



# Land Bank

**Presenting Land Bank Annual Report (2008/09) to  
Joint Meeting for PC on Finance and  
Agriculture Forestry and Fisheries**

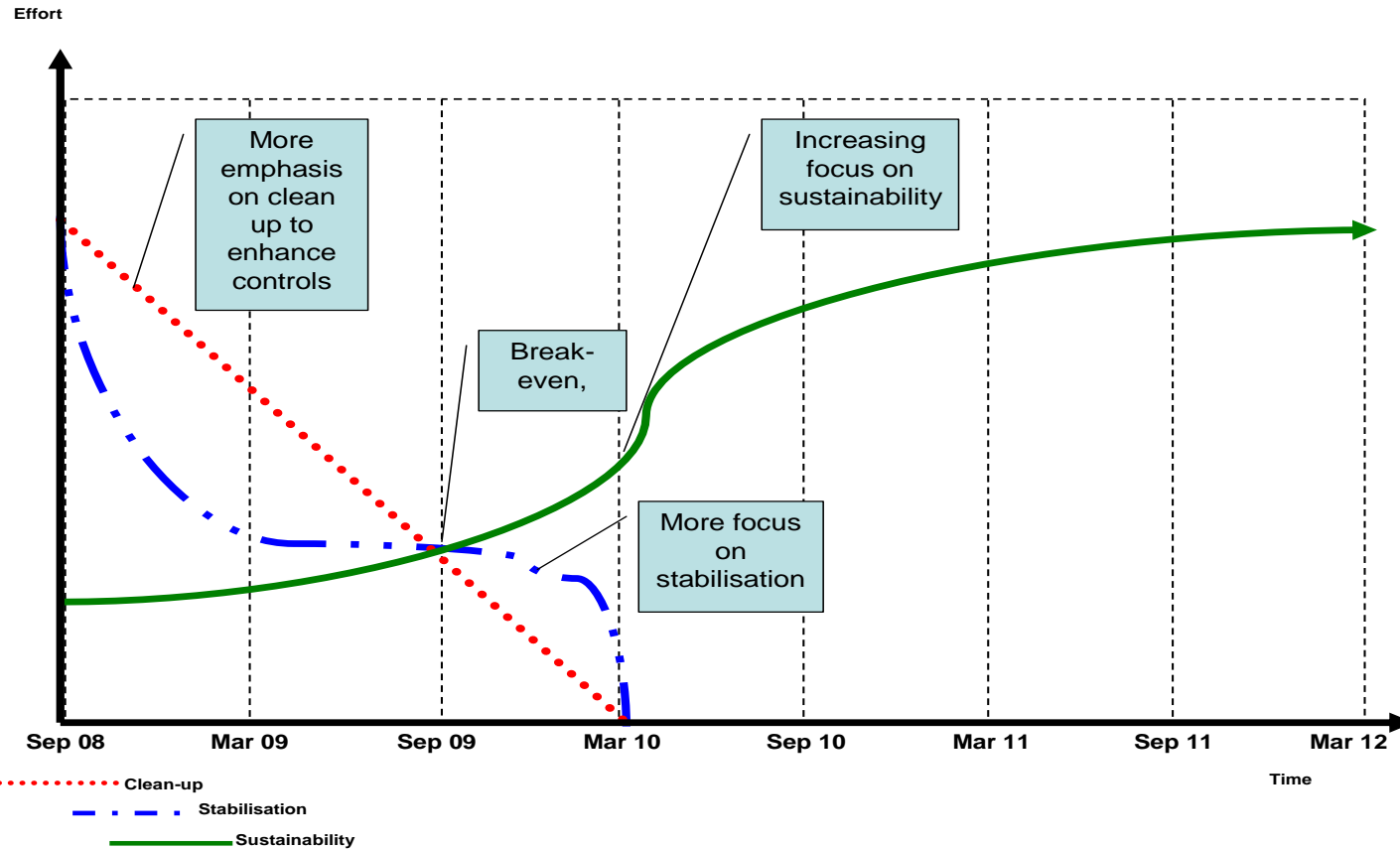
## Content

- Turnaround strategy
- Results of turnaround strategy
- Financial performance to 30 September 2009
- Critical legacy issues:
  - Forensic investigations
  - Resuscitation of distressed development farmers
  - Interest claims
  - Fruitless and wasteful expenditure

# Turnaround strategy



# Current status of turnaround strategy



## Results of the turnaround strategy



# Results of turnaround strategy

## CLEANUP

1. 2008 Audit report matters (qualifications & other matters)
2. Management letters of the auditors
3. SCOPA resolutions & portfolio committee undertakings
4. Government guarantee conditions
5. Forensic investigations

## STABILISATION

1. Improve staff capacity
2. Information technology
3. Funding dynamics
4. Balance sheet
5. LDFU
6. Cost to income ratio

## SUSTAINABILITY

1. Building the book
2. Development

## RESULTS OF CLEANUP - qualifications

### 7 Qualifications in 2008

1. LDFU loan balances:  
Existence & valuation
2. LDFU loans: Non compliance  
with mandate
3. System implementation  
costs capitalised (linked  
to IT irregularities)
4. Procurement and payments
5. Payroll
6. Funds under administration
7. Fruitless & wasteful expenditure  
(F&W) - not quantified & disclosed

### 2009 Audit report

1. Addressed
2. Addressed  
Moved to other matter
3. Addressed
4. Addressed
5. Addressed
6. Addressed
7. Addressed  
Moved to emphasis of matter

**2009 Audit report is unqualified**



## RESULTS OF CLEANUP – other matters

### 12 Other matters in 2008

### 2009 Audit report

1. Banking module deficiencies

1. Addressed

### Non compliance with applicable legislation

2. Late submission of corporate plan

2. Addressed

3. Declaration of interests

3. Addressed

4. Moratorium on the collection of development loans

4. Addressed

5. Previous CEO salary settlement

5. Addressed

### Matters of governance

6. Audit committee did not fulfil its responsibilities

6. Addressed

7. Ineffective internal audit function

7. Addressed

## RESULTS OF CLEANUP – other matters...

### 12 Other matters in 2008

### 2009 Audit report

#### Matters of governance ...

8. Late submission of annual report

8. Addressed

9. SCOPA resolutions not implemented

9. Addressed

10. Auditors recommendations not implemented

10. Addressed

#### Performance information (PI)

11. No set targets for non financial indicators & incomplete quarterly reporting

11. Remains other matter  
PI shortcomings in Q1/2009

#### Other reports referred to by the AG

12. Special investigations completed & in progress at the end of the 2008 financial year

12. AG confirms ongoing investigations  
- Discussed under forensics



# **RESULTS OF CLEANUP – emphasis of matter & other matter ...**

## **Emphasis of matter in 2009 audit report**

- **F&W expenditure qualification in 2008 move to an emphasis of matter paragraph**
- **AG’s practice to draw attention to F&W expenditure quantified & disclosed in the financial statements of government departments & entities**

## **Other matter in 2009 audit report**

- **LDFU qualification in 2008 on mandate remains an other matters**
- **Discussed further under stabilisation**

**The 2009 audit report is “cleaner” with only legacy issues remaining**

## Turnaround strategy - **STABILISATION**

1. **Improve staff capacity**
2. **Information technology**
3. **Funding dynamics**
4. **Balance sheet**
5. **LDFU**
6. **Cost to income ratio**

## RESULTS OF STABILISATION – improve staff capacity & IT

### Initiative

### Achievements

#### 1. Improve staff capacity

- 8 of 9 Executive appointments completed
- 1 Executives joining the Bank in Nov 09
- Filled 60 critical vacancies (target 68)

#### 2. Information technology

- Critical configuration fixes completed for HR & finance modules
- SAP assessment completed and downsizing decision taken
- Strategy building towards the implementation of a banking module



# RESULTS OF STABILISATION – funding dynamics

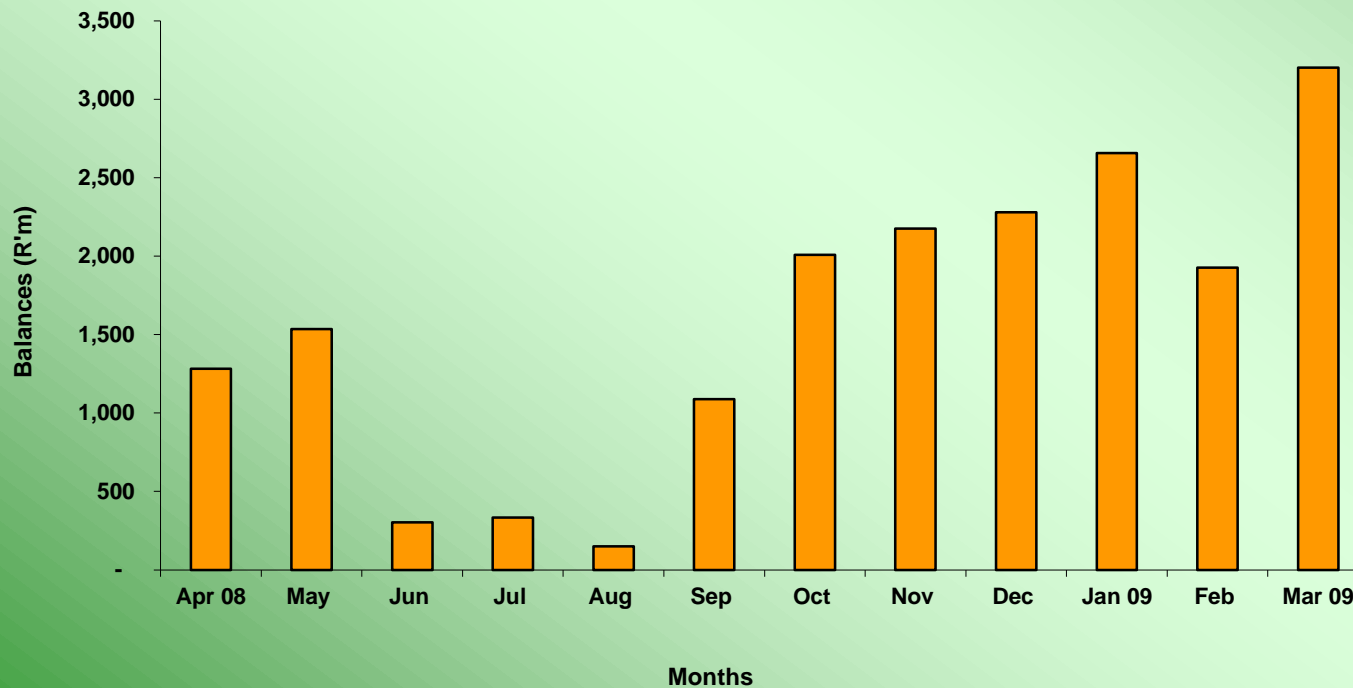
## Initiative

### 3. Funding dynamics

## Achievements

- Investors reinvesting
- Maturities lengthened
- Increased roll over's & new funding secured

Monthly Cash Balances from April 2008 to March 2009



## RESULTS OF STABILISATION – balance sheet & LDFU

<b>Initiative</b>	<b>Achievements</b>
<b>4. Balance sheet</b>	<ul style="list-style-type: none"><li>➤ <b>Concerted collection efforts</b></li><li>➤ <b>Targeted 3 biggest NPLs</b></li><li>➤ <b>Collected R1.1 billion on accounts classified as legal and pre-legal</b></li></ul>
<b>5. LDFU</b>	<ul style="list-style-type: none"><li>➤ <b>R14.7 million recovered</b></li><li>➤ <b>Due to market conditions unwinding has been extended by 2 more years</b></li></ul>

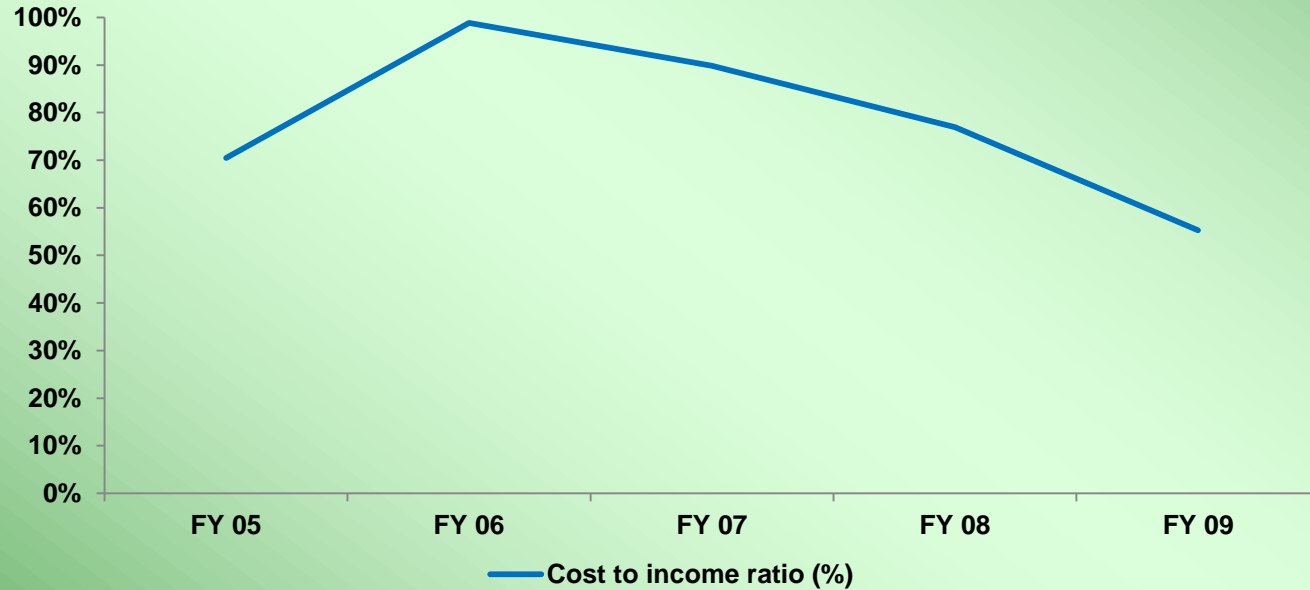
## RESULTS OF STABILISATION – cost to income

### Initiative

#### 6. Cost to income

### Achievements

- Ratio reduced from 77% last year to 55%



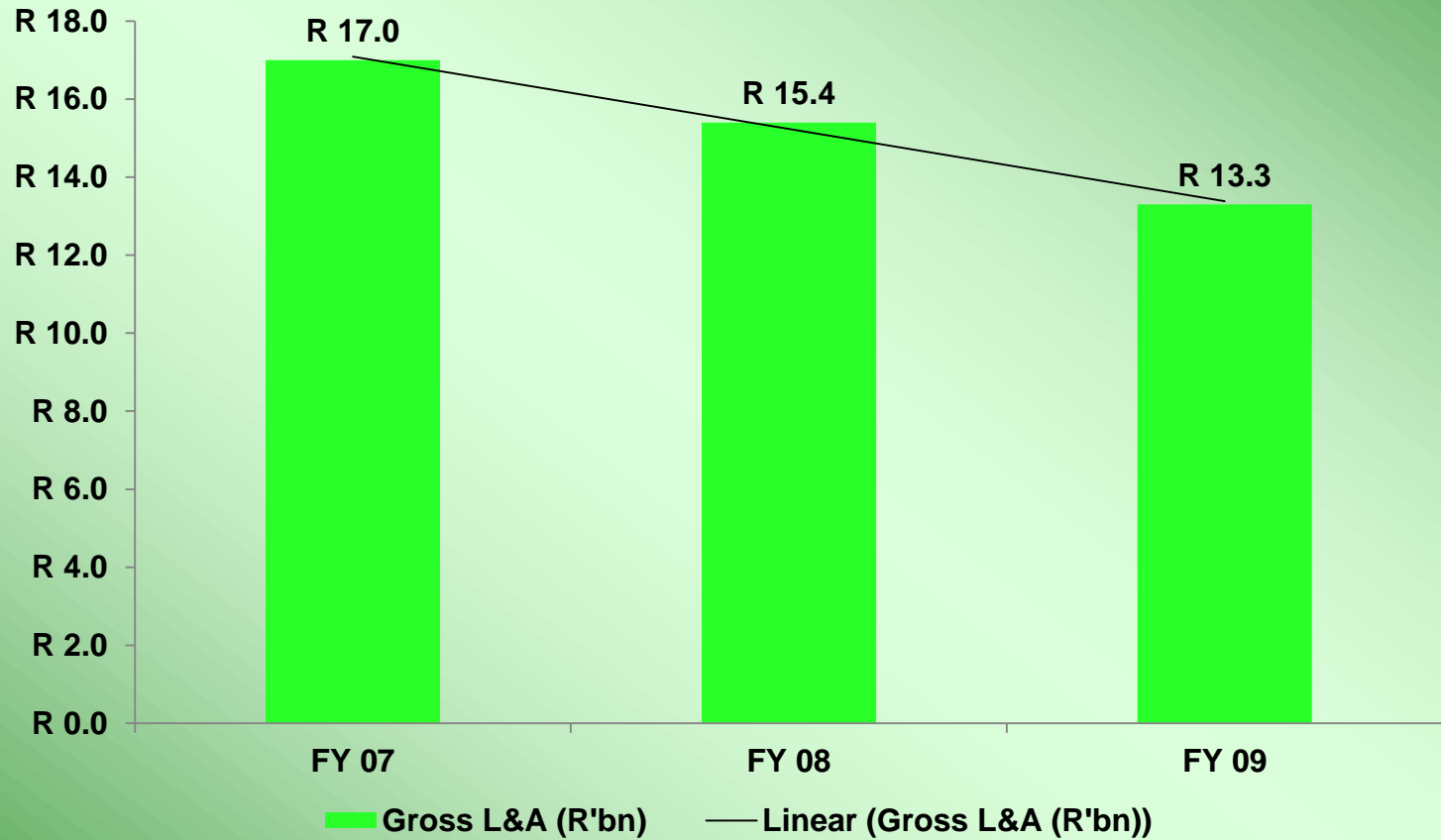
# Turnaround strategy - **SUSTAINABILITY**

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1. **Building the book**
2. **Development**



## Historical trend of the loan book



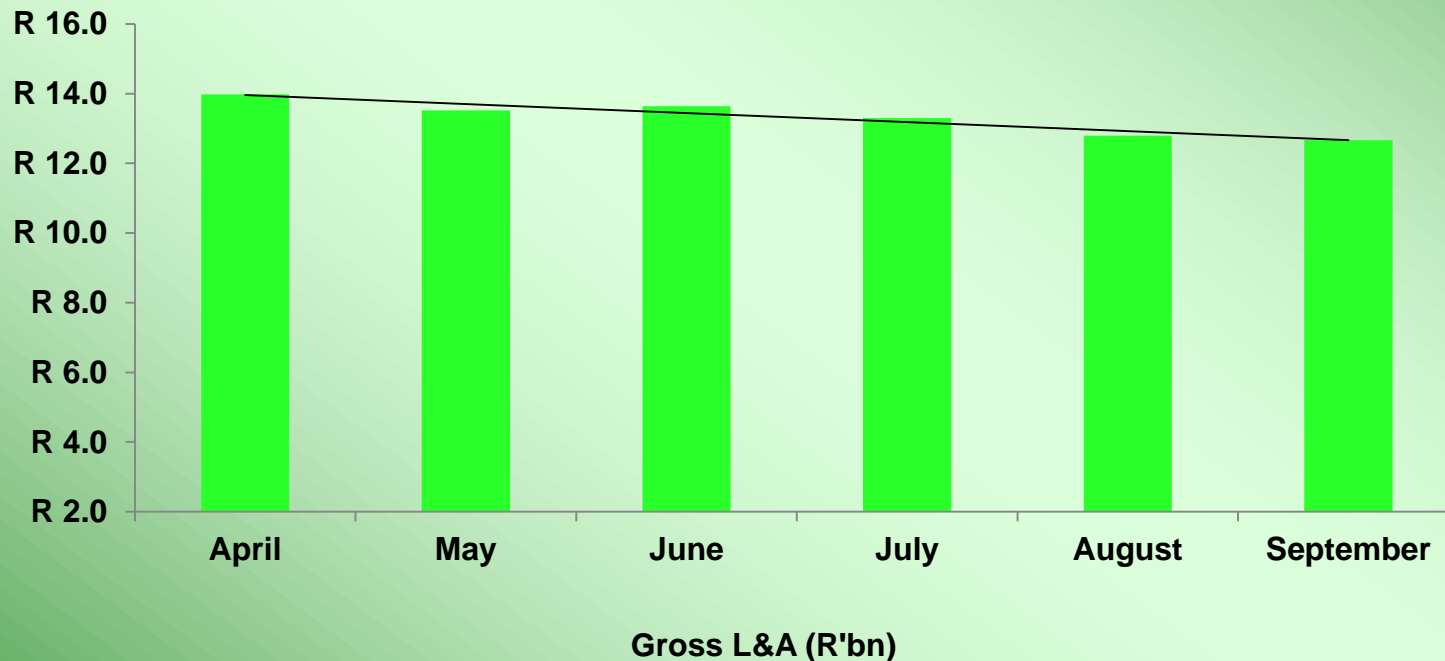
# RESULTS OF SUSTAINABILITY – building the book

## Initiative

Stabilise the loan book ...

## Achievements

- Recent months show loan book is stabilising



## **RESULTS OF SUSTAINABILITY – development**

<b><u>Growth in the development loan book</u></b>	<b><u>Target</u></b>
<b>March 2010</b>	<b>R450 million</b>
<b>March 2011</b>	<b>R1.1 billion</b>
<b>March 2012</b>	<b>R1.7 billion</b>
<b>Total over 3 years</b>	<b><u>R3.3 billion</u></b>

**The total pipeline on development projects is currently estimated at R643 million**

## In summary

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- **Audit report is unqualified and audit findings being cleaned up further**
- **Environment stabilising**
- **Land Bank becoming a normalised institution moving towards development in compliance with the Land Bank Act objects**

# Financial Performance to 30 September 2009



## Year end financial highlights

- **Group profit of R166,6m (2008: R17,5m)**
- **Profit from banking operations of R241m (2008: loss of R20m)**
- **Profit from continuing operations of R369m (2008: R219m)**
- **Cost to income ratio improved to 55% (2008: 77%)**
- **Net cash position of R3,5bn (2008: R0,8bn)**
- **Capital adequacy ratio 23% (target 20%)**



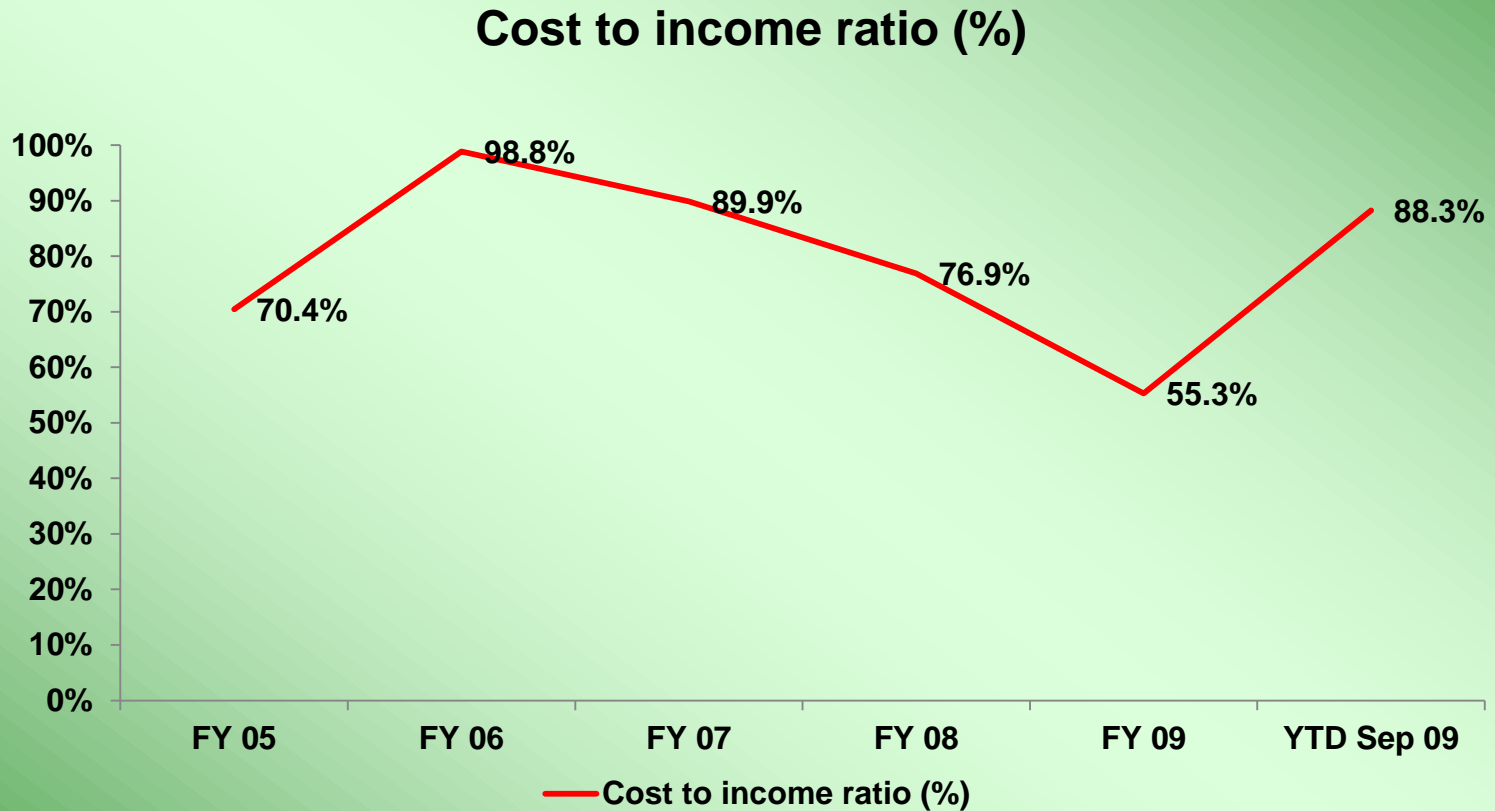
## Income statement– 30 September 2009

	YTD	Full year	Full year
	30-Sep-09	31-Mar-09	31-Mar-08
	R'm	R'm	R'm
Net interest income	205	617	508
Net recoveries / (impairments)	72	114	(112)
Non-interest income	25	32	31
<b>Income from banking activities</b>	<b>302</b>	<b>762</b>	<b>427</b>
Fair value gains / (losses)	29	(147)	42
<b>Total operating income</b>	<b>331</b>	<b>615</b>	<b>469</b>
Operating expenses	(203)	(359)	(415)
<b>Net operating income</b>	<b>128</b>	<b>257</b>	<b>54</b>
Capital items	-	6	(51)
<b>Net profit before taxation</b>	<b>128</b>	<b>263</b>	<b>3</b>
Indirect tax	(9)	(22)	(23)
<b>Net profit / (loss)</b>	<b>119</b>	<b>241</b>	<b>(20)</b>

## Other factors impacting performance

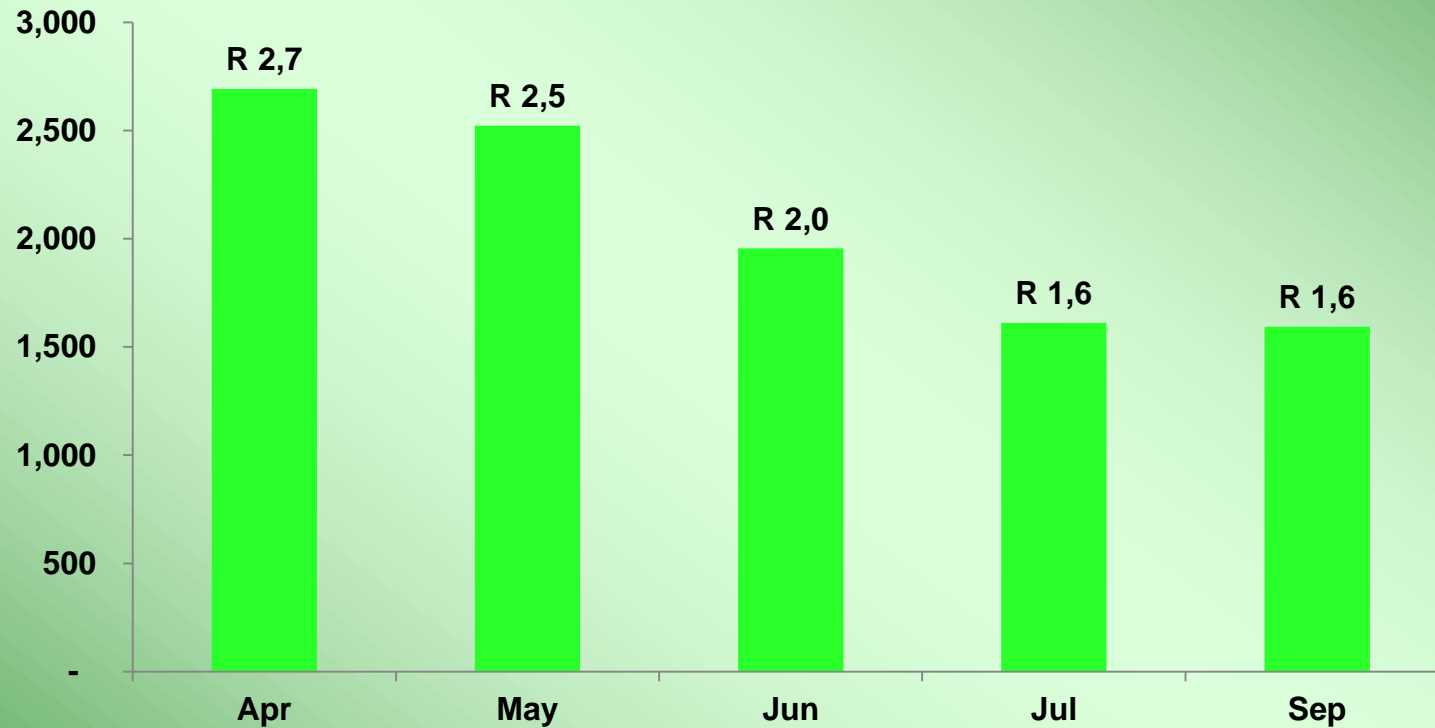
- The performance to year ending 31 March 2010 will still be impacted (either negatively or positively) by the following additional factors:
  - Additional provisions relating to interest claims
  - Revaluation of LDFU transactions
  - Revaluations of PIP's and other properties
  - Revaluation of the medical aid liability

## Improved cost efficiency (incl. discontinued operations)

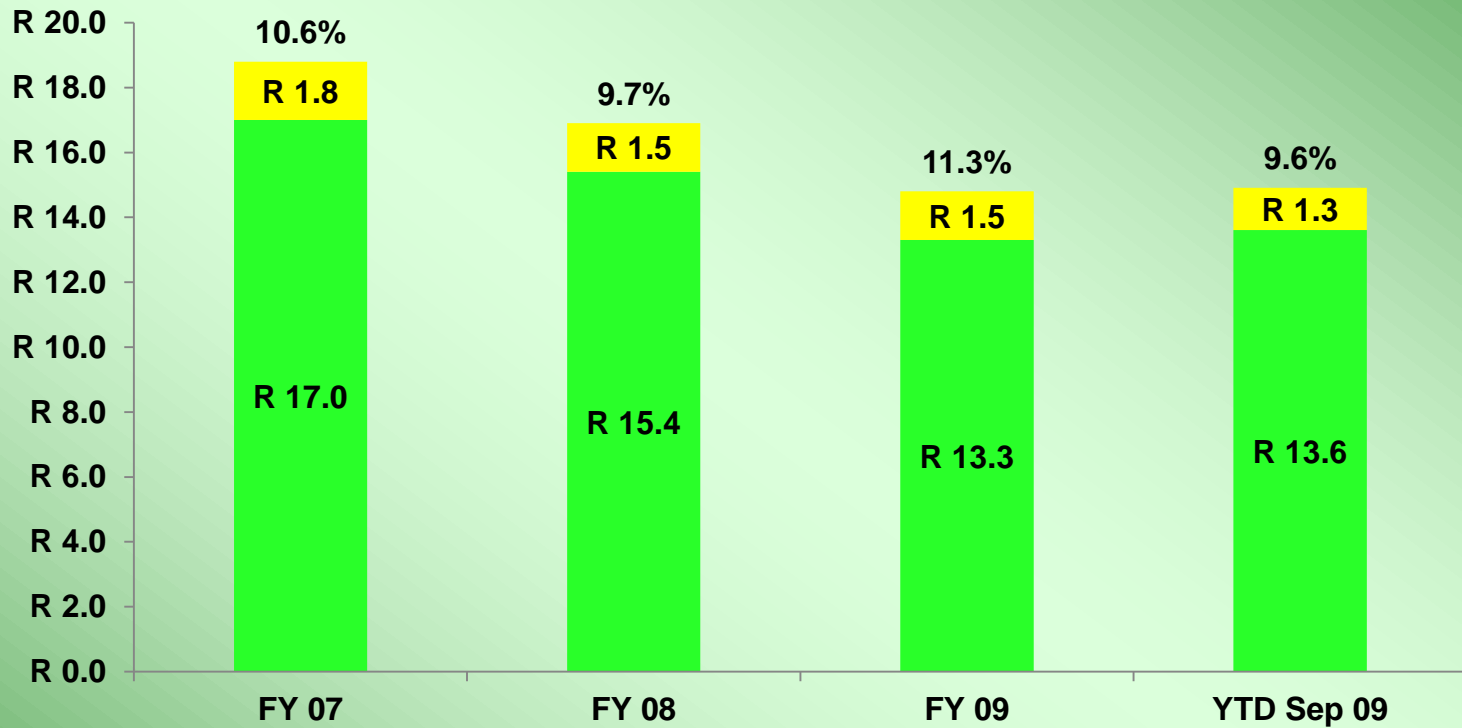


# Liquidity

## Monthly Cash Balances (2009) - R'bn



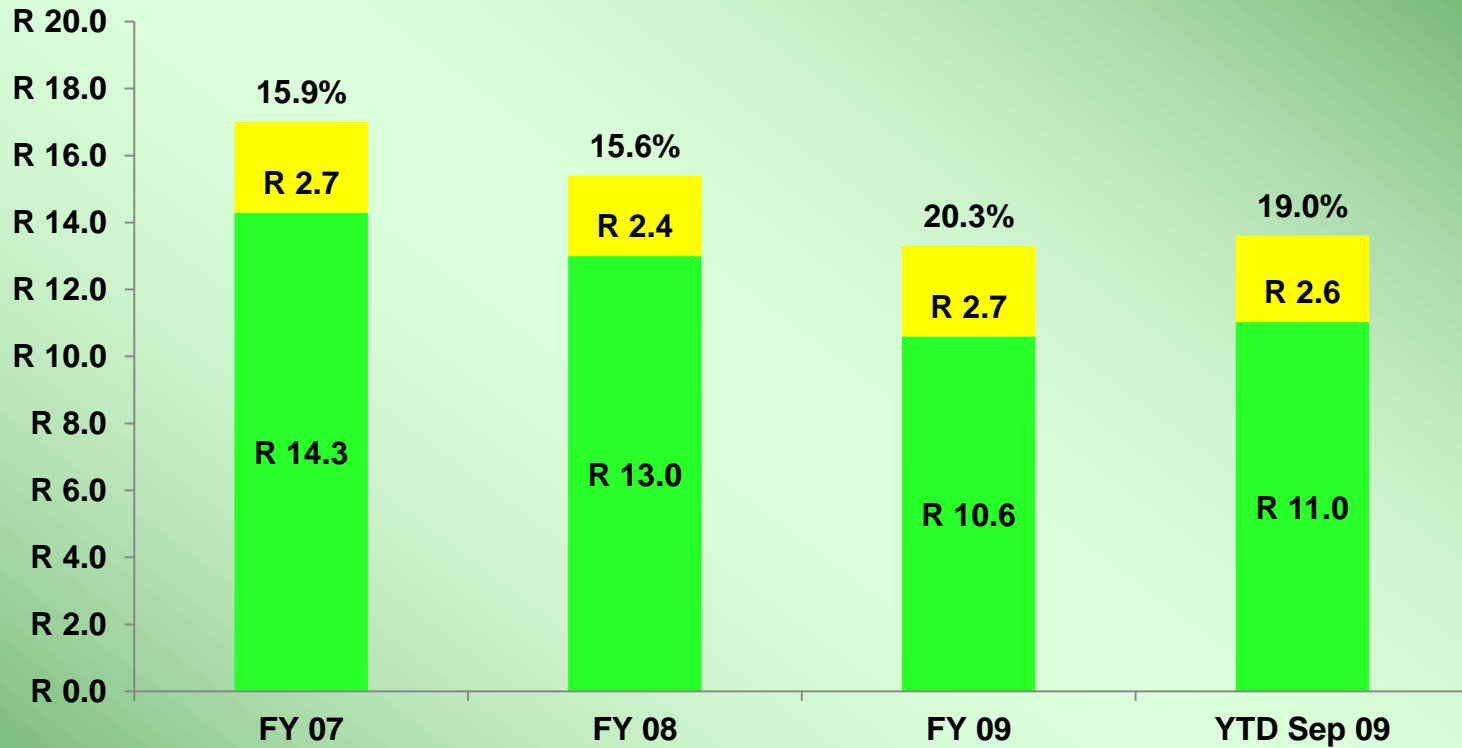
# Gross loans and advances



Total impairments as % gross L&A (%) ■ Total impairments ■ Gross L&A (R'bn)



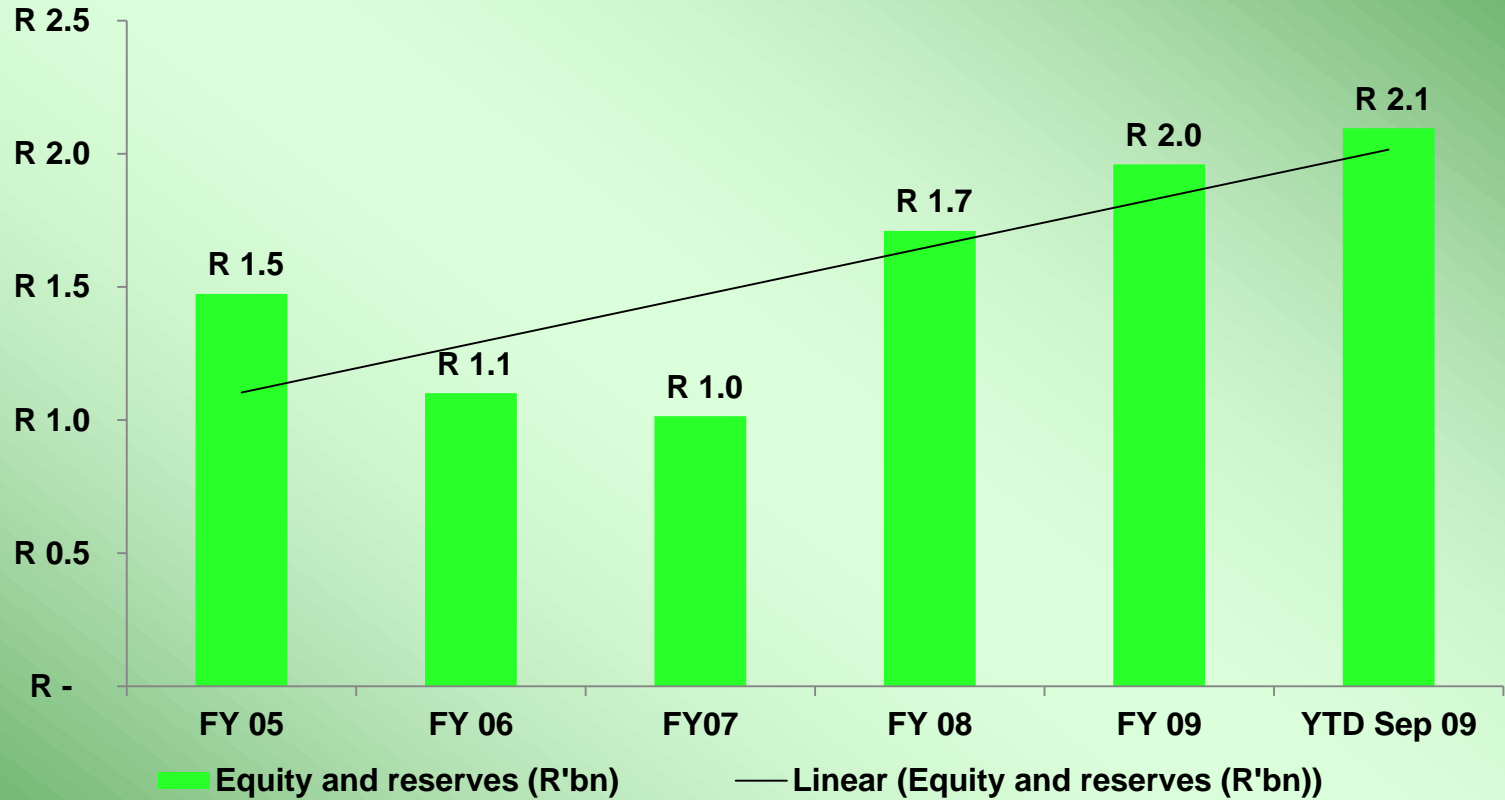
# Loan book quality



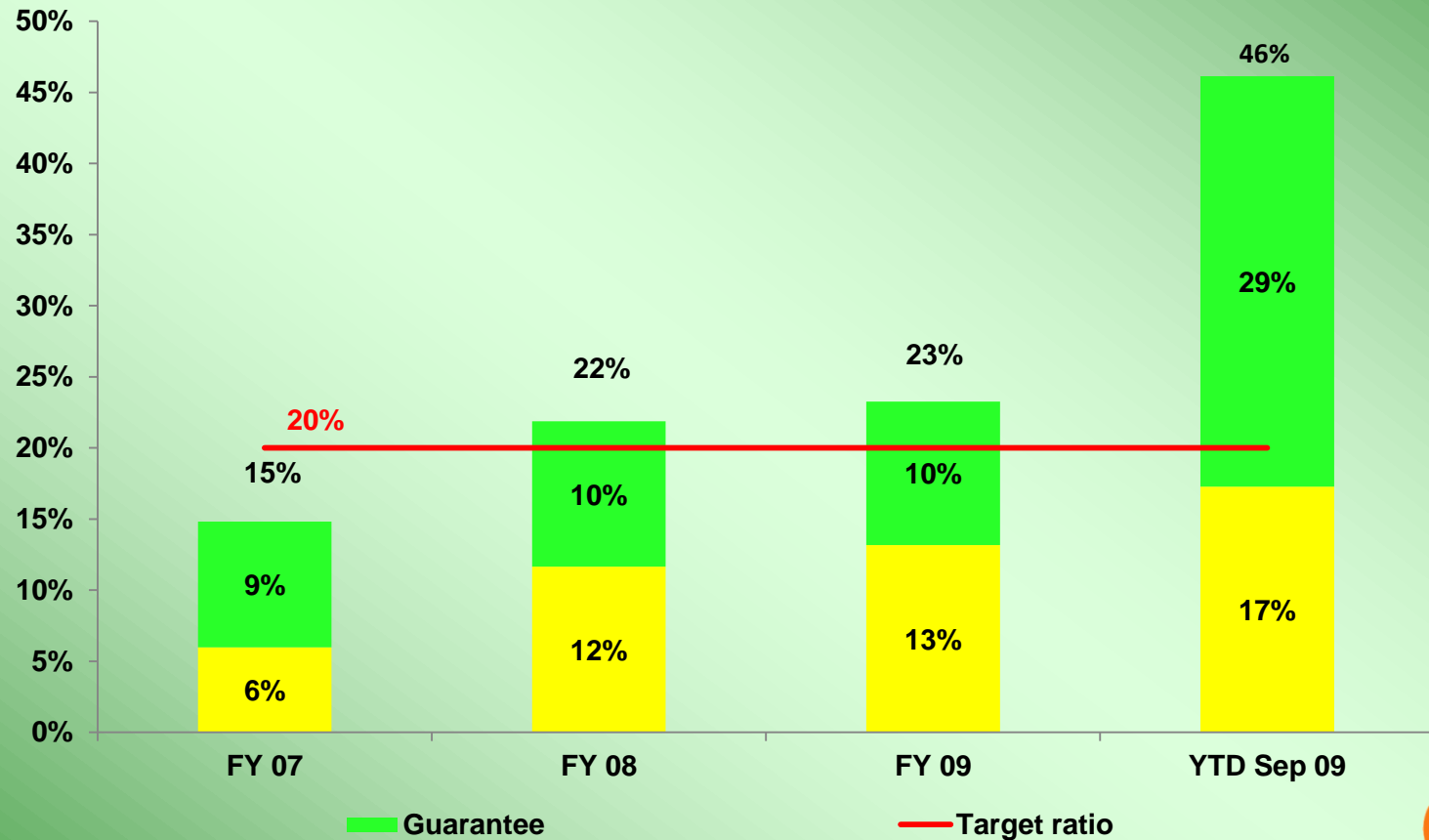
NPL to total book (%)    ■ Non-performing book (R'bn)    ■ Performing book (R'bn)



## Equity and reserves



# Capital adequacy



# Critical legacy issues



## Critical issues under ongoing review

- Land Bank is continuously reviewing certain critical parts of its operation to address shortcomings, including:
  - **Forensic investigations**
  - **Resuscitation of distressed development farmers**
  - **Interest claims**
  - **Fruitless and wasteful expenditure**
  
- ❖ An update on the progress of this review is provided on the slides that follow

# Progress on forensic investigations



## Progress on forensic investigations

<u>Investigation</u>	<u>Authority handed over to</u>	<u>Case number</u>
1. Agri BEE	Serious Economic Offences Unit (SEOU): 6 Nov 08	300/11/2008
2. LDFU	Serious Economic Offences Unit (SEOU): 15 Oct 2008	SEOU ENQ 01/12/2007
3. Mafisa	Hawks (Scorpions): 18 Aug 08	GP69
4. New system implementation	Hawks (Scorpions): 18 Aug 08	GP69

# **Progress on resuscitation of distressed development farmers**



# Collective Understanding of Value Chain

## ➤ Commercial Farmer

- Land (Mortgage) – paid for
- Capital – secured due to availability of security
- Main exposure – production loan

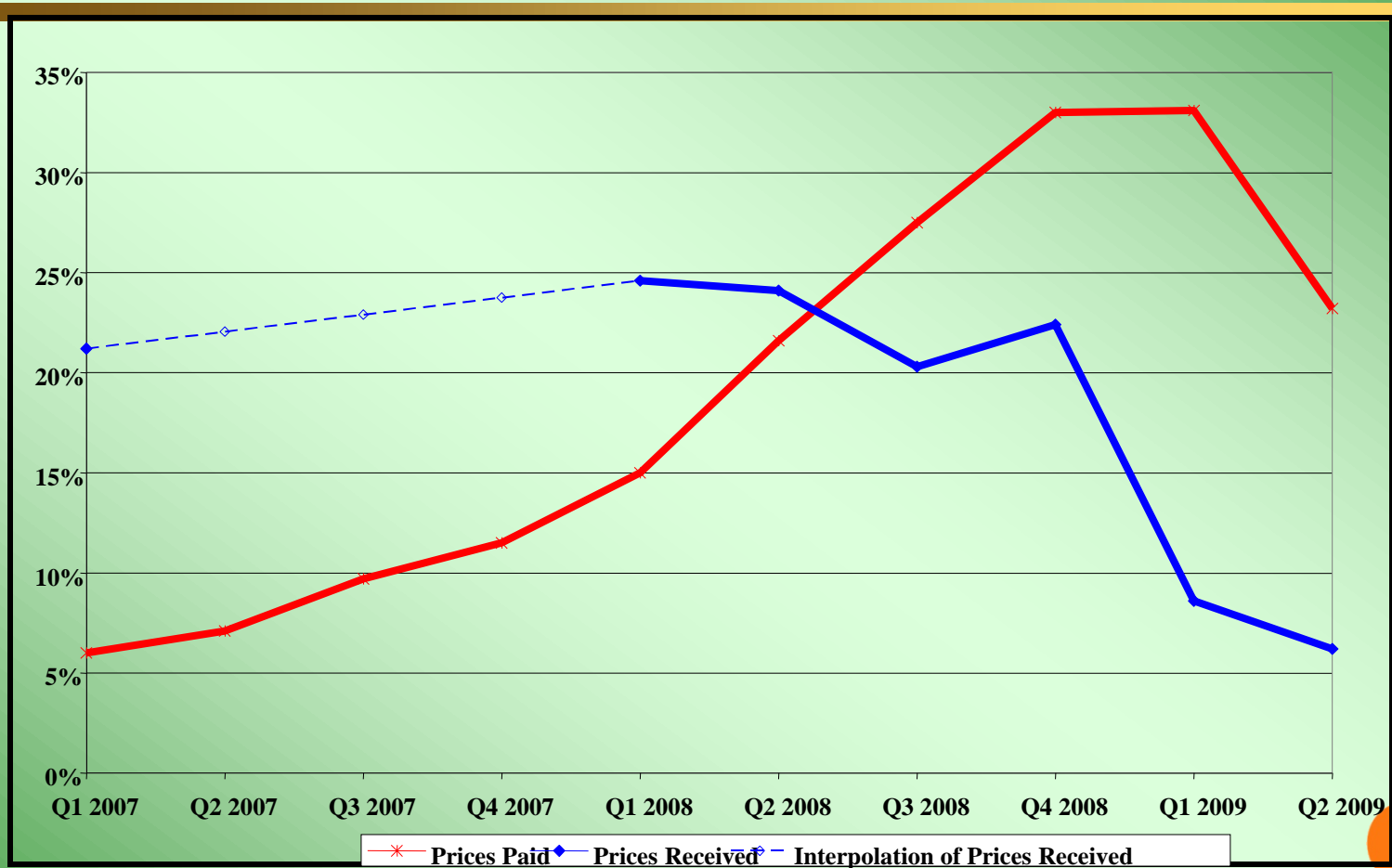
## ➤ PDI / Emerging Farmer

- Land – mortgage loan
- Capital – risky (no capital)
- Main exposure – pay for land and production loan

## ➤ Both these farmers are operating in the same agricultural market



## Graph XVIII: Percentage Changes in Prices Paid of Farming Requisites and Received for Produce by Farmers



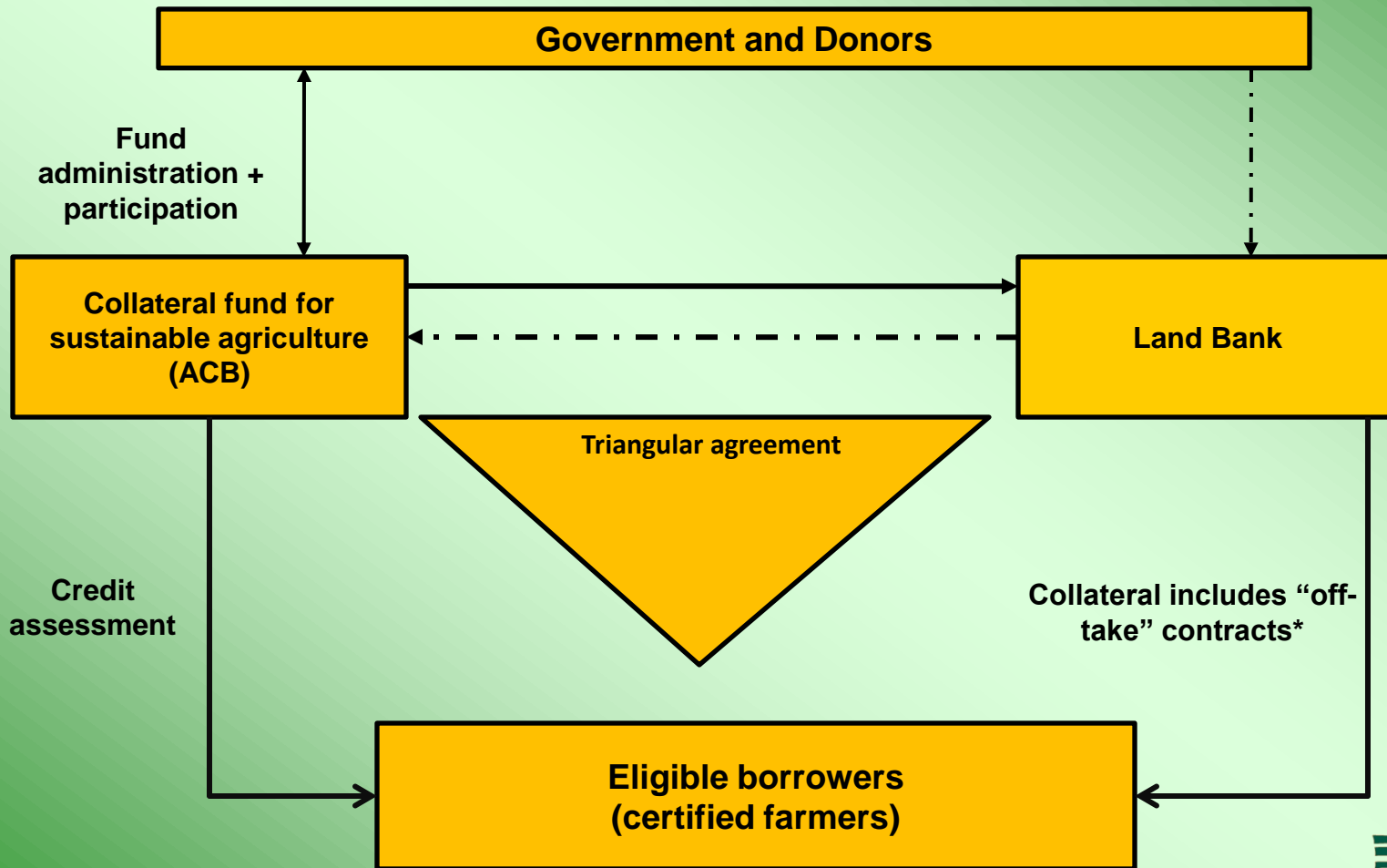
## Recommendations of the Ministers' Meeting (RDLR, NT & DOAFF)

- Use Curatorship concept to deal with emerging farmers under duress
- Workout and Restructuring
- Something like Chapter 11 of the US should be considered
- Only people who are willing to be farmers should be assisted
- This to be used as a rural development strategy
- Come up with a value chain model (aftercare and off takers)
- Create a Credit Board look alike structure
- Value Chain should consider establishing new cooperatives
- Ministers will present a model to Parliament in 2/3 weeks time

## Collective Understanding of Value Chain

- Appropriate Value Chain for PDI farmers should deal with the following:
  - Access to finance;
  - Aftercare service;
  - Access to markets

# Value chain financing example – example of long-term sustainable solution



## **Progress on interest claims**

## Origins of disputes and claims

- In 1999 the Land Bank changed its methodology of interest calculation from NACA (Nominal Annual Compounded Annually) to NACM (Nominal Annual Compounded Monthly)
- Change in The Land Bank Act allowing for the levying of admin and penalty fees – only on new loans and not existing
- *In duplum* interest charged on accounts

## Response by the Land Bank

- The Bank engaged with a banking expert – interest recalculation model
- Engaged with advocate – obtained legal verification of model
- Awaiting 2<sup>nd</sup> opinion from another advocate
- Set up a task team to investigate
- Suspended all legal actions until balances verified
- Instructed branches to refer all balance queries to the task team
- Briefing legal team for court cases

## Statistics

- Since 2006 to October 2009 – 101 disputes lodged by commercial farmers
- No disputes lodged by emerging farmers
- Disputes lodged amount to R13.6m
- Of the 101 cases, 34 settled amounting to R9m
- A number of settlement offers made but not yet accepted

## **Progress on fruitless and wasteful expenditure**

## Fruitless & Wasteful expenditure (F&WE)

	<u>YE 31 March 09</u>	<u>YE 31 March 08</u>
<b>Total amount</b> Analysis in note 36.2 of the annual report	<b>R16,2 million</b>	<b>R43,8 million</b>
<b>Legacy matters</b>	<b>R16.1 million</b>	<b>R43.8 million</b>
<b>Current matters related to weak payment processes that resulted in late regulatory payments in Q2 to Q4</b>	<b>R0.1 million</b>	<b>NA</b>
<b>Portion of legacy matters related to new system implementation irregularities and interest on late payments of IT vendors</b>	<b>R5 million</b>	<b>R35.3 million</b>

## F&WE /continue

### Root cause

Irregularities in respect of new system implementation & interest on late payment of IT vendors

Overpayment to employees

Procurement & payments that did not yield the required results and late payment charges

### Remedial action

- All implicated employees dismissed
- Forensic report with relevant authorities
- Improved procurement & payment processes

- Improved HR system and processes
- Overpayment being recovered from employees

Improved procurement & payment processes

Improved processes and control over F&WE

FY2010 YTD F&WE approximates R0.5 million of which 98% relate to legacy IT matter



## Conclusion

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- Land Bank in a right direction
- Legacy issues remain a challenge
- Land Bank remains committed to dealing with challenges

**Questions?**

