy of Worldwide African Investments.

Mr. Nyhonyha has concluded his mandate with Worldwide and is presently with Regiments Capital as Executive Director.

He holds directorships of Worldwide, Energy Africa, and South African Express Airways. He is chairman of Plessey, and Chairman of the Council of the new North West University.



**E.R. Nallie Bosman - Director of the Land Bank - Until 26 April 2007**

Mr. Bosman is a Director of Companies with prolific experience in the banking sector where he first served as General Manager, Volkskas Bank Ltd, and finally was appointed ABSA Group Ltd, Group Chief Executive until his retirement in 2004.

He holds a Diploma in Banking, B.Com and B.Com Honours degrees; MBL all from UNISA. He attended the Stanford Executive Programme at Stanford University, California US.

He has served as Chairman of the Banking Council of South Africa as well as being appointed President of the Institute of Bankers and Chairman of the Afrikaanse Haandelse Instituut.

He is a nature conservationist and game farmer of note.



**Sarah Ntsau Olga Choane - Director of the Land Bank - Until 12 February 2007**

Ms. Choane holds a Bachelor of Commerce degree, an Honours in Accounting Science and has participated in the Wits and Harvard University sponsored Senior Executive Programme.

She is widely experienced in Financial Management, Accounting and Auditing.

Ms. Choane is presently the Deputy Director-General of Corporate Services, Chief Financial Officer, in the Department of Land Affairs. In this capacity, she is responsible for the effectiveness of financial management within the Department.

In 2004 she was appointed Chairperson of the Institute for Public Finance and Auditing (IPFA). She is also a member of the Chief Financial Officers Forum.



**Charles Peter Davies - Director of the Land Bank**

Mr. Davies is well known and respected in the Financial Services industry. He joined the industry in 1971 as a salesman establishing his own broking firm in 1972.

In 1978 he joined Norwich Union and later served in various General Management positions such as with Anglo American Life and Southern Life. On rejoining Norwich Life in 1989, and as Chief Executive Officer of Norwich Holdings, he oversaw the successful listing of the Company on to the Johannesburg Stock Exchange.

He has served on various Insurance and Bank Boards; He was elected Chairman of Life Offices Association (LOA) and today, after his retirement, he still serves as Director on a number of Boards.

He is currently a dairy farmer in the Eastern Cape.



**Johannes Jacobus Dique - Director of the Land Bank - Until 12 March 2007**

Mr. Dique is an experienced Chartered Accountant who is extremely knowledgeable about a broad spectrum of service industries as well as the formulation and implementation of strategy.

He is presently the Chief Executive Officer of Senwes Limited where he has successfully implemented a significant turn around strategy. He has also held leadership positions in a number of high performance companies such as Tiger Brands, Epol, the National Chamber of Milling, the Agricultural Business Chamber and many others.

Mr. Dique is a member of the AgriBEE Steering Committee of the Minister of Agriculture. He has a B.Com Accounting degree and is a registered member of the South African Institute of Chartered Accountants (SAICA).



**Tozi Gwanya - Director of the Land Bank**

Thomas Thozamile Gwanya, a.k.a Thozhi, holds a B Comm: Development Economics and Business Management. He also holds a Diploma in Adult Education and a Diploma in Training and Human Resource Management that was achieved at the Leicester University.

He played a critical role in the establishment of his community's Children Homes to alleviating poverty through development. Thozhi is the Co-founder and Chairperson of the Management Board of Umzomtsha Children's Home, Chairperson of Transkei Service Land Organization (TRALSO). He was a member of the Philisisizwe Association for Development (PAD), Chairperson of Eastern Cape Appropriate Technology Unit and a Director of Eastern Cape Socio Economics Consultative Council. He has served on the Development Committee of South African Council of Churches (SACC) and was Secretary General of SANGOCO. He is also a Trustee of the Land Restitution Trust (known as RTF).

In 1982 he was appointed as a Training Manager for the Africa Cooperative Action Trust (ACAT) until 1989 when he became Deputy Director at the Bureau of Development and Training at the University of Transkei. The year 1994 saw Thozhi becoming the Director of ACAT until he was appointed as Regional Land Claims Commissioner for Eastern Cape in 1999. In 2003 he was appointed as the Chief Land Claims Commissioner SA.



### **Raisibe Morathi - Director of the Land Bank**

Raisibe is Chief Operations Officer of the Industrial Development Corporation (IDC). She joined the IDC in June 2000 where she has held the positions of Head of Empowerment in the Strategic Business Unit as well as Executive Vice President for the Industrial Sectors Division.

Between October 2004 and March 2005 she was mandated to assume the position of Acting Chief Executive Officer and Chief Information Officer (CIO) of the IDC. Prior to that, she gained significant investment banking experience having worked for Nedcor, HSBC and AMB.

Raisibe is a registered Chartered Accountant. She also holds a Certificate in Advanced Management from Insead (France) and has a Higher Diploma in Taxation from Wits University.

Ms. Morathi is also a director of companies such as Strate, Foskor, PBMR as well as being the Chairperson of Prilla 2000.



### **Njabulo Nduli - Director of the Land Bank - Until 12 February 2007**

Ms. Nduli is the current Deputy Director General responsible for Agricultural Production and Resource Management in the Department of Agriculture.

She holds an MSC degree in Agricultural Science from University of Wales in the United Kingdom.

Ms Nduli, has acquired a deep understanding of the technical, economic and social issues within the agricultural sector. As a result she contributes significantly to the strategic leadership and the management of policy processes not only for the Department but also for and within various international, continental and intergovernmental programmes, organisations and activities.

Ms. Nduli is a sound administrator with proven leadership and organizational skills.



### **Moira Tlhagale - Director of the Land Bank**

Moira Tlhagale is a Director of tmtj Consulting and Investments. She is a Quantity Surveyor by training, having obtained a BSc Honours Quantity Surveying degree from the University of Cape Town. She also holds a Diploma in Building Surveying and Certificates in Property Intermediate Programme and in Shopping Centre Management.

She has worked extensively with companies such as Propnet Western Cape, Mahlathi Ntene Liebetrau, the Department of Public Works and other important companies operating in the sector. She has done admirable work as a Quantity Surveyor as well as being a Development Manager for a number of development schemes.

As Project Manager, Ms. Tlhagale has worked on some major projects valued at billions of rands; such as the refurbishment of the Carlton Centre, the International Departures Terminal in Cape Town, the Victoria Wharf Shopping Centre, Rwanda Hotels and others.

## Executive Committee as at 31 March 2007



**Chief Executive Officer**  
Alan Mukoki



**GM Legal & Recoveries**  
Ntsietso Mofokeng



**GM Corporate Development**  
Selomani Maitisa



**Chief Financial Officer**  
Xolile Ncame



**GM Operations (Acting)**  
Harry Moeng



**GM Human Resources**  
Nandi Manentsa



**GM Information Technology**  
Nicky Maredi



**Chief Risk Officer**  
Gerhardt Hechter



**Head of Treasury**  
Makgale Gwangwa



**GM Development**  
Nkosinathi Mbetha



**GM Credit (Acting)**  
Godfrey Masilela



**Board Secretariat**  
John Acutt

## Heads of Departments as at 31 March 2007



**Senior Manager of  
Finance and Admin**  
Kumenderi Pillay



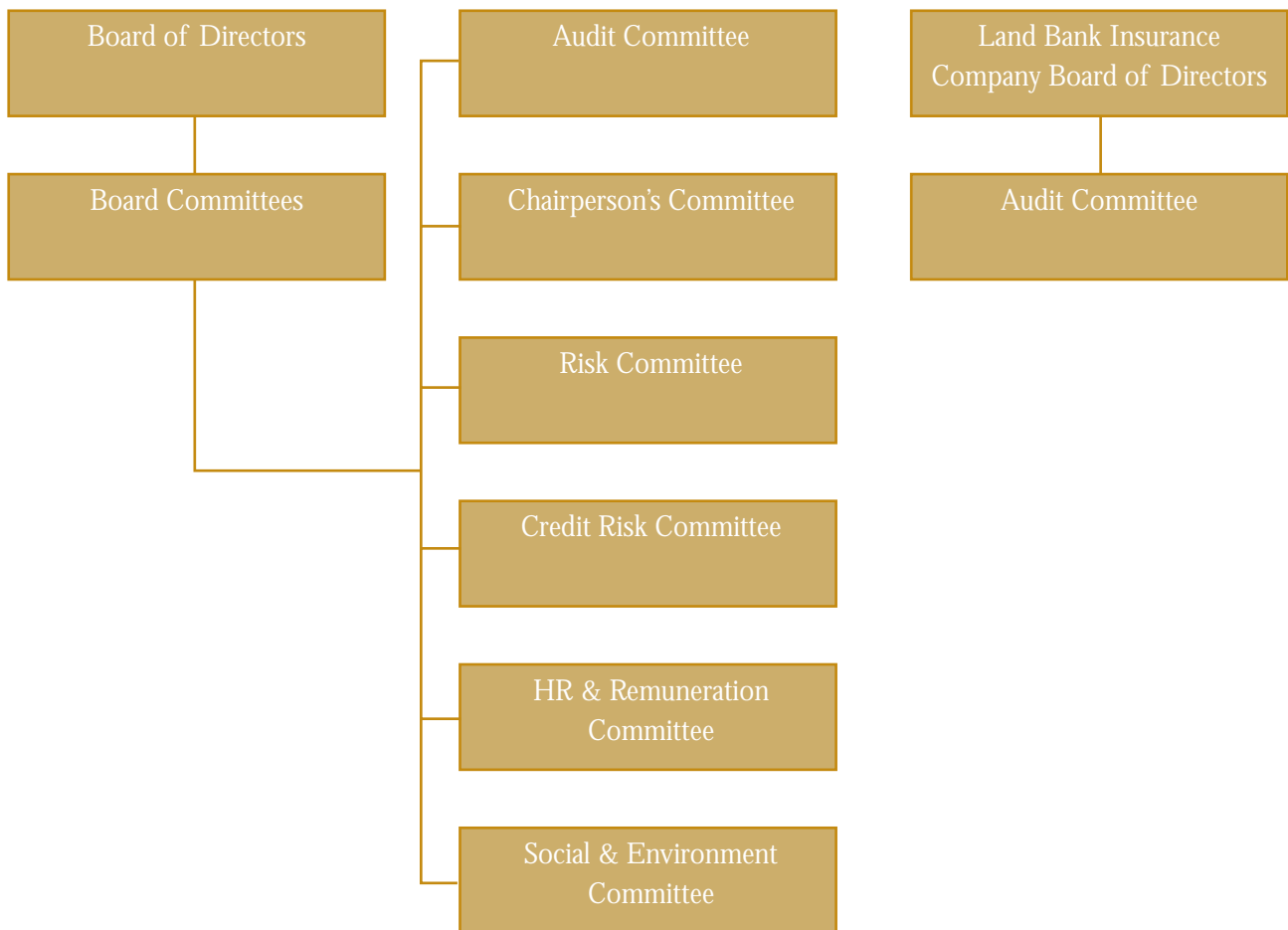
**Head of Retail (Acting)**  
Zilindile Makapela



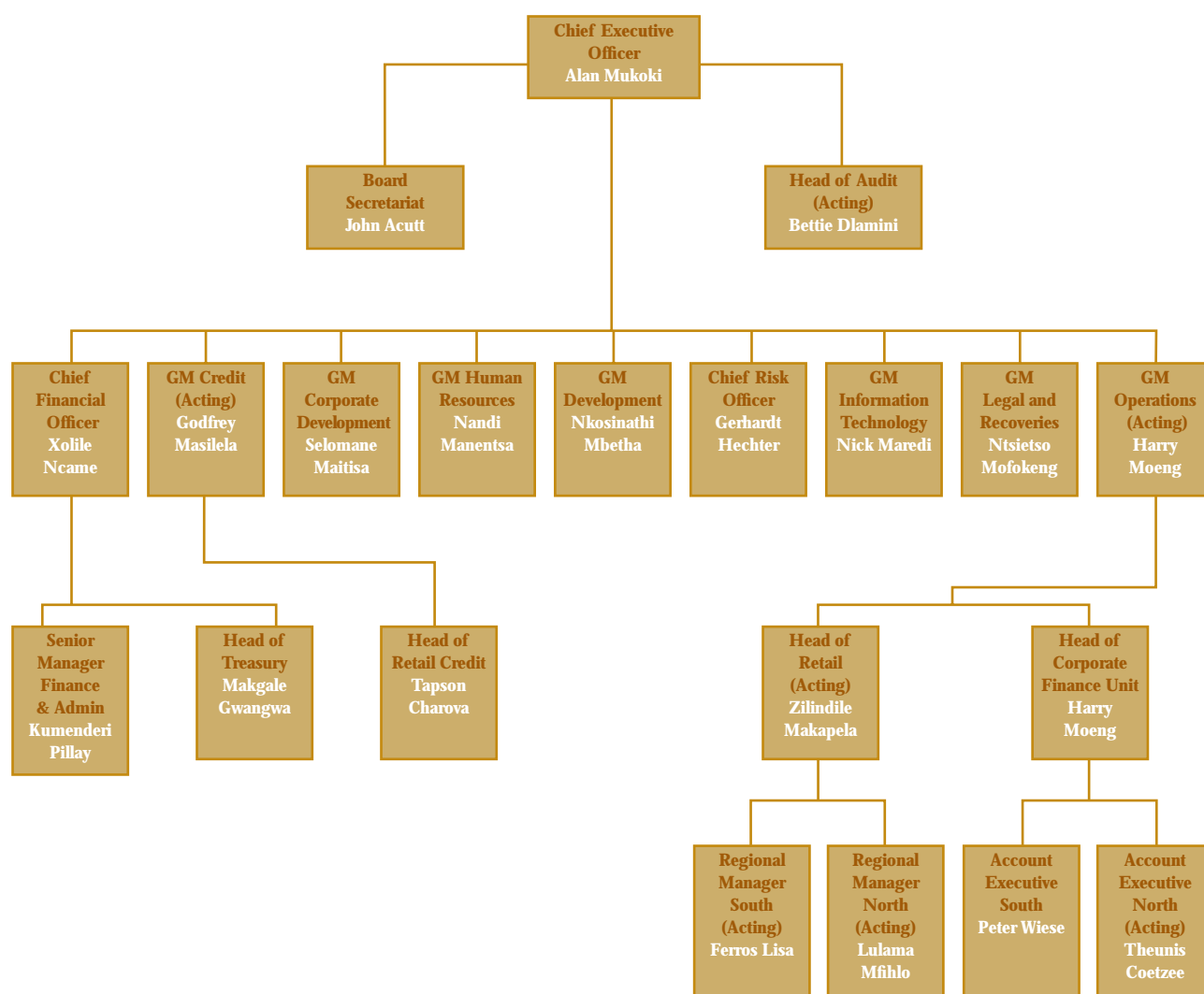
**Head of Internal Audit (Acting)**  
Bettie Dlamini



## Group Structure



## Management Structure as at 31 March 2007



## Regional and Area Leadership - Southern Region as at 31 March 2007



**Ferros Lisa**  
Acting Regional Manager: South



**Arno Coetzee**  
Area Manager: Upington  
and Calvinia



**Johan Nieuwoudt**  
Acting Area Manager:  
Eastern Cape East



**Abel Chendamudima**  
Area Manager: Paarl, Worcester,  
and Swellendam



**Keith Clowes**  
Area Manager: Bloemfontein



**Andre Scriven**  
Acting Area Manager: George  
and Beaufort West



**Johan van der Merwe**  
Acting Area Manager:  
KwaZulu-Natal South



**Thabo Motseki**  
Area Manager: Port Elizabeth  
and Cradock

## Regional and Area Leadership - Northern Region as at 31 March 2007



**Lulama Mfihlo**  
Acting Regional Manager: North



**Cornelia Duvenhage**  
Acting Area Manager:  
Bethlehem and Kroonstad



**Vernon Sukdev**  
Acting Area Manager: Pretoria,  
Modimolle and Heidelberg



**Hennie Venter**  
Area Manager: Lichtenburg,  
Potchefstroom, and Rustenburg



**Johan Bronkhorst**  
Area Manager: Ermelo, Vryheid,  
Middleburg, and Nelspruit



**Johan Viljoen**  
Acting Area Manager: Vryburg



**Morne du Plessis**  
Acting Area Manager:  
Polokwane and Tzaneen





# Report of the Board of Directors

The Directors presented their report and the annual financial statements of the Land Bank Group for the year ended 31 March 2007.

## Nature of Business

### The Land and Agricultural Development Bank of South Africa (“Land Bank” or “the Bank”)

Land Bank operates as a development finance institution within the agricultural and agri-business sectors. Its activities are regulated by the Land and Agricultural Development Bank Act, 15 of 2002 (the Land Bank Act) and the Public Finance Management Act, 1 of 1999, as amended (PFMA). Land Bank provides a range of finance options to a broad spectrum of clients within the agricultural sector. Financing products cater for both wholesale and retail financing for commercial and developing farmers, co-operatives and other agriculture-related businesses.

## Subsidiary

The Land Bank Insurance Company is a public Company and the Land Bank is its sole beneficial owner. During the current financial year, the name of the subsidiary was changed from Suid-Afrikaanse

Verbandversekeringsmaatkappy Beperk (SAVVEM) to Land Bank Insurance Company (LBIC). The LBIC, incorporated in terms of the Companies Act 61 of 1973, is a Schedule 2 public entity in terms of the PFMA. The main business of the LBIC is the provision of credit life insurance to retail clients of the Land Bank.

## Developments in the South African Agricultural Industry in 2006/7

The South African economy continues to show healthy expansion, but bottlenecks that might accelerate inflation are beginning to emerge. Despite a negative contribution of 13% by agriculture, the gross domestic product increased to 5% in 2006. According to the South African Reserve Bank, this is slightly above the country’s current growth potential of 4,5%. Inflation, measured by the CPIX, increased by 5,5% in March 2007 and is accelerating. With the exception of a slowdown in the USA, the international economy continues to expand at a brisk pace and the domestic and international demand for South African agricultural products is expected to be maintained at a higher level. The shrinking share of agriculture in the country’s gross domestic product reflects the fact that other sectors of the economy are expanding more rapidly than agriculture. This pattern of development applies internationally. However, it does not mean that



no attempt should be made to increase production and productivity in agriculture. The aim of The Strategic Plan for South African Agriculture, 2001, is precisely to promote the long-term growth performance and international competitiveness of the industry.

The fluctuation of the South African currency has become one of the most important variables and has a severe impact on the agricultural exports market. During the period April 2006 to March 2007, the currency depreciated by 18,8% against the US dollar, and the effective value of the rand declined by 20,6% against all the major currencies. The currency depreciation, together with the rise in commodity prices internationally and the drought that has been experienced in the summer rainfall areas since the beginning of 2007, largely contributed to the rise in producer prices at farm level by 18,8% during the year under review.

### **Structural changes in agriculture**

In 2006, land on average comprised 62,6% of the total value of assets in agriculture; equipment, machinery and vehicles 15,8%, and livestock 21,7%. The total farm debt as at the end of 2006 was 2,8% higher than at the end of 2005. Despite the fact that net farm income had declined by 48% in the three-year period ended 30 June 2006, the average ratio of farming

debt to the total value of farm assets amounted to a credible 25% at the end of 2006.

The drought that was experienced in the summer rainfall areas since the beginning of 2007 inflicted severe damage on summer crops such as maize, and also caused the deterioration of natural grazing. The maize industry experienced setbacks for three years in a row: in 2005 it was the low price, in 2006 farmers decided to reduce the maize-planting area by 43% in order to stabilise prices and domestic supply, and in 2007 there was a drought. Maize farmers who have suffered as a result of these successive blows are likely to experience severe cash flow problems, which will impact negatively on the business of the Bank. However, the agricultural outlook has progressed and the risk of financing farmers and agri-businesses has diminished.

### **Corporate Governance**

The Board of Directors controls and directs the operations of the Bank. The Board's responsibilities are defined in both the Land Bank Act and the PFMA. The Board subscribes to the Code of Corporate Practices and Conduct, as recommended in the King Report on Corporate Governance for South Africa 2002 (King II). The day-to-day management of the Bank is the responsibility of the Chief Executive

Officer.

The Minister of Agriculture and Land Affairs is responsible for the appointment of the directors. In line with the principles of good governance, as espoused in King II and as required by the Land Bank Act, a majority of the directors are non-executive. The Board currently consists of twelve non-executive directors and one executive director who is the Chief Executive Officer of the Bank.

The Board members are collectively responsible to the Minister. The Board has adopted a number of policies and practices that ensure that the Directors are able to effectively discharge their fiduciary duties.

The Minister of Agriculture and Land Affairs is, for the purposes of the PFMA, the Executive Authority. The Minister may from time to time issue policy directives to the Board.

The directors collectively have a wide range of skills, experience and qualifications that ensure that the Board is able to discharge its responsibility.

In the course of the year, the Board implemented a corporate governance review which was an evaluation of the effectiveness of the directors. The report indicated that overall the Board demonstrated good governance practices.

### Governance Structures

Mr LG Mazwai	(Chairperson)
Ms NV Lila	(Deputy Chairperson)
Mr AT Mukoki	(Executive Director and Chief Executive Officer)
	Until 23 July 2007
Mr ER Bosman	(Non-Executive)
	Until 26 April 2007
Ms SNO Choane	(Non-Executive)
	Until 12 February 2007
Mr SS Gamede	(Non-Executive)
	From 12 February 2007 until 15 May 2007
Mr CP Davies	(Non-Executive)
Mr JJ Dique	(Non-Executive)
	Until 12 March 2007

Mr SM Mkhabela	(Non-Executive)
Ms RK Morathi	(Non-Executive)
Ms NJ Nduli	(Non-Executive)
	Until 12 February 2007
Mr S Zamxaka	(Non-Executive)
	From 12 February 2007 until 15 May 2007
Mr LM Nyhonyha	(Non-Executive)
Ms MD Tlhagale	(Non-Executive)

Messrs Bosman, Gamede and Zamxaka resigned after the end of the year, and Mr Gwanya, Dr Mohlahlane, Ms N. Qata, Ms FN Msimang and Dr ATM Mokgokong were appointed as directors.

The Chief Executive Officer, Mr AT Mukoki resigned with effect from 23 July 2007, and Dr RP Mohlahlane was appointed as Acting Chief Executive Officer, with effect from the same date.

The Board meets at least four times a year. Members of the executive management of the Bank are invited to attend board meetings from time to time.

### Board Committees

The Board has established committees to assist it in discharging its responsibilities. The Board committees during the financial year were:

- Chairperson's Committee;
- Audit Committee;
- Social & Environment Committee;
- HR and Remuneration Committee;
- Risk Committee;
- Credit Risk Committee.

The committees report at least quarterly to the Board.

### Chairperson's Committee

Mr LG Mazwai	(Chairperson)
Ms NV Lila	(Deputy Chairperson)
Mr CP Davies	
Mr SM Mkhabela	
Ms RK Morathi	
Ms NJ Nduli	(Until 12 February 2007)
Mr LM Nyhonyha	



The Chairperson's Committee is responsible for Board governance and the Bank's development mandate. It is also tasked with evaluating the effectiveness of the Board. The committee convened four times during the financial year.

### Audit Committee

Mr LM Nyhonyha	(Chairperson)
Ms NV Lila	(Deputy Chairperson)
Mr ER Bosman	(Until 26 April 2007)
Ms SNO Choane	(Until 12 February 2007)
Mr CP Davies	

The Audit Committee oversees the Bank's financial performance and reviews its financial and operational reporting systems and internal controls. It also reviews the annual financial statements before they are presented to the Board.

These activities are undertaken in terms of the Audit Committee Charter, PFMA, Treasury Regulations and the Companies Act. Representatives of the office of the Auditor-General and internal auditors attend the meetings by invitation.

The Bank has an internal audit unit that reports directly to the Audit Committee. Most of the internal audit functions are outsourced to PriceWaterhouseCoopers (PwC). The Bank is in the process of increasing its internal audit capacity and reducing its reliance on external consultants. The engagement of PwC is reviewed annually and their annual audit plan is approved by the Audit Committee. The Committee convened four times during the financial year.

### Social & Environment Committee

Ms NJ Nduli	(Chairperson until 12 February 2007)
Mr SM Mkhabela	(Deputy Chairperson)
Mr CP Davies	
Mr JJ Dique	(Until 12 March 2007)
Mr LG Mazwai	
Ms RK Morathi	

The Social and Environment Committee is responsible for the integrated, economic, social and

environmental performance ('Triple Bottom Line'), and the non-financial risks as defined by the Bank's Enterprise-wide Risk Management Framework, which includes, but is not limited to, Social Responsibility, Stakeholder engagement, Ethical standards, Safety & Environment, Societal & Transformation and HIV & AIDS. The Committee convened on five occasions during the financial year.

### Risk Committee

Mr CP Davies	(Chairperson)
Mr ER Bosman	(Deputy Chairperson until 26 April 2007)
Ms SNO Choane	(Until 12 February 2007)
Ms NV Lila	
Ms RK Morathi	
Ms NJ Nduli	(Until 12 February 2007)
Ms MD Tlhagale	

The Risk Committee is responsible for monitoring the operational, risk management processes, and market and credit risk. It functions as the Enterprise-wide Risk Committee of the Bank. As such it addresses all risks to which the Bank is exposed as mentioned in the Enterprise-wide Risk Management Framework. The committee convened four times during the financial year.

### Credit Risk Committee

Ms RK Morathi	(Chairperson)
Mr ER Bosman	(Deputy Chairperson until 26 April 2007)
Mr CP Davies	
Mr LG Mazwai	
Ms NJ Nduli	(Until 12 February 2007)
Ms MD Tlhagale	

The Credit Risk Committee is responsible for monitoring credit risk, reviewing and approving credit policies, credit limits and guidelines, approving the adequacy of the year-end and interim provisions. In addition, it approves advances in accordance with the authority levels in terms of the approved Delegation of Powers. The committee convened on eight occasions during the financial year.



## HR and Remuneration Committee

Mr SM Mkhabela	(Chairperson)
Ms SNO Choane	(Until 12 February 2007)
Mr ER Bosman	(Until 26 April 2007)
Mr JJ Dique	(Until 12 March 2007)
Mr LG Mazwai	

The HR and Remuneration Committee's primary responsibility is the review of all human resources and remuneration policy matters. The committee met six times during the financial year.

## Land Bank Insurance Company Limited (LBIC)

LBIC is a subsidiary of the Bank and is governed in terms of the Companies Act, 61 of 1973, and the PFMA. The LBIC Board of Directors is composed of Directors who are members of the Land Bank Board.

A memorandum of agreement was concluded between the Bank and LBIC to regulate and harmonise the delivery of services, with a view to ensuring the realisation of the objectives of the Bank, as set out in the Land Bank Act.

## LBIC Board

Mr CP Davies	(Chairperson)
Ms NV Lila	(Deputy Chairperson)

Mr LG Mazwai  
Ms RK Morathi  
Ms NJ Nduli (Until 12 February 2007)  
Mr LM Nyhonyha  
The LBIC Board six times during the financial year.

## LBIC Audit Committee

The Audit Committee oversees the LBIC financial performance and reviews LBIC's financial and operational reporting systems, internal control systems, audit programmes and the integrated risk management process.

These activities are undertaken in terms of the Audit Committee Charter, PFMA, Treasury Regulations and the Companies Act. Representatives of the office of the Auditor-General, internal and external auditors attend the meetings by invitation.

Mr LM Nyhonyha	(Chairperson)
Ms NV Lila	(Deputy Chairperson)
Mr ER Bosman	(Until 26 April 2007)
Ms SNO Choane	(Until 12 February 2007)
Mr CP Davies	

The LBIC Audit Committee convened four times during the financial year.



## Board and Committee Meeting Attendance for the financial year ended 31 March 2007

Name	Land Bank Board	Land Bank Audit	Risk	Credit Risk	HR & Rem	Soc & Env	Chair-person's	LBIC Board	LBIC Audit
No. of Meetings held	11	4	4	8	6	5	4	6	4
LG Mazwai	11	-	-	7	5	4	4	6	-
NV Lila	11	4	4	-	-	-	4	6	4
AT Mukoki	10	3	1	4	5	2	3	2	2
ER Bosman	8	3	2	6	6	-	-	-	4
SNO Choane*	1	-	2	-	3	-	-	-	-
CP Davies	11	4	4	8	-	5	4	6	4
JJ Dique	9	-	-	-	4	4	-	-	-
SM Mkhabela	10	-	-	-	6	4	4	-	-
RK Morathi	7	-	3	6	-	2	2	5	-
NJ Nduli*	6	-	1	3	-	3	2	4	
LM Nyhonyha	9	4	-	-	-	-	1	4	3
MD Tlhagale	7	-	1	4	-	-	-	-	-
SS Gamede**	1	-	-	1	-	-	-	-	-
S Zamxaka**	1	-	-	1	-	-	-	-	-

\*Resigned 12 February 2007

\*\*Appointed 12 February 2007



## Directors' Emoluments

Directors are paid a sitting allowance for their attendance at Board and committee meetings. They are also reimbursed for reasonable out-of-pocket expenses incurred in discharging their duties. The rates are determined by the Minister. The directors' emoluments are shown in note 23.2 of the financial statements.

## Risk Management

Risk management is an integral part of the Bank's business. We do not seek to avoid risk, but to understand it, manage it effectively and evaluate it in the context of the reward that is being earned.

Our philosophy is underpinned by the objective of

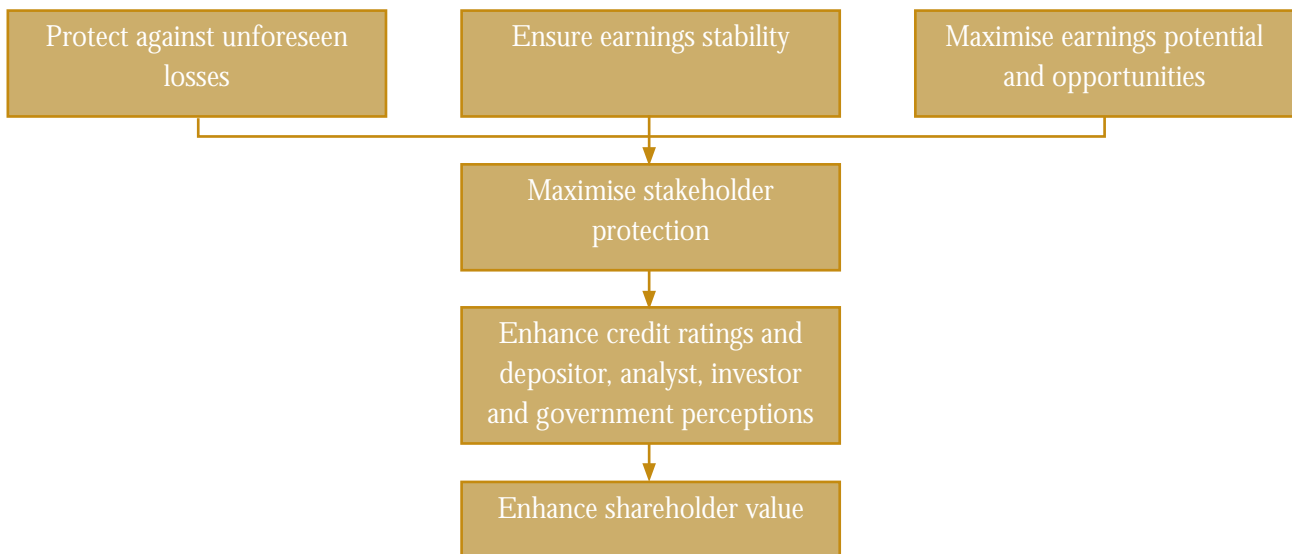
creating value for the shareholders through earnings that are sustainable and will ultimately attract a premium rating for the Group.

The Land Bank Group has adopted an Enterprise-wide Risk Management Framework (ERMF) that has been developed in accordance with:

- Best risk management practice locally and internationally;
- The King Report on Corporate Governance for South Africa – 'King II', and
- BIS (Bank of International Settlement).

### Broad risk management objectives and approach

The broad risk-management objectives embodied in the ERMF are:



In recent years, the financial services industry has seen unprecedented levels of losses, uncertainty, volatility and reputation-damaging events resulting from risky transactions and investments, ill-advised credit granting, fraud, lack of independent controls and/or inadequate risk and governance framework. However, risk management does not equate to risk avoidance; to create and enhance shareholder value, risk has to be borne. The key element in effective risk management is the correct balancing of risk and control.

Risk management is a process that has to be continual and evolving in nature so that it remains dynamic and relevant to the business of the Group as the business changes over time.

Risk as opportunity is implicit in the concept that there is a relationship between risk and return. The greater the risk, the greater the potential return and the greater the potential loss. In this context, risk management means using techniques to maximise the



upside within the constraints of the Group's business environment.

Risk as a threat refers to potentially negative events such as financial loss, fraud, damage to reputation or public image, loss of key staff and competitive advantage. Risk management means introducing management techniques to reduce the probability of these negative events without incurring excessive costs or hampering the initiative, innovation and entrepreneurial flair of the organisation.

Risk as uncertainty refers to the distribution of all possible outcomes, both positive and negative. In this context risk management seeks to reduce the variance between anticipated outcomes and actual results.

Successful long-term risk management involves the effective management of opportunities, threats and uncertainties.

### Responsibilities of directors towards risk management

The Board of Directors is ultimately responsible for any financial loss or reduction in shareholder value suffered by the Group. It is therefore responsible for recognising all the risks to which the Group is exposed and ensuring that the requisite risk management culture, frameworks, practices, policies, resources and systems are in place.

The Board of Directors has acknowledged its responsibility to establish, maintain, operate and demonstrate an effective framework of business controls, risk management and corporate governance.

### Risk culture

Land Bank Group has adopted seven risk culture attributes namely:

- Equal attention is paid to both quantifiable and unquantifiable risks;
- Risks are identified, reported and quantified to the greatest possible extent;
- An awareness of risk pervades the

enterprise;

- Risk management is everyone's responsibility;
- Risk managers have power to veto and the power to drive risk awareness and management agenda;
- Uncertainty is accepted and managed accordingly; and
- The risk culture is defined and enshrined.

### Enterprise-wide Risk Management Framework (ERMF)

The Enterprise-wide Risk Management Framework is about effectively integrating risk management across an organisation's risk universe (e.g. credit, market, operational and strategic risks), business lines and operating divisions (e.g. Corporate Finance Unit and Retail) and geographical locations.

The Land Bank has designed its ERMF to achieve this and to:

- Ensure that the identification, evaluation, management and monitoring of business risks throughout the Group occur dynamically and within established risk philosophies, policies and the board's appetite for risk; and
- Provide for consolidated risk measurement and portfolio risk management analysis and strategy.

Land Bank's ERMF will continue to evolve and be enhanced to achieve:

- Integrated risk management systems and data;
- Consistent risk measurement methodology;
- Common risk language and culture;
- Centralised risk management reporting; and
- Full compliance with relevant legislation.

Ultimately, the ERMF has been introduced and implemented to ensure the success of the Land Bank's risk philosophy in achieving the optimal risk/reward profile strived for by the Group, and that the Bank attracts a premium for excellent risk management and corporate governance, which are the attributes



demanded by shareholders in the corporate world.

Land Bank's ERMF includes graphic depictions in the form of detailed roadmaps, illustrating the risk universe and comprising of three distinct layers, namely:

- Layer 1 the enterprise-wide risk management forums and responsibilities;
- Layer 2 the risk-management and corporate governance committee structures; and
- Layer 3 executive management responsibility by risk area.

### Efficient and effective implementation of the ERMF

In the design and development of the Land Bank's ERMF, significant emphasis was placed on ensuring efficiency and effectiveness.

Some examples of this are:

Internal Audit and Compliance, which are independent of the business operations, will be present at all levels to ensure that significant matters reach the Board Risk Committee.

An independent risk department has been established and its key roles are:

- Promoting the identification, evaluation and management of all risks across the Group;
- Monitoring all risks across the Group;
- Championing the implementation of the enterprise-wide risk methodology across the Group at all levels;
- Implementing an integrated risk management framework across the Group; and
- Promoting risk awareness and providing education on risk.

### Land Bank's major risks

The Group's focus areas for enterprise-wide risk management for the year under review identify the following main risks:

- Operational Risks;

- Market Risks;
- Interest Rate Risks;
- Liquidity Risks;
- Credit Risks;
- Strategic Risks.

These and other key risks of the Group are detailed under the 'Risk Universe' on the summarised ERMF roadmap. Each of the other key risks may be categorised under one or more of the above-mentioned six major risks.

### Operational Risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. This definition includes legal risk.

### Operational risk management and responsibilities

Operational risk is inherent in the Bank's activities and there are many sources thereof. A co-ordinated approach to identifying, managing and monitoring operational risks has been formulated. Operational risk management at the Bank is currently at the oversight and monitoring level.

The management of operational risks remains the responsibility of management. The Operational Risk Department works closely with management in providing guidance and support in the implementation of the operational risk management process within the Bank. Staff members working in the area of Operational Risk are responsible for monitoring and reporting on the progress made on risks that have been identified and the implementation of action plans designed to mitigate the risks.

### Framework and governance

The Bank has established the Operational Risk Committee (ORCO) and the Board Risk Committee as defined in the Enterprise-wide Risk Management Framework (ERMF). The ERMF also contains the ORCO and Board Risk Committee charters, which serve as governance documents for the constitution



and functioning of the risk committees. The ORCO is chaired by the Chief Risk Officer. ORCO meets monthly and key risks within the Bank are escalated to the Board Risk Committee, which meets quarterly.

## Market Risks

Market risk is the risk of Land Bank's earnings and capital, or its ability to meet its business objectives, being adversely affected by movements in market rates or prices, such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices.

Land Bank is exposed to market risk in various ways. Market exposure is explicit in portfolios of securities (e.g. bonds, asset-backed securities) and over-the-counter instruments (e.g. interest rate derivatives) that are actively traded or held for investment purposes (traded portfolios). Exposure is also implicit in Land Bank's intermediary activities in instruments for which there are no liquid secondary markets, such as the interest rate risk caused by the mismatch of loans and deposits (non-traded portfolios). Interest rate exposure is inherent in the mismatch of assets and liabilities.

The primary uses of risk limits are to manage and control Land Bank's exposures to market risk. Risk limits are established to ensure that prospective economic losses do not exceed the threshold levels set by management for various categories and components of risk.

An accurate, informative and timely management information system is essential to the prudent operation of market risk activities. Accordingly, the quality of the management information system is an important factor in the overall effectiveness of the risk management process.

## Interest rate risk

### Sources of interest rate risk

The Land Bank's primary form of interest rate risk arises from timing differences in the maturity and re-pricing of assets and liabilities (re-pricing risk). While such re-pricing mismatches are a normal business

feature, they could expose the Land Bank's income and economic value to fluctuations as interest rates vary.

Another source of interest rate risk to the Land Bank arises from imperfect correlation in the adjustment of the rates earned and paid on different financial instruments with otherwise similar re-pricing characteristics (Basis risk). When interest rates change, these differences can cause changes in the cash flows and earnings spread between assets and liabilities.

Re-pricing mismatches can also expose the Land Bank to changes in both the slope and shape of the yield curve. Yield curve risk arises when unexpected shifts of the yield curve have adverse effects on the Land Bank's income or economic value.

## Interest rate risk measurement techniques

### Gap analysis

Gap analysis is used to measure the Bank's interest rate risk exposure. The approach is to use simple maturity/re-pricing schedules to generate simple indicators of the interest rate risk sensitivity of both earnings and economic value to changing interest rates. A re-pricing 'gap' is produced by subtracting interest rate sensitive liabilities from the corresponding interest rate sensitive assets to evaluate earnings exposure. This is done for a number of time bands. An approximation of the change in net interest income is obtained by multiplying the re-pricing gap by an assumed change in interest rates per time band. The size of the interest rate movement used in the analysis is based on a variety of factors, including historical experience, simulation of potential future interest rate movements, and the judgement of the Land Bank management.

### Simulation techniques

Simulation techniques are also employed by the Land Bank to measure interest rate risk in relation to financial instruments. These simulation techniques typically involve detailed assessments of the potential effects of changes in interest rates on earnings and economic value by simulating the future path of interest rates and their impact on cash flows. In addition, these simulation techniques incorporate more varied and refined changes in the interest rate



environment, ranging from changes in the slope and shape of the yield curve to changes in the interest rate scenarios.

In static simulations, the cash flows arising from the Land Bank's current positions are assessed. To assess the exposure of earnings, simulations estimating the cash flows and resulting earnings streams over a specific period are conducted based on one or more assumed interest rate scenarios. Typically, although not always, these simulations entail relatively straightforward shifts or tilts of the yield curve, or changes of spreads between different interest rates. When the resulting cash flows are simulated over the entire expected lives of the financial institution's holdings and discounted back to their present values, an estimate of the change in the financial institution's economic value is calculated.

In a dynamic simulation approach, the simulation builds in more detailed assumptions about the future course of interest rates and the expected changes in the Land Bank's business activity over that time. Such simulations use these assumptions about future activities and reinvestment strategies to project expected cash flows and estimate dynamic earnings and economic value outcomes. These more sophisticated techniques allow for dynamic interaction of payment streams and interest rates.

### Scenario Analysis and Stress-testing

The Land Bank utilizes the Alman tool to assess the performance of a particular portfolio of financial instruments when exposed to changes in market prices and factors under abnormal market conditions. Scenario analysis involves simulating various hypothetical evolutions of events (called 'scenarios') in order to determine their effect on the value of a portfolio. When changes in the value of the portfolio are determined under stressful conditions, the analysis is called 'stress-testing'. Weak spots or risk holes are said to be identified when stress-testing reveals excessive risky exposures to movements in the underlying market variables. Stress-testing is used to manage the risks in a portfolio more decisively and quickly should the worst case scenario take present itself unexpectedly.

## Interest Risk Management Limits

Interest rate risk is central to the Bank and is naturally at the heart of Bank management. Interest rate risks are clearly identified and are managed pro-actively, therefore interest risk is analysed and reported to ALCO and the Board Risk Committee. Treasury Unit presents funding strategies to ALCO for discussion and monitoring and Treasury Unit executes strategies as discussed in ALCO. The Board-approved Treasury Policy Manual sets out a clearly defined interest rate risk limit and, depending on interest rate views and in order to benefit when interest rates are expected to change, the ratio of the interest rate mismatch between fixed and floating interest rates applicable to assets and the liabilities should be adjusted accordingly, within the maximum mismatch permitted.

The Bank manages interest rate risk with the following authorized hedging instruments:

- Interest Rate Swaps;
- Forward Rate Agreements;
- Caps and Floors;
- Swaptions;
- Interest Rate Futures.

## Liquidity risk

Liquidity risk is the possibility that the Land Bank's will be unable to meet its obligations as they become due because of an inability to obtain adequate funding or to liquidate assets.

The Land Bank faces two types of liquidity risk in its activities: one related to specific products or markets, and the other related to the general funding of the Land Bank's activities. The former is the risk that the Land Bank might not be able to, or might not easily be able to unwind or offset a particular position at or near the previous market price because of inadequate market depth, or because of disruptions in the market place. Funding liquidity risk is the risk that the Land Bank will be unable to meet its payment obligations on settlement dates. The Land Bank management evaluates these risks in the broader context of the organisation's overall liquidity.



## Liquidity risk controls

The Land Bank implemented a liquidity contingency plan to manage liquidity stresses. The plan provides a policy framework and action plan within which an effective response to a liquidity crisis can be managed. Stressed liquidity is defined as a condition that arises from a sudden deterioration of the perceived investor safety and credit-worthiness of the Bank, resulting in substantial net withdrawal of funds by investors.

To manage this risk the Bank maintains funds in call and current accounts and has unutilised overdraft facilities with major South African commercial banks and institutional investors.

## Liquidity risk limits

The effective management of liquidity risk is the first priority of Treasury Unit. The object is to ensure that the Bank has sufficient funds of the desired maturities at the lowest possible cost with minimum risk exposures, and to enable the Bank to always meet its financial commitments in good time.

There is a Liquidity Contingency Plan in place to deal with a liquidity crisis. Liquidity risk is managed by applying a liquidity reserve ratio (cash/short-term liabilities plus commitments). This provides a minimum cash buffer as set out in the Treasury Policy Manual, as approved by the Board. Overdraft facilities are available should they be needed. The Bank's policy is to match its assets and liability maturity profile and the Treasury Policy Manual limited maturity mismatches within the buckets defined by the Asset and Liability Committee. These limits are monitored by ALCO and reported to the Board Risk Committee. Furthermore, ALCO reviews the quality of funding and ensures that the sources of funding are adequately diversified.

## Credit Risks

The Bank's credit risks are managed through the following credit committees:

Credit Risk Committee (CRC)

Credit Risk Monitoring Committee (CROM)  
Credit Risk Management Committee (CRMC)

### Credit Risk Committee (CRC)

The primary focus of the Credit Risk Committee is to approve and review credit policies and philosophy, and credit limits and guidelines, to review that procedures are in place to manage and control credit risk, to approve the adequacy of the year-end and interim provision, and to ensure that the quality of the Bank's credit portfolio is in accordance with these requirements by monitoring credit risk information.

### Credit Risk Monitoring Committee (CROM)

The primary role of CROM is to review credit risk policies, mandates and lending strategy, set credit limits and guidelines within the business unit's mandate, confirm that procedures are in place to manage and control credit risk, monitor the adequacy of interim and year-end provisions and ensure that the quality of the business unit's credit portfolio is in accordance with these requirements by monitoring various sources of credit risk information, processes and disclosure (i.e. MONITORING function).

### Credit Risk Management Committee (CRMC)

The primary role of the Credit Risk Management Committee (CRMC) is to review, approve and implement credit risk policy, set credit limits and guidelines within its mandate, ensure that policies and procedures are in place to manage and control credit risk within the Bank, approve the adequacy of interim and year-end provisions, ensure that no new products or services are launched before all aspects of credit have been catered for, and ensure that the quality and management of the credit portfolio is in accordance with the credit policies and philosophies of the Bank.

## Strategic Risks

Strategic risk concerns the consequences that occur when the environment in which decisions that are hard to implement and reverse quickly, result in an unattractive or adverse impact.



## Financial Statement Highlights

Abridged Group Income statements  
for the year ended 31 March 2007

		Land Bank Group	
		2007	2006
	Note	R'000	R'000
Interest income		<b>1,743,810</b>	1,641,795
Interest expense		<b>(1,275,321)</b>	(1,222,118)
Net interest income	1	<b>468,489</b>	419,677
Impairment of loans	2	<b>(369,529)</b>	(319,844)
Income from lending activities		<b>98,960</b>	99,833
Income from insurance activities		<b>8,959</b>	15,652
Non-interest income	3	<b>103,906</b>	288,227
Operating expenses	4	<b>(469,972)</b>	(444,600)
Fair value gains and other items		<b>248,040</b>	106,450
Net (Loss) / Profit		<b>(10,107)</b>	65,562

## Abridged Group Balance sheets

As at 31 March 2007

		Land Bank Group	
		2007	2006
	Note	R'000	R'000
<b>Assets</b>			
Cash at bank		<b>1,118,260</b>	3,249,884
Trade and other receivables		<b>29,841</b>	49,916
Loans		<b>15,598,898</b>	14,951,852
Treasury instruments		<b>424,321</b>	473,002
Investments	5	<b>860,957</b>	731,055
Investment properties	6	<b>74,222</b>	82,614
Property, equipment and intangibles		<b>197,054</b>	148,306
<b>Total assets</b>		<b>18,303,553</b>	19,686,629
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity	7	<b>1,696,717</b>	1,693,786
<b>Liabilities</b>			
Liabilities		<b>16,606,836</b>	17,992,843
Provisions, trade and other payable		<b>186,524</b>	190,747
Bank overdraft		<b>449</b>	208,533
Policyholder liability		<b>42,167</b>	31,520
Funding		<b>16,195,149</b>	17,380,822
Post retirement obligations		<b>182,547</b>	181,221
<b>Total equity and liabilities</b>		<b>18,303,553</b>	19,686,629



## Abridged Group Cash flow statements for the year ended 31 March 2007

		Land Bank Group	
		2007 R'000	2006 R'000
Net Cash flow from operating activities	8	<b>(765,370)</b>	2,519,752
Net Cash flow from investing activities	8	<b>(30,826)</b>	167,246
Net Cash flow from financing activities	8	<b>(1,127,344)</b>	(1,304,957)
Net increase/(decrease) in cash and cash equivalents		<b>(1,923,540)</b>	1,382,041
Cash and cash equivalents at 1 April		<b>3,041,351</b>	1,659,310
Cash and cash equivalents at 31 March		<b>1,117,811</b>	3,041,351

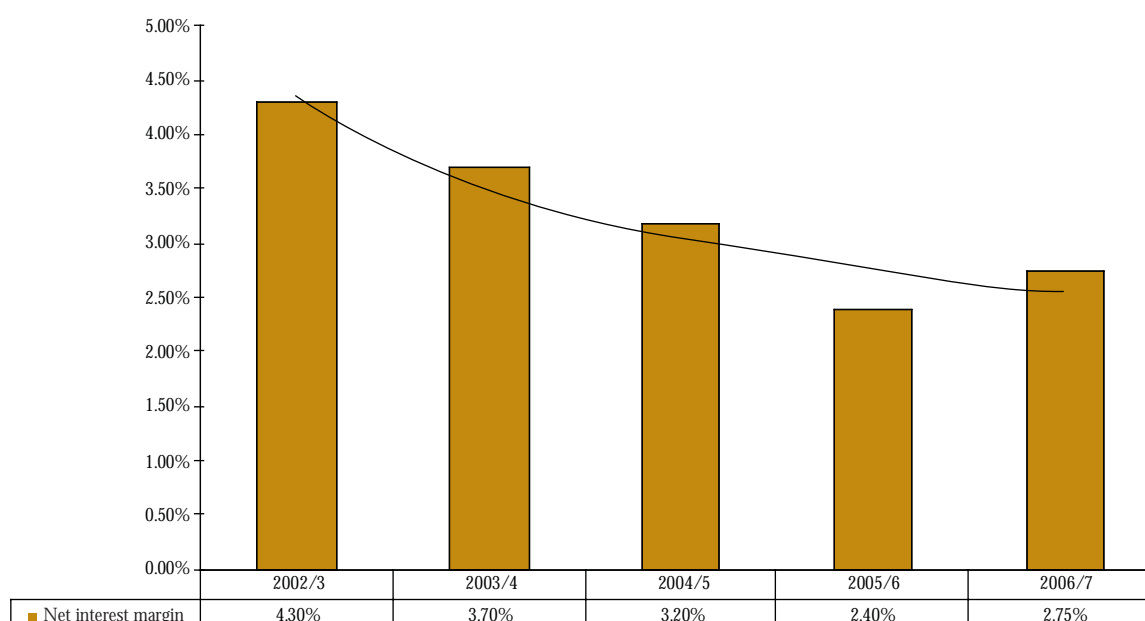
## Notes on the abridged Group Income Statement, Balance Sheet and Cash Flow Statement

### 1. Interest Income and Loans

#### 1.1 Net Interest Income

The Group's Net Interest Income increased by R48.8 million due to an increase in the average gross loan book of R148 million and improved margins and hedging activities. The trend in Net Interest Income over the past five years is illustrated below.

#### NET INTEREST MARGIN



For the years ended 2003, 2004 and 2005, net interest income included an amount for interest that should not have been recognised in the Income Statement as the inflow of economic benefits was not probable. The inflow of this interest was uncertain, as these loans were non-performing. During this period interest was inappropriately capitalised and then impaired. As a result, both net interest income and impairments on loans were overstated.

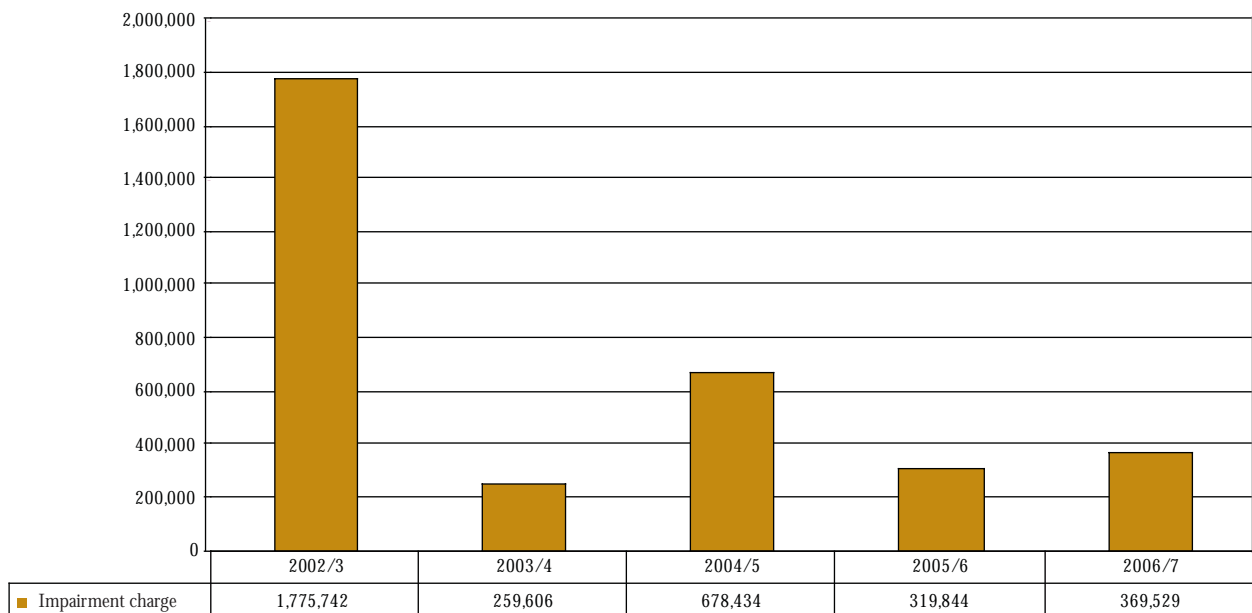
### 1.2 Loans

Compared to the previous year, the gross loan book increased by 5.7%. The Retail book dropped by 18%, and the Corporate Finance Unit (CFU) loan book (inclusive of the LDFU Book) increased by 20.14%. The Retail book dropped primarily in the long-term or mortgage loans. This is due to the migration of clients to the commercial banks. The increase in the CFU book is mainly in the short term-loan facilities of one year to support the increase in the planting of maize.

## 2. Impairments of Loans

Below is a graph showing the trend in the impairment losses for the last five years:

### IMPAIRMENT LOSSES



For the first time in the history of the Land Bank, the years ended 2003, 2004 and 2005 showed the effects of implementing the accounting standard AC133 and the raising of adequate provisions. In these years, impairments were also higher due to the effect of not suspending interest where the inflow was not considered probable. The impairments for the year 2007 are R369.5 million; they were R319.8 million in the previous year. R198 million of the 2007 impairments and R110 million of the 2006 impairment are for one specific loan. During the current year, the Bank was informed by the Land Claims Commissioner that the security on this loan was subject to a land claim, which resulted in an increase in impairments. The claim was gazetted after the year end.



### 3. Non-Interest Income

Non-interest income has decreased by R184.3 million from the previous year, of which R182.3 million was a reinstatement of the security against loans written off during 2006.

### 4. Operating Expenses

Operating expenses have increased by 5.7% between 2006 and 2007. The main contributor for the increase was the annual salary increments. However, the graph below, which maps the Cost to Income ratio for the past five years, shows an increase of more than 5.7%.



The cost to income ratio has increased by 20% from 2006 to 2007 due to the R184.3 million decrease in non-interest income explained in Note 3 above.

### 5. Investments

Between 2006 and 2007 investments increased by R129.9 million. Most of this growth can be attributed to fair value gains amounting to R98.9 million from the subsidiary, LBIC. The remaining growth is due mainly to an increase in assets held for the Post-Retirement Medical Aid Obligation, due to the good performance of the asset managers.

### 6. Investment Properties

The fair value of repossessed properties at the beginning of the 2007 financial year was R70.9 million. During the year three properties, with a fair value of R2.8 million, were repossessed. 32 properties valued at R15.5 million were sold. At year end 49 properties with a fair value of R59.2 million were on hand.

### 7. Equity

Between 2006 and 2007, the equity of the Group increased by R2.9 million. However, over the past four years the equity of the Group has been eroded mainly by the writing off of bad debts and the fair value restatement of the LB01 bond. For the financial year ended 2003, the equity of the Bank was R 2.5 billion. Group equity is now at R1.7 billion.



In the table below the capital adequacy (Reserves over weighted assets) of the Group is shown as a percentage.

<b>CAPITAL ADEQUACY</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Reserves Only	9.77%	10.01%	7.81%	13.56%	15.67%
Reserves and guarantee	18.41%	18.88%	15.63%	-	-

From 2005, the capital adequacy of the group was equal to or below 10%. Government therefore issued an undertaking to guarantee the obligations of the Land Bank in excess of assets to the extent of R1.5 billion. Furthermore, government announced that the Land Bank would receive a capital injection of R700 million by 31 October 2007. This will further strengthen the capital adequacy of the Group.

## 8 Cash Flow Statement

The net negative cash flow from operating activities is the result of the net increase in the Loan Book. The outflow from investing activities is the result of the investment in infrastructure as a result of the SAP Banking Project. The main contributor to the outflow in funding is the early redemption of the LB07 Bond of R574 million to manage the liquidity, as this bond had been fully redeemed on 15 August 2007.



## Overview of Performance

Corporate key performance targets were set as part of the overall business strategy for improvement on efficiency and profitability and are incorporated in the approved corporate plan for the year under review. These objectives were communicated throughout the organisation and key performance indicators were periodically measured.

The results of the set objectives are reflected below: Land Bank

Objectives	Key Performance Indicator	Target	Actual
1. Growth in value of loans:			
1.1 Retail Book	Value of commercial and development farmer loans over prior year	Growth of 7.6%	Decline of 18.0%
1.2 Wholesale Book	Value of corporate client loans over prior year	Growth of 10.8%	Growth of 20.1%
2. Business efficiency	Ratio of expense to income	Ratio below 93%	81%
3. Loan book quality	Value of non-performing loans as a percentage of total Loan Book	NPL's of less than 5.7%	15,3%
4. Net Interest Margin	Value of net interest as a percentage of average Loan Book	Net interest margin not less than 2.2%	2.75%
5. Return on Assets	Ratio of net profit/loss to total loan book	-0.1%	-0,6%
6. Return on equity	Ratio of net profit/loss to equity	-1.2%	-9,86%
7. Capital Adequacy	Capital ratio	Capital ratio not less than 8.8%	5,95%

## Going concern considerations

Significant impairment provisions and bad debt write-offs during the past five financial periods, as well as the classification adjustment of LB01 bonds held for trading through profit and loss in 2006, contributed to a material reduction in the capital levels of the Land Bank from R3 162 million on 31 December 2001 to R1 015 million on 31 March 2007. These conditions, along with others like low profitability, trends of poor recoveries and security realisation, and challenges in respect of securing appropriately skilled and experienced staff, indicate the existence of uncertainties which may cast doubt on the Land Bank's ability to continue as a going concern.

As indicated last year, the Land Bank has embarked on a process to strengthen its management and improve its management information and risk management systems. The Land Bank's credit processes are being improved. SAP information system's financial and human resources modules have been rolled out to improve the quality of the management information system and an enterprise wide risk management system has been implemented.



The Minister of Finance has confirmed that the Government of South Africa sees the Bank as strategically important for the achievement of its socio-economic objectives in. For this reason the Minister of Finance concurred with the undertaking by the Minister for Agriculture and Land Affairs that insofar as the liabilities of the Land Bank exceed its assets, Government would make good the obligations of the Land Bank up to the amount of R1 500 million and until December 2008, as and when they become due and payable. Government has further agreed to recapitalize the Bank with an amount of R700 million, which will be released by 31 October 2007. Government's intention to support the Bank is evidenced by the commitment of the National Treasury and the Department of Agriculture to actively work together to ensure that appropriately skilled and experienced individuals are appointed, and to exercise tighter shareholder oversight over the Land Bank.

The R1 015 million equity of the Land Bank at 31 March 2007, together with the undertaking by Government to support the Land Bank to the amount of R1 500 million, equals R2 515 million or 18.41% if expressed as a percentage of assets, as opposed to 9.77% if the letter of undertaking amount is excluded. Based on the above, the Directors of Land Bank believe that the Land Bank will continue as a going concern.

### Land for Development Loans

During the period under review, the Land Bank granted loans for land development to the value of R358,9 million (2006: Nil). At the date of approving the financial statements, the total approved facilities amounted to R939,6 million. The terms of the loans are primarily prime + 2 to 4%, with a repayment term varying between 18 and 24 months. Included in the terms is a 10% profit share for the Bank on sale of the land before the client proceeds to the next phase of the project. Details of the quantum of loans granted, impairments, commitments and guarantees and contingent liabilities are disclosed in Notes 6 and 26 of the financial statements.

Concern has been raised by the shareholder of the Land Bank, whether or not this product falls within the mandate of the Land Bank in terms of the Land Bank Act. This uncertainty has resulted in a moratorium being placed on the approval of any new land development loan.

The scope and overall conclusion of a forensic investigation relating to the land development loans are dealt with under the heading 'Events subsequent to the balance sheet date'.

### Step-up Loan Product

The Step-up product was discontinued during the period ended 31 March 2006 and the net outstanding book of R114,5 million was fully provided in 2006 (2007: R82,8 million). During the year under review, an amount of R32 million was recovered through continued collections activities.

### MAFISA Funds

The Land Bank was appointed as administrator in respect of the MAFISA funds transferred by the National Department of Agriculture. The MAFISA pilot product is a 12-month production loan, or 24-month loan in the case of certain perennial crops, limited to a maximum of R100 000 per individual. A pilot phase of this project was administered by the Bank during the period under review. Internal investigations were launched into the MAFISA pilot project after process deficiencies and fraudulent transactions had been detected. A moratorium has been placed on the granting of any new MAFISA loans until such time as the control environment has been sufficiently strengthened.

### SCOPA resolutions in respect of the 2004 annual report

Since the thirty-second report of the Standing Committee on Public Accounts (SCOPA) of 14 September 2005,



wherein several recommendations were made, the Land Bank has made good progress in a number of areas. Among these are:

- The development, documentation and implementation of policies and procedures to address the requirements of International Financial Reporting Standards;
- Provision of time lines for the implementation of the new computer system to the committee and progress thereof has been complied with in accordance with the committee's recommendations;
- The audit function of the Bank continues to be strengthened through skills transfer and appointment of individuals with requisite skills in critical areas, with the main purpose being the reduction of reliance on external service providers. However, these initiatives continue to be affected by retention challenges that the Land Bank is currently facing; and
- The Audit Committee continues to play an active role in terms of its mandate to facilitate corrective actions in critical areas of concern as per findings of the internal and external auditors.

The areas where the Bank continues to face challenges include:

- Addressing deficiencies in the existing banking module, such as the ability to handle the number of logs that are generated. These deficiencies will be addressed through the implementation of the SAP banking module to go live in the next reporting period.
- Policies and procedures for writing off debts are at the development stage and will soon be presented to the Board of Directors for approval.

### Events subsequent to the balance sheet date

Independent forensic auditors were appointed after year end to conduct a forensic audit into the Land Bank's financial management. The appointment stems from a cabinet decision to assess the financial management of the Land Bank. A summary of the findings of the forensic report was presented to the Board on 4 September 2007. The key findings from the forensic investigation on land for development loans to which the external auditors also refer to in their report, are the following:

- The Land Bank Act does not make provision for the Land Bank to embark on the financing of land outside the agricultural sphere
- Material weaknesses and irregularities were detected in the origination, management and administration of the land for development loans.

In terms of the conclusion and recommendations made by the forensic auditors, the Board will assess all issues that have been identified and take necessary corrective actions. However, management is in the process of reviewing each loan or commitment individually in order to make a determination of the appropriate immediate action required.

### Total impairments (Retail, CFU and LDU)

Part of the output of the forensic investigation was input into the recapitalization amount required by the Bank. Forensic auditors were required to perform a high-level impairment assessment of the Bank's total loan portfolio from a business perspective (future expected losses) as apposed to an accounting perspective (incurred losses). The conclusion reached by the forensic auditors regarding the level of the impairment, using a forward-looking view and taking into account the challenges the Bank has been facing in terms of an inadequate security management system, data and system deficiencies, a historically weak credit-control environment and the volatility of security realization, is that the level of impairments is a significant concern. Details of critical accounting judgement and key sources of estimations are included in Note 2.27 to the financial statements.





# Review of Operations

## Retail Business Activities

### Loan book movement

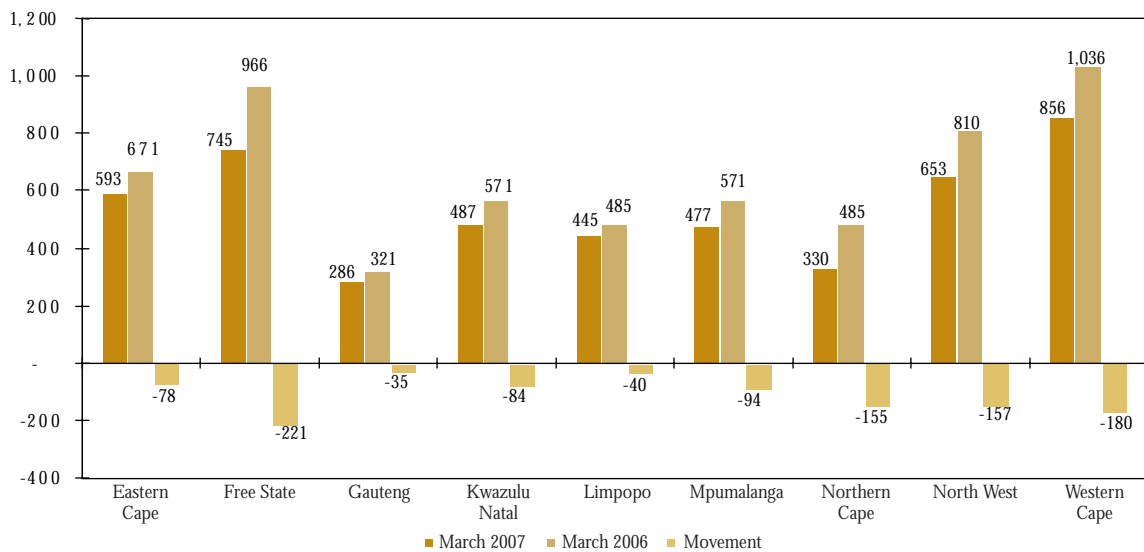
During the twelve months reporting period ended 31 March 2007, the Retail Loan Book declined with an effective 18% from R5.9 billion at 1 April 2006 to R4.9 billion by 31 March 2007. Most of the decline is experienced in the long-term portfolio of our product mix. This decrease was after new business written for the year totalled R685, 4 million.

Term	2007 R'000	2006 R'000	% Change
Long Term (>5 years)	3,772,609	4,417,436	-14.60%
Medium Term (1 – 5 years)	761,062	856,765	-11.17%
Short Term (1 year)	338,341	643,553	-47.43%
<b>Grand Total</b>	<b>4,872,012</b>	<b>5,917,754</b>	<b>-17.67%</b>

The decrease in the total retail loan book can be ascribed to the migration of clients to commercial banks where a wider range of products and facilities are at their disposal.

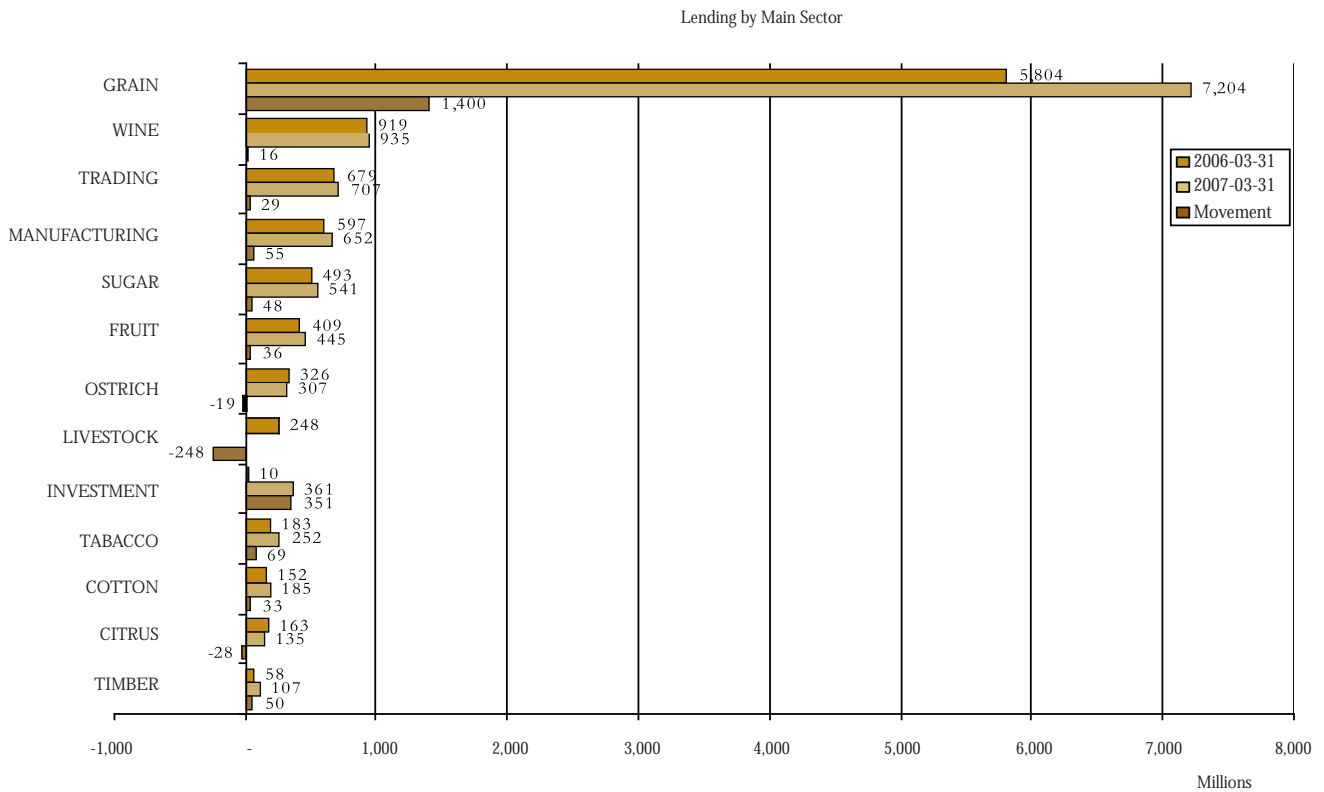


### Lending by Province



The Free State, Western Cape, North West and the Northern Cape show the highest decline in the Retail loan book. While the decline is common in all the provinces, in the North West and Free State it can be ascribed in part to the drought, which affected the maize industry. The decline in the Western Cape was caused mainly by product over-supply, which resulted in a downward trend in wine prices and dampened activities in the sector.

## CFU Lending Per Industry



## Business Re-engineering

As part of the Bank's effort to bring the business closer to our farming clientele, Retail embarked on an exercise of identifying strategic locations which would provide us with an enlarged footprint beyond our branches. Once implemented, these initiatives will take a variety of forms including virtual office arrangement and utilisation of the premises of strategic partners.

A further business systems review has been done to evaluate the effect of centralising some of the back-office functions instead of each branch having its own support structure. The process of centralisation continues.

## People

Attempts have been made to improve performance management processes, particularly by reviewing our key performance outputs to support key organisational objectives. Linked to this was the exercise of identifying key talent for retention, and isolating poor performance with a view to embarking on a performance improvement programme, starting with Sales.

We have sought to strengthen our relations with the farming sector (both commercial and emerging, organised farmers) through participation in their local, provincial and national farmer association events and congresses. These interactions offered opportunities to network and to introduce the Bank's promotional activities in order to support sales generation in our business.



## Corporate Finance Unit (CFU)

The total CFU lending book as at 31 March 2007 amounted to R12.6 billion compared to R10.5 billion as at 31 March 2006, whereas the average loan book for the year under review of R11.4 billion is 5.6% or R600 million higher than the average loan book for the 2005/06 financial year, which was R10.8 billion.

Loan Type	2007 R' 000	2006 R' 000	% Change
Long Term	1,860,087	1,410,770	31.85%
Medium Term	1,238,562	1,258,908	-1.62%
Short Term	9,581,915	7,885,196	21.52%
<b>Grand Total</b>	<b>12,680,564</b>	<b>10,554,874</b>	<b>20.14%</b>

The largest concentration of lending currently lies with the grain industry (57%). The remaining 43% is spread amongst diversified industries, mitigating concentration risk. The largest single concentration of debt outside of the grain sector is in the wine industry (7%).

The grain sector exposure increased by 24% from R5.8 billion in 2006 to R7.2 billion in 2007, brought on by an increase of 56% in maize plantings due to higher commodity prices and an increase in farmer production costs. The severe drought in certain maize-production areas resulted in the expected yield decreasing to 2.73 ton per hectare for the current 2007/2008 season, compared to 4.14 tons in the previous season. The North West Province appears to be the hardest hit by the low yields as a result of the dry conditions experienced.





# Report of the Auditor-General to Parliament on the Group Financial Statements and Performance Information of the Land and Agricultural Development Bank of South Africa for the Year Ended 31 March 2007 Report on the Financial Statements

## Introduction

1. I have audited the accompanying group financial statements of Land Bank which comprise the consolidated and separate balance sheet as at 31 March 2007, consolidated and separate income statement, consolidated and separate statement of changes in equity and consolidated and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 26 to 48 and 54 to 118.

## Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Land and Agricultural Development Bank Act No. 15 of 2002 (Land Bank Act). This responsibility includes:

- designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

## Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 35(2) of the Land Bank Act, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 645 of 2007, issued in Government Gazette No. 29929 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements



are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. Except as discussed in paragraph 9, I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis of accounting**

8. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury and was prepared in terms of International Financial Reporting Standards as set out in accounting policy notes to the financial statements.

### **Basis for qualified opinion**

#### **Limitation of scope**

#### **Uncertainty – Land Development Loans**

9. As disclosed in note 26.4 – Contingent liabilities to the financial statements and in the "Events subsequent to balance sheet date" paragraph in the Directors' report, circumstances exist which indicate that land for development loans may have been entered into outside the mandate of the Land Bank in terms of the Land Bank Act. Owing to the nature of the uncertainties, sufficient, acceptable evidence is not available that enable me to conclude on the validity of the contracts entered into, the reliability of the measurement of the expected future cash flows and consequently the valuation of

land for development loans valued at R302,4 million (2006: Rnil), net of impairments of R56,5 million (2006: Rnil) and the effect of a possible onerous contract liability for approved facilities not yet disbursed.

## Opinion

10. In my opinion, except for the effect of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Land Bank and the group as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and in the manner required by the PFMA.

## Other Matters

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

### Internal control – control activities

11. In terms of Section 51(1)(a)(i) and 51(1)(b)(i) of the PFMA it is the responsibility of the accounting authority to ensure that an effective system of financial and risk management and internal control is implemented and maintained. Credit policies and procedures to efficiently and effectively manage the origination, monitoring and control of Land Development Unit (LDU) loans were not approved and implemented (not operational) which resulted in significant deficiencies identified during the audit of LDU loans.

### Internal control – information and communication

12. As previously reported, there are still deficiencies in the banking loan module, as well as certain inadequacies in either logical or manual mitigating controls, which remain unresolved. As a result of the loan module shortcomings, certain accounting work is being performed outside the loan system in order to comply with the requirements

of the standards, specifically IAS18: Revenue and Recognition and IAS39: Financial instruments – Recognition and Measurement. My audit procedures were planned and performed to obtain reasonable assurance that the work being conducted outside the loan module, are free of material misstatement.

### Forensic investigation completed

13. As disclosed in the Directors report in the “Events subsequent to balance sheet date” paragraph, a forensic investigation was conducted subsequent to year end and concluded before the approval of the financial statements. The investigation amongst others dealt with transactions that occurred outside the mandate of the Land Bank, approval of these transactions and possible irregularities arising thereto.

### Uncertainty - material non-compliance with applicable legislation

14. The core mandate of the Land Bank as contained in the Land Bank Act is to focus on agricultural development. To support its core business, the Land Bank entered into non-agricultural land development transactions which fall outside of the core mandate of the bank as contained in the Land Bank Act. I have not obtained conclusive evidence that appropriate approval was obtained by the Bank to enter into non-agricultural activities. On the 22nd of February 2007, a moratorium was placed on the approval of any new Land Development Loans.

### Late finalization of the audit report

15. Section 55(1)(c) of the PFMA, 1999 (Act No. 1 of 1999) as amended by Act No. 29 of 1999 requires the financial statements to be submitted to the Auditor-General within two months after the financial year-end, that is by 31 May 2007. The financial statements approved by the accounting authority and submitted for audit purposes on 31 May 2007 were adjusted for impairments of certain financial assets to the value of



R75 million as well as presentation and disclosure adjustments relating to a forensic investigation concluded after the 31st of May 2007.

The revised financial statements were received subsequent to 31 May 2007. The submission of the revised financial statements is regarded as the submission date of the financial statements.

## Other Reporting Responsibilities

### Reporting on performance information

16. I have audited the performance information as set out on page 43 in the annual statements.

### Responsibilities of the accounting authority

17. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

### Responsibilities of the Auditor-General

18. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 645 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.

19. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
20. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

## Audit findings

21. No audit findings.

## Appreciation

22. The assistance rendered by the staff of the Land Bank during the audit is sincerely appreciated.

*S Cele*

IS Cele for Auditor-General

Pretoria

28 September 2007



A U D I T O R - G E N E R A L





# Annual Financial Statements

*for the year ended 31 March 2007*

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## Directors' Responsibility for the Annual Financial Statements

The directors are responsible for monitoring the preparation of and the integrity of the financial statements and related information included in this annual report.

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

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Group's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system operating with strict deadlines and an appropriate control framework.

As part of the system of internal control, the Group internal audit function conducts operational, financial and specific audits. The external auditors are responsible for reporting on the financial statements.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have been prepared under the historical-cost convention, as modified by the revaluation of certain financial instruments and properties.

The directors believe that the Group will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the Group annual financial statements.

The annual financial statements for the year ended 31 March 2007 set out on pages 56 to 118 are submitted to the Board for approval in terms of section 55(1) c of the Public Finance Management Act, 1 of 1999.

**Dr P Mohlahlane**  
**Acting Chief Executive Officer**  
**28 September 2007**

**LG Mazwai**  
**Chairperson**  
**28 September 2007**

**Balance sheets**

As at 31 March 2007

		Land Bank Group		Land Bank	
	Note	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Assets</b>					
Cash at bank	3.1	<b>1,118,260</b>	3,249,884	<b>1,118,244</b>	3,249,868
Trade and other receivables	4	<b>29,841</b>	49,916	<b>17,300</b>	33,716
Repurchase agreements	5	<b>187,172</b>	249,006	<b>187,172</b>	249,006
Derivative assets	13.1	<b>170,423</b>	223,996	<b>170,423</b>	223,996
Market making assets	12	<b>66,726</b>	-	<b>66,726</b>	-
Loans	6.1	<b>15,598,898</b>	14,951,852	<b>15,598,898</b>	14,951,852
Intangible asset	7	<b>49,742</b>	13,071	<b>49,742</b>	13,071
Investments	8	<b>860,957</b>	731,055	<b>195,537</b>	160,620
Investment properties	9	<b>74,222</b>	82,614	<b>74,222</b>	82,614
Property and equipment	10	<b>147,312</b>	135,235	<b>147,312</b>	135,235
<b>Total assets</b>		<b>18,303,553</b>	19,686,629	<b>17,625,576</b>	19,099,978
<b>Equity and liabilities</b>					
<b>Equity</b>		<b>1,696,717</b>	1,693,786	<b>1,014,522</b>	1,101,031
Retained earnings	11.1	<b>1,614,664</b>	1,624,771	<b>932,469</b>	1,032,016
Revaluation reserve	11.2	<b>82,053</b>	69,015	<b>82,053</b>	69,015
<b>Liabilities</b>		<b>16,606,836</b>	17,992,843	<b>16,611,054</b>	17,998,947
Bank overdraft	3.2	<b>449</b>	208,533	<b>449</b>	208,533
Market making liabilities	12	-	91,387	-	91,387
Trade and other payables	14	<b>162,027</b>	166,747	<b>208,492</b>	204,421
Repurchase agreements	5	<b>50,853</b>	-	<b>50,853</b>	-
Derivative liabilities	13.2	<b>13,158</b>	30,953	<b>13,158</b>	30,953
Policyholder liability	15.1.1	<b>42,167</b>	31,520	-	-
Funding	16	<b>16,131,138</b>	17,258,482	<b>16,131,138</b>	17,258,482
Provisions	17	<b>24,497</b>	24,000	<b>24,417</b>	23,950
Post retirement obligations	18.1	<b>182,547</b>	181,221	<b>182,547</b>	181,221
<b>Total equity and liabilities</b>		<b>18,303,553</b>	19,686,629	<b>17,625,576</b>	19,099,978



**Income statements**

for the year ended 31 March 2007

	Note	Land Bank Group		Land Bank	
		2007 R'000	2006 R'000	2007 R'000	2006 R'000
Interest income	19	<b>1,743,810</b>	1,641,795	<b>1,743,810</b>	1,641,795
Interest expense	20	<b>(1,275,321)</b>	(1,222,118)	<b>(1,278,758)</b>	(1,224,758)
Net interest income		<b>468,489</b>	419,677	<b>465,052</b>	417,037
Impairment of loans	6.3	<b>(369,529)</b>	(319,844)	<b>(369,529)</b>	(319,844)
<b>Income from lending activities</b>		<b>98,960</b>	99,833	<b>95,523</b>	97,193
Net insurance income		<b>8,959</b>	15,652	-	-
Insurance premium received	21	<b>22,153</b>	27,420	-	-
Insurance premium ceded under reinsurance contracts		<b>(7,636)</b>	(5,051)	-	-
Insurance claims recovered from re-insurers		<b>(11,167)</b>	(11,372)	-	-
		<b>5,609</b>	4,655	-	-
Policyholders' liability fair value adjustment	15.1.2	<b>(13,277)</b>	50,172	-	-
<b>Income from lending and insurance activities</b>		<b>94,642</b>	165,657	<b>95,523</b>	97,193
Non-interest income	22	<b>103,906</b>	288,227	<b>104,686</b>	288,784
Operating expenses	23	<b>(469,972)</b>	(444,600)	<b>(462,091)</b>	(439,479)
Fair value gains	24	<b>258,076</b>	145,613	<b>159,094</b>	17,444
Properties in possession fair value adjustment		<b>6,106</b>	(19,531)	<b>6,106</b>	(19,531)
Impairment of investment	8.2.4	<b>(3,000)</b>	-	<b>(3,000)</b>	-
Profit/(Loss) on sale of properties in possession		<b>135</b>	(69,804)	<b>135</b>	(69,804)
<b>Net Profit / (Loss)</b>		<b>(10,107)</b>	65,562	<b>(99,547)</b>	(125,393)



## Statements of changes in equity

for the year ended 31 March 2007

	Silver & Bronze	Development Fund	Capital Fund	General Reserve	Insurance Reserve	Interest Equalisation Fund	Revaluation Reserve	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>1. LAND BANK GROUP</b>								
At 31 March 2005 as previously reported	332,973	188,548	-	20,429	794,143	100,000	60,519	1,496,612
Prior year adjustment – policyholders' liability	-	-	-	-	(77,839)	-	-	(77,839)
Prior year adjustment – 'Transfer to general reserve	-	-	-	314,504	(314,504)	-	-	-
<b>Balance at 31 March 2005 - restated</b>	<b>332,973</b>	<b>188,548</b>	<b>-</b>	<b>334,933</b>	<b>401,800</b>	<b>100,000</b>	<b>60,519</b>	<b>1,418,773</b>
At 1 April 2005 - restated	332,973	188,548	-	334,933	401,800	100,000	60,519	1,418,773
Profit/(Loss) for the year	-	-	-	(125,393)	190,955	-	-	65,562
Reclassification of Capital Fund	-	-	200,955	-	-	-	-	200,955
Surplus on revaluation of Land and Buildings	-	-	-	-	-	-	8,496	8,496
'Transfer from general reserve	(22,828)	(53,264)	-	76,092	-	-	-	-
<b>Balance at 31 March 2006 - restated</b>	<b>310,145</b>	<b>135,284</b>	<b>200,955</b>	<b>285,632</b>	<b>592,755</b>	<b>100,000</b>	<b>69,015</b>	<b>1,693,786</b>
Balance at 1 April 2006	310,145	135,284	200,955	285,632	592,755	100,000	69,015	1,693,786
Surplus on revaluation of Land and Buildings	-	-	-	-	-	-	13,038	13,038
Current year profit/(loss)	-	-	-	(99,547)	89,440	-	-	(10,107)
'Transfer from general reserve	(2,807)	(6,550)	-	9,357	-	-	-	-
<b>Balance at 31 March 2007</b>	<b>307,338</b>	<b>128,734</b>	<b>200,955</b>	<b>195,442</b>	<b>682,195</b>	<b>100,000</b>	<b>82,053</b>	<b>1,696,717</b>

**Statements of changes in equity**  
for the year ended 31 March 2007 (continued)

	Silver & Bronze R'000	Develop-ment Fund R'000	Capital Fund R'000	General Reserve R'000	Interest Equalisation Fund R'000	Revaluation Reserve R'000	Total R'000
<b>2. LAND BANK</b>							
At 31 March 2005 as previously reported	332,973	188,548	-	330,405	100,000	60,519	1,012,445
Correction of prior year consolidation error	-	-	-	4,528	-	-	4,528
Balance at 31 March 2005 - restated	<b>332,973</b>	<b>188,548</b>	-	<b>334,933</b>	<b>100,000</b>	<b>60,519</b>	<b>1,016,973</b>
Balance at 1 April 2005 - restated	332,973	188,548	-	334,933	100,000	60,519	1,016,973
Reclassification of Capital Fund	-	-	200,955	-	-	-	200,955
Surplus on revaluation of Land and Buildings	-	-	-	-	-	8,496	8,496
Current year loss	-	-	-	(125,393)	-	-	(125,393)
Transfer from general reserve	(22,828)	(53,264)	-	76,092	-	-	-
Balance at 31 March 2006 - restated	<b>310,145</b>	<b>135,284</b>	<b>200,955</b>	<b>285,632</b>	<b>100,000</b>	<b>69,015</b>	<b>1,101,031</b>
Balance at 1 April 2006 - restated	310,145	135,284	200,955	285,632	100,000	69,015	1,101,031
Surplus on revaluation of Land and Buildings	-	-	-	-	-	13,038	13,038
Current year loss	-	-	-	(99,547)	-	-	(99,547)
Transfer from general reserve	(2,807)	(6,550)	-	9,357	-	-	-
Balance at 31 March 2007	<b>307,338</b>	<b>128,734</b>	<b>200,955</b>	<b>195,442</b>	<b>100,000</b>	<b>82,053</b>	<b>1,014,522</b>



**Cash flow statements**

for the year ended 31 March 2007

	Note	Land Bank Group		Land Bank	
		2007	2006	2007	2006
		R'000	R'000	R'000	R'000
<b>Cash flow from operating activities</b>					
Net interest receipts		442,564	420,830	439,127	420,830
Net premium receipts		8,959	15,652	-	-
Non interest income		104,212	287,947	104,992	288,454
Cash paid to employees and suppliers		(715,316)	(473,777)	(698,155)	(609,381)
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		<b>(159,581)</b>	250,652	<b>(154,036)</b>	99,903
Decrease/(increase) in loans		(621,121)	2,148,906	(621,121)	2,148,906
Additions to investment properties		(2,845)	(55,077)	(2,845)	(55,077)
Movement in operating assets and liabilities	25.2	18,177	175,271	12,632	481,021
<b>Net cash flow from operating activities</b>		<b>(765,370)</b>	2,519,752	<b>(765,370)</b>	2,674,753
<b>Net cash flow from investing activities</b>					
Proceeds on disposal of property and equipment		269	4,609	269	4,609
Proceeds on disposal of investment property		17,478	34,258	17,478	34,258
Purchase of property and equipment		(10,366)	(12,669)	(10,366)	(12,669)
Purchase of intangible asset		(38,207)	(13,952)	(38,207)	(13,952)
Proceeds on sale of investments		-	155,000	-	-
<b>Net cash flow from financing activities</b>		<b>(1,127,344)</b>	(1,304,957)	<b>(1,127,344)</b>	(1,304,957)
Decrease in funding		(1,127,344)	(1,304,957)	(1,127,344)	(1,304,957)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,923,540)</b>	1,382,041	<b>(1,923,540)</b>	1,382,042
Cash and cash equivalents at 1 April		3,041,351	1,659,310	3,041,335	1,659,293
Cash and cash equivalents at 31 March	25.1	1,117,811	3,041,351	1,117,795	3,041,335



## 1. GENERAL INFORMATION

The Land and Agricultural Development Bank of South Africa (“Land Bank” or “the Land Bank”) operates as a development finance institution within the agricultural and agri-business sectors. Its activities are regulated by the Land and Agricultural Development Bank Act, 15 of 2002, (Land Bank Act) and the Public Finance Management Act, 1 of 1999 as amended (PFMA). Land Bank provides a range of finance options to a broad spectrum of clients within the agricultural sector. Financing products cater for wholesale as well as retail financing for commercial and developing farmers, co-operatives and other agriculture-related businesses. These financial statements are presented in South African Rand because that is the currency of the primary economic environment in which the Land Bank operates. The financial statements were authorised for issue by the directors on 28 September 2007.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of presentation of financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements have been prepared under the historical-cost convention, except where specifically indicated otherwise in the accounting policies.

### 2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Land Bank and any entities controlled by the Land Bank (its subsidiary) up to 31 March each year. Control is achieved where the Land Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The accounting policies of the subsidiary, Land Bank Insurance Company (LBIC) are consistent with those of the holding company. The financial position and performance of LBIC up to 31 March 2007 has been included in the consolidated financial statements. Inter-company balances and transactions between and within the group of entities are eliminated in full on consolidation.

### 2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.



## 2.4 Interest income and expense

Interest income and expense is recognised in the income statement for all relevant instruments using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Land Bank estimates cash flows considering all contractual terms of the financial instrument.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## 2.5 Other revenue

### Commission received

Commission income is recognised on an accrual basis over the life of the underlying contracts.

### Dividends received

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

### Penalty fee income

Penalty fee income is recognised when the event of default occurs and it is probable that economic benefits associated with the event will flow to the Land Bank.

### Rental income

Rental income arising from investment properties is accounted for on a straight line basis over the lease term and is recorded in the income statement under non- interest income.

## 2.6 Fruitless, wasteful and irregular expenditure

Items of expenditure that meet the requirements of the PFMA for fruitless and wasteful as well as irregular expenditure are separately disclosed in the notes to the financial statements.

“Fruitless and wasteful expenditure” means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

“Irregular expenditure” means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.



## 2.7 Leases

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

### The Land Bank as Lessee

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

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

### The Land Bank as Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

## 2.8 Government Grants

Government Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants towards expense items are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Government grants relating to assets are treated as deferred income and released to profit and loss over the expected useful lives of the assets concerned.

## 2.9 Retirement benefits

### 2.9.1 Short-term employee benefits

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

### 2.9.2 Post Retirement Benefits

A defined benefit plan is a plan that defines a benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a plan under which fixed contributions are paid into a separate entity. If the fund does not hold



sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods, there is no legal or constructive obligation on the employer to pay further contributions.

#### Retirement fund

The Land Bank Retirement Fund which functions as a defined contribution plan, and which is subject to the provisions of the Pension Fund Act, 1956 (Act No. 24 of 1956) came into operation on 1 November 1994. The Fund still provides certain benefits such as disability and death-in-service which constitute defined benefits that are in the process of being phased out. As a result of the defined benefits aspects of the Fund, the Land Bank is still at risk for shortfalls in the Fund. Consequently the Fund is accounted for as a defined benefit plan until these benefits are phased out at which time it will be accounted for as a defined contribution plan.

Membership of the fund is compulsory for all permanent staff members. Statutory actuarial valuations of the fund's commitments are conducted every year. The last statutory valuation was performed at 31 December 2006. The valuation method used is the Projected Unit Credit Method. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement in full.

#### Medical aid fund

The Land Bank provides a post-retirement medical aid benefit to all employees who were either employees or pensioners of the bank at 01 December 2005. The fund functions primarily as a defined benefit scheme. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age. It is the Land Bank's policy to pay the medical fund subscription fees on behalf of all pensioners in full and to fund the total obligation as and when it arises.

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

## 2.10 Taxation

The Land Bank and its subsidiary, LBIC, are exempt from Income Tax in terms of sections 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962.

## 2.11 Property and equipment

Land and buildings held for administrative purposes are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken at least once every year by independent sworn appraisers, less any subsequent



accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to equity. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits.

Other items of property and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

#### Property and equipment

Land	Not depreciated
Buildings	2% per annum
Furniture and fittings	20% per annum
Computer equipment	33% per annum
Motor vehicles	20% per annum

Residual values, depreciation methods and useful lives are reviewed annually. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

## 2.12 Investment Property

Investment property (properties not utilised for Group operations), which is held to earn rental income or capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in net profit or loss for the period in which they arise. Fair value is determined using market-based valuations performed by independent sworn appraisers at the balance sheet date.

## 2.13 Properties in possession

Unsold properties in possession are recognised once ownership has been legally transferred to the Land Bank. These properties are included under investment property and are valued at fair value as determined using a market-based valuation performed by a sworn appraiser at the balance sheet date. Maintenance costs are expensed in the period incurred. Realisable value is determined using market-based valuations performed by a sworn appraiser at the balance sheet date.



## 2.14 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

Developed capitalised computer software was determined to have a finite life of 5 years at acquisition. The software is amortised using the straight line method over a period of 5 years, from the date the software is ready to be used.

## 2.15 Financial Instruments

Financial assets and financial liabilities are recognised on the Land Bank's balance sheet when the Land Bank becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at the fair value of the consideration given or received, and subsequently measured according to requirements of the category into which they are classified.

### Financial Assets

The Land Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; available-for-sale and loans and receivables. Management determines the classification of its investments at initial recognition.

- i) Financial assets at fair value through profit or loss  
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. The Land Bank has classified derivative as held for trading and investments as designated at fair value through profit or loss. Financial assets through profit or loss are initially recognised at fair value excluding transaction costs and are subsequently measured the same way. Gains or losses arising from changes in the fair value of derivatives are recognised directly in profit or loss.



## ii) Loans and receivables

The Land Bank has classified loans, trade receivables and cash at bank as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Land Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognised at fair value plus the transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Where applicable, the Land Bank has adopted trade date accounting for 'regular way' purchases or sale of financial assets. The trade date is the date that an enterprise commits to buy or sell an asset. A 'regular way' contract is a contract for the purchase or sale of financial assets that requires delivery of the assets within the time frame generally established by regulation or convention in the market place concerned.

Financial assets, or a portion of financial assets, are de-recognised when the enterprise loses control of the contractual rights or has transferred substantially all risks and rewards of ownership that comprise the financial asset. The enterprise loses such control if it realises the rights to benefits specified in the contract, the rights expire, or if the enterprise surrenders those rights.

The nature of financial assets is such that the maximum potential loss does not differ significantly from their carrying amount.

### Financial liabilities

The Land Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Management determines the classification of its financial liabilities at initial recognition.

## i) Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. The Land Bank has classified derivatives and funding for which it acts as a market maker as held for trading. Where derivatives are traded to hedge interest rate risk, the related funding has been designated at fair value through profit or loss. Financial liabilities through profit or loss are initially recognised at fair value excluding transaction costs and are subsequently measured at fair value. Gains or losses arising from changes in the fair value of derivatives and designated funding are recognised directly in profit or loss. Interest on these financial instruments is determined using the particular instrument's coupon rates.

## ii) Financial liabilities at amortised cost

The Land Bank classifies all financial liabilities that are not derivatives or designated at fair value through profit or loss at amortised cost. The amounts include medium and short term funding that consist mainly of promissory notes, Land Bank bills, zero coupon structured notes and call bonds as well as trade payable and bank overdrafts. Financial liabilities at amortised cost are initially recognised at fair value including transaction costs, and subsequently measured at amortised cost using the effective interest rate method. The carrying amount of funding liabilities where there is no stated maturity is the amount repayable on demand.

Market making instruments include debentures and other capital market stock issued by the Land Bank



both purchased and sold in order to stimulate an active market in these instruments. Those liabilities repurchased are derecognised on each repurchase. Fair value is determined directly by reference to published price quotation in an active market.

Financial liabilities are derecognised when they are extinguished, that is when the obligation specified in the contract is discharged, cancelled, or expires.

#### Fair value

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The Land Bank may from time to time trade in financial instruments that are not traded in an active market (for example, in over-the-counter derivatives). The fair value of such instruments is determined by using valuation techniques. The Land Bank uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis or pricing models.

#### Impairment of financial assets

##### i) Assets carried at amortised cost

The Land Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired and makes provision for such impairment. The Land Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Land Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Land Bank.

If the Land Bank determines that there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly against the account and the amount of the loss is recognised in the income statement.



ii) **Financial assets available for sale**

The Land Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is reclassified from equity to profit or loss in the income statement. If, in a subsequent period, the fair value of an investment classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

**Day 1 profit**

Where the transaction price in a non active market is different from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value in the income statement under fair value gains and losses.

**Financial guarantees**

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

## **2.16 Derivatives**

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

## **2.17 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.



## 2.18 Sale and repurchase agreements

Financial instruments sold under agreement to repurchase are retained, but reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability is included in financial liabilities as appropriate. Financial instruments purchased under agreements to resell ('reverse repos') are recorded as financial assets as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

## 2.19 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, bank overdrafts and deposits held on call with banks.

## 2.20 Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Exchange differences arising on the settlement of monetary items or translating monetary items at rates different from those at which they were translated on initial recognition during the period or in the previous financial statements are recorded in profit and loss in the period in which they arise.

## 2.21 Provisions

Provisions are recognised when the Land Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

## 2.22 Insurance contracts

LBIC provides long-term life insurance contracts with fixed terms to cover natural persons who are indebted to the Land Bank under mortgage loans. Premiums are recognised as revenue when they become payable by the contract holder. Claims are recorded as an expense when they are incurred.

Past claims are used as the basis for determining the extent of claims incurred but not reported and these are provided for as a liability and reported gross of any reinsurance asset. At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

Reinsurance assets are recognised initially at fair value. Subsequent to initial recognition these assets are measured at amortised cost using the effective interest rate method. At each financial year end an assessment for impairment is made. If a reinsurance asset is impaired its carrying amount is reduced and an impairment loss is recognised in profit and loss.

Reinsurance assets are impaired when there is objective evidence, as a result of an event that occurred after the initial recognition of the reinsurance asset, that the amounts due under the terms of the contract may not be received and the event has a reliably measurable impact on the amounts that will be received from



the reinsurer. Unearned premiums is insurance premiums received in advance and is deferred as part of trade and other payables. It is recognised as premium revenue in the period to which it relates.

## 2.23 Segment information

The principal segments of the Land Bank Group have been identified on primary business lines, (namely retail banking, corporate financing, land for development, micro financing and LBIC) and on secondary basis on significant geographical basis namely the nine provinces of South Africa. These bases are representative of the internal structure for management purposes. The source and nature of business risks and returns are segmented on the same basis.

## 2.24 Change of presentation

The insurance fund, which represents the contribution of LBIC to Group equity, has been restated. It now excludes all inter company dividends and gains. Although this change will have no impact on the overall previously reported equity of the Group, management feel that this restatement will achieve better presentation of the financial statements.

The effect of this change in the 2006 financial statements is summarized below. There is no effect on 2007.

Statement of changes in equity	2006	2005
Insurance fund as previously reported	983,015	794,143
Transfer to general reserve	(312,421)	(314,504)
Prior year error (Note 2.25)	(77,839)	(77,839)
	<u>592,755</u>	<u>401,800</u>
General reserve as previously reported	(26,789)	20,429
Transfer to general reserve	312,421	314,504
	<u>285,632</u>	<u>334,933</u>

## 2.25 Prior year error

In prior years certain policyholder liabilities were incorrectly reported within equity under non distributable reserves. The financial statements of 2006 have been restated to correct this error. The effect of the restatement on the financial statements is summarized below. There is no effect on 2007.

Balance Sheet	2006	2005
Insurance fund as previously reported	983,015	794,143
Transfer to general reserve (Note 2.24)	(312,421)	(314,504)
Prior year error	(77,839)	(77,839)
	<u>592,755</u>	<u>401,800</u>
Policyholders liability as previously reported	3,853	5,285
Prior year error charged to statement of changes in equity	77,839	77,839
Prior year error charged to income statement	(50,172)	-
	<u>31,520</u>	<u>83,124</u>



## 2.26 Change in estimate

In the prior financial year, fees that are an integral part of the effective interest rate of a financial instrument were recognized using the average original effective interest rate over the total loans for each type of fee as opposed to individual loan rates. In the current financial year a model was developed that has enabled the Land Bank to include the fees as part of the original effective interest rate on a loan by loan basis.

This change has resulted in an amount of R15,7 million relating to prior period being recognised in the current year. The carrying amount of the deferred fees at year end is R26,9 million (2006: R52,9 million).

## 2.27 Critical accounting judgments and key sources of estimation

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

### i) Impairment losses on loans and advances

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

During the current year, the Bank was informed by the Land Claims Commissioner that security on a loan granted in 2004 is subject to a land claim. This land claim was gazetted after the year end. An additional R198 million was provided on this loan in the current year.

During the period ended 31 March 2006, a decision was taken to discontinue the step up loan product. Due to the product's historical loss experience and the fact that no further advances will be made, management has made an assumption that recoveries from this product will be minimal. The exposure was fully impaired at 31 March 2007 and 31 March 2006.

#### (a) Land Development Unit (LDU) loan impairments

The Bank paid out LDU loans of R359 million during the year under review in terms



of approved facilities of R940 million at 31 March 2007. The terms of the loans are generally prime + 4%, together with a 10% profit participation, and repayment terms from 18 to 24 months.

The Minister for Agriculture and Land Affairs has initiated a forensic investigation into the activities of the Land Bank. Concern had been raised by the shareholder of the Land Bank, whether or not the LDU loan product falls within the mandate of the Land Bank in terms of the Land Bank Act. Further more, the findings of the external auditors and the forensic investigation indicated deficiencies in the product development, approval and loan granting procedures which gave rise to a number of uncertainties that had to be considered in the loan impairment calculation.

The Bank contracted an independent Quantity Surveyor, Abakali Quantity Surveyors, to assist in the independent assessment of individual projects, as well as obtained updated independent valuations assessments in order to gather information to formulate and substantiate the impairment assumptions (realizable values, probability of default, loss given default and repayment terms). The results of the independent assessments have been used, where appropriate, to determine the level of impairment required for LDU loans. However, due to the nature and origination process and deficiencies in the LDU loan portfolio, the level of the LDU impairment remains highly judgmental and subjective.

(b) Provision for onerous contracts

As a result of the concerns raised whether or not the LDU loans are within the mandate of the Bank, a moratorium was placed on approval of any new LDU loans.

The Bank performed an independent legal assessment to ascertain whether or not provision is required for onerous contracts arising out of the LDU loans in terms of IAS37 – Provisions, Contingent Liabilities and Contingent Assets for the undisbursed loan commitments. On the basis of the legal assessment, the Bank concluded that a provision for onerous contracts is not required. However, due to the nature and origination process, as well as deficiencies in the LDU loan portfolio, the potential for an onerous contract in loans not yet disbursed remains highly judgemental and subjective.

(c) Retail impairment model

Historical system data shortcomings prohibit the Land Bank from applying the original effective interest rate to discount cash flows in the retail impairment model. As an alternative measure, the Bank has applied the Weighted Average Cost of Capital (WACC) to discount cash flows. Due to data inadequacies, the Bank is unable to quantify the impact of using the WACC instead of the original effective interest rate.

ii) Fair values of financial instruments

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



require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

iii) **Incurred but not reported insurance liability**

The estimation of the incurred but not reported insurance liability is determined by using historical claim data.

iv) **Classification and measurement of LB01 bonds**

The Land Bank has elected to classify the LB01 and LB07 bonds as held at fair value through profit and loss with all movements in the fair value being accounted for in the income statement.

v) **Basis of allocation of segment revenue, assets and liabilities**

Funding liabilities are allocated to segments as a percentage of the loans portfolio in that segment.

vi) **Valuation of Head Office Building**

The Bank moved the majority of its staff out of the head office building on 26 March 2007 to facilitate improvements to the health and safety of the building. The building is valued at its current market value.

## 2.28 Adoption of IFRSs during the year

The Land Bank has adopted the following revised standards during the year. Adoption of the revised standards does not have any effect on opening retained earnings.

### IAS 39 - Financial Instruments: Recognition and Measurement (amended)

#### Fair value option

The amendment limits the extent to which financial assets and liabilities can be designated at fair value through profit or loss.

#### Financial guarantee contracts

The amendment requires the measurement of financial guarantee contracts initially at fair value and subsequently at the higher of the amount recognized in terms of IAS 37 and the amount initially recognized less, when appropriate, cumulative amortization.

The impact of these amendments is not considered to be significant.

### IAS 19 – Employee Benefits(amended)

The amendment requires additional disclosures in respect of defined benefit plans. This amendment had no impact on the financial position of the Land Bank.



## 2.29 IFRS applicable in the future

At the date of authorisation of these financial statements, a number of International Financial Reporting Standards and Interpretations had been promulgated, but were effective for periods after 31 March 2007.

Standard or interpretation	Effective date	Impact of adoption
IAS 1: Presentation of financial statements	1 April 2007	Disclosure of information on the Land Bank's objectives and processes for managing capital.
IFRS 7: Financial instruments disclosures	1 April 2007	Disclosure of additional information on financial instruments.
IFRS 8: Operating Segments	1 April 2009	Disclosure of information on the Land Bank's operating segments, products and services, geographical areas and major customers.
IFRIC 8: Scope of IFRS 2	1 May 2006	No impact on Land Bank Group.
IFRIC 9: Reassessment of embedded derivatives.	1 June 2006	Requires an entity to separate an embedded derivative from a host contract and account for it separately as a derivative.
IFRIC 10: Interim reporting and impairment	1 November 2006	Restrict the reversal of impairment losses recognised in a previous interim period on goodwill, equity instruments or financial assets carried at cost.
IFRIC11: Group and treasury share transactions	1 March 2007	No impact on Land Bank Group.
IFRIC 12: Service concession arrangements	1 January 2008	No impact on Land Bank Group.



**3 CASH AT BANK**

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>3.1 Cash at bank</b>				
Commercial Banks – Land Bank	<b>1,118,244</b>	3,249,868	<b>1,118,244</b>	3,249,868
Commercial Bank - LBIC	<b>16</b>	16	-	-
	<b><u>1,118,260</u></b>	<u>3,249,884</u>	<b><u>1,118,244</u></b>	<u>3,249,868</u>
<b>3.2 Bank overdraft</b>	<b><u>449</u></b>	<u>208,533</u>	<b><u>449</u></b>	<u>208,533</u>

The carrying value of cash and bank approximates fair value.

At 31 March 2007, the Group had available R558 million (2006: R461 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

**4 TRADE AND OTHER RECEIVABLES**

Accrued Income	<b>15,315</b>	13,241	<b>6,107</b>	1,696
Housing loans to employees	<b>2,436</b>	2,681	<b>2,436</b>	2,681
Step Up funds with administrators	-	5,220	-	5,220
Reinsurance asset	<b>513</b>	1,902	-	-
MAFISA (Note 27.2)	<b>4,772</b>	4,077	<b>4,772</b>	4,077
Other	<b>6,805</b>	22,795	<b>3,985</b>	20,042
	<b><u>29,841</u></b>	<u>49,916</u>	<b><u>17,300</u></b>	<u>33,716</u>

The reinsurance asset arising from life insurance contracts held by LBIC is calculated based on the incurred but not reported losses that would qualify for reimbursement under the reinsurance contracts. Amounts due from re-insurers in respect of claims already paid by LBIC on contracts that are reinsured are included in other receivables.

Land Bank was appointed as administrator of the State owned scheme, known as Micro-Agricultural Finance Institutions of South Africa (MAFISA) by the National Department of Agriculture.

Trade and other receivables are receivable within a period of 30 days from invoice date. The carrying value of trade and other receivables approximates fair value.



**5 REPURCHASE AGREEMENTS**

	Land Bank Group		Land Bank	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
Details of financial instruments purchased				
Land Bank LB 107	-	141,597	-	141,597
Transnet T011	-	107,409	-	107,409
R153	<b>166,859</b>	-	<b>166,859</b>	-
R157	<b>20,313</b>	-	<b>20,313</b>	-
	<b>187,172</b>	249,006	<b>187,172</b>	249,006
Details of financial instruments sold				
Land Bank LB 101	<b>22,564</b>	-	<b>22,564</b>	-
R195	<b>28,289</b>	-	<b>28,289</b>	-
	<b>50,853</b>	-	<b>50,853</b>	-

Financial instruments sold under agreement to repurchase are retained in the financial statements as trading assets or investments and are initially recognised at fair value with subsequent changes in fair values taken to profit and loss. The liability to the counterparty is included under current liabilities.

Financial instruments purchased under agreements to resell are recorded as loans granted against security and included under assets. The difference between the sale and purchase price is treated as interest and accrued over the life of the repurchase or resale agreements using the effective interest rate method.

The Land Bank enters into sale and repurchase agreements for periods between 1 day and 1 month in order to cover any short positions that the Land Bank may experience.



**6 LOANS****6.1 Loan book summary**

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Long-term loans</b>	<b>5,180,503</b>	5,713,580	<b>5,180,503</b>	5,713,580
Farmers	<b>3,571,764</b>	4,241,089	<b>3,571,764</b>	4,241,089
Agri-related businesses	<b>1,603,698</b>	1,466,309	<b>1,603,698</b>	1,466,309
Emergency flood relief	<b>5,041</b>	6,182	<b>5,041</b>	6,182
<b>Medium-term loans</b>	<b>1,085,865</b>	839,429	<b>1,085,865</b>	839,429
Farmers	<b>439,906</b>	519,930	<b>439,906</b>	519,930
Land for development	<b>358,933</b>	-	<b>358,933</b>	-
Instalment sale loans	<b>279,544</b>	309,949	<b>279,544</b>	309,949
Emergency flood relief	<b>7,482</b>	9,550	<b>7,482</b>	9,550
<b>Short-term loans</b>	<b>11,105,626</b>	9,873,997	<b>11,105,626</b>	9,873,997
Farmers	<b>424,759</b>	693,690	<b>424,759</b>	693,690
Agri-related businesses	<b>10,597,240</b>	9,052,305	<b>10,597,240</b>	9,052,305
Step Up	<b>82,802</b>	126,961	<b>82,802</b>	126,961
Emergency flood relief	<b>825</b>	1,041	<b>825</b>	1,041
<b>Total gross loan book</b>	<b>17,371,994</b>	16,427,006	<b>17,371,994</b>	16,427,006
Less impairments	<b>(1,737,043)</b>	(1,441,649)	<b>(1,737,043)</b>	(1,441,649)
Less arrear admin and penalty fees	<b>(36,053)</b>	(33,505)	<b>(36,053)</b>	(33,505)
<b>TOTAL NET LOAN BOOK</b>	<b><u>15,598,898</u></b>	<u>14,951,852</u>	<b><u>15,598,898</u></b>	<u>14,951,852</u>

Impairments include the full impairment of the Step Up loan book of R82,8 million (2006: R114,5 million) net of client deposits of R Nil (2006: R12,5 million).



## 6.2 Loan Information

Loan type	Type of security	Nature of interest rate	Average term of repayment	Average interest rate
Long-term loans	Mortgage bonds	Variable	>5 years	13.08%
Medium-term loans	Notarial bonds	Variable	1-5 years	10.68%
Short-term loans	None	Variable	1 year	11.4%
		Land Bank Group		Lank Bank
		2007 R'000	2006 R'000	2007 R'000
				2006 R'000

## 6.3 Movement in impairments

Opening balance	1,441,649	1,219,955	1,441,649	1,219,955
Write-offs against impairments	(74,135)	(98,150)	(74,135)	(98,150)
Transfer to income statement	369,529	319,844	369,529	319,844
Closing balance	<u>1,737,043</u>	<u>1,441,649</u>	<u>1,737,043</u>	<u>1,441,649</u>

## 6.4 Classification of impairments

Retail	717,999	767,001	717,999	767,001
Step-Up	82,802	114,485	82,802	114,485
Land for development	56,534	-	56,534	-
Agri-related businesses (CFU)	879,708	560,163	879,708	560,163
Total	<u>1,737,043</u>	<u>1,441,649</u>	<u>1,737,043</u>	<u>1,441,649</u>

## 7 INTANGIBLE ASSET

Computer Software	49,742	13,071	49,742	13,071
Cost	52,159	13,952	52,159	13,952
Accumulated amortisation	(2,417)	(881)	(2,417)	(881)
Carrying amount at beginning of the year	13,071	-	13,071	-
Acquired during the year	38,207	13,952	38,207	13,952
Current year amortisation	(1,536)	(881)	(1,536)	(881)
Carrying amount at end of the year	<u>49,742</u>	<u>13,071</u>	<u>49,742</u>	<u>13,071</u>

The capitalised computer software was determined to have a finite life of 5 years at acquisition. The software is amortised using the straight line method over a period of 5 years. Software with a cost of R35,2 million (2006: R6,9 million) is not amortised as it relates to the SAP Banking and HR modules, which are not in a usable state yet.



	Land Bank Group		Lank Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>8 INVESTMENTS</b>				
<b>8.1 INVESTMENTS SUMMARY</b>				
<b>TOTAL INVESTMENTS</b>	<b>860,957</b>	731,055	<b>195,537</b>	160,620
Medical Aid Fund	<b>195,507</b>	157,590	<b>195,507</b>	157,590
LBIC Investments	<b>665,450</b>	570,465	-	-
Investment in LBIC	-	-	<b>30</b>	30
Vleissentraal Limited	-	3,000	-	3,000

## 8.2 DETAILED ANALYSIS OF INVESTMENTS

### 8.2.1 Medical Aid Fund (Coronation Asset Management (Pty) Ltd)

Asset allocation:	<b>195,507</b>	157,590	<b>195,507</b>	157,590
Equities	<b>121,465</b>	109,336	<b>121,465</b>	109,336
Bonds	<b>11,107</b>	17,713	<b>11,107</b>	17,713
Cash	<b>34,335</b>	8,989	<b>34,335</b>	8,989
Offshore investments	<b>28,600</b>	21,552	<b>28,600</b>	21,552

The funds are entrusted to the above mentioned portfolio manager for investment purposes. The funds are earmarked to fund the medical aid contributions for past employees. The investments are classified as held for trading and are disclosed at fair value. These investments are exposed to interest rate and market risk. The risk is managed by an Investment Committee set up to monitor the performance and activities of portfolio managers. The post retirement medical aid fund liability is disclosed in note 18.



## 8.2.2 LBIC INVESTMENTS

	Land Bank Group		Lank Bank	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
Total	<b>665,450</b>	570,465	-	-
Old Mutual Investment Group (South Africa) (Pty)Ltd	<b>86,557</b>	83,904	-	-
PeregrinQuant Asset Management (Pty) Ltd	<b>77,361</b>	73,422	-	-
Metropolitan Asset Management Limited	<b>101,279</b>	76,852	-	-
Coronation Asset Management (Pty)Ltd	<b>208,493</b>	171,608	-	-
Investec Asset Management (Pty)Ltd	<b>191,760</b>	164,679	-	-
Asset allocation:	<b>665,450</b>	570,465		
Equities	<b>363,267</b>	274,823	-	-
Bonds	<b>193,603</b>	202,337	-	-
Cash	<b>108,580</b>	93,305	-	-

All surplus funds of LBIC are entrusted to the above-mentioned portfolio managers for investment purposes. The investments are classified as held for trading and are disclosed at fair value. These investments are exposed to interest rate and market risk. The risk is managed by an Investment Committee set up to monitor the performance and activities of portfolio managers.



	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>8.2.3 Investment in LBIC</b>				
LBIC Shares	-	-	<b>30</b>	30

The Land Bank is the sole beneficial shareholder of this unlisted company. The company provides life insurance cover to clients of the Land Bank under mortgage loans. The company's actuarial value of the surplus as at 31 March 2007 amounted to R683 million (2006 – R591 million). The reserves of LBIC amounted to R682 million (2006 – R593 million), and the Group does not expect to be called upon to perform under this guarantee.

#### 8.2.4 Vleissentraal Limited

Carrying Value	<b>3,000</b>	3,000	<b>3,000</b>	3,000
Less: Impairment	<b>(3,000)</b>	-	<b>(3,000)</b>	-
	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>

The main business of Vleissentraal Limited, of which the Land Bank holds 25% of the shares in issue, is to act as auctioneers and do business in livestock and related products. Loans granted to Vleissentraal by the Land Bank were converted to shares in November 2002. The Land Bank does not have any significant influence on the operations of Vleissentraal.

## 9 INVESTMENT PROPERTIES

Opening Balance	<b>82,614</b>	106,516	<b>82,614</b>	106,516
Additions	<b>2,845</b>	55,077	<b>2,845</b>	55,077
Disposals	<b>(17,343)</b>	(59,448)	<b>(17,343)</b>	(59,448)
Fair value adjustments	<b>6,106</b>	(19,531)	<b>6,106</b>	(19,531)
	<u><b>74,222</b></u>	<u>82,614</u>	<u><b>74,222</b></u>	<u>82,614</u>

The net carrying amount includes a balance of R 16, 9 million (2006: R 11,6 million) that relates to an office building located in Polokwane, Northern Province and the balance being properties in possession. Properties in possession comprise of properties repossessed by the Land Bank from clients who have defaulted on their loans.

The fair value of the Group's investment properties at 31 March 2007 has been determined based on valuations performed by independent valuers. The investment properties were valued at open market value with current use as the valuation basis. The valuations are performed on an annual basis. The current lease term on the rental property is on a month to month basis.



## 10 PROPERTY AND EQUIPMENT

### 10.1 SUMMARY

	Land Bank and Group		Carrying Amount R'000
	Cost or Valuation R'000	Accumulated Depreciation R'000	
<b>2007</b>			
Land	<b>33,376</b>	-	<b>33,376</b>
Buildings	<b>82,696</b>	-	<b>82,696</b>
Computer Equipment	<b>24,331</b>	<b>(10,082)</b>	<b>14,249</b>
Furniture, Fittings and Office Equipment	<b>26,999</b>	<b>(11,172)</b>	<b>15,827</b>
Motor Vehicles	<b>1,717</b>	<b>(553)</b>	<b>1,164</b>
<b>Total assets</b>	<b>169,119</b>	<b>(21,807)</b>	<b>147,312</b>
<b>2006</b>			
Land	27,220	-	27,220
Buildings	77,480	-	77,480
Computer Equipment	18,106	(6,662)	11,444
Furniture, Fittings and Office Equipment	23,252	(5,761)	17,491
Motor Vehicles	2,215	(615)	1,600
	<u>148,273</u>	<u>(13,038)</u>	<u>135,235</u>

Land and buildings are stated at their revalued amount. Under the cost model the carrying amount would be R29.2 million (2006: R30.8 million).

### 10.2 RECONCILIATION

2007	Land R'000	Buildings R'000	Computer Equipment R'000	Furniture, Fittings & Office Equipment R'000	Motor Vehicles R'000	Total R'000
Opening balance at 1 April 2006	27,220	77,480	11,444	17,491	1,600	135,235
Additions	-	-	6,570	3,796	-	10,366
Disposals	-	-	(213)	(39)	(323)	(575)
Depreciation	-	(1,665)	(3,552)	(5,421)	(113)	(10,751)
Revaluation	6,156	6,881	-	-	-	13,037
Closing balance at 31 March 2007	<u>33,376</u>	<u>82,696</u>	<u>14,249</u>	<u>15,827</u>	<u>1,164</u>	<u>147,312</u>



**10 PROPERTY AND EQUIPMENT (Continued)**

	Land	Buildings	Computer Equipment	Furniture, Fittings & Office Equipment	Motor Vehicles	Total
2006	R'000	R'000	R'000	R'000	R'000	R'000
Opening balance at 1 April 2005	21,953	75,795	14,817	20,457	1,924	134,946
Additions	-	-	11,796	873	-	12,669
Disposals	-	-	(3,694)	(472)	(773)	(4,939)
Depreciation	-	(1,516)	(3,373)	(2,966)	(324)	(8,179)
Fair value adjustments	5,267	3,201	(8,102)	(401)	773	738
Closing balance at 31 March 2006	<u>27,220</u>	<u>77,480</u>	<u>11,444</u>	<u>17,491</u>	<u>1,600</u>	<u>135,235</u>

**10.3 LAND BANK AND GROUP PROPERTY VALUATIONS**

Land and buildings comprise the following properties that were independently valued during February 2007, on the basis of open market value for existing use. Valuations are performed at least every year.

	Valuation 2007		Valuation 2006	
	Land R'000	Buildings R'000	Land R'000	Buildings R'000
Erf 577 Beaufort West	390	1,950	310	1,450
Erf 180.3 Bethlehem	648	5,543	790	4,360
Erf 773 Bloemfontein	1,183	3,047	510	2,980
Erf 146 Calvinia	70	950	50	1,400
Erf 3865 Cape Town	3,608	4,932	2,700	2,120
Scheme 25/1979 Cape Town	-	4,300	-	4,100
Erf 3825 Cradock	806	5,154	110	5,450
Erf 1926 Ermelo	1,166	1,324	1,000	890
Erf 2108 George	2,166	2,234	3,250	1,050
Erf 13 Heidelberg	1,053	2,707	450	1,450
Erf 7777 Kroonstad	298	2,952	320	2,720
Erf 107.7 Lichtenburg	740	1,571	450	1,150
Erf 978 Middelburg	2,581	1,228	1,600	800
Erf 203 Modimolle	1,115	4,524	890	5,110
Erf 46 Nelspruit	744	2,387	590	1,790
Erf 2413 Pietermaritzburg	1,720	2,550	1,350	2,410
Erf 3127 Port Elizabeth	5,028	4,672	3,000	6,200
Erf 132.1 Potchefstroom	1,859	1,412	1,670	2,170
Erf 3505 Pretoria	3,210	20,769	3,200	22,900
Erf 1480.1 Rustenburg	2,871	929	3,450	1,150
Erf 2064 Upington	920	4,291	550	2,990
Erf 5825 Vryburg	830	1,870	740	1,480
Erf 672.16 Vryheid	370	1,400	240	1,360
	<u>33,376</u>	<u>82,696</u>	<u>27,220</u>	<u>77,480</u>



**11 RESERVES****11.1 RETAINED EARNINGS**

	Land Bank Group		Land Bank	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
<b>Distributable</b>				
General Reserve	<b>195,442</b>	285,632	<b>195,442</b>	285,632
Capital Fund	<b>200,955</b>	200,955	<b>200,955</b>	200,955
Interest Equalisation fund	<b>100,000</b>	100,000	<b>100,000</b>	100,000
Silver and Bronze				
Development Fund	<b>307,338</b>	310,145	<b>307,338</b>	310,145
Insurance Reserve	<b>682,195</b>	592,755	-	-
Development Fund	<b>128,734</b>	135,284	<b>128,734</b>	135,284
	<b>1,614,664</b>	1,624,771	<b>932,469</b>	1,032,016

**11.2 REVALUATION RESERVE****Non-distributable**

Revaluation of property	<b>82,053</b>	69,015	<b>82,053</b>	69,015
Total reserves	<b>1,696,717</b>	1,693,786	<b>1,014,522</b>	1,101,031

**11.3 DESCRIPTION OF EQUITY COMPONENTS**

General Reserve	The General Reserve is a component of retained earnings and represents the accumulated net surplus of the Land Bank after allocation to other reserves within retained earnings.
Capital Fund	The Capital Fund consists of appropriations by Government to the Land Bank from 1936 up to 1979 when they were discontinued. This was a loan with no fixed terms of repayment and fixed interest rates varying between 3.5% and 4.75% per annum. The loan was converted to equity in 2006 as part of the Government commitment to support the Bank.
Interest Equalisation Fund	The Interest Equalisation Fund is a component of retained earnings that was earmarked to cover differences during periods of declining interest rates between the Land Bank's long-term funding costs and interest earnings on long and medium-term loan portfolios.
Development Fund	The Development Fund is a component of retained earnings and arose through a decision by the Board of Directors to implement a notional tax deduction of 35% on net profit for the purpose of development funding. The transfer to the Development Reserve, when applicable, is done through the statement of changes in equity.
Silver and Bronze Development Fund	The Silver and Bronze Development Fund is a component of retained earnings and arose through a decision by the Board of Directors to calculate a notional dividend of 15% on "after tax" profits, as no dividends are paid to government which is the Land Bank's sole shareholder. The transfer to the Silver and Bronze Development Fund, when applicable, is done through the statement of changes in equity.
Insurance Reserve	The Insurance Reserve is a component of Group retained earnings and represents the accumulated surplus of LBIC from long-term insurance activities.



Revaluation Reserve The Revaluation Reserve represents the net surplus arising on the revaluation of properties.

## 12 MARKET MAKING ASSETS / (LIABILITIES)

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
At fair value	<u>66,726</u>	<u>(91,387)</u>	<u>66,726</u>	<u>(91,387)</u>
Contractual amount payable (LB01)	177,528	(27,508)	177,528	(27,508)

## 13 DERIVATIVE INSTRUMENTS

### 13.1 DERIVATIVE ASSETS

Fair Value				
Interest rate swaps	<u>170,423</u>	<u>223,996</u>	<u>170,423</u>	<u>223,996</u>
Notional principal				
Interest rate swaps	3,001,122	1,871,469	3,001,122	1,871,469
Within 1 year	2,209,919	185,448	2,209,919	185,448
Between 1 and 5 years	791,203	1,686,021	791,203	1,686,021

### 13.2 DERIVATIVE LIABILITIES

Fair Value	13,158	30,953	13,158	30,953
Interest rate swaps	13,127	30,859	13,127	30,859
OTC options	-	94	-	94
Forward rate agreements	31	-	31	-
Notional principal				
Interest rate swaps	1,492,613	1,896,629	1,492,613	1,896,629
Within 1 year	-	200,000	-	200,000
Between 1 and 5 years	1,492,613	1,178,817	1,492,613	1,178,817
Greater than 5 years	-	517,812	-	517,812
OTC options	-	94	-	94
Within 1 year	-	94	-	94
Notional principal				
Forward rate agreements				
Within 1 year	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>-</u>

Interest rate swaps, forward rate agreements, caps and floors, swaptions and interest rate futures are used in managing the interest rate mismatch between fixed and floating interest rates applicable to assets and liabilities in line with the Treasury Manual approved by the Board.



**14 TRADE AND OTHER PAYABLES**

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Government grants for land distribution	<b>6,399</b>	6,210	<b>6,399</b>	6,210
Accrued expenses	<b>148,045</b>	154,415	<b>144,921</b>	152,948
Loan costs and fees received in advance	<b>6,677</b>	5,543	<b>6,677</b>	5,543
LBIC – intercompany balances	-	-	<b>49,589</b>	39,141
Other	<b>906</b>	579	<b>906</b>	579
	<u><b>162,027</b></u>	<u>166,747</u>	<u><b>208,492</b></u>	<u>204,421</u>

Trade and other payables are paid thirty days from invoice date and the carrying value of payables approximates fair value.

**15 INSURANCE CONTRACTS**

15.1.1	Policyholders' liability	40,944	27,667		
	Present value of policy liabilities	126,787	150,869	-	-
	Plus: Present value of future expenses	30,044	25,598	-	-
	Less: Present value of future premiums	(130,329)	(162,413)	-	-
	Liability excluding AIDS reserve	26,502	14,054	-	-
	Plus: AIDS reserve	4,442	3,613	-	-
	Plus: IBNR	10,000	10,000	-	-
	Plus: Incurred but not reported	1,000	3,500	-	-
	Plus: Notified claims	223	353	-	-
	Total policyholders' liabilities	<u>42,167</u>	<u>31,520</u>	<u>-</u>	<u>-</u>
15.1.2	Policyholders' liability fair value adjustment				
	Opening balance	27,667	77,839	-	-
	Transferred from /(to) income statement	13,277	(50,172)	-	-
	Closing balance (Refer 15.1.1)	<u>40,944</u>	<u>27,667</u>	<u>-</u>	<u>-</u>



## 15.2 ACTUARIAL ASSUMPTIONS

### 15.2.1 Process used to decide on assumptions

For long-term insurance contracts estimates are made in two stages. At inception of the contract, LBIC's actuary determines assumptions in relation to future deaths, investment returns and administration expenses. These assumptions are used for calculating the premiums payable during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are 'locked in' for the duration of the contract.

Subsequently, at each reporting date, an actuarial valuation of the liabilities under the in-force insurance contracts is done, using assumptions that are based on best estimates of the current and expected future economic and demographic environment. Margins are added to the valuation assumptions for risk and uncertainty. The actuarial valuation is used to determine whether assets adequately cover the liabilities. Any change over the reporting year in the excess of assets over liabilities is analysed into the various components that gave rise to the change, which include differences between the actual and expected experience of the main actuarial assumptions regarding mortality, investment return and expenses. The assumptions used for the valuation of the insurance contracts were as follows:

- Mortality

An appropriate base table of standard mortality is used. Mortality rates are adjusted to allow for expected deterioration in mortality experience as a result of AIDS.

- Investment returns

The investment return assumption is based on the weighted average of assumed future returns on a number of asset classes that comprise a portfolio of investments that is considered appropriate for the underlying insurance business. Allowance is made for investment expenses and taxation. The assumption used for the 31 March 2007 actuarial valuation was 8.35% (2006: 7.85%) per annum. Currently LBIC is exempt from tax.

- Administration expenses and inflation

The current level of expenses is considered when determining the expense assumption. Expense inflation is allowed for based on current and expected future levels of inflation. The expense assumption used for the 31 March 2007 valuation was 15% (2006: 10%) of current premiums, assumed to increase in line with inflation of 5.0% (2006: 4.0%) per annum.



**15.2.2 Change in assumptions**

For the 31 March 2007 actuarial valuation, the assumptions for investment return, mortality and expenses were changed to reflect current and expected future experience.

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>15.3 Insurance contract reconciliations</b>				
Notified claims	353	785	-	-
Incurred but not reported	3,500	4,500	-	-
Total at 1 April	3,853	5,285	-	-
Cash paid for claims settled in year	(13,444)	(12,019)	-	-
Increase / (decrease) in liability	10,814	10,587	-	-
Total at 31 March	1,223	3,853	-	-
Made up as follows:	1,223	3,853	-	-
Notified claims	223	353	-	-
Incurred but not reported	1,000	3,500	-	-



## 15.4 Analysis of surplus

The excess of the assets over the liabilities amounted to R682.6 million as at 31 March 2007 (2006: R590.6 million). This represents an increase in the surplus of about R92 million from that at the previous valuation. The increase is analysed in the table below.

	Land Bank Group		Land Bank	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
Surplus at 1 April	590,590	406,330	-	-
Variance in financial statements for asset values at 31 March 2006	2,195	-	-	-
Plus: Surplus arising from:	114,783	203,224	-	-
Investment income	101,966	126,759	-	-
Actual death claims being less than expected	994	12,545	-	-
Early termination of policies	729	8,274	-	-
Policy changes (e.g. mortgage interest rate)	-	2,900	-	-
Reduction in allowance for non-zero reserves	8,594	-	-	-
Change in valuation basis	-	35,287	-	-
Correction incorrect data	-	16,459	-	-
Decrease in IBNR	2,500	1,000	-	-
Less: Deficit arising from:	(25,002)	(18,964)	-	-
Expenses being more than expected	6,108	4,930	-	-
New business strain	5,911	3,390	-	-
Margin in valuation for non-zero reserves	-	3,273	-	-
Increase in reserve for data errors	-	5,000	-	-
Policy change	1,087	-	-	-
Change in valuation basis	10,048	-	-	-
Other factors	1,848	2,371	-	-
Surplus at 31 March	<u>682,566</u>	<u>590,590</u>	<u>-</u>	<u>-</u>

## 16 FUNDING

### 16.1 FUNDING SUMMARY

At fair value	4,229,979	4,682,351	4,229,979	4,682,351
At amortised cost	11,901,159	12,576,131	11,901,159	12,576,131
Total Funding	<u>16,131,138</u>	<u>17,258,482</u>	<u>16,131,138</u>	<u>17,258,482</u>

The carrying value of funding liabilities comprises of amounts measured at amortised cost and fair value. The total funding fair value and contractual amounts owing are as follows:



	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>16.2 DETAILED ANALYSIS OF FUNDING</b>				
<b>16.2.1 At fair value</b>				
At fair value	<b>4,229,979</b>	4,682,351	<b>4,229,979</b>	4,682,351
Debtentures – LB01	<b>1,972,816</b>	2,068,634	<b>1,972,816</b>	2,068,634
Debtentures – LB07	<b>1,005,420</b>	1,641,692	<b>1,005,420</b>	1,641,692
Promissory notes	<b>1,251,743</b>	972,025	<b>1,251,743</b>	972,025
<b>Movement in the fair values</b>				
<b>Debtentures – LB01</b>				
Opening balance	<b>2,068,634</b>	2,072,475	<b>2,068,634</b>	2,072,475
Fair value adjustments	<b>(95,818)</b>	(3,841)	<b>(95,818)</b>	(3,841)
<b>Closing balance</b>	<b><u>1,972,816</u></b>	<u>2,068,634</u>	<b><u>1,972,816</u></b>	<u>2,068,634</u>
<b>Debtentures – LB07</b>				
Opening balance	<b>1,641,692</b>	1,515,720	<b>1,641,692</b>	1,515,720
Fair value adjustments	<b>(62,138)</b>	125,972	<b>(62,138)</b>	125,972
Funds repaid	<b>(574,134)</b>	-	<b>(574,134)</b>	-
<b>Closing balance</b>	<b><u>1,005,420</u></b>	<u>1,641,692</u>	<b><u>1,005,420</u></b>	<u>1,641,692</u>
<b>Promissory notes</b>				
Opening balance	<b>972,025</b>	1,454,218	<b>972,025</b>	1,454,218
Fair value adjustments	<b>93,944</b>	141,135	<b>93,944</b>	141,135
Funds raised	<b>694,760</b>	378,827	<b>694,760</b>	378,827
Funds repaid	<b>(508,986)</b>	(1,002,155)	<b>(508,986)</b>	(1,002,155)
<b>Closing balance</b>	<b><u>1,251,743</u></b>	<u>972,025</u>	<b><u>1,251,743</u></b>	<u>972,025</u>

### Land Bank Debtentures

The debtentures are publicly traded on the Bond Exchange of South Africa. The LB01 is redeemable on 30 June 2010 and pays interest at 11.5% per annum. The LB07 was redeemed on 15 August 2007 and paid interest at 11% per annum. The Land Bank acts as a buyer of last resort for the LB01 and LB07 debtentures. The repurchased debtentures are then resold in the market to obtain further funding.

The Land Bank has elected to carry the debtentures at fair value through profit and loss.



	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>16.2.2 At amortised cost</b>	11,901,159	12,576,131	11,901,159	12,576,131
Industrial Development Corporation	15,833	20,833	15,833	20,833
Floating rate promissory note	7,112,921	4,835,794	7,112,921	4,835,794
Promissory notes	2,752,415	5,754,585	2,752,415	5,754,585
Bills	558,174	670,892	558,174	670,892
Call bonds	583,000	489,000	583,000	489,000
Agri-related businesses deposits	350,758	297,833	350,758	297,833
Small institutional deposits	96,243	103,519	96,243	103,519
Forced stock sale deposits	332,196	341,623	332,196	341,623
National Department of Agriculture deposit	95,581	14,172	95,581	14,172
Client deposits	4,038	47,880	4,038	47,880

Average effective interest rate for the Land Bank and Land Bank Group

	2007	2006	2007	2006
Short term promissory notes	9.08%	7.14%	9.08%	7.14%
Bills	8.81%	6.78%	8.81%	6.78%
Call bonds	8.75%	6.81%	8.75%	6.81%

Industrial Development Corporation Loan

A loan of R25 million was obtained at an interest rate of 7.0% p.a. from the Industrial Development Corporation of South Africa Ltd. for assistance in the Land Bank's emergency flood relief programme. The loan is repayable in 60 instalments over a period of 5 years, starting on 1 June 2005 and requires only interest repayments during the first 4 years. The loan is specifically earmarked for the granting of special mortgage loans at a subsidised interest rate of 10% p.a.

## 17 PROVISIONS

### 17.1 Land Bank Group

2007	Opening Balance	Movement for the year	Paid out	Closing balance
Performance Bonus	11,534	9,109	(9,723)	10,920
Accumulated leave	12,466	5,661	(4,550)	13,577
	<u>24,000</u>	<u>14,770</u>	<u>(14,273)</u>	<u>24,497</u>
2006	Opening Balance	Movement for the year	Paid out	Closing balance
Performance Bonus	8,822	2,712	-	11,534
Accumulated leave	10,292	5,525	(3,351)	12,466
	<u>19,114</u>	<u>8,237</u>	<u>(3,351)</u>	<u>24,000</u>



**17 Provisions (continued)**

## Land Bank

2007	Opening Balance R'000	Movement for the year R'000	Paid out R'000	Closing balance R'000
Performance Bonus	11,534	9,109	(9,723)	10,920
Accumulated leave	12,416	5,631	(4,550)	13,497
	<u>23,950</u>	<u>14,740</u>	<u>(14,273)</u>	<u>24,417</u>
2006	Opening Balance	Movement for the year	Paid out	Closing balance
Performance Bonus	8,822	2,712	-	11,534
Accumulated leave	10,292	5,475	(3,351)	12,416
	<u>19,114</u>	<u>8,187</u>	<u>(3,351)</u>	<u>23,950</u>

Accumulated leave is payable to employees when the leave is not taken or on resignation.

**18 POST RETIREMENT OBLIGATIONS****18.1 OBLIGATIONS SUMMARY**

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Medical Benefit Plan	<b>182,547</b>	155,762	<b>182,547</b>	155,762
Post Retirement Benefit Plan	-	25,459	-	25,459
Total post retirement benefit	<u><b>182,547</b></u>	<u>181,221</u>	<u><b>182,547</b></u>	<u>181,221</u>

The Land Bank settled the shortfall in the post retirement benefit plan during the year under review.



	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>18.2 MEDICAL BENEFIT PLAN</b>				
<b>Valuation Assumptions</b>				
Discount rate	8% p.a.	7.5% p.a.	8% p.a.	7.5% p.a.
Continuation of membership at retirement	100%	100%	100%	100%
Average retirement age	65 years	65 years	65 years	65 years
<b>Membership data</b>				
Number of members	481	543	481	543
<b>Pensioners:</b>				
Number of pensioners	350	340	350	340
	<u>831</u>	<u>883</u>	<u>831</u>	<u>883</u>
<b>Reconciliation of benefit obligations</b>				
Defined benefit obligation at 1 April	155,762	153,172	155,762	153,172
Service costs	2,772	3,738	2,772	3,738
Interest cost	11,349	12,694	11,349	12,694
Unexpected actuarial loss/(gain)	21,543	(6,192)	21,543	(6,192)
Expected Employer Benefit				
Payments	(8,879)	(7,650)	(8,879)	(7,650)
Defined benefit obligation at 31 March	<u>182,547</u>	<u>155,762</u>	<u>182,547</u>	<u>155,762</u>
<b>Components of net periodic medical benefit cost</b>				
Current service cost	(2,772)	(3,738)	(2,772)	(3,738)
Interest cost	(11,349)	(12,694)	(11,349)	(12,694)
Expected Employer Benefit				
Payments	8,879	7,650	8,879	7,650
Recognised actuarial gain / (loss)	(21,543)	6,192	(21,543)	6,192
	<u>(26,785)</u>	<u>(2,590)</u>	<u>(26,785)</u>	<u>(2,590)</u>

Present value of the benefit obligation for the current year and the previous four financial years

R'000	2007	2006	2005	2004	2003
Benefit obligation plan	182,547	155,762	153,172	147,689	125,322

Sensitivity analysis for medical post retirement benefits

Assumption	Effect on current service and interest cost R'000	Effect on accumulated post medical aid defined benefit plan total liability R'000
Increase in medical inflation by 1%	29,627	212,174
Decrease on medical inflation by 1%	(23,856)	158,691

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>18.3 POST RETIREMENT BENEFIT PLAN</b>				
<b>Valuation Assumptions</b>				
Discount Rate	7.3% p.a.	7.3% p.a.	7.3% p.a.	7.3% p.a.
Consumer price inflation	5% p.a.	4.5% p.a.	5% p.a.	4.5% p.a.
Expected return on fund assets	10% p.a.	10% p.a.	10% p.a.	10% p.a.
Pension increases	3% p.a.	3% p.a.	3% p.a.	3% p.a.
<b>Membership data</b>				
<b>Active members:</b>				
Number	614	625	614	625
<b>Pensioners:</b>				
Number	105	108	105	108
<b>Reconciliation of Benefit Obligation</b>				
Benefit obligation at 1 April	250,205	191,116	250,205	191,116
Service costs	-	17,531	-	17,531
Interest cost	18,134	13,951	18,134	13,951
Membership contribution	-	8,766	-	8,766
Actuarial loss	42,619	40,496	42,619	40,496
Benefits paid	(3,576)	(21,655)	(3,576)	(21,655)
Settlement	(307,382)	-	(307,382)	-
Benefits obligation at 31 March	-	250,205	-	250,205
<b>Reconciliation of Fund Assets</b>				
Fair value of fund assets at 1 April	224,746	168,053	224,746	168,053
Expected return on assets	22,296	17,037	22,296	17,037
Employer contribution	-	17,531	-	17,531
Member contribution	-	8,766	-	8,766
Actuarial (gain)/loss	37,779	35,014	37,779	35,014
Benefits paid	(3,576)	(21,655)	(3,576)	(21,655)
Settlement	(281,245)	-	(281,245)	-
Fair value of fund assets at 31 March	-	224,746	-	224,746
<b>Valuation results at 31 March</b>				
Fair Value of fund assets	-	224,746	-	224,746
Fair value of benefit obligation	-	(250,205)	-	(250,205)
Balance sheet liability at year end	-	(25,459)	-	(25,459)

Present value of the benefit obligation for the current year and the previous four financial years

R'000	2007	2006	2005	2004	2003
Benefit obligation plan	-	(250,205)	(191,053)	(187,344)	(152,352)
Plan assets	-	224,746	168,053	170,442	149,531
Deficit	-	(25,459)	(23,000)	(16,902)	(2,821)



	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Components of net periodic pension benefit cost</b>				
Current Service cost	-	17,531	-	17,531
Interest cost	18,134	13,951	18,134	13,951
Expected return on assets	(22,296)	(17,037)	(22,296)	(17,037)
Recognised actuarial losses	-	5,482	-	5,482
Corridor limit adjustment in terms of IAS19:58	3,746	-	3,746	-
Settlement cost	(25,043)	-	(25,043)	-
Periodic Pension cost	(25,459)	19,927	(25,459)	19,927
Employer contributions	-	(17,531)	-	(17,531)
Net Periodic Pension Cost	(25,459)	2,396	(25,459)	2,396

## 19 INTEREST INCOME

Interest from loans	1,597,462	1,529,961	1,597,462	1,529,961
Commercial banks	146,348	111,834	146,348	111,834
	<u>1,743,810</u>	<u>1,641,795</u>	<u>1,743,810</u>	<u>1,641,795</u>

Excluded from interest income is income on gross impaired loans of R173 million (2006: R172million).

## 20 INTEREST EXPENSE

Funding	1,209,860	1,165,109	1,218,891	1,165,109
Deposits and credit balances	59,930	51,235	54,336	53,875
Commercial banks	3,219	1,224	3,219	1,224
Government guarantee	2,312	4,550	2,312	4,550
	<u>1,275,321</u>	<u>1,222,118</u>	<u>1,278,758</u>	<u>1,224,758</u>

## 21 PREMIUM INCOME

Insurance premiums received	12,945	15,875	-	-
Insurance premiums accrued	9,208	11,545	-	-
	<u>22,153</u>	<u>27,420</u>	<u>-</u>	<u>-</u>

## 22 NON-INTEREST INCOME

Account administration fees	43,405	22,041	44,185	22,598
Rent received - Investment Property	4,410	4,328	4,410	4,328
Profit / (Loss) on sale of property and equipment	(306)	330	(306)	330
Government grants	-	(529)	-	(529)
Loans written off - recovered	55,507	78,850	55,507	78,850
Other	223	654	223	654
Commission earned	667	240	667	240
Loans written off in excess of security values reinstated	-	90,333	-	90,333
Properties in Possession written off in excess of security values reinstated	-	91,980	-	91,980
	<u>103,906</u>	<u>288,227</u>	<u>104,686</u>	<u>288,784</u>



	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>23 OPERATING EXPENSES</b>				
<b>23.1 LAND BANK</b>				
Audit Fees (External)	4,526	4,025	4,361	3,926
For audit	4,526	3,821	4,361	3,722
Under provisioning prior year	-	204	-	204
Audit fees (Internal)	2,758	2,461	2,758	2,461
Commission paid	629	1,672	629	1,672
Director's emoluments (Note 23.2.1)	5,551	4,804	5,203	4,518
Legal fees	4,447	10,907	4,447	10,907
Depreciation	10,751	8,179	10,751	8,179
Amortisation – computer software	1,536	881	1,536	881
Marketing	25,254	21,098	25,254	21,098
Leases (Note 26.3)	11,033	10,263	11,033	10,263
Personnel costs	229,002	200,911	229,002	200,266
Contributions to Retirement Fund	18,817	17,985	18,817	17,930
Contribution to Medical Aid Fund	10,128	9,869	10,128	9,845
Salaries	200,057	173,057	200,057	172,491
Printing	2,448	2,423	2,439	2,419
Professional fees	29,692	34,609	27,606	34,200
Rates and taxes	4,250	4,244	4,250	4,244
Property and equipment repairs and maintenance	3,907	2,898	3,907	2,898
Investment property repairs and operating expenses	2,546	3,446	2,546	3,446
Security	1,115	1,213	1,115	1,213
Postage and telephone	7,517	7,983	7,491	7,971
Interest and legal fees on Retirement fund	14,540	2,459	14,540	2,459
Medical aid fund shortfall (Note 18.2)	26,785	2,590	26,785	2,590
Restructuring costs	-	10,924	-	10,924
Corporate social investment	6,820	7,241	6,820	7,241
Management fees	3,774	2,881	-	179
Dispute settlement*	-	31,733	-	31,733
Insolvency costs	1,375	1,078	1,375	1,078
Administration costs	10,588	17,299	9,556	16,502
Computer and data expenses	15,644	12,850	15,644	12,850
Travel and accommodation	14,201	11,225	14,201	11,214
Cleaning	2,511	2,295	2,511	2,295
Bank charges	1,044	1,006	1,044	1,006
	444,244	425,598	436,804	420,633
Other	25,728	19,002	25,287	18,846
	469,972	444,600	462,091	439,479

\* A dispute settlement was paid to Knox D'Arcy in settlement of their contract during the previous financial year.



**23.2\_ REMUNERATION****23.2.1 Directors' emoluments**

2007

**LAND BANK**

	Salaries R'000	Bonuses R'000	Fees R'000	Other R'000	Total R'000
<b>Executive Director</b>					
AT Mukoki (CEO)	2,182	546	-	-	2,728
<b>Non Executive Directors</b>	-	-	2,367	108	2,475
SM Mkhabela	-	-	296	18	314
LG Mazwai	-	-	488	5	493
ER Bosman	-	-	166	-	166
CP Davies	-	-	341	8	349
SNO Choane*	-	-	33	-	33
NV Lila	-	-	397	13	410
RK Morathi	-	-	167	18	185
MD Tlhagale	-	-	100	6	106
NJ Nduli*	-	-	94	-	94
LM Nyhonyha	-	-	168	10	178
JJ Dique	-	-	117	30	147
<b>Total</b>	<b>2,182</b>	<b>546</b>	<b>2,367</b>	<b>108</b>	<b>5,203</b>
<b>LBIC</b>					
LG Mazwai	-	-	61	1	62
ER Bosman	-	-	16	-	16
CP Davies	-	-	93	-	93
NV Lila	-	-	93	2	95
RK Morathi	-	-	21	1	22
NJ Nduli	-	-	16	-	16
LM Nyhonyha	-	-	42	2	44
<b>Total</b>	<b>-</b>	<b>-</b>	<b>342</b>	<b>6</b>	<b>348</b>
<b>Group directors' emoluments</b>	<b>2,182</b>	<b>546</b>	<b>2,709</b>	<b>114</b>	<b>5,551</b>

\* Resigned 12 February 2007



## 23.2.1 Directors' emoluments (continued)

2006	Salaries	Bonuses	Fees	Other	Total
LAND BANK	R'000	R'000	R'000	R'000	R'000
Executive Director	2,006	1,000	-	-	3,006
AT Mukoki (CEO)	2,006	1,000	-	-	3,006
Non Executive Directors	-	-	1,476	36	1,512
JPR Mbau *	-	-	134	2	136
SM Mkhabela	-	-	178	9	187
NJ Canca *	-	-	60	1	61
NP Makgalemele *	-	-	52	-	52
MM Mbongwa *	-	-	38	-	38
LG Mazwai	-	-	228	3	231
JRD Modise *	-	-	89	2	91
Dr CJ van Rooyen *	-	-	89	2	91
Adv. KD Moroka *	-	-	41	-	41
ER Bosman **	-	-	64	-	64
CP Davies **	-	-	99	-	99
SNO Choane **	-	-	46	-	46
NV Lila **	-	-	94	4	98
RK Morathi **	-	-	64	3	67
MD Tlhagale **	-	-	54	1	55
NJ Nduli **	-	-	53	-	53
LM Nyhonyha **	-	-	74	4	78
JJ Dique **	-	-	19	5	24
<b>Total</b>	<b>2,006</b>	<b>1,000</b>	<b>1,476</b>	<b>36</b>	<b>4,518</b>
<b>LBIC</b>					
LG Mazwai	-	-	47	-	47
Dr CJ van Rooyen*	-	-	11	1	12
NP Makgalemele *	-	-	26	-	26
JRD Modise *	-	-	22	1	23
NJ Canca *	-	-	26	-	26
JPR Mbau *	-	-	10	-	10
ER Bosman **	-	-	11	-	11
CP Davies **	-	-	31	-	31
SNO Choane **	-	-	11	-	11
NV Lila **	-	-	41	-	41
RK Morathi **	-	-	11	-	11
NJ Nduli **	-	-	5	-	5
LM Nyhonyha **	-	-	31	1	32
<b>Total</b>	<b>-</b>	<b>-</b>	<b>283</b>	<b>3</b>	<b>286</b>
<b>Group directors' emoluments</b>	<b>2,006</b>	<b>1,000</b>	<b>1,759</b>	<b>39</b>	<b>4,804</b>

\* Resigned 30 September 2005

\*\* Appointed 1 October 2005



### Details of service contracts of directors

The Minister may, in terms of the provisions of the Land Bank Act, 15 of 2002 appoint a board member for such period as the Minister may determine in the case of each member but such period may not exceed five years. All directors, except the CEO, are non-executive directors. The current non-executive directors were appointed on 1 October 2005 for a term between 2 to 5 years which expires between 30 September 2007 and 30 September 2010.

The Minister for Agriculture and Land Affairs must in consultation with the Minister of Finance determine the remuneration, allowances and other benefits of the chairperson and the board members and that remuneration and those allowances must be paid out of the funds of the Land Bank.

### 23.2.2 Past directors

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Pensions paid to past directors</b>				
Geldenhuis I	53	45	53	45
Malan EM	48	41	48	41
Van der Walt HP	85	81	85	81
Schoeman JC	68	59	68	59
Maree FE	78	68	78	68
Bradley MM	63	56	63	56
Van der Merwe SJ	111	106	111	106
Naude PB	220	211	220	211
	<u>726</u>	<u>667</u>	<u>726</u>	<u>667</u>

Pensions paid to past directors are included in the amount disclosed under personnel costs in note 23.1.

### 23.2.3 Loans to Directors

No loans were advanced to current and past directors in the current year (2006 – nil).



## 23.2.4 Salaries paid to Executive Management

2007

	Basic salary	Medical, pension and other contributions	Bonus	Total
	R'000	R'000	R'000	R'000
Alan Mukoki	1,911	272	546	2,729
Xolile Ncane	1,250	143	300	1,693
Victor Ramsingh	1,040	154	-	1,194
Herman Moeketsi	939	138	-	1,077
George Oricho	963	73	-	1,036
Godfrey Masilela	702	115	80	897
Phumla Ramphela	566	81	-	647
Jabulani Sibisi	770	1	-	771
Ntsietso Mofokeng	870	130	200	1,200
Nkosinathi Mbetha	825	150	-	975
Gerhard Hechter	1,220	168	80	1,468
Nick Maredi	998	175	-	1,173
S Maitisa	576	86	-	662
N. Manentsa	440	49	-	489
Wim Alberts	835	125	-	960
	13,905	1,860	1,206	16,971

\*Resigned on 30 September 2006

\*\* Resigned on 30 November 2006

\*\*\*Appointed 01 October 2006

\*\*\*\* Appointed 01 November 2006



## 23.2.4 Salaries paid to Executive Management

2006

	Basic salary R'000	Medical, pension and other contributions R'000	Bonus R'000	Total R'000
Alan Mukoki	1,687	319	1,000	3,006
Xolile Ncane	1,128	172	390	1,690
Selby Mokgotho	1,719	88	-	1,807
Victor Ramsingh	826	155	-	981
Herman Moeketsi	863	130	-	993
George Oricho	845	135	-	980
Roger Lawrence *	642	91	-	733
Godfrey Masilela	680	108	-	788
Phumla Ramphele **	1,051	149	-	1,200
Jabulani Sibisi ***	663	1	-	664
Ntsietso Mofokeng ****	719	106	-	825
Nkosinathi Mbetha *****	277	39	-	316
Gerhard Hechter *****	565	60	-	625
Nick Marede: *****	88	45	-	133
	11,753	1,598	1,390	14,741

\* GM Information Technology until 12 November 2005

\*\* GM Credit from 1 April 2005

\*\*\* Acting GM Human Resources from 10 August 2005

\*\*\*\* GM Legal from 1 December 2005

\*\*\*\*\* GM Development from 1 December 2005

\*\*\*\*\* Chief Risk Officer from 10 October 2005

\*\*\*\*\* GM Information Technology from 20 February 2006

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>24 FAIR VALUE GAINS/(LOSSES)</b>				
Funding– Mark to Market	64,012	(263,266)	64,012	(263,266)
Derivatives and market making	56,320	228,257	56,320	228,257
Investing activities	137,744	180,622	38,762	52,453
	<u>258,076</u>	<u>145,613</u>	<u>159,094</u>	<u>17,444</u>

## 25 CASH FLOW STATEMENT

### 25.1 Cash & Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and high liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk in changes in value and comprises:

	1,117,811	3,041,351	1,117,795	3,041,335
Cash at bank	1,118,260	3,249,884	1,118,244	3,249,868
Bank overdraft	(449)	(208,533)	(449)	(208,533)

### 25.2 Movement in operating assets and liabilities

Trade and other receivables	20,075	(26,268)	16,416	217,438
Repurchase agreements	112,687	(114,945)	112,687	(114,945)
Derivative assets	53,573	380,194	53,573	380,194
Hedging assets	(66,726)	-	(66,726)	-
Market making liabilities	(91,387)	34,380	(91,387)	34,380
Derivative liabilities	(17,795)	(15,631)	(17,795)	(15,631)
Trade and other payables	(4,720)	(40,790)	4,071	(30,300)
Policyholder liability	10,647	(51,604)	-	-
Provisions	497	4,886	467	4,836
Post employment obligations	1,326	5,049	1,326	5,049
	<u>18,177</u>	<u>175,271</u>	<u>12,632</u>	<u>481,021</u>



	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>26 COMMITMENTS &amp; GUARANTEES</b>				
<b>26.1 COMMITMENTS</b>				
Loans granted but not yet paid out				
Land for development	246,071	-	246,071	-
Individual farmers	86,698	382,664	86,698	382,664
Agri-related businesses	3,036,426	2,856,369	3,036,426	2,856,369
	<u>3,369,195</u>	<u>3,239,033</u>	<u>3,369,195</u>	<u>3,239,033</u>
Debentures/stock purchased				
Land Bank debentures				
Nominal value 2007 –R 71 million (2006: R Nil)	78,305	-	78,305	-
Other institutional stock				
Nominal value 2007– R48 million (2006: R4 million)	51,621	4,901	51,621	4,901
	<u>129,926</u>	<u>4,901</u>	<u>129,926</u>	<u>4,901</u>
Debentures/Stock sold				
Land Bank debentures				
Nominal value 2007 –R25 million (2006: R35 million)	27,535	143,701	27,535	143,701
Other institutional stock				
Nominal value 2007 –R214 million (2006: R83 million)	250,212	108,725	250,212	108,725
	<u>277,747</u>	<u>252,426</u>	<u>277,747</u>	<u>252,426</u>
The unrealised profit on unsettled trades at 31 March 2007 amounts to R 147,821 million (2006: R247,525 million)				
Capital projects				
SAP Banking/Financial system	<u>83,081</u>	<u>67,239</u>	<u>83,081</u>	<u>67,239</u>

A new banking system to replace the current system will be implemented during the next financial year.



	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Land for development	26,500	-	26,500	-
Agri-related businesses	66,192	281,025	66,192	281,025
Individual farmers	36,082	76,214	36,082	76,214
	<u>128,774</u>	<u>357,239</u>	<u>128,774</u>	<u>357,239</u>

These are amounts guaranteed but it is unknown when the guarantees will be presented for payment.

## 26.3 LEASE COMMITMENTS

At 31 March the Land Bank had outstanding commitments under non cancellable operating leases, which fall due as follows:

Within one year	8,495	1,447	8,495	1,447
One to five years	12,391	3,907	12,391	3,907
	<u>20,886</u>	<u>5,354</u>	<u>20,886</u>	<u>5,354</u>

## 26.4 CONTINGENT LIABILITIES

### Land Development Loans

As discussed in the subsequent events note in the Directors' Report, the forensic investigation, amongst other things, concluded that certain loans were granted outside the mandate of the Land Bank Act and that material weaknesses and irregularities might have existed in the origination, management and administration of certain land development loans and loan commitments approved. The Directors are currently unable to ascertain the possible losses and/or further obligations, if any, that could arise as a result of the above, and as such no provision for such possible losses have been raised. The Board will re-assess the contingent liability once it has had time to work through the findings of the detailed forensic report.

## 27 RELATED PARTY INFORMATION

### 27.1 SUBSIDIARY

LBIC is a subsidiary of the Land Bank. All the business of LBIC is administered by Land Bank at an agreed monthly administration fee of R5.00 per policy.

Balances at 31 March

Amounts owed to LBIC by Land Bank

- Current account (Note 14)	<u>49,589</u>	<u>39,141</u>	<u>49,589</u>	<u>39,141</u>
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Transactions for the year ended 31 March

Net interest paid by Land Bank	3,437	2,640	3,437	2,640
Policy administration fees received by Land Bank from LBIC	(780)	(557)	(780)	(557)
	<u>2,657</u>	<u>2,083</u>	<u>2,657</u>	<u>2,083</u>



**27.2 MAFISA**

Land Bank was appointed as administrator of the State owned scheme, known as Micro-Agricultural Finance Institutions of South Africa (MAFISA) by the National Department of Agriculture (NDA). Land Bank maintains separate accounting records for MAFISA.

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Balances at 31 March</b>				
Amount owed by MAFISA to Land Bank (Note 4)	<b>4,772</b>	4,077	<b>4,772</b>	4,077
Amount owed to MAFISA by Land Bank included in loans	<b>19,514</b>	1,500	<b>19,514</b>	1,500
MAFISA Cash Balance	<b>349,195</b>	150,889	<b>349,195</b>	150,889

**27.3 OTHER RELATED COMPANY**

The Land Bank took 25% of the shares of Vleissentraal in lieu of a debt owed to it. During the year under review there were no transactions entered into between the Group and Vleissentraal Limited. The investment was fully impaired during the period under review.

**28 DIRECTORS AND KEY MANAGEMENT PERSONNEL****28.1 Compensation of key management personnel of the Group**

Basic Salary	<b>13,905</b>	11,753	<b>13,905</b>	11,753
Medical, pension and other contributions	<b>1,860</b>	1,598	<b>1,860</b>	1,598
Bonus	<b>1,206</b>	1,390	<b>1,206</b>	1,390
Directors' fees	<b>2,709</b>	1,758	<b>2,709</b>	1,758
Other	<b>114</b>	40	<b>114</b>	40
Total compensation	<b>19,794</b>	16,539	<b>19,794</b>	16,539

Included in the above amount is the compensation for the Directors, General Managers and other key management personnel of the Land Bank. The non-executive directors do not receive pension entitlements from the Group.



## 28.2 Directors and key management interests

### 28.2.1 Loan debtors

Two Non- Executive Directors have interests in the entities below which have the following loans with the Land Bank:

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Profert Beperk *	159,961	152,385	159,961	152,385
Amadlelo Agri (Pty) Ltd *	-	-	-	-
Crown Chickens (Pty) Ltd*	-	-	-	-
Senwes Ltd **	1,162,841	557,383	1,162,841	557,383

\*CP Davies, a non-executive director of the Land Bank has the following interests.

- Director and deputy chairperson of Amadlelo Agri (Pty) Ltd. No disbursements were made at year-end.
- Chairman of Sovereign Foods Investment Limited, which is the holding company of Crown Chickens (Pty) Ltd. No disbursements were made at year-end.
- Director of Profert Eastcape (Pty) Ltd, which is a subsidiary of Profert Beperk.

\*\* JJ Dique, a non-executive director of the Land Bank who resigned on 12 March 2007 is a shareholder and Managing Director of Senwes Ltd.

### 28.2.2 Other interests

- L Nyhonyha, a non-executive director is the chairman of Regiment Capital (Pty) Limited, which has an interest in FFO Securities Limited which trades in Land Bank financial instruments at normal market prices.

## 29 RISK MANAGEMENT

The Group's risk management objectives and strategies identify the following main risks:

1. Credit risk
2. Liquidity risk
3. Market Risk
  - Interest Rate risk
  - Price risks / Fair Value risks
4. Insurance risk



## 29.1 CREDIT RISK

Credit risk is the risk that counterparties will fail to honour their financial obligations to the Land Bank on the original contracted dates.

The group's maximum credit exposure at 31 March was as follows:

### 29.1.1 Credit Exposure

	Land Bank Group		Land Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Cash at bank	1,118,260	3,249,884	1,118,244	3,249,868
Loans and receivables	15,598,898	14,951,852	15,598,898	14,951,852
Other financial assets	1,315,119	1,253,973	637,158	667,338
Guarantees issued (Note 26.2)	128,774	357,239	128,774	357,239
Total credit risk exposure	<u>18,161,051</u>	<u>19,812,948</u>	<u>17,483,074</u>	<u>19,226,297</u>

Where amounts are recorded at fair value the amounts shown above represent the current credit exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The amount and type of collateral held for the exposure depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of the types of collateral.

### 29.1.2 Collateral

The main types of collateral obtained are as follows:

Land and buildings, movable property, surrender value of insurance policies, fixed deposits and notice deposits, sureties, input cost insurance plus contract and bank guarantee.

### 29.1.3 Renegotiated loans

Once the loan term has been extended the client's interest rate is increased or more security is obtained from the client. The extension of the loan term is approved by one of the lending committees depending on the exposure.

### 29.1.4 Repossessed properties

It is the group's policy to dispose repossessed properties in an orderly fashion. In general the group does not occupy the repossessed properties for business. The repossessed properties are accounted for as investment properties under IAS 40.

The carrying amount of collateral taken in possession during the financial year is R2.8million (2006: R55million) and is included under note 9.



### 29.1.5 Concentration of Credit Risk

The concentration risk within the Land Bank consists mainly of:

- Exposure per agricultural sector
- Exposure per individual account holder/group facilities

These two main categories should however be read and analysed together as they are directly related. The sector concentration of grain is high and comprises approximately 58% of the assets of the Bank. One client comprises approximately 32% to the total corporate book. However, the risk is mitigated by the fact that the exposure is spread over a broad base of their clients. Should a total disaster strike it will have a severe impact on the quality of the Land Bank book, but history indicates that this is a remote possibility.

Risk is further mitigated in the Land Bank as monthly debtor and stock lists are obtained and analysed.

### 29.2 LIQUIDITY RISK

Liquidity risk is the potential that the Land Bank will not meet its obligations as they become due because of inability to obtain adequate funding or liquidate assets.

The Land Bank faces two types of liquidity risk in its activities:

- Related to specific products or markets and
- Related to the general funding of the Land Bank's activities.

The table below summarises the maturity profile of the Group at 31 March 2007 based on contractual undiscounted repayment maturities.

#### 2007 - Undiscounted Contractual Values

Financial Liabilities R'000	Within one month	One month to three Months	Three months to one year	One year to five years	More than five years	Total
Bank overdraft	449	-	-	-	-	449
Trade and other payables	162,027	-	-	-	-	162,027
Re-purchase agreements	50,853	-	-	-	-	50,853
Financial liabilities held for trading	-	-	31	13,127	-	13,158
Financial liabilities through Profit and loss	-	158,250	1,048,756	3,275,114	-	4,482,120
Financial liabilities measured at amortised cost	2,233,233	2,003,780	6,713,250	1,145,833	-	12,096,096
<b>Total</b>	<b>2,446,562</b>	<b>2,162,030</b>	<b>7,762,037</b>	<b>4,434,074</b>	<b>-</b>	<b>16,804,703</b>



Financial Assets	Within one month	One month to three Months	Three months to one year	One year to five years	More than five years	Total
R'000						
Cash	1,118,244	-	-	-	-	1,118,244
Financial assets at fair value through profit and loss	1,114,855	-	-	-	-	1,114,855
Trade and other receivables	29,841	-	-	-	-	29,841
Loans	2,973,219	910,320	5,643,418	2,960,863	4,884,174	17,371,994
Financial assets held for trading	-	69,460	33,722	67,241	-	170,423
<b>Total</b>	<b>5,236,159</b>	<b>979,780</b>	<b>5,677,140</b>	<b>3,028,104</b>	<b>4,884,174</b>	<b>19,805,357</b>

### 2006 – Undiscounted Contractual Values

Financial Liabilities	Within one month	One month to three Months	Three months to one year	One year to five years	More than five years	Total
R'000						
Bank overdraft	208,533	-	-	-	-	208,533
Trade & other payables	166,747	-	-	-	-	166,747
Financial liabilities held for trading	91,387	-	358	2,616	27,979	122,340
Financial liabilities through Profit & loss	-	263,250	314,250	3,926,240	-	4,503,740
Financial liabilities measured at amortised cost	2,633,444	2,794,208	6,520,400	935,833	-	12,883,885
<b>Total</b>	<b>3,100,111</b>	<b>3,057,458</b>	<b>6,835,008</b>	<b>4,864,689</b>	<b>27,979</b>	<b>17,885,245</b>

Financial Assets	Within one month	One month to three Months	Three months to one year	One year to five years	More than five years	Total
R'000						
Cash	3,249,884	-	-	-	-	3,249,884
Financial assets at fair value through profit and loss	980,061	-	-	-	-	980,061
Trade and other receivables	49,916	-	-	-	-	49,916
Loans	1,139,291	231,796	4,276,333	4,529,939	6,249,647	16,427,006
Financial assets held for trading	-	6,713	32,936	184,347	-	223,996
<b>Total</b>	<b>5,419,152</b>	<b>238,509</b>	<b>4,309,269</b>	<b>4,714,286</b>	<b>6,249,647</b>	<b>20,930,863</b>



## 29.3 Market risk

Market risk is the risk that the Land Bank's earnings and capital, or its ability to meet its business objectives, will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices.

Market exposure is explicit in portfolios of securities (e.g, bonds, asset backed securities) and over-the-counter instruments (e.g, interest rate derivatives) that are actively traded or held for investment purposes (traded portfolios).

### 29.3.1 Interest rate risk

The Land Bank's primary form of interest rate risk arises from timing differences in the maturity and re-pricing of assets and liabilities (re-pricing risk).

The sensitivity of the Land Bank's earnings to market risk is performed using a rate shock analysis which at 31 March 2007 showed the following impact for the next 12 months:

Rate shock analysis	Net Interest Income (NII) R'000	Variance from expected R'000
Expected NII	513,990	-
Rate shock 50 bp up	548,913	34,923
Rate shock 50 bp down	479,934	(34,056)

### 29.3.2 PRICE RISK

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities in the market. The price risk relating to investments is dependent on the asset allocation of the various funds as detailed in note 8.2.1 and 8.2.2 above.



## **29.4 INSURANCE RISK**

### **29.4.1 Investment risk**

For assets backing the policyholder liabilities, the risk to the business is that returns earned are lower than assumed by the Group. On the other hand, a higher than assumed return will lead to a profit as evidenced during the year under review.

The investment objective is to ensure that the Group invests in assets that ensure its long-term objectives. The Group does not manage its investment portfolios, but employs outside experts to perform this function.

The focus of investment risk measurement and management is to ensure that the potential risk inherent in an investment are reasonable for the future potential reward, exposure to investment risk is limited to acceptable levels, premium rates are adequate to compensate for investment risk and an adequate reserving policy is applied for long-term policy liabilities.

### **29.4.2 Mortality risk and Reinsurance**

The risk to the business is that mortality rates in future are higher than provided for by the valuers in the valuation calculations. Higher than expected mortality will give rise to losses and will necessitate an increase in the valuation assumptions. The Group will be conducting a mortality investigation to determine its mortality risk in the next financial year.

The Group has arranged for reinsurance cover for all policies on the books and all new business from 1 September 2005. This is a risk premium quota share arrangement with a surplus layer. The reinsurance provides cover such that the Group's exposure to claim payments is 50% of the claim amount, up to a maximum of R500 000 per claim.

### **29.4.3 Terms and conditions of insurance contracts**

LBIC does not have the right to alter premiums for existing contracts; hence there is exposure to the risk that deterioration in experience relating to investment return, mortality, administration expenses or inflation may lead to a loss.

### **29.4.4 Capital adequacy risk**

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than assumed in the financial soundness valuation.

The valuers certified that LBIC was in a financially sound position at 31 March 2007, with a surplus of assets over liabilities of R682.5 million and surplus assets that were 94.1 times the Capital Adequacy Requirement (2006:147.2). The Capital Adequacy Requirement (CAR) for LBIC was R7 million (2006:R4 million).



**29.4.5 Sensitivity Analysis**

The sensitivity analysis below is performed for reasonably possible movement in mortality rates showing the impact on gross liabilities, net liabilities, and net profit for the year and equity as follows:

2007

Assumption	Change in assumption	Percentage impact on liabilities	Impact on gross liabilities R'000	Impact on net liabilities R'000	Impact on net profit R'000	Impact on equity R'000
Mortality Rate	10% increase	48%	75,279	20,133	480	20,133

2006

Assumption	Change in assumption	Percentage impact on liabilities	Impact on gross liabilities R'000	Impact on net liabilities R'000	Impact on net profit R'000	Impact on equity R'000
Mortality Rate	10% increase	24%	46,459	7,480	840	7,480



**29.5 MATURITY ANALYSIS OF ASSETS AND LIABILITIES - GROUP**

2007

ASSETS	Within 12 months R'000	After 12 months R'000	Total R'000
Cash and Cash equivalents	1,118,260	-	1,118,260
Trade and other receivables	29,841	-	29,841
Repurchase agreements	187,172	-	187,172
Derivative assets	96,120	74,303	170,423
Hedging assets	66,726	-	66,726
Loans	8,554,576	7,044,322	15,598,898
Intangible assets	10,432	39,310	49,742
Investments	860,957	-	860,957
Investment properties	74,222	-	74,222
Property, Plant and Equipment	15,426	131,886	147,312
	<b><u>11,013,732</u></b>	<b><u>7,289,821</u></b>	<b><u>18,303,553</u></b>
<b>LIABILITIES</b>			
Bank overdraft	449	-	449
Trade and other payables	162,027	-	162,027
Repurchase agreements	50,853	-	50,853
Derivative assets	31	13,127	13,158
Insurance contracts	1,223	40,944	42,167
Funding	13,954,260	2,176,878	16,131,138
Provisions	24,497	-	24,497
Post retirement obligations	182,547	-	182,547
	<b><u>14,375,887</u></b>	<b><u>2,230,949</u></b>	<b><u>16,606,836</u></b>

Funding maturing within 12 months includes Land Bank debentures with a fair value of R1,973 million (2006: R2,069 million). These debentures mature on 30 June 2010, however, because the Land Bank acts as a buyer of last resort, these debentures have been classified as liabilities maturing within 12 months.



2006

ASSETS	Within 12 months R'000	After 12 months R'000	Total R'000
Cash and Cash equivalents	3,249,884	-	3,249,884
Trade and other receivables	49,916	-	49,916
Repurchase agreements	249,006	-	249,006
Derivative assets	39,649	184,347	223,996
Loans	9,128,987	5,822,865	14,951,852
Intangible assets	4,572	8,499	13,071
Investments	731,055	-	731,055
Investment properties	82,614	-	82,614
Property, Plant and Equipment	8,179	127,056	135,235
	<u>13,543,862</u>	<u>6,142,767</u>	<u>19,686,629</u>

## LIABILITIES

Bank overdraft	208,533	-	208,533
Market making liabilities	91,387	-	91,387
Trade and other payables	166,747	-	166,747
Derivative liabilities	358	30,595	30,953
Insurance contracts	3,853	27,667	31,520
Funding	12,111,771	5,146,711	17,258,482
Provisions	24,000	-	24,000
Post retirement obligations	181,221	-	181,221
	<u>12,787,870</u>	<u>5,204,973</u>	<u>17,992,843</u>



### 30 SEGMENT REPORTING LAND BANK

#### 30.1 PRIMARY SEGMENT REPORTING (BUSINESS SEGMENTS)

2007	Retail R'000	Corporate Finance R'000	Micro Finance R'000	LDU R'000	LBC R'000	Other R'000	Total R'000
<b>REVENUE</b>							
Interest	606,763	1,008,992	-	26,243	-	101,812	1,743,810
Net insurance income	-	-	-	-	8,959	-	8,959
Interest & insurance income	606,763	1,008,992	-	26,243	8,959	101,812	1,752,769
<b>RESULTS</b>							
Profit / (loss) from operations	72,754	(215,817)	24,789	(49,193)	86,783	70,577	(10,107)
<b>OTHER INFO</b>							
Impairment losses recognised in income	(27,858)	(317,362)	32,225	(56,534)	-	-	(369,529)
Depreciation Additions	5,219 193	165 73	- -	- -	- -	5,367 10,100	10,751 10,366
<b>BALANCE SHEET</b>							
<b>ASSETS</b>							
Segment assets	3,994,549	11,338,957	-	265,392	677,977	2,026,678	18,303,553
<b>EQUITY AND LIABILITIES</b>							
Segment equity and liabilities	4,254,899	12,077,993	-	282,690	677,977	1,009,994	18,303,553

**30.1 Primary segment reporting (business segments) (continued)**

2006	Retail R'000	Corporate Finance R'000	Micro Finance R'000	LBIC R'000	Other R'000	Total R'000
<b>REVENUE</b>						
Interest	602,478	909,283	19,535	-	110,499	1,641,795
Net insurance income	-	-	-	15,652	-	15,652
Interest & insurance income	602,478	909,283	19,535	15,652	110,499	1,657,447
<b>RESULTS</b>						
Profit from operations	213,039	(199,475)	(74,284)	188,872	(62,590)	65,562
<b>OTHER INFORMATION</b>						
Impairment losses recognised in income	141,556	(374,117)	(87,283)	-	-	(319,844)
Depreciation Additions	651 1,008	21 33	- -	- -	7,507 11,628	8,179 12,669
<b>BALANCE SHEET ASSETS</b>						
Segment assets	4,995,071	9,941,222	15,559	586,651	4,148,126	19,686,629
<b>EQUITY &amp; LIABILITIES</b>						
Segment equity & liabilities	6,014,548	11,970,192	18,735	586,651	1,096,503	19,686,629



**30.2 SECONDARY SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)**

2007					
	Profit/(Loss) R'000	Depreciation R'000	Additions R'000	Assets R'000	Equity and Liabilities R'000
Eastern Cape	12,760	670	1	516,575	550,244
Free State	11,747	792	-	645,192	687,243
Gauteng	(95,389)	5,661	10,140	11,031,711	10,557,757
KwaZulu-Natal	25,465	445	-	446,301	475,389
Mpumalanga	3,044	585	-	358,395	381,754
Northern Cape	29,989	284	-	303,072	322,825
Limpopo	(894)	551	-	242,531	258,338
North West	9,788	873	1	514,063	547,568
Western Cape	(6,617)	890	224	4,245,713	4,522,435
<b>TOTAL</b>	<b>(10,107)</b>	<b>10,751</b>	<b>10,366</b>	<b>18,303,553</b>	<b>18,303,553</b>

2006					
	Profit/(Loss) R'000	Depreciation R'000	Additions R'000	Assets R'000	Equity and Liabilities R'000
Eastern Cape	22,957	20	-	953,135	1,147,666
Free State	49,514	26	25	1,036,880	1,248,504
Gauteng	(159,994)	7,539	12,559	8,430,979	6,133,737
KwaZulu-Natal	24,586	15	8	1,403,971	1,690,517
Mpumalanga	21,692	34	50	1,188,392	1,430,939
Northern Cape	34,462	24	-	541,962	652,575
Limpopo	(18,316)	137	11	1,237,882	1,490,530
North West	17,088	49	16	1,705,188	2,053,211
Western Cape	73,573	335	-	3,188,240	3,838,950
<b>TOTAL</b>	<b>65,562</b>	<b>8,179</b>	<b>12,669</b>	<b>19,686,629</b>	<b>19,686,629</b>







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