LAND BANK
We stand by you

# INTEGRATED ANNUAL REPORT 2022

# INTEGRATED ANNUAL REPORT 2022

# CONTENTS

# LIST OF ACRONYMS

| | |
|---|---|
| ACI | Asset Condition Index |
| AFASA | African Farmers Association of South Africa |
| AFC | Audit and Finance Committee |
| AG | Auditor-General |
| AGSA | Auditor-General South Africa |
| AML | Anti-Money Laundering |
| ASUF | Agri-Sector Unity Forum |
| ATF | Agricultural Technical Forum |
| B-BBEE | Broad-Based Black Economic Empowerment |
| BCM | Business Continuity Management |
| BEE | Black Economic Empowerment |
| BFAP | Bureau for Food and Agricultural Policy |
| BMEL | Federal Ministry of Food and Agriculture |
| CCMA | Commission for Conciliation, Mediation, and Arbitration |
| CEO | Chief Executive Officer |
| CIC | Credit and Investment Committee |
| CPI | Consumer Price Index |
| CRISA | Code for Responsible Investing in South Africa |
| CRMC | Credit Risk Management Committee |
| CROM | Credit Risk Monitoring Committee |
| CSI | Corporate Social Investment |
| CSIR | Council for Scientific and Industrial Research |
| CTI | Cost to Income |
| CTR | Cash Threshold Reports |
| DFI | Development Finance Institution |
| DALRRD | Department of Agriculture, Land Reform and Rural Development |
| DG | Director General |
| DMTN | Domestic Medium-Term |
| DPSCOM | Development Project Selection Committee |
| DWS | Department of Water and Sanitation |
| ECL | Expected Credit Loss |
| EE | Employment Equity |
| EIA | Environmental Impact Assessment |
| EIC | Equity and Investment Committee |
| EME | Exempt Micro Enterprise |
| ENSO | El Niño - Southern Oscillation |
| ERC | Enterprise Risk Committee |
| ERM | Enterprise Risk Management |
| ESG | Environmental, Social and Governance |
| ESS | Environmental and Social Sustainability |
| ESMS | Environmental and Social Management System |
| ESRA | Environmental and Social Risk Assessment |
| EXCO | Executive Committee |
| EY | Ernst & Young |

| | |
|---|---|
| FIC | Fixed Income and Currency |
| FICA | Financial Intelligence Centre Act |
| FSCA | Financial Sector Conduct Authority |
| FSI | Financial Soundness for Insurers |
| FSPs | Financial Services Providers |
| FY | Financial Year |
| GCF | Global Climate Fund |
| GDP | Gross Domestic Product |
| GHG | Green House Gases |
| GIS | Geospatial Information System |
| GOI | Governance and Operations standards for Insurers |
| GOI | Governance and Operations standards for Insurers |
| GRI | Global Reporting Initiative |
| GWP | Gross Written Premiums |
| HOD | Head of Department |
| HRC | Human Resources Committee |
| IAR | Integrated Annual Report |
| IFC | Internal Financial Controls |
| IFRS | International Financial Reporting Standards |
| IIF | Interest in Suspense |
| IMF | International Monetary Fund |
| IR | Integrated Report |
| IT | Information Technology |
| JSE | Johannesburg Stock Exchange |
| KYC | Know-Your-Customers |
| KPIs | Key Performance Indicators |
| LBG | Land Bank Group |
| LBI | Land Bank Insurance |
| LBLIC | Land Bank Life Insurance Company |
| LCR | Liquid Coverage Ratio |
| MAFISA | Micro Agricultural Financial Institutions of South Africa |
| MEGA | Mpumulanga Economic Growth Agency |
| MoF | Minister of Finance |
| MIS | Management Information Systems |
| MTC | Model Technical Committee |
| NACA | Nominal Annual Compounded Annually |
| NACM | Nominal Annual Compounded Monthly |
| NCA | National Credit Act |
| NDP | National Development Plan |
| NED | Non-Executive Director |
| NII | Net Interest Income |
| NIM | Net Interest Margin |
| NPLs | None Performing Loans |
| NT | National Treasury |

| | |
|---|---|
| **ORSA** | Own Risk and Solvency Assessment |
| **PA** | Prudential Authority |
| **PGM** | Platinum Group Metals |
| **PPC** | Project Portfolio Committee |
| **PPI** | Producer Price Index |
| **PPROCC** | Policy and Process Change Committee |
| **PRB** | Principles for Responsible Banking |
| **PRMAF** | Post-Retirement Medical Aid Fund |
| **PWC** | PricewaterhouseCoopers |
| **PY** | Prior Year |
| **RGC** | Risk and Governance Committee |
| **RMB** | Rand Merchant Bank |
| **SADC** | Southern African Development Community |
| **SASBO** | The Finance Union (formerly the South African Society of Bank Officials) |
| **SCB** | Standard Chartered Bank |
| **SCM** | Supply Chain Management |
| **SCR** | Solvency Capital Requirement |
| **SDG** | Sustainable Development Goals |
| **SEC** | Social and Ethics Committee |
| **SLA** | Service Level Agreement |
| **SOC** | State-Owned Company |
| **TDFALM** | Technical Dialogue on Agricultural Finance Associated with Land Management |
| **ToR** | Terms of Reference |
| **UMA** | Underwriting Management Agency |
| **UN** | United Nations |
| **UNPRI** | United Nations Principles for Responsible Investments |
| **YTD** | Year to Date |

# 01 ABOUT THIS REPORT

# ABOUT THIS REPORT

> *This report is an integrated narrative of the Land and Agricultural Development Bank of South Africa (Land Bank) for the period 01 April 2021 to 31 March 2022, by expanding upon the value creation of the Bank for its stakeholders. The report aims to combine the financial (quantitative) and sustainability (qualitative) information, as well as the intangible value created. It is produced in accordance with the principles of King IV and the Integrated Reporting framework. The reader will gain insight into the effects of the Bank's business on its internal and external environments.*

## INTRODUCTION

The Land and Agricultural Development Bank of South Africa (Land Bank) and its insurance subsidiaries (Land Bank Insurance Company and Land Bank Life Insurance Company), collectively referred to as Land Bank Group, herewith presents its Integrated Annual Report for the Financial Year ended 31 March 2022. The report represents the primary report to the Bank's stakeholders and presents an overview of Land Bank Group's performance, the value created for stakeholders, and contributions to society for the year ended on 31 March 2022. The report has been structured to provide relevant information in accordance with the King IV framework. It is prepared for all stakeholders, focusing on matters pertinent to the shareholder, providers of capital, regulators, and clients. This integrated report presents a concise and balanced assessment of the Bank's ability to create sustainable value through the application of its business model, including the execution of Land Bank's statutory mandate and functions under Land Bank Act.

Land Bank Group's 2022 Integrated Annual Report incorporates the financial reporting boundary of Land Bank Group and covers the period from 1 April 2021 to 31 March 2022 (FY2022) for Land Bank and its insurance subsidiaries. When referring to the Group, or Land Bank Group, reference is made to the collective, i.e., Land Bank, Land Bank Insurance Company (LBIC) and Land Bank Life Insurance Company (LBLIC). It must, however, be stressed that these are separate entities from a legal and governance point of view – as recognised by the Prudential Authority (PA).

The report provides an overview of the financial and non-financial performance in the context of the Bank's strategy, opportunities, material risks and outcomes, governance, as well as social and environmental issues associated with key stakeholders who significantly influence the Bank's ability to create value. No significant changes have been made in terms of the Bank's scope, size, structure, or shareholding during the reporting period that would affect the comparability against the Bank's FY2021 report.

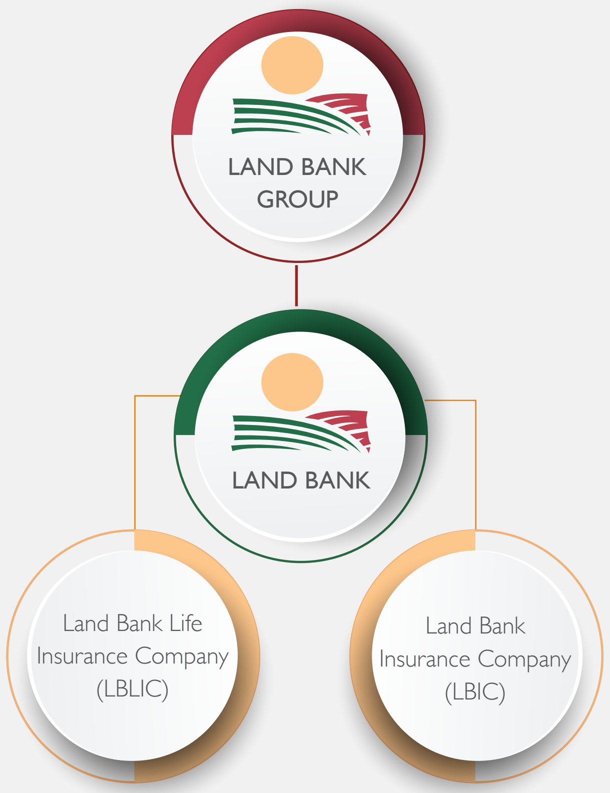
Matters considered to be of material value, as well as those that may significantly impact the Bank's stakeholders in relation to sustainability, have been reported herein. Value creation is the consequence of the way in which Land Bank applies and leverages its resources, strategy, and business model toward delivering holistic value for its stakeholders – including financial performance. The current strategy and business model are aligned to the needs and expectations of a wide and diverse range of stakeholders.

This report is compiled in accordance with The King IV Code™ of governance, Integrated Report <IR> framework, and Global Reporting Initiative (GRI) standard. This ensures that all material matters are delivered to shareholders – including all relevant information. Details provided in previous integrated reports have been considered and, where applicable, updates to matters have been provided.

The Board, supported by the Audit and Finance Committee (AFC), is ultimately responsible for the effectiveness of the Bank's application of combined assurance to support the integrity of the information presented in the integrated annual report. This responsibility extends to the design and operating effectiveness of the Bank's internal system of control to identify, evaluate, manage, and provide reasonable assurance against material misstatement and loss.

The Bank's management, together with the internal audit function, plays a crucial role in assessing the effectiveness of the Bank's internal control environment. Internal assurance applied to the integrated annual report includes coverage of figures, as well as factual statements.

### Operating businesses reporting boundary for the 2022 Integrated Report




*Please note, when referring to the Group or Land Bank Group, reference is made to the collective, i.e. Land Bank, Land Bank Insurance Company (LBIC) and Land Bank Life Insurance Company (LBLIC). We however stress that these are separate entities from a legal and governance point of view – as recognised by the Prudential authority.*

### Basis of preparation

This report reflects the adoption, by Land Bank, of integrated thinking and application of the process. In determining the content provided, issues that materially impact the Bank's ability to create and maintain value for its stakeholders are considered. The information is drawn from the Bank's records, such as its quarterly reports submitted to the National Treasury (NT), and includes details of the operating context, strategic performance, risks and associated mitigation measures, stakeholder engagement, and identified business opportunities. Inputs from the Executive Management team are also included in this report. All information is reviewed by various committees and ultimately approved by the Board.

To the best of its ability, Land Bank Board provides an accurate and transparent account of the Bank's performance for the period.

## Determining materiality

The Bank has formulated the Delegation of Powers (DoP) Framework, the Materiality/Significance Framework, and the Risk Appetite Framework – in which the materiality determination process is defined in line with section 54(2) of PFMA and Treasury Regulation 28.3.

The reference to material, major, significant, and substantial events is determined through a consideration of the event's strategic relevance, intrinsic value, magnitude, impact and/or implications.

**a.** In line with Section 54(2) of the PFMA, the following is deemed material:
**b.** establishment or participation in the establishment of a company;
**c.** participation in a significant partnership, trust, unincorporated joint venture, or similar arrangement;
**d.** acquisition or disposal of a significant shareholding in a company;
**e.** acquisition or disposal of a significant asset;
**f.** commencement or cessation of significant business activity;
**g.** a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture, or similar arrangement;
**h.** all instances of theft, fraud, and corruption (regardless of amount);
**i.** transaction's positive and negative effects of 0.5% on total revenue; and
**j.** transaction's positive and negative effects of 1% on total assets.

## Forward-looking statements

Contained in this report are various forward-looking statements. Such statements may relate to the possible future financial position, business operation and strategy, or management plans. Forward-looking statements are not, at this time, considered fact as they are based on current estimations, assumptions, and expectations for the Bank, and are dependent on circumstances that may or may not be realised in the future. Land Bank does not undertake to publicly update or revise such statements, whether to reflect new information, future events, or otherwise.

## Assurance

Land Bank Integrated Annual Report for FY2021/22 is compiled in accordance with the ethical values of the Bank, statutory legislative frameworks, and reporting best practices. The Board of Directors (the Board) has reviewed the report and is satisfied that the information contained in this report, to the best of its knowledge, is an accurate and true representation of the organisation's position, as they were appointed effective 8 December 2021. Financial statements contained herein have been assured via the audit conducted by the Auditor-General of South Africa (AGSA).

## Statement of responsibility

The Board encourages and supports the concept of integrated thinking, which underpins good corporate citizenship, stakeholder inclusivity, sustainable development, and integrated reporting. The Board has a clear understanding of the Bank's strategy, resources, system of control, internal and external reporting process, and its stakeholders. The Board provides guidance to the Bank in relation to oversight of material and potential risks, as well as its opportunities, and it ensures that the Bank is sustainable, responsive, and relevant. The Board endeavours to guide the Bank toward success, whilst managing its current status to better position the Bank for sustainable operations.

The Board has assessed the content presented in the FY2021/22 report. It confirms that it addresses all material matters, the Bank's integrated performance, its strategy, as well as its short-, medium-, and long-term value creation and opportunity. As such, the FY2021/22 Integrated Annual Report was unanimously approved by the Board on 31 August 2022.

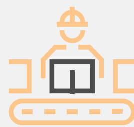
**Table 1: Approval Framework**

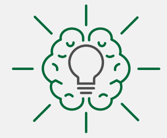
| External reporting suite | Applicable legislation/ Regulation/framework/standard | Assurance applied to validate the integrity of reporting | Outcome |
|---|---|---|---|
| 2022 Integrated Annual Report | International Integrated Reporting Council's Integrated Reporting <IR> Framework.<br>The Johannesburg Stock Exchange (JSE) Debt Listing Requirements. | Land Bank Board.<br>Audit and Finance Committee.<br>Risk and Governance Committee.<br>Executive Committee.<br>Combined Assurance – application of Land Bank's three lines of defence, including risk-based internal audit. | Directors' approval |
| Annual Financial Statements for the year ended 31 March 2022 | Public Finance Management Act (PFMA) 1999.<br>Companies Act, 2008.<br>Companies Regulations 2011.<br>International Financial Reporting Standards (IFRS). | Auditor-General.<br>Land Bank Board.<br>Audit and Finance Committee.<br>Executive Committee.<br>Combined assurance – application of Land Bank's three lines of defence, including risk-based internal audit. | Directors' approval |
| 2022 King IV Disclosures | Land and Agricultural Development Bank Act, 2002.<br>Companies Act, 2008.<br>Public Finance Management Act, 1999.<br>Insurance Act, 2017.<br>Prudential Standards of the Prudential Authority: Governance and Operational Standards.<br>King IV Report™ on Corporate Governance for South Africa 2016 (King IV).<br>JSE Debt Listing Requirements. | Land Bank Board.<br>Audit and Finance Committee.<br>Risk and Governance Committee.<br>Executive Committee. | Directors' approval |

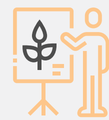
## NAVIGATIONAL ICONS:


NATURAL CAPITAL


HUMAN CAPITAL


MANUFACTURING CAPITAL

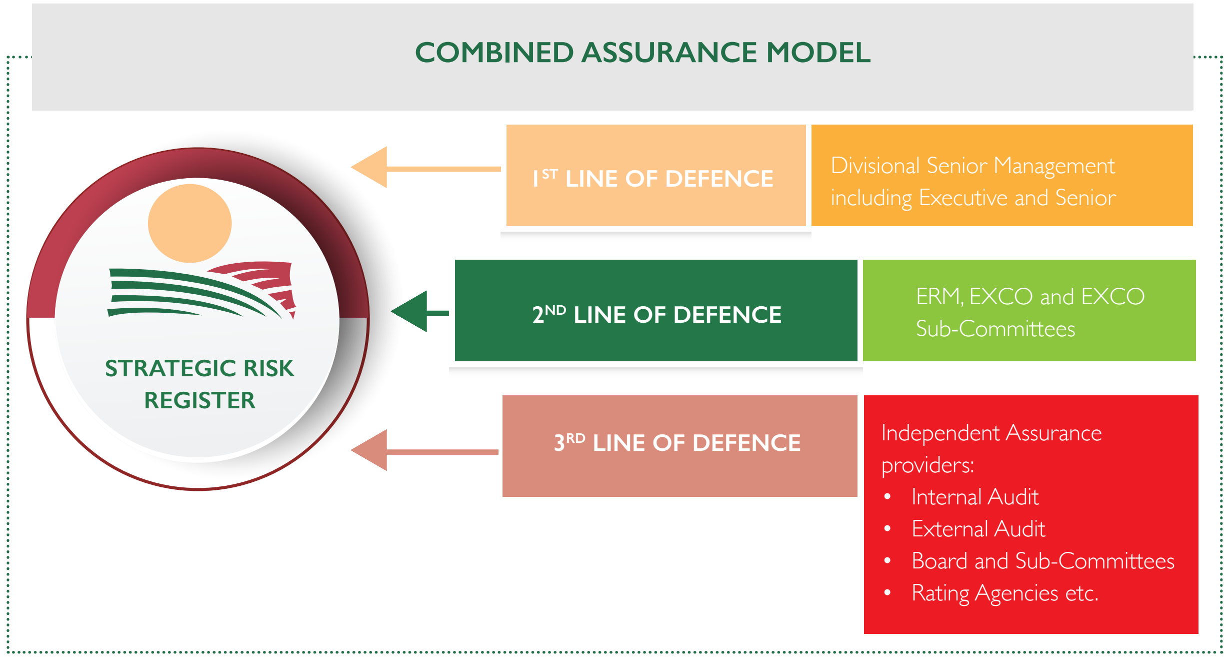

INTELLECTUAL CAPITAL


SOCIAL AND ENVIRONMENTAL CAPITAL


FINANCIAL CAPITAL

This report is guided by the recommendations of the King IV guidelines and <IR> framework. The navigational icons above indicate the capitals impacted by the various sections of the report.

## THREE LINES OF DEFENCE AS SHOWN BELOW:




## BOARD APPROVAL

This report was approved by Land Bank Board of Directors (Board) and authorised for release on 31 August 2022. The Board acknowledges its responsibility to ensure the integrity of the FY2022 integrated annual report and supplementary information referenced therein. The Board has reviewed the report's contents and believes it represents a fair representation of the Group's material issues, performance, and prospects. The Bank's AFC reviewed and recommended the report to the Board for approval. The Risk and Governance Committee (RGC) reviewed the 2022 King IV code disclosures and recommended those disclosures to the Board for approval. The Board has applied its mind to the integrated annual report and considered the operating context, strategy, and value creation model in this process. The Board has considered the completeness of the material aspects addressed in the report. The Board has, furthermore, given due consideration to the relevance and reliability of the reported performance information.

On this basis, the Board is satisfied that the FY2022 integrated annual report addresses material matters that have, or potentially have, a material effect on the Group's ability to create value, and that the information contained in the report fairly represents the strategy and integrated performance of the Group. To the best of the Board's knowledge and belief, it confirms that all information and amounts disclosed in this report are consistent with the annual financial statements for the year ended 31 March 2022, approved by the Board on 29 July 2022, which have been audited by the office of the AGSA. The Board approved the 2022 integrated annual report incorporating the 2021 King IV Code disclosures on 31 August 2022.

**Ms Thabi Nkosi**
Chairman of the Board
31 August 2022

# 02 PERFORMANCE OVERVIEW

# PERFORMANCE OVERVIEW

## PERFORMANCE AT A GLANCE


### BANK

| | TARGET 2022 | ACTUAL 2022 | ACTUAL 2021 |
|---|---|---|---|
| Operating Income/(Loss) | | R1.913m | (R370m) |
| Net Profit | | R1.310m | (R920m) |
| Net interest Margin | 1.2% | 2.0% | 0.04% |
| Cost to Income | 215% | 95.6% | -964.2% |
| Basel II CAR | >15% | 12.2% | 9.7% |
| LCR | >90% | 66.1% | 35.8% |
| NSFR | >100% | 95.8% | 96.8% |
| NPL % | <10% | 47.7% | 32.5% |

### LBIC

| | TARGET 2022 | ACTUAL 2022 | ACTUAL 2021 |
|---|---|---|---|
| Gross Premiums | R539m | R607m | R600m |

### LBLIC

| | TARGET 2022 | ACTUAL 2022 | ACTUAL 2021 |
|---|---|---|---|
| Net Profit | R28m | R109m | R157m |

## HIGHLIGHTS FOR THE PERIOD

Good progress was made in the following areas:

- Good progress was made against actions associated with the Liability Solution. As a result, the Bank made capital reduction payments of R3 billion in June 2021, and R2.7 billion in October 2021. A further capital reduction was implemented in May 2022, which has resulted in a cumulative debt capital reduction of 42.84% by the end of June 2022.
- Good progress was made on the development of revenue diversification initiatives, including a Geospatial Information System (GIS) and Bancassurance offering. Non-interest income is expected to be generated from these initiatives in the future.
- Disbursements to Development farmers in the Kat River Farms River Farms Grant Programme with Department of Agriculture, Land Reform and Rural Development (DALRRD) gained good traction along with Production Loan disbursements to existing development clients.
- The Bank is progressing well on its enablement of client engagements through the digital channel with the Bank's launch of a Client Portal. Further modules are being developed to support both existing and potential new clients.
- The FY2022 audit outcome of an Unqualified (Clean) Audit points to the significant improvements made in the Bank's internal controls and signifies the achievement of an acceptable level of governance of the Bank, which was prioritised by the Board in support of the efforts put together by the Bank's management for the successful remediation of audit findings from the last two financial years when a Disclaimer of Audit Opinion and a Qualified Audit Opinion were achieved in FY2019/20 and FY2020/21, respectively.
- Clients from the Bank's largest Service Level Agreement (SLA) Partner, Unigro, were insourced on 1 October 2021.
- Performance on Banking operations has improved significantly for the year under review, with a profit of R1.310 billion, albeit driven by net impairment releases and recoveries. Excluding the net impairment releases and recoveries, the Bank has made a profit of R11.7 million.

## CHALLENGES EXPERIENCED

The following challenges were experienced during the reporting period, for which the Bank remains cognisant and will continue to monitor as it embarks on interventions and mitigation plans needed to make progress on these matters.

- The Bank's future economic and financial viability is fundamentally dependent on resolving the Bank's future Funding Model, that should be made up of an optimal blend of capital, grant funds, and commercial borrowings, with the current cost of funding indicative of an unsustainable funding model.
- The Bank remains in default as the Liability Solution has not yet been concluded. Good progress has been made with the Fourth Proposal to Lenders and NT, which is aimed for conclusion by the end of September 2022.
- Non-performing loans (NPLs) have increased during the financial year, resulting in an increased NPL percentage – particularly pronounced by the reduction in the overall Loan Book. This matter is receiving the dedicated focus of the operational teams, and oversight attention of the Board.
- Sector Support, by means of disbursements to clients, continues to be on a downward trajectory as many Corporate and Commercial Clients migrate to other financial institutions. This trend is evident despite all clients receiving confirmation from Land Bank that their short-term facilities (production loans and working capital facilities) will be serviced to ensure that there is no disruption resulting from a lack of financing towards the clients' planting season requirements.
- The Bank's current financial state, and the prevailing uncertainty, are significant contributors to the attrition of critical staff.

## NOTEWORTHY PERFORMANCE UPDATES

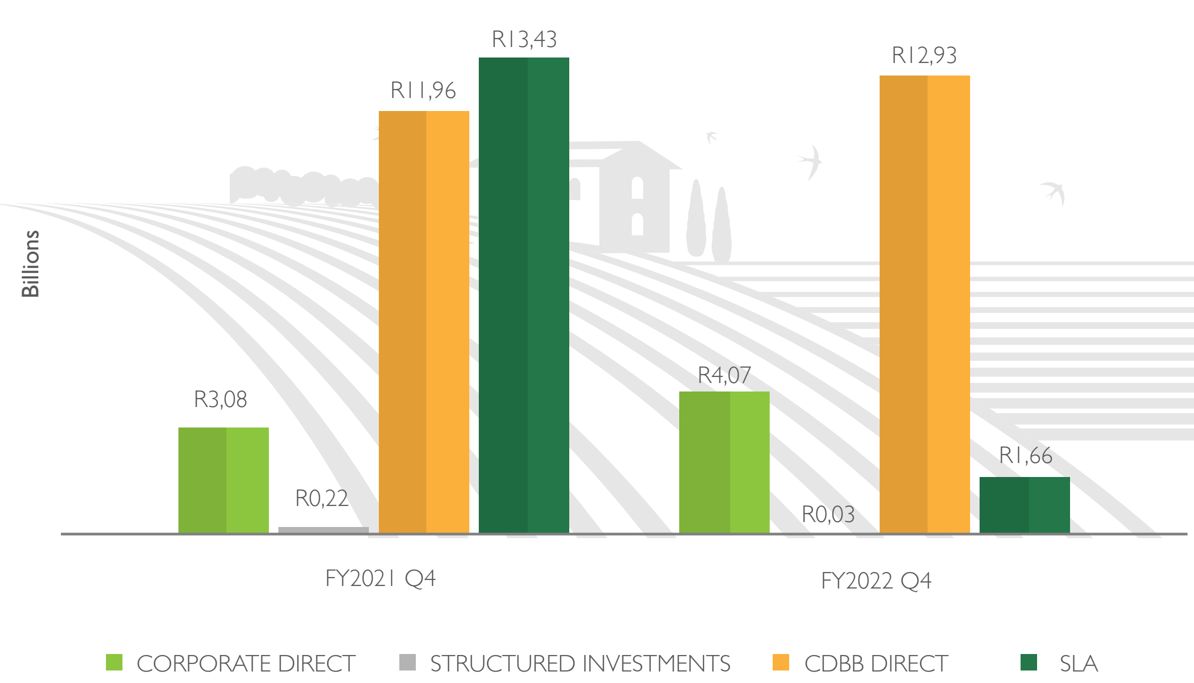
As reported in the FY2021 IAR, the Bank terminated its intermediary SLA contracts and insourced clients that were previously managed by Intermediary partners, while they were funded on the Bank's balance sheet. These clients are now directly managed by the Bank.

Land Bank introduced the intermediary business model in 2011, as a response to the financial challenges faced by the Bank at that time. Since the inception of the SLA, the intermediaries have acted as agents of Land Bank, responsible for originating debtors, administering the Loan Book, providing relationship management services to clients, handling all queries related to the Loan Book, collecting, and accurately allocating all instalments received from clients, etc. on behalf of Land Bank in exchange for agreed administration and margin fees. In recent years, the Bank witnessed an increase in non-performing loans from some SLA partners, reducing returns and, in some cases, losses to the Bank as well as the overexposure to certain counterparties, which resulted in the decision by the Board to insource the SLA loan book.

The Suidwes, GroCapital and Obaro Loan Books were insourced during FY2021. During FY2022 clients were insourced from Unigro – who had the largest SLA exposure with Land Bank. The progress on this matter has been steady and status is shown below.

As a result of the SLA insourcing, the movement in the Loan Book is evident with a year-on-year comparison. The Gross Loans as at the end of FY2021 and FY2022 respectively, are shown below.

Corporate and Commercial loan Book: Gross Loans




*Definitions:*

1. *Corporate Direct: Corporate clients (Turnover above R50 million per annum) managed through the Corporate Banking team.*
2. *Structured Investments: Equity ownership by Land Bank in Agriculture / Agro-Processing entities*
3. *CDBB Direct: Farmers with a Turnover of R1 million to R50 million per annum, managed through the Commercial, Development and Business Banking channel, via the Provincial Network.*
4. *SLA: Farmer loan book managed through Service Level Agreements via intermediary channel partners.*
5. *Corporate and Commercial Clients are deemed un-transformed entities (majority white-owned), opposed to Development and Transformation client segments that are majority black owned.*

The Corporate and Commercial Loan Book was reduced by 35% from 31 March 2021 to 31 March 2022. The decline in the Loan Book is attributed to, amongst other factors:

- No new facilities were approved because of the Bank's default position and liquidity challenges in the period under review.
- Planned repayments and numerous early settlements. These contributed to cash reserves being restored, but have simultaneously contributed to the reduction in Gross Loans.
- Higher attrition rates experienced from insourced clients.

# 03

# ABOUT LAND BANK

## ABOUT LAND BANK

*"Land Bank is a specialist Development Finance Institution that effectively balances financial sustainability and developmental outcomes to meaningfully contribute to the development and transformation of South African agriculture."*

# FOREWORD BY THE MINISTER

## Mr Enoch Godongwana

### Sector Context

As the world emerges from the COVID-19 pandemic, a little bruised but adapting to the aftermath of economic and financial volatility, it has been further affected by the ongoing war in Ukraine. Whilst we've come through trying times, the time for South Africans to look ahead with a restored sense of optimism is now. It is during this time that we must embrace the challenges that we are yet to face, so that we can effect meaningful change and improve our country's outlook.

The positive strides made in agriculture through the Agricultural and Agro-Processing Master Plan (AAMP), provides not only hope but a guided path to success for the agricultural sector. The AAMP, driven by the Honourable Minister of Agriculture, Land Reform and Rural Development, Ms. Thoko Didiza, presents a structured approach to inclusive farming that fosters transformation including, for Black women and youth farmers in the sector.

The plan further promotes food security, climate response, and the upliftment of the sector through access to markets, technological innovation, and enabling policy environments. Much of the AAMP objectives are shared by the Land and Agricultural Development Bank of South Africa (Land Bank) and will enhance the sector's growth. Furthermore, the National Treasury Financing a Sustainable Economy – Technical Paper 2021" has been developed. This provides a framework for financiers to accelerate achievement of sustainable developmental goals. Within this context, Land Bank plays a pivotal role in sustaining the sector by executing on its mandate as a development finance institution.

*"I am encouraged by the progress that has been made by the Bank to reduce the outstanding debt to lenders with a cumulative debt capital reduction of 42.8% being achieved by June 2022."*

Land Bank's mandate to support, promote, and facilitate the development and transformation of the agricultural sector remains crucial in the drive towards food security and economic growth. To this end, the Bank plans to play a critical role with regard to sustainable food production by emerging farmers, as the effects of climate change are more frequently experienced and are fast becoming a reality. The Bank's current default position has affected its ability to operate fully and resulted in significantly reduced support to the agricultural sector over the past two Financial Years, which is regrettable.

### Current reality

The Bank remains in default on its liabilities since April 2020. The Board has prioritised the resolution and conclusion of the defaults with the creditors as a fundamental premise for its going concern basis and the stabilisation necessary to kick start the Bank's turnaround. Negotiations to conclude the Liability Solution are still ongoing and significant progress is being made with lenders. I am encouraged by the progress that has been made by the Bank to reduce the outstanding debt to lenders with a cumulative debt capital reduction of 42.8% being achieved by June 2022. This achievement would not have been possible without the efficient collections of client repayments and settlements of their accounts and the reduction of the Bank's loan book. The consequence of this is the need for the Bank to implement a fit-for-purpose revised Operating Model in line with the size of its business and an appropriate operating costs structure for the business.

National Treasury remains committed to support the Bank's Liability Solution process, to ensure that the default is cured, and the Bank is enabled to fulfil its mandate.

### Looking Ahead

To the Board and management of Land Bank, I take the opportunity to express my sincere gratitude for the efforts made towards curing the Bank's default position and finalising a strategy that will stabilise the Bank in these trying times. I am also pleased by the Bank's achievement of an unqualified (clean) audit outcome for the FY2021/22 which follows a qualified audit outcome for FY2020/21, and the Disclaimer of audit outcome experienced in FY2019/20. I am aware that the nature of remediation work that was required to improve on the Bank's previous two financial years' audit findings involved a very onerous process. I wish to commend the Bank 's efforts in this regard and encourage the Board to maintain the diligence required to sustain the levels of internal control and good governance of the Bank going forward.

As Land Bank moves towards concluding the Liability Solution, it has the opportunity to renew the collaboration with the Department of Agriculture, Land Reform and Rural Development to enable commercial successes of farmers, build the sector, create opportunities for transformation, and deploy innovation, and ensuring a responsive and purposeful approach to climate change and food security. The continued support of the Honourable Minister of Agriculture, Land Reform and Rural Development, Ms Thoko Didiza, and the National Treasury officials is appreciated and is important for the Bank.

As I look forward, I envisage a renewed Land Bank that works towards transforming and building a sustainable agricultural sector.

**Mr Enoch Godongwana**
Minister of Finance

# CHAIRMAN'S STATEMENT

## Ms Thabi Nkosi

*The Bank received an unqualified audit outcome (clean audit) from the Auditor-General of South Africa for FY2022.*

### Opening Remarks

The current Board of Land Bank assumed its responsibilities in December 2021. Since its appointment, the Board has critically evaluated the challenges faced by the Bank, and has adopted key priorities of focus and a defined strategy that will be pursued by the Bank going forward. This strategy entails a fundamental restructuring of Land Bank towards becoming a sustainable vehicle for South Africa's agricultural growth and development. Having defaulted on its debt in May 2020, the Bank has operated at sub-optimal levels since then as the entity sought to restructure its financial liabilities while repositioning its operations. While the road to full recovery and sustainability remains long, the Board is encouraged by the early achievements the Bank has made during its short tenure.

### Reflections on the period under review

Despite the Bank's unresolved debt default status, Land Bank continues to be a key agricultural financier and has persevered with diligence under trying conditions. As at the end of the Financial Year (FY2021/22) the Bank had managed to reduce its outstanding debt with its lenders by 28.4% since the start of the default. A further reduction of the lenders' debt after the end of the Financial Year resulted in a total capital reduction of 42.8% of the debt by June 2022.

The Group achieved a Net Profit of R1.4 billion. There were also pleasing results from our Insurance businesses which posted a combined profit of R80 million and a clean audit.

This achievement, which sets the basis for future financial sustainability, is ascribed to the Bank's commendable efforts to collect repayments and recover outstanding debts from its clients, as well as to facilitate loan settlements of clients' facilities. The cash generated from these efforts was used to reduce Land Bank's debt to its lenders, thereby setting the Bank on the path to sustainability.

The settlement of client facilities has had the obvious effect of reducing the Bank's loan book concomitant to the reduction of its liabilities and has brought about an increase in the non-performing loan ratio. This challenge of a deteriorating overall loan book quality has received special attention by the Board, and I am pleased that the Bank's non-performing loans (NPLs) remediation efforts have begun to bear fruit with a reduction of the NPL book from R13 billion in February 2022, to R12.3 billion in March 2022 and subsequently R12.1 billion in June 2022.

The insourcing of the Bank's portfolio from Service Level Agreement (SLA) intermediaries also contributed to the increase in non-performing loans as a corrective reclassification of clients' status was undertaken on this portfolio following the Bank's implementation of its prudent management controls on this insourced portfolio.

I am encouraged by the Bank's achievement of a profit position for the financial year. Management's efforts to improve internal controls, increase collections and manage operating costs together with a significant contribution of impairment releases resulting from a reduced loan book, have contributed to the profit position which sets an important basis of turning the Bank into a financially sustainable institution.

I should express appreciation to the Bank's management team for its successful efforts in the remediation of audit findings from FY2019/20 (Disclaimer of Audit Opinion) and FY2020/21 (Qualified Audit Opinion). The FY2021/22 audit outcome of an Unqualified (Clean) Audit points to the significant improvements made in the Bank's internal controls and signifies the achievement of an acceptable level of governance of the Bank.

The loss of key talent continues to be a concern for the Bank. The Bank lost two of its executives in the period under review. Key skills at general management and specialist levels are being lost, as without a concluded Liability Solution the Bank's operating environment remains challenging. The conclusion of the Liability Solution with the Bank's lenders will take the Bank out of its current debt default position and bring certainty on the stability of the Bank as it implements its turnaround strategy.

### Immediate Priorities

The Board continues to place priority on the conclusion of the Liability Solution. We are working together with the Bank's lenders with the objective to reach agreement on the Liability Solution by the end of 2022.

We have further agreed with our lenders to resume new lending activities for the financing of the development segment supported by the Blended Finance programme in partnership with the Department of Agriculture, Land Reform and Rural Development, as well as other partners as a significant part of our strategy to build a sustainable portfolio and advance the mandate of the Bank as a Development Finance Institution. This programme will enable the Bank to provide relatively affordable financing as the Bank increases its development efforts and promotion of inclusivity in the agricultural sector.

We have also developed and begun the execution of the strategy to address the challenge of non-performing loans that were predominantly originated by the Bank's previous cohort of intermediaries. As part of this programme, the Bank is placing significant effort on preserving the performing clients through appropriate interventions to assist them with financing needs necessary to sustain their businesses. Additionally, the Bank's capacity to increase its debt collections and recoveries capability is receiving close attention and monitoring.

### Looking Ahead

The Board has finalised its strategy which will set the basis for a future trajectory of a Bank that will transition to a Development Finance Institution that will meaningfully contribute to the transformation of the agricultural sector on a sustainable basis.

Our strategy has three phases covering the next five years:

**Stabilisation phase:** The focus of this phase (FY2022/23 and parts of FY2023/24) is to address immediate priorities that will set the baseline for the Bank's stability going forward. Our priorities for this phase include:

- The conclusion of the Liability Solution to get the Bank out of its current debt default position;
- Stabilisation and strengthening of the Bank's executive leadership team with the appointment of a permanent Chief Executive Officer and the filling of other critical vacancies.
- Resumption of lending activities focused on new development clients and the preservation of the quality of the Bank's existing client portfolio through implementation of the strategy to remediate the Bank's non-performing loan portfolio;
- Improvement of the Bank's overall business and operating performance;
- Strengthening of internal governance and controls, and the maintenance of an unqualified audit outcome; and
- Commencement of the phased implementation of the Bank's revised Operating Model designed to take the Bank, on a phased approach, from its current state into an organisation fit for the purpose of the desired state.

- **Consolidation phase:** This phase (FY2023/24 – FY2025/26) will follow the conclusion of the Liability Solution to get the Bank out of default, and its focus is to consolidate the changes to the Bank's operating model in support of the journey towards the desired state. In this phase priorities will include:
  - Improvement of the operating performance of the stabilisation phase, and ensure adherence to the conditions of the liability solution;
  - Embedding the revised operating model as the Bank transitions to the desired state;
  - Increasing digitisation solutions to complement physical client engagements;
  - Deepening of the Bank's role as an ecosystem catalyst in the agricultural sector, including the building up of strategic partnerships to provide origination, and pre- and post-finance support to development clients;
  - Reaching agreement, through the appropriate shareholder and state governance structures, on an appropriate funding structure for the Bank.

- **Growth phase:** Whereas the first two phases will set the basis of the Bank's journey towards the desired state, this phase (FY2026/27 and beyond) is intended to demonstrate the tangible and visible elements of the Bank's desired state, its financial performance and development outcomes necessary to enable the Bank to fully leverage the capital markets in support of its diversified funding structure.

  At this point we hope to have provided sufficient evidence of the Bank's successful performance track record and confirm the sustainability of the Bank's strategy, which will justify the viability of the Bank refinancing of its outstanding debts.

The above phases represent the notion of a Bank in transition towards the desired state, which funding structure and business model are aligned to its mandate.

## Conclusion

The Board believes that it has developed and adopted a credible strategy that will enable it to navigate through the current and future challenges. This journey to transition the Bank from its current challenges to its desired state will be possible with the important support of the Minister of Finance and National Treasury, Parliament, the Department of Agriculture, Land Reform and Rural Development, lenders, our clients, and all agricultural organisations, which represent the interests of the sector.

The Board remains committed to making Land Bank a significant contributor to the development and transformation of the agricultural sector, as well as to the objectives of the National Development Plan and the Agriculture and Agro-Processing Masterplan.

## Acknowledgements and appreciation

The Board conveys its gratitude to the Minister of Finance, the Minister of Agriculture, Land Reform and Rural Development, the National Treasury team, and Parliament for all the support and guidance that it has received during the year.

The Board expresses appreciation to Land Bank employees, as well as the Land Bank Insurance Companies' Board and employees, for their commitment to the Bank and its mandate during the time of significant challenges.

The Board also wishes to thank all its funders, clients and partners, who have provided meaningful input to its strategic planning process. We look forward to continued support as we implement our strategy to transition the Bank towards a sustainable and effective agricultural development finance institution.

**Ms Thabi Nkosi**
Chairman

## ORGANISATIONAL OVERVIEW

Land Bank is a government-owned Development Finance Institution (DFI) that promotes inclusive agricultural and rural development for improved food security and economic growth. The insurance subsidiaries, Land Bank Insurance Company (LBIC) and Land Bank Life Insurance Company (LBLIC), which are State-Owned Companies (SOCs), complement the Bank's financial services by providing insurance and risk management solutions to the agricultural community.

The Bank operates in the primary agriculture and agribusiness sectors and is regulated by the Land and Agricultural Development Bank Act of 2002 and the Public Finance Management Act of 1999.

### LAND BANK

#### LAND BANK INSURANCE COMPANY

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

#### LAND BANK LIFE INSURANCE COMPANY

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

#### CORPORATE BANKING AND STRUCTURED INVESTMENTS

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

#### COMMERCIAL DEVELOPMENT AND BUSINESS BANKING

#### DIRECT LENDING

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

#### DIRECT LENDING

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

#### INDIRECT LENDING WFF

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

### Land Bank's Purpose

Land Bank's purpose of existence and mandate is enunciated in the Land and Agricultural Development Bank Act, No. 15 of 2002 (Land Bank Act), and is summarised as follows: Guided by the Land and Agricultural Development Bank Act, No. 15 of 2002 (Land Bank Act), Land Bank's purpose as a responsible DFI is to provide appropriate financial services to:

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

### Practical Enablement of Land Bank's Mandate

In order to provide a practical interpretation of the Mandate of the Bank, such that it is positioned as a unique Development Finance Institution (DFI) intended to close a specific gap in the economy, the Board has translated the Mandate of the Bank as follows: **Land Bank is a specialist DFI that effectively balances financial sustainability and developmental outcomes to meaningfully contribute to the development and transformation of South African agriculture.**

Land Bank utilises financial services and products to address a critical market failure in the economy for the development and transformation of agriculture, including agricultural land ownership and use, by promoting the inclusion of historically disadvantaged persons in the agricultural economy. The Bank aims to provide amongst others:

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

The intended outcomes of the Bank's mandate include the following:

- Inclusion of historically disadvantaged persons.
- Contribution to the Gross Domestic Product (GDP).
- Job creation and increase in the economically active population.
- Food security.
- Environmental stewardship.

Due to the Bank's liquidity constraints (as reported during the 2019 to 2021 periods), the Bank will maintain a medium-term focus on:

- Maintaining a healthy Development and Transformation Loan Book;
- Supporting the Commercial book and continued support to the commercial sector
- Reducing the number of non-performing loans against the gross Loan Book; and
- Securing funding for its liabilities.

The Bank continues to strive toward financial sustainability by increasing the Development Loan Book with a view to this being a dominant portfolio within the total Loan Book.

### Land Bank's Purpose Statement

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

### Land Bank's Values

- Contribute meaningfully: Continuously seek to add value in our engagements.
- Empower: Seek to empower each other and ourselves in the way we undertake our work.
- Build organisational synergy: Seek to create a sense of oneness and integration.
- Be accountable: Do what we say and follow through on our promises.
- Be proactive: Seek opportunities to improve performance at all levels, taking all conceivable measures to create new opportunities.

## NATIONAL DEVELOPMENT PLAN AND SUSTAINABLE DEVELOPMENT GOAL ALIGNMENT

There is a clear alignment between the objectives of the Land Bank Act, and those of the Sustainable Development Goals (SDG) and the National Development Plan (NDP).

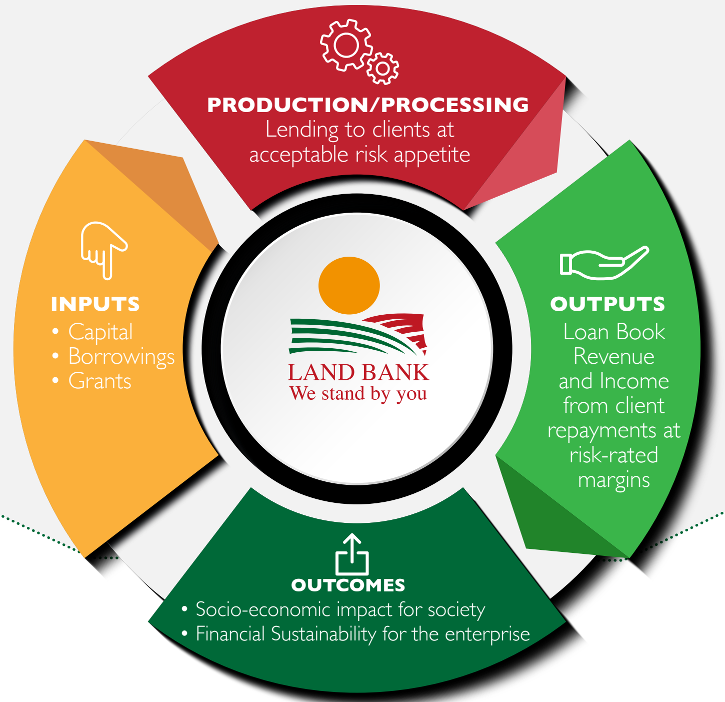
| The objects of the Land Bank Act are the promotion, facilitation, and support of: | National Development Plan | Sustainable Development Goals | Agriculture and Agro-processing Master Plan |
|---|---|---|---|
| • Equitable ownership of agricultural land, particularly increasing the ownership of agricultural land by historically disadvantaged persons.<br>• Agrarian reform, land redistribution or development programmes aimed at historically disadvantaged persons for the development of farming enterprises and agricultural purposes.<br>• Removal of the legacy of past racial, gender and generational discrimination in agriculture. | • Making land reform work to unlock the potential for a dynamic, growing and employment creating agricultural sector | 5, 10 | **Pillar 1:** Resolving policy ambiguities and creating investment friendly climate |
| • Programmes that contribute to agricultural aspects of rural development and job creation.<br>• Agricultural entrepreneurship.<br>• Enhancement of productivity, profitability, investment, and innovation in the agricultural and rural financial systems. | • Support job creation in the upstream and downstream industries.<br>• Develop strategies that give new entrants access to product value chains and support from better resourced players. | 1, 4, 9 | **Pillar 2:** Creating enabling infrastructure<br><br>**Pillar 3:** Providing comprehensive farmer support, development finance, R&D and extension services |
| • Commercial agriculture.<br>• Land access for agricultural purposes.<br>• Better use of land. | • Commercialise some underused land in communal areas and land reform projects.<br>• Pick and support the commercial agriculture sector and regions that have the highest potential for growth and employment. | 8, 11 | **Pillar 5:** Enabling markets expansion, improving market access and trade facilitation<br>**Pillar 6:** Developing localized food, import replacement and expanded agro-processing exports. |
| • Food security. | • Everyone should, at all times, have access to sufficient, nutritious, and safe food. | 2, 3 | **Pillar 4:** Ensuring food security, expanded production and employment creation, decency and inclusivity |
| • Promote and develop the environmental sustainability of land and related natural resources. | • Expand irrigated agriculture; find creative partnerships between opportunities. | 6, 7, 12, 13, 14, 15, 16, 17 | |

## VALUE CREATION MODEL

# VALUE CREATION MODEL

**Land Bank aims to create value through sustainable development finance, to evidence development effectiveness. This will be achieved by:**

| | | | | | |
|---|---|---|---|---|---|
| Sourcing the appropriate mix of funds to enable development programmes. | Attract and retain critical skills and leadership across all levels of the business | Strengthen core capabilities needed through the operating model. | Optimise loan origination and monitoring to ensure efficient service delivery. | Provide client centric-products and services that address market failure. | Monitor and evaluate outputs and outcomes to ensure development effectiveness. |




Outcomes will be measured across selected capitals in order to evidence development effectiveness going forward:

**LAND BANK'S DEVELOPMENT INDICATOR FRAMEWORK**

### FINANCIAL CAPITAL

- Number of smallholder farmers
- Number of medium farmers

### SOCIAL CAPITAL

- Number of permanent full-time employees
- Number of seasonal employees
- Number of women employed (gender)
- Number of employees trained
- Number of youths employed

### NATURAL CAPITAL

- Volume of water used during the farming activity
- Use of fertilizers (l/ha) - liters per hectare/kg per hectare utilised
- Use of pesticide's (l/ha) - liters per hectare/kg per hectare utilised
- Use of electricity (Agri-processing) kilowatts used during

## Land Bank Executive profiles

Members: 10

Historically disadvantaged: 10

Male: 7
Female: 3

**Ms K.H. Mukhari**
Acting Chief Executive Officer
Appointed:
*Acting: 1 May 2022

**Mr B. Padachie**
Acting Chief Financial Officer
Appointed:
*Acting: 1 August 2022

**Mr S. Diza**
Chief Risk Officer
Acting Chief Risk Officer: Credit
Appointed:
17 August 2020

**Mr S.N. Sebueng**
Executive Manager: Legal Services
Appointed:
1 January 2018

**Mr S.C.E. Soundy**
Executive Manager: Strategy and Communications
Appointed:
17 August 2015

**Ms E.T.M. Dlamini**
Executive Manager: Human Capital
Appointed:
15 August 2013

**Mr F. Stiglingh**
Executive: Post Investment Management Services
Acting Executive Manager: Intermediary Channel Partnerships
Appointed:
1 June 2016
15 February 2019

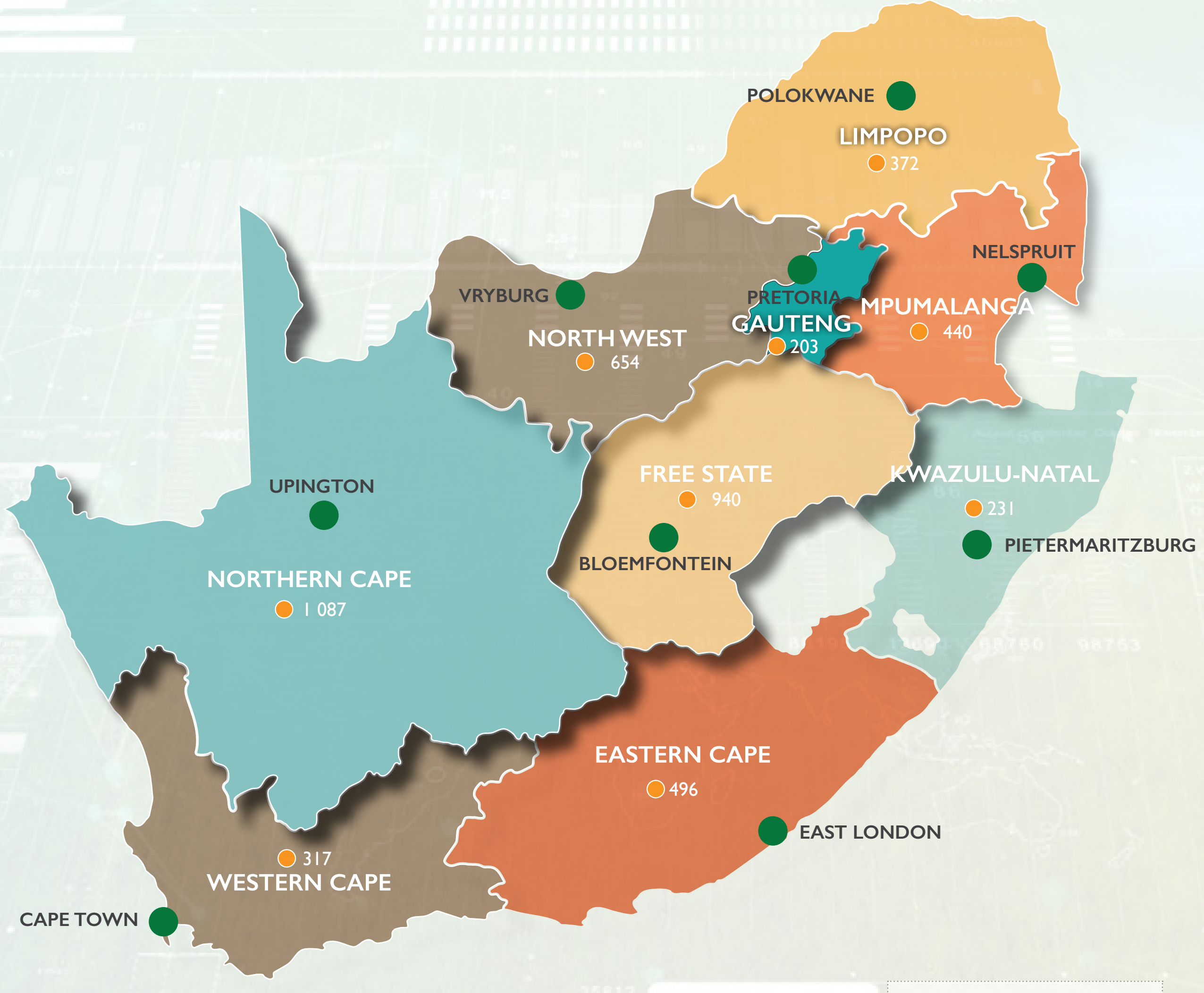
**Ms U. Magwentshu**
Executive Manager: Corporate Banking and Structured Investments
Appointed:
1 March 2019

**Mr G. Maritz**
Acting Executive Manager: Agricultural Economics and Advisory
Appointed:
*Acting: 1 April 2022

**Mr L. Makupula**
Acting: Executive Manager: Commercial Development and Business Banking
Appointed:
*Acting: 7 January 2020

## LAND BANK'S FOOTPRINT

The Land Bank Group headquarters are based in Centurion, Pretoria. The Bank operates in all Provinces where it has nine provincial offices, and 14 satellite offices to ensure that its clients are adequately reached and supported.




**OPERATES**

Nine Provinces

**PERMANENT EMPLOYEES**

154 Females

195 Males

349 Total

# 04

# LAND BANK'S OPERATIONS

# FOREWORD BY THE ACTING CHIEF EXECUTIVE OFFICER

## Ms Khensani Mukhari

> *The financial performance of the Land Bank Group has shown a significant improvement with a profit of R1.4 billion in the 2022 Financial Year despite the default position.*

The agricultural sector plays a pivotal role in South Africa's economy. Employment statistics for the fourth quarter of 2021, have revealed the ever-increasing importance of agriculture to the creation of jobs. In this difficult climate, the employment growth in the sector for the fourth quarter reveals that the sector remains capable of absorbing labour and providing much needed jobs to South Africans. The dominant message about South Africa's agriculture over the past few months has been of a thriving sector. The financial conditions of the sector have, however, been tough. Rising input costs (higher price of fuel, labour, fertiliser, energy, and agrochemical) for those in field crops and horticulture are placing significant pressure on already burdened producers. Higher fuel prices particularly feed into various aspects of the food value chain - from planting, harvesting, to packaging. The Russia / Ukraine war has placed renewed upward pressure on all input and value chain costs through disruption of Black Sea agricultural exports. Russia and Ukraine may not be major suppliers of agricultural products to South Africa, but they have strong ties with the global grains and oil seeds market given their large export share contribution. This has an important and significant bearing on commodity prices.

The onset of diseases in the sector as well as the impact of climate change such as droughts and flooding, poses a further risk to food security in the country and the inability to export SA agricultural products.

The Land and Agricultural Bank of South Africa (Land Bank) plays a significant role in supporting agriculture and ensuring food security and sector transformation in the country. The past few years since default have been challenging for the Bank. While there has been significant progress in some areas, the year under review has had its difficulties. The Bank continued to operate under a state of default. The Bank and its lenders were unable to agree on the Liability Solution proposed for implementation before end of FY2022. As a result, a need arose for a new Liability Solution to be constructed, and this is currently underway. The newly appointed Land Bank Board has implemented a collaborative programme of engagement with lenders, including ongoing workshops to consider all the concerns raised by the lenders regarding the proposed Liability Solution. The delay in curing the default continues to have a negative impact on the Bank's ability to fulfil its mandate of supporting and transforming the agricultural sector in the country. We have also seen a loss of critical skills in the organisation as a result.

Although Land Bank was not able to approve any new facilities during the Financial Year, we were able to support the production and working capital needs of our existing clients. The default status has disabled Land Bank from sourcing new funding, thus restricting it from fully supporting the funding requirements of its clients. Since the default, the Bank has been reliant on collections of instalments/repayments it receives from its clients, so that it may service interest and partial capital redemption of its debts, as well as cover its operating cost commitments. Sector Support continues to be on a downward trajectory as customers migrate to other financial institutions owing to the financial position of the Bank. In FY2022 the Bank disbursed an amount of R945 million to support the sector. This pales in comparison to previous financial year's disbursements to the sector. In order to start reversing this trajectory, the Bank will resume lending to new development customers during FY2023 as first steps towards re-establishing itself and starting to fulfill its mandate.

Despite these challenges the Bank continues to make progress as outlined below.

### Interest and debt repayment

Since the inception of the event of default in, April 2020, Land Bank has worked to repay all interest due on funding and has been able to reduce its debt to Lenders by 42.84% in June 2022 (28.4% by March 2022).

### Liability Solution

Land Bank is in a process of negotiating an acceptable Liability Solution that will allow the Bank to progress out of the current default position, and allow it to embark on a transition to rebuilding a financially-sustainable Development Finance Institution – to effectively fulfil its mandate. The Bank's default position served to magnify the underlying funding model challenges of the Bank and the need to address its business model such that it may reposition itself as a significant catalyst of transformation and growth of the Agricultural sector – as enunciated in the Land Bank Act.

### Audit outcome

The Bank received an unqualified audit outcome (clean audit) from the Auditor General of South Africa for FY2022. This is a significant improvement from the past two financial years where the Bank received a qualified and disclaimed audit opinion for FY2021 and FY2020 respectively. Our staff and management teams have worked around the clock to improve our control environment and reduce reliance on third parties. This aids to ensure we remediate all findings, and we hope to maintain clean audit outcomes going forward.

### Insourcing of the loan book

The continued strategy to reduce reliance on third parties led to the insourcing of our biggest SLA partner, Unigro, on 1 October 2021. This resulted in the increase of the book under direct management of Land Bank to over 90%.

### Financial performance

The financial performance of the Land Bank Group has shown a significant improvement with a profit of R1.4 billion in the 2022 Financial Year despite the default position. The Bank's margins however remain under pressure with the declining Loan Book and high cost of funding. An extensive NPL remediation plan has been implemented to remedy the book's performance.

### Value proposition

Digital Channel - In our continued efforts to improve the value proposition to our customers, we added a digital channel for clients to engage with the Bank through a Client Portal. Further modules are being developed to support both existing and potential clients.

Product offering – The Bank working together with its insurance arm has launched a Bancassurance offering which will enhance the value offering to our customers. Land Bank has also made good progress in establishing its GIS capability, which is used effectively to evaluate a farm's productive capacity through crop and soil suitability for a specific area and ensure optimisation through monitoring of crops.

### Resumption of Lending

In addition to the continued support of our existing clients, the Bank is gearing itself to resume lending to new development clients during FY2023.

### Way forward

Despite its current reality, Land Bank aims to position itself as a specialist agricultural Development Finance Institution, which utilises financial services and products to address a critical market failure in the economy for the development and transformation of agriculture, including agricultural land ownership and use, by promoting the inclusion of Historically Disadvantaged Persons in the agricultural economy. We remain committed to turning the Land Bank around to ensure it is able to take its rightful place in the country and fulfil its mandate of ensuring food security and transformation of the agricultural sector.

The Bank is in the process of implementing its revised strategy in order to facilitate a successful turnaround journey towards the desired future state, the Bank will prioritise its efforts on areas that will ensure immediate stability and set the basis for its change programme for the next five years.

In conclusion, I would like to express my sincere gratitude to the Board for your support and guidance as we navigate the organisation through these difficult times, and to the executive team and all members of staff for your tenacity and dedication during these trying times. The support of the Honourable Minister of Finance has been unwavering as we chartered these troubled waters.

**Ms Khensani Mukhari**
Acting Chief Executive Officer

## ACHIEVEMENT AGAINST KEY PERFORMANCE INDICATORS

The Bank's performance was measured against the following Key Performance Indicators (KPIs) for FY2022.

### FY22 LAND BANK CORPORATE SCORECARD

| | KPA | KPI | Weight | Measure FY2022 | Status | Comments |
|---|---|---|---|---|---|---|
| 1 | Financial Sustainability [30%] | Implement Liability Solution | 7.5% | Progress towards curing the event of default by delivering on Liability Solution action items by 31 March 2022:<br>• Independent Loan Book review concluded.<br>• Existing DFI loan agreements amended.<br>• New loan agreement with Stanlib concluded.<br>• New offering circular submitted to Lenders.<br>• Revised commitment agreement prepared and shared with the lenders for consideration | | Four out of five of the listed action items were implemented before 31 March 2022.<br><br>Following engagements with lenders, the agreement was however not concluded, due to rejection of Liability Solution 3.<br><br>Negotiations are continuing with the lenders to find a sustainable solution for the Bank. |
| | | | 7.5% | • Reduction of Corporate and Commercial Loan Book – Maintain a C&C Gross Loan Book of: <R23.968 billion | | The C&C Loan Book reduced to R18.7 billion (by 31 March 22) to enable cash collections and capital repayments. |
| | | Stabilise Financial Performance | 7.5% | Reduce Non-Performing Loans: Gross Stage 3 Loans <R10 billion | | NPL's increased by R338 million (2.8%) to R12.3 billion for the year under review (from R12.0 billion as at 31 March 2021). |
| | | | 5% | Cost to Income Ratio: 215% | | The operating expenses of R531m for the year against the Net Interest Income (NII) of R596m and non-interest expense of R10m has resulted in a cost to income ratio (CTI) of 95.6%. |
| | | | 2.5% | Revenue diversification through non-Interest income:<br>• Bancassurance referral fee contracted with LBI by 31 March 2022.<br>• One Agri-Hub offering approved by PPC by 31 March 2022. | | • The Bancassurance Referral fee contract was signed by Land Bank and Land Bank Insurance.<br>• The GIS Business case was approved at the Project Portfolio Committee. |

| | KPA | KPI | Weight | Measure FY2022 | Status | Comments |
|---|---|---|---|---|---|---|
| 2 | Purpose and Mandate [30%] | Re-establishment and entrenchment of the Development and Transformation mandate | 10% | Maintain a Development and Transformation Gross D&T Loan Book of: ≥R7.509 billion | | The D&T Loan Book declined to R7.2 billion (as at 31 March 2022).<br>• Due to liquidity constraints, only short-term facilities were serviced.<br>• The Asset Solution also included reduction of some Transformation clients.<br>• The initial target included the assumption of R500 million ring-fenced for D&T disbursements on the back of the equity contribution linked to the Liability Solution. |
| | | | 10% | Revised Organisational Operating Model Approved by the Board by 31 March 2022. | | The Operating Model was approved but has since been rescinded by the new Board.<br><br>A review of the Operating Model, based on the Bank's revised Strategy, is being undertaken. |
| | | | 10% | Advancing development effectiveness by supporting Development farmers with Production loans disbursed to the value of R35 million (grant and/or debt) | | Production loan disbursements to Development clients: R48m<br>• KAT River farms projects amounted to R22 million in grants, and<br>• Other direct clients' disbursements amounted to R26 million in debt. |
| 3 | Client Focus [5%] | Improve Client Experience | 5% | On-line Banking Client Services Capabilities implemented:<br>• Client Portal - Client Queries and Request functionality (Sprint 2) | | The Client Portal Sprint 2 functionality was launched. |
| 4 | Build Organisational Capabilities, enabling a Smart Bank [10%] | Improve Business Efficiency | 2.5% | Business Re-engineering Programme Commenced. EXCO Approved the following projects:<br>• Call Centre Capability Concept<br>• Mobile App Concept | | • The Call Centre capability concept was approved by EXCO.<br>• The Mobile App concept was only reviewed by EXCO after March 2022. |
| | | | 2.5% | Notional Accounting reporting for D&T and C&C implemented by 31 March 2022 | | Financial reporting makes distinction between D&T and C&C. |
| | | Implementation of the Bancassurance Model. | 5% | Implementation of the Bancassurance Strategy Phase1: (Sales referral model) | | The Bancassurance preparation phase was implemented, as per the project plan. |
| 5 | Organisational Change. [5%] | Develop and implement a Fit-for-Purpose Organisation Structure. | 2.5% | Board-approved revised Macro Organisational Structure by 31 March 2022. | | Board approved the proposed Macro Structure on 28 July 2021. However, the new Board has rescinded the Divisional-structured model. A review of the Strategy and Operating Model is underway. |
| | | Develop and implement an Organisation Climate Improvement Plan. | 2.5% | Organisation Culture Survey – Development of Remedial Plan and 50% of Remedial plan milestones achieved with supporting evidence by 31 March 2022. | | The Culture Survey action plans have commenced and implementation on milestones have progressed. 50% of the initiatives were completed. |

| | KPA | KPI | Weight | Measure FY2022 | Status | Comments |
|---|---|---|---|---|---|---|
| 6 | Corporate Governance. [20%] | Irregular, Fruitless or Wasteful Expenditure. | 2.5% | 100% of Operating expenses classified as Irregular, Fruitless or Wasteful Expenditure are addressed in line with Board Approved Policy | | As at 31 March 2022, the following was reported:<br>• R82 000 Fruitless and Wasteful Expenditure.<br>• R944 million Irregular expenditure:<br>» R919 million related to expenses incurred on the extension of SLA Agreements. A request for condonation was submitted to NT in September 2021, and evidence of consequence management was requested. Land Bank Board is reviewing the appropriate consequence management.<br>» R5 million of fees charged for non-compliance on the utilisation of the Business Object software license by Land Bank. Awaiting condonation.<br>» For the remaining R19 million, condonation was obtained from National Treasury. Corrective action and consequence management processes are underway. |
| | | Remuneration Policy | 2.5% | Finalise review of Remuneration Policy (align with shareholder directives and applicable governance principles), Board approved by 31 March 2022 | | The revised Remuneration and Compensation Policy (including Shareholder's directives) was approved by Board submitted to National Treasury, before the expiry of the extended due date. |
| | | Ethical behaviour | 2.5% | 100% of findings on unethical behaviour of staff members are addressed in line with Board approved Policy | | No unethical behaviour was reported for the year, as per the Ethics report. |
| | | Implement Remediation action plan | 2.5% | The FY20-21 Audit remediation action plan implemented and reviewed by the Audit and Finance Committee. 80% of the remediation plan implemented | | More than 80% of the remediation plan has been implemented, as reported to the Audit and Finance Committee. |
| | | FY22 External Audit Outcome. | 10% | Rating - scale of the Auditor-General:<br>5 = Unqualified Opinion with No Findings<br>4 = Financially Unqualified Opinion with Findings<br>3 = Qualified Opinion<br>1 = Adverse Opinion<br>1 = Disclaimed Opinion | | The audit outcome for the FY22 is unqualified with no findings. |

# 05 OPERATING ENVIRONMENT

# OPERATING ENVIRONMENT

## THE MACRO-ECONOMIC ENVIRONMENT

The International Monetary Fund (IMF) reduced its global growth forecast for 2022 to 3.6%. China's response to the COVID-19 outbreak and Russia's sustained invasion of Ukraine will, however, weigh heavily on global economic growth and contribute to higher inflation. The war has impaired the production and trade of a wide range of energy, food, and various commodities and will continue to do so for some time. The higher oil, commodity, and food prices, as well as disruptions in supply chains and rising debt costs, worsen economic conditions for most emerging and developing economies.

Euro growth has been revised downwards to 2.8% in 2022, from the 3.9% growth forecast in January 2022. The European economy is bound to suffer from the negative effects of not being able to import a sizeable number of goods from Russia nor being able to export to its eastern neighbour as before. The spectre of sharply higher food and fuel inflation is likely to impact more severely upon Europe, due to its greater dependence on Russia and Ukraine for such items. In the U.S., U.K., and Eurozone, both Consumer Price Index (CPI) and Producer Price Index (PPI) inflation have reached a 40-year high, with rising food prices caused by supply shortages due to the war, exacerbating an already negative impact caused by increased oil prices.

Higher than expected inflation has pushed major central banks to accelerate the normalisation of global policy rates, tightening global financial conditions. On balance, and with some exceptions, capital flow and market volatility are expected to remain for emerging market assets and currencies. Alongside currency depreciation, other risks to the inflation outlook, such as elevated food and fuel prices, have been realised.

## THE MICRO ECONOMIC PERSPECTIVE

The IMF has left South Africa's growth forecasts for 2022 and 2023 unchanged at 1.9% and 1.4%, respectively. Short-term indicators for retail sales, manufacturing and mining production saw declines in growth, reflecting weakness in economic activity over the period. The headline CPI inflation rate rose from 5.7% y/y in February to 5.9% y/y in March 2022. The effects of the Russian/Ukrainian war pushed inflation higher in March already 2022. Oil prices rose sharply towards the end of February 2022 as Russia looked set to invade Ukraine. The result was a sharp rise in fuel prices in March 2022, which pushed the fuel inflation rate upwards. South Africa will be unable to escape the full effects of inflation emanating from the impact of the war (particularly in oil and food prices).

Further inflationary effects are expected from the damage done by devastating floods in KwaZulu-Natal. The destruction of roads and factories and the disruption of port facilities are likely to exacerbate the interruption to supply chains of goods to the country. Headline CPI is expected to rise above the 6% upper end of the inflation target for a while and at least through the remainder of the year. The interest rate hiking cycle may be more aggressive than previously expected.

In the fourth quarter of the 2022 Financial Year, the Rand was one of the strongest currencies because of the perceived firmness of commodity prices in the wake of global supply shortages generated by COVID-19 and because of supply shortages caused by the Russia-Ukrainian war. Sanctions imposed upon Russia have threatened to see that country reduce its exports of essential commodities that South Africa produces in competition. Most notable in this regard are coal and Platinum Group Metals (PGMs). In turn, the relative strength of commodity prices is resulting in a surge in the profitability of South African mining companies, which is helping to generate a sharp increase in corporate tax revenue accruing to the fiscus.

Subdued economic activity globally and domestically in the face of rising input costs and inflation and interest rates do not bode well for Land Bank and its clients. Rising debt servicing costs will negatively affect the cash position of the clients and the Bank and could lead to increasing non-performing loans, especially for marginal farmers. The farmers will also suffer losses as customers are increasingly under pressure from the escalating cost of living. The Bank should anticipate a more negative outlook in the domestic economy which will translate into a poorer performance of the Bank overall.

## THE POLICY ENVIRONMENT

In February 2019, The State President, Cyril Ramaphosa, identified seven strategic and priority sectors – agriculture and Agro-processing being one of them. He also announced that these seven priority sectors will formulate their Master Plans. In March 2020, the Honourable Minister Thoko Didiza, appointed the National Agricultural Marketing Council (NAMC) to coordinate the research, consultation, and development of the Agriculture and Agro-processing Master Plan (AAMP) on behalf of the Department of Agriculture, Land Reform, and Rural Development in consultation with industry, labour, and communities

The Master Plan serves as a Social compact outlining South Africa's agriculture's inclusive growth, sustainable jobs and food security underpinned by policy reforms in markets, finance, infrastructure, skills, natural resources, research and development, as well as technology to meaningful contribute to country's triple-challenge (unemployment, inequality, and slow growth) and The Economic Reconstruction and Recovery Plan (ERRP). The Master Plan aims to complement and advance the actualisation of national development priorities as set out in the National Development Plan (NDP), the Medium-Term Strategic Framework (MTSF, 2019-2024), and on-going programmes in land and agrarian reform. The AAMP also recognises and aligns to finalised commodity-specific Master Plans (e.g., sugar, poultry, and cannabis) as well as other sectoral plans (e.g., Textile and Clothing, ICT, Manufacturing etc.).

The Agriculture and Agro-processing Master Plan was concluded and adopted by Honourable Minister Thokozile Didiza. The plan's primary purpose is to enable globally competitive agricultural and Agro-processing sectors, driving market oriented and inclusive production to develop rural economies, ensure food-security, and create employment and entrepreneurs.

AAMP Strategic Objectives include:

- Promote transformation in agriculture and Agro-processing sectors;
- Increase food security in South Africa;
- Accelerate the opening of markets and better access conditions;
- Enhance competitiveness and entrepreneurial opportunities through technological innovations, infrastructure development and digitalization;
- Create an effective farmer support and Agro-processing incentives;
- Create decent and inclusive employment, and improve working conditions and decent pay in the sector including in the face of climate change and technology innovations;
- Increase farming community safety and reduce stock theft;
- Create a capable state and enabling policy environment; and
- Enhance resilience to climate change and management of natural resource.

**PILLAR 1**
Resolving policy ambiguities and crating investment friendly climate

**PILLAR 2**
Creating enabling infrastructure

**PILLAR 3**
Providing comprehensive farmer support, development finance, R&D and extension services

**PILLAR 4**
Ensuring food security, expanded production and employment creation, decency and inclusivity

**PILLAR 5**
Enabling markets expansion, improving market access and trade facilitation

**PILLAR 6**
Developing localised food import replacement and expanded agro-processing exports

AAMP Commodity prioritisation - Principles considered include the following:

- Resource limitations compels the state to priorities "Best return for every Rand invested", striving to balance food security, foreign earnings, and environmental sustainability.
- As part of the prioritisation process the state needs to acknowledge structural barriers that limit higher transformation.
- Without properly designed and coordinated farmer support systems in the country; "across 3-spheres of government and SOEs partnering with private sector, development will be limited.
- In funding farmers located in rural and land reform areas Land Bank needs to create partnerships so as to close a gap left by the former Agricultural Credit Board, and former Farmer Cooperatives.

| INDICATOR | MEASUREMENT | FRUITS | | | VEGETABLES | GRAINS, OILSEEDS AND INDUSTRIAL | | | | | ANIMALS AND PRODUCTS | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Citrus | Deciduous | Sub-tropical | | Maize | Wheat | Soy-bean | Sugar | Cnnabis | Beef | Poultry | Sheep and Goat |
| MICRO-ECONOMIC | Value (R billion in 2018) | 19 | 12 | 5 | 25 | 37 | 8 | 8 | 14 | 15 | 44 | 48 | 8 |
| | Production Growth (% pa:2008-18) | 1.5% | 0.7% | 0.8% | 0.1% | -0.2% | -0.1% | 2% | 0% | N/a | 2.3% | 3% | 2.8% |
| | Investment Attractiveness Index | High Margin | High Margin | High Margin | Low Margin | Low Margin | Low Margin | Moderate Margin | Moderate Margin | High Margin | Moderate Margin | Low Margin | Moderate Margin |
| TARDE | Trade Balance (Value) | Net Exporter | Net Exporter | Net Exporter | Net Exporter | Net Exporter | Net Importer | Net Importer | Net Exporter | Net Exporter | Net Exporter | Net Importer | Net Importer |
| | Export Value Growth (% pa:2009-19) | 9% | 6% | 7% | 16% | 3% | -17% | -25% | 3% | 17% | 18% | 10% | 7% |
| NATIONAL INTEREST | Labour intensity (job/hectare) | 1.3 | 1.1 | 2.0 | 2.25 | 0.03 | 0.04 | 0.05 | 0.2 | 2 | 0.06 | 0.03 | 0.08 |
| | Food Security (Weight in SA Food Basket) | 2 | 2 | 2 | 3 | 5 | 4 | 1 | 3 | 1 | 3 | 4 | 3 |
| | Agro-processing (Economic Multiplier) | 0.49 | 0.45 | 0.40 | 0.68 | 0.88 | 0.88 | 0.71 | 0.47 | 0.8 | 0.58 | 0.53 | 0.56 |
| LEGENDS | | Good | | | | | Sub-Optimal | | | | Poor | | |

*Source: Agriculture and Agro-processing Master Plan*

## THE AGRICULTURAL SECTOR

### Agriculture Production and Growth

Agriculture made advances during the previous two years, expanding by 13.4 % year-on-year in 2020 and 8.3 % in 2021. The agriculture industry continued to increase by 0,8% during the first quarter of 2022. This makes agriculture the sector that has performed the best overall since COVID-19 began despite the restrictions to limit the spread of COVID-19. Despite the difficulties relating to the pandemic and its effects, the agricultural industry has shown remarkable resiliency and has made significant contributions to both economic growth and food security.

For the agricultural industry, 2021/22 has been a very good and challenging year. Grain growers in South Africa eagerly anticipated the 2022 production season after the exceptional consecutive production seasons of solid growth supported by relatively high commodity prices and favourable weather. Summer grain production had a rocky start, as extreme wet conditions threatened total crop output. This situation positively pivoted as the weather improved. The excessive rains at the beginning of the 2021/22 production season threatened the crops as various areas of the country experienced damages that required replanting. The positive production outcome came even though grain producers had to absorb substantial increases in input costs during the 2021/22 season, increasing the risk of production. The generally higher commodity prices, specifically grains and oilseeds, provided financial support to absorb some of these costs.

Employment statistics for the fourth quarter of 2021 and the first quarter of 2022 have revealed the agricultural sector's growing importance in creating jobs. In the fourth quarter of 2021, the sector's employment levels improved. For the first quarter of 2022, year-on-year employment numbers are up by 52 000 jobs, equating to 6.6% growth over the period, even though it decreased by 23 000 jobs quarter-on-quarter. The sector's gain in employment for the fourth quarter of 2021 demonstrated and year-on-year increases during the first quarter of 2022 show that agriculture was still capable of absorbing labour and giving South Africans much-needed jobs even during this challenging environment.

As shown by the GDP numbers above, the industry grew substantially over the previous two years due to favourable weather circumstances and farmers' capacity to adapt. According to Hortgro, the organisation in charge of overseeing the South African deciduous fruit industry, the export crop estimate volumes for apples and pears for 2021 increased by 7% year-on-year (December 2021 harvest). Citrus exports grew as well. These gains came despite infrastructure and efficiency problems at the ports. Hortgro further announced that South African pears have finally been granted market access to China. This comes after many years of dedication and hard work by a team of industry and the DALRRD officials. The international travel restrictions brought about by the COVID-19 pandemic added more than a year to the signing of the South African pear protocol that initially was planned to take place in 2020.

The above represents a few sector achievements in 2021, despite all the challenges experienced during the year.

### Operational Risks

Despite the positive agricultural production and trade numbers, agriculture is vulnerable to the effects of climate change and disease outbreaks. Certain areas of the Eastern Cape, Western Cape, and Northern Cape experienced drought conditions which adversely affected production. Runaway veld fires also affected some parts of the Northern Cape around April-May 2021. Brown locusts were another pestilence that affected the Western Cape, Northern Cape and some parts of the Eastern Cape. The heaviest rains caused significant disruptions to logistics feeding to and within the Port of Durban in KwaZulu-Natal. Days of heavy rain across KwaZulu-Natal in April 2022 led to deadly floods. Infrastructure was damaged. Roads leading to farms as well as the transportation of goods were affected, resulting in delays in food supplies. Disruptions at ports due to floods were also reported.

The Durban harbour is an important handler of the country's imports and exports, which also serves as a direct route for goods to and from Gauteng, the nation's commercial hub. The country also battles Foot and Mouth Disease (FMD) outbreaks in the previous FMD free zones. The first event started in May 2021 and is affecting KwaZulu-Natal (KZN) Province. The second outbreak event started in March 2022 in the previous free zone in Limpopo Province. The third outbreak event also started in March 2022 in North West Province, with spread to Free State, Gauteng and Mpumalanga Provinces. This outbreak resulted in China banning the import of all cloven-hoofed animals and their products from South Africa at the beginning of April 2022. In recent years, more than 70% of the SA clip was exported to China.

Despite the main impression of South Africa's agriculture industry in recent months being one of a booming industry due to positive production output, the industry has also faced challenging financial circumstances. The margins of producers are being squeezed by rising input prices which is felt across industries, specifically field crops, and horticulture. Higher fuel prices particularly feed into various aspects of the food value chain, from planting, and harvesting to packaging. Since a lot of grain is delivered by road, grain farmers and logistics companies would be affected by these expenses. The Ukraine crisis has put renewed upward pressure on everything, especially fuel, fertiliser, and animal feed, which may continue to worsen the situation.

Black Sea agricultural exports have been hampered by Russia's attack on Ukraine, driving up prices and escalating energy and fertilizer costs. Food prices were raised further due to trade policies, particularly export restrictions, implemented in response to market volatility brought on by the conflict. In markets that are heavily dependent on imported food, rising transportation costs, a direct outcome of higher energy prices, increase consumer costs. Despite not being the biggest exporters of agricultural products to South Africa, Russia and Ukraine have strong linkages to the world market for grains and oilseeds, which significantly impacts the local pricing of commodities. The upward pressure on commodity prices will adversely impact all industries during 2022. However, due to varying production cost breakdowns, individual industries will be impacted differently. For example, primary and secondary sectors have very high exposure to fuel and transport costs in delivering their goods and services. The recent solid rise in fuel and fertilizer costs inflated farm production costs.

Local electricity and fuel prices are increasing, while weakness in the rand is always a real risk. The volatile exchange rate is at the mercy of international financial market sentiment and could weaken if, for example, the geopolitics around the Ukraine-Russia situation deteriorates further.

The high cost of production incurred by the producers will invariably be passed on to consumers, who currently face challenges ranging from the effects of COVID-19, high levels of unemployment, increased inflation, especially for fuel and food, and higher interest rates. In the current constrained consumer environment, producers might not be able to pass associated input cost increases to consumers.

The above factors can be classified as lowlights of the industry during the financial year 2021/22 period. However, farmers have always been able to brace the storm, come out victorious and continue to do so even during harsh conditions.

### The use of Technology

Strong agricultural output over the years has made South Africa one of the net exporters of agricultural goods. Overall, for South Africa to maintain and improve food security in a sustainable way for the future, science and technology should be central to planning and ensuring sustainable innovation in farming. Hydroponics, conservation and regenerative agriculture, biological farming, and the responsible use and disposal of agrochemicals are some methods for achieving this. This would help improve output in a sustainable way. Adopting new technologies should also mitigate some of the food security risks as recent technological advances in agriculture were already improving the agricultural productivity of known commodities. The use of technology has, for example, enabled a significant increase in maize production in the country on roughly the same number of hectares over the past two decades.

A Research report from Accenture[1] showed that the agricultural value chain typically comprises five phases, namely input, production, processing, distribution and purchasing. A digital marketplace adds value along the entire value chain. In the production and processing phases, precision agriculture and autonomous operations add value. In the distribution phase, a connected supply chain comes into its own. It is to this effect that the industry needs to look to technology to enhance the agriculture value chain and improve competitiveness.

[1] *https://www.accenture.com/za-en/about/accenture-development-partnerships/agriculture-south-africa*

Geographical Information System (GIS) is used effectively to evaluate a farm's productive capacity through crop and soil suitability for a specific area and ensure optimisation through monitoring of crops. Land Bank has made good progress in establishing its GIS capability. Read more about this on page 65.

## Roads and Infrastructure

As can be seen with the recent floods in KZN, and the current state of roads in the rural farming areas, infrastructure continues to be a significant issue in the South African agriculture sector, notably at ports and logistics to move produce from the field to the market and maintain the cold chain because of unstable electricity. There is a need for improved port operations efficiency, as there is still a logistical bottleneck at ports and a shortage of shipping containers reported. With these bottlenecks, it may take a while for items to reach their destination, impacting the quality and price of the produce and increasing costs to export. However, South African exports remain strong, and this improvement would improve the overall industry and farm profits. South Africa needs to find ways to use irrigation more effective as South Africa is a water-scarce country. Technology and renewable energy sources may be able to play a role here.

The poor state of South Africa's roadways posed a safety and economic risk to the agriculture industry following heavy rains in early 2022. The accompanying floods damaged roads, especially in North West and Free State and exacerbate the conditions due to a lack of continuous maintenance. In April 2022, days of heavy rain across KwaZulu-Natal led to deadly floods. Infrastructure was damaged. Roads leading to farms as well as the transportation of goods were affected, resulting in delays in food supplies. Disruptions at ports due to floods were also reported.

The need for infrastructure beyond roads, rail and ports, is very important to the rural economies. This include irrigation infrastructure which addresses not only accessibility of water from the dams, but also related to the need for quality water, storage, packing and distribution facilities, value-adding processing facilities and fresh produce markets. The latest policy[2] discussion document published by the governing party also emphasize that to support the growth of the agricultural sector, a comprehensive, sufficient, and well-maintained infrastructure, including electricity, water, roads, rail, and ports together with a well-functioning local municipality with reliable service delivery must be prioritised. The same policy states that in the current e..conomic climate, agriculture is one of the critical sectors that requires minimal investment to unlock the growth potential to generate livelihoods and employment in rural South Africa.

## Livestock Trends and Overall Animal Health System

Cattle and other livestock farmers have had a bumper year with positive profits, partly due to high weaner calf prices, however, higher costs were weighing down on this. There have also been fewer weaners available in the market, which has helped farmers fetch higher prices for their stock, resulting in an overall improved financial picture. Favourable seasonal production conditions allowed farmers to withhold female cattle for herd rebuilding. The increased availability of feed (stubble) from the harvested maize lands also provided an opportunity for backgrounding there, reducing numbers for the slaughter market. As a result, the red meat market is in a bullish phase due to lower slaughtering volumes and a more robust demand for livestock products.

On the downside, the current high weaner calf prices were narrowing the intensive beef producers' margins, as the weaner price is one of the biggest variable cost items in the feedlot industry. High feed costs from maize and soya put additional strain on intensive unit's margins. Improved pastures when feed prices are high is a welcome development and, due to good rainfall, grazing condition was good. The only challenge, however, that comes with wet conditions is the increase in parasites and parasitic diseases, which increase certain livestock diseases.

The Bureau for Food and Agricultural Policy (BFAP) pointed out that the overall animal health system is not currently efficient in managing disease outbreaks, hampering productivity amongst smaller producers, and limiting opportunities for export-led growth. South Africa has already lost its Foot and Mouth Disease (FMD) free status and has had to rely on bilateral agreements and geographical compartmentalisation to keep exports flowing. A well-managed veterinary strategy can reduce risks and enable further investment. The recent FMD outbreaks in South Africa in 2021 and early 2022, active across five provinces, caused China to ban the import of all cloven-hoofed animals and their products (wool) from South Africa. Furthermore, there have been problems with the availability of vaccines in this sector over the past two years. There is a great danger to farmers and the industry, if one cannot immunize against specific diseases because livestock is a significant source of agricultural sector income. The gross value of animal products contributed 44% to the total gross value of agricultural production during 2020/21. The South African beef industry is the third largest contributor at 11%. If livestock is not vaccinated, it becomes difficult to benefit from the export market. BFAP[3] estimates that there is approximately 14 million cattle in SA and an estimated 40% are in the hands of communal farmers. Land Bank plans to focus not only on commercial farmers, but developing farmers as well and by supporting the country's agricultural policy ambitions and growth plans such as the Agriculture and Agro-processing Master Plan.

[2] *https://www.polity.org.za/article/umrabulo-policy-conference-2022-2022-05-20*
[3] *https://www.bfap.co.za/wp-content/uploads/2021/09/BFAP-Baseline-2021.pdf*

## Sustainable Production and Climate Change

Another important concern about the future of food security is the potential for the impacts of increasing climate extremes on food production to contribute to multi-factored complex events such as food price spikes. Increasing extreme weather events can disrupt production and transport logistics.

Changes in climate patterns exacerbated by the degree and the extent of land degradation, necessitates the urgent implementation of climate-smart adaptation strategies and practices in the agricultural sector. Not only is the agricultural sector at risk, but all who depend on it both directly and indirectly. That places food, income, and job security at risk, since the entire agricultural value chain, from production to retail, is heavily impacted by it.

Land Bank, as an important lending institution within the South African agricultural sector, has a key role to play in facilitating the climate-smart transformation of the sector to manage the threats rendered by climate change, but also to unlock the opportunities for climate-smart technologies and practices, including Conservation Agriculture/Regenerative Agriculture (CA/RA).

Producers are encouraged to practise CA/RA, to utilise biological pest control and fertilisers, as well as other climate-smart measures, such as considering and implementing renewable energy for various reasons to improve productivity, minimise soil erosion, alleviate compaction, and provide fodder for livestock. Still, it is a primary tool for adapting to and mitigating the impacts of climate change.

Reducing Green House Gasses (GHG) emissions and sequestering carbon per kilogram of a given output might well be, for food security and agriculture, one of the main targets and opportunities.

The above is directly linked to the sustainability of agriculture clients but also the sustainability and financial viability of Land Bank. The financial risk and exposure to Land Bank and the farmer are greatly minimised by converting to CA/RA. Climate-smart and regenerative agriculture CA/RA is not a single specific agricultural technology or practice that can be universally applied. It is an approach that requires site-specific assessments to identify suitable agricultural production technologies and practices.

## Outlook

Farming profitability may slide in the FY2022/2023 production season as rising input costs for farmers continue to squeeze profit margins. South Africa relies on imports for more than 80% of its fertilizer requirements. The reduction in use of chemical fertilisers may be better for the yields in terms of Agroecological approaches, which promotes natural fertilisers. High commodity prices will likely spur producers to plant more area. There is uncertainty about yields due to high fertilizer prices and weather conditions. Land Bank's book consists of grains and with fertiliser prices having increased sharply during the FY2021/2022 production season, farmers will be forced to increase their debt requirements in preparation for the new planting season. An increase in investment in the agriculture sector might translate into an increased use of credit to finance farming investments.

Not all risks affect clients the same, with the impact of some risks being minimum and clients still able to settle the instalments on the due date. When clients are directly impacted, any setbacks hinder the repayment ability of the farmers' existing debt with the Bank, which may lead to a potential increase in NPLs.

# 06 STAKEHOLDER RELATIONS

# STAKEHOLDER RELATIONS

Based on the Stakeholder Engagement Strategy, Land Bank's engagements with key partners are being implemented, monitored, and reported on a quarterly basis. The engagements are aimed at addressing identified key partnership areas. Regular interactions with prioritised stakeholder segments allow Land Bank to attend to partnership concerns and business opportunities.

The Bank's stakeholder management programme is premised on a clear understanding of the expectations of its stakeholders and deploying of appropriate engagement platforms to create value for the stakeholders in support of the Bank's mandate.

| KEY STAKEHOLDER/ TARGET AUDIENCE | STAKEHOLDER EXPECTATIONS/NEEDS/ KEY ISSUES TO ADDRESS | HOW THE BANK ENGAGES | HOW THE BANK CREATES VALUE |
|---|---|---|---|
| **Shareholder (NT/Minister of Finance)** | • Sound leadership.<br>• Clear strategy and execution.<br>• Good governance and ethics.<br>• Financial management and operational efficiency.<br>• Advancement of development and transformation of the agricultural sector. | • Quarterly Performance Reports.<br>• Annual General Meetings.<br>• Strategy Engagement Sessions. | • Fulfilment of the mandate. |
| **Department of Agriculture Land Reform and Rural Development/ Third Party Funders** | • Fulfilment of the Bank's mandate in support of the sector's programmes.<br>• Administrator and implementer support for the execution of sector programmes.<br>• Strategic alignment and collaboration. | • Engagement meetings.<br>• Reports on programmes administered and implemented by the Bank for the Department and other third-party funders. | • Strategic alignment and fulfilment of mandate.<br>• Support for sector priority programmes. |
| **Legislators/ Parliament** | • Fulfilment of the Bank's mandate.<br>• Appropriate deployment of fiscal support.<br>• Good governance and ethics. | • Reports, presentations, and oversight engagements through the relevant Parliamentary Committees – in particular, committees of Finance and Agriculture, Land Reform and Rural Development. | • Deployment of funds in government and agricultural sectors' development programmes. |
| **Funders/Lenders** | • Financial performance and sustainability.<br>• Good risk management and governance.<br>• Adhere to funding agreements / repayment of debt. | • Lender and investor meetings.<br>• Integrated report.<br>• Results announcement sessions. | • Financial performance.<br>• Lenders' Return on Investment. |
| **Clients** | • Access to value adding financial products and services.<br>• Accessibility, reliability and responsiveness.<br>• Quality client service and relationship management. | • Client engagement sessions and events.<br>• Sector events.<br>• Client surveys.<br>• Client correspondences.<br>• Provincial offices and points of presence. | • Financial inclusion.<br>• Client experience.<br>• Financial support to contribute to sustainability of clients' businesses. |

| KEY STAKEHOLDER/ TARGET AUDIENCE | STAKEHOLDER EXPECTATIONS/NEEDS/ KEY ISSUES TO ADDRESS | HOW THE BANK ENGAGES | HOW THE BANK CREATES VALUE |
|---|---|---|---|
| **Organised Agriculture** | • Financial support of the sector.<br>• Collaboration and support for organised agriculture's key programmes. | • Organisational engagement sessions.<br>• Sector events. | • Financial support towards sector growth and development, and sector transformation. |
| **Employees/ Labour Representatives** | • Good working environment and employee satisfaction.<br>• Responsiveness to employee needs.<br>• Transparent and honest engagements / sharing of information.<br>• Sustainable organisation to ensure job security. | • Staff engagement sessions.<br>• Union / employee representative engagement structures.<br>• One-on-one employee engagements.<br>• Team and divisional engagements.<br>• Climate and employee surveys. | • Employee well-being.<br>• Employee development and growth.<br>• Productive employees.<br>• Fair remuneration, rewards, and recognition.<br>• Experienced and evident transformation. |
| **Society/ Communities** | • Support for sustainable development goals.<br>• Environmental and social sustainability.<br>• Corporate social investments.<br>• Business opportunities for local suppliers. | • Corporate social investment projects.<br>• Social and environmental assessments as part of due diligence on transactions.<br>• Supply Chain Management advertisements.<br>• Provincial offices and points of presence. | • Social and community programmes.<br>• Opportunities for SMME suppliers / service providers |
| **Media** | • Transparency and responsiveness.<br>• Information and knowledge sharing. | • Media releases.<br>• Media engagements.<br>• Marketing and advertisements.<br>• Updated contents on the Bank's website. | • Media well-resourced with organisational information.<br>• Informed public, clients and stakeholders about the Bank's role and its products and services. |

## BACKGROUND

The engagements with stakeholders provide Land Bank partners with a good understanding of the Bank's business and thus help to strengthen and maintain business relations while managing stakeholder expectations. There is a general view from the Bank's stakeholders that Land Bank requires government support (both financial and non-financial) to advance sector transformation.

Below are some of the notable updates on the Bank's stakeholder engagements for the period under review:

## NATIONAL TREASURY

The new Land Bank Board, through its Chairman, has maintained a very close and accessible relationship with the Minister of Finance (MoF). A sound and responsive relationship exist between the executive team, led by the Acting Chief Executive Officer (ACEO), and the NT team.

The Shareholder has continued to provide support to Land Bank's attempts to get out of the current default position and has actively participated in engagements with funders as the negotiations for the liability solution continue.

## MINISTRIES AND SOES

### DALRRD

Land Bank and DALRRD have initiated the process to strengthen their collaborative efforts to achieve their individual and collective objectives through a formal collaborative programme of action. The key areas of focus will be:

- Legislative and Policy alignment and influencing/lobbying.
- Land Reform Programme.
- Farmer Funding Support.
- Non-Finance Programmes, such as Extension Services.

Land Bank continues to manage various funds of the DALRRD. The DALRRD/Jobs Fund project is implemented by the Bank with enhanced execution plans to accelerate the project's effective implementation. Other Funds managed for and with the support of DALRRD include Blended Finance, AgriBEE, Rural Development: Emerging Farmer Support, Kat River Farms, and the COVID-19 Relief Fund.

The Land Bank and DALRRD teams have been engaging in finalising the conclusion of an amended Memorandum of Agreement to align with the revised approach of the Blended Finance Scheme which has also been extended to other Financial Institutions.

### Provincial Value Chain Blended Finance Scheme

The Bank is embarking on a process aimed at the establishment of partnerships to support agricultural development and commercialisation of small to medium farmers in each province. Draft Memoranda of Understanding (MOUs) and discussions with the provinces four provinces are in progress to determine the nature and timing of the implementation of these collaborative arrangements.

### Provincial DFIS and Economic Development Agencies

Land Bank has engaged Provincial DFIs to explore potential partnerships in eco-tourism, youth employment, Agri business, etc. These agencies possess several properties that are either not in use or are not in optimal use. These facilities include township education centres (Animal Farms), AgriParks, resorts (youth training facilities), small farms, conference facilities, and similar facilities. It is envisaged that the Land Bank's Corporate Social Investment programme may utilise the mentioned facilities for the initiatives such as the township and inner-city Agri seminars/workshops and undertake youth placements in various facilities to further support community-based young entrepreneurs. Discussions are still underway.

## INTERNATIONAL COOPERATION

Land Bank-German Embassy Cooperation project "Technical Dialogue on Agricultural Finance Associated with Land Management (TDFALM)": This project is supported by The German Ministry of Food and Agriculture (BMEL) under the auspices of NT and aims to support Land Bank in developing technical recommendations for specific aspects of land management and land reform, and in moderating sector engagements among key stakeholders in South Africa. The programme activities for Phase 1 of the project ended in August 2021. Discussions between all the involved parties for implementation of Phase 2 of the project are underway.

## REGIONAL COOPERATION AND PARTICIPATION

Land Bank has been a member of the South African Development Community's (SADC) DFI Network, a forum established in 2003 under the SADC Protocol on Finance and Investments. The Bank, with the concurrence of the Minister of Finance, has resolved to suspend participation in this forum in the interim, given the Bank's current financial challenges.

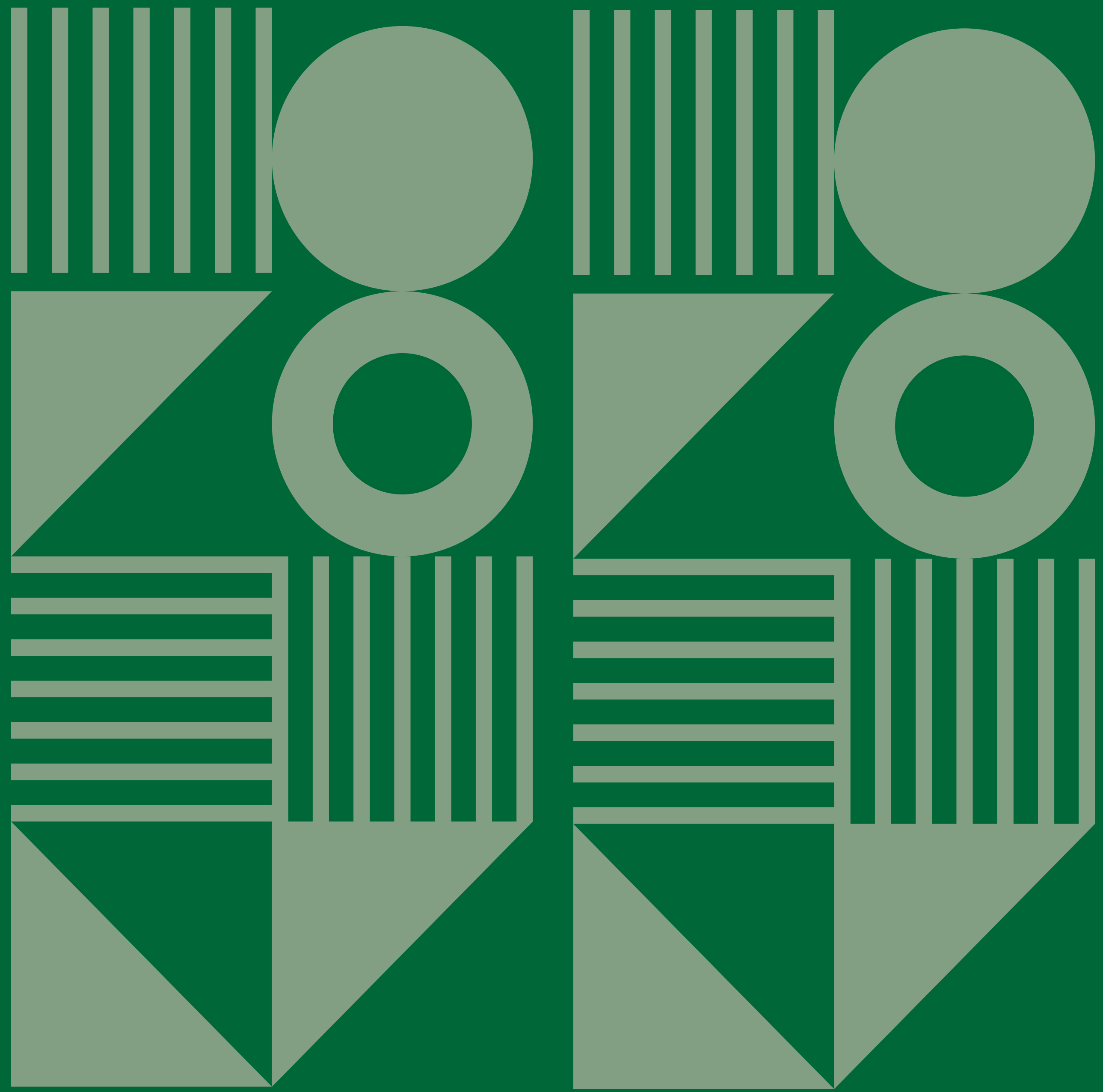
## FARMER ORGANISATIONS

Land Bank has provided secretariat and coordination support to the Agri-Sector Unity Forum (ASUF) since 2018. ASUF is a representative organisation of agricultural unions in South Africa, currently consisting African Farmers Association of South Africa (AFASA), TAU SA, Fruit SA, The Vegetable Roundtable, Agri SA, and the National African Farmers Union of South Africa (NAFU SA). Its main objective is to engage government on both policy and its implementation in areas of land reform, agricultural skills development, farm security, food security, job creation, sector growth, market, and farmers support – among many others.

It aims to develop consensus policy positions on strategic issues in agriculture and to become a mouthpiece for the sector, representing the interests of all farmers. Members of ASUF have committed to work together to develop a national development strategy and a delivery plan for the agricultural sector for South Africa.

The forum is developing an integrated agricultural support package and framework for the agricultural sector through an established Agricultural Sector Planning Committee that will report to the agricultural key stakeholders i.e., the public, sector players, state departments, and the SA Presidency.

Land Bank will continue to provide sector policy inputs, share research material, expose regional and international best practice, while supporting all activities of the forum.

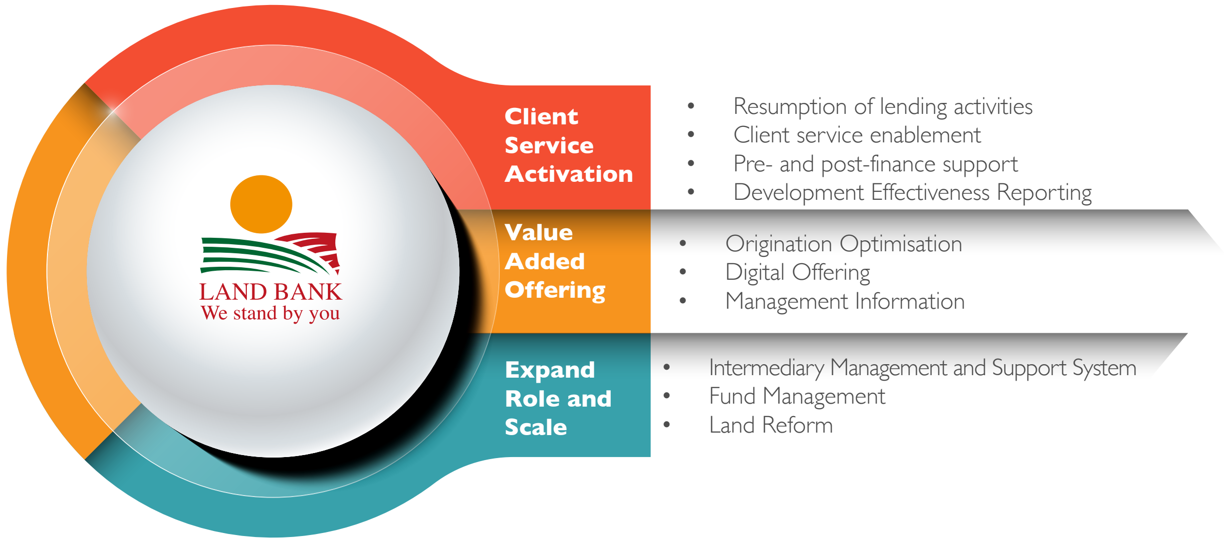



# 07 OUR CAPITALS

# INTELLECTUAL CAPITAL

## LAND BANK'S USE OF TECHNOLOGY

The Information Technology (IT) Strategy was reviewed during FY2020/2021 to provide a more comprehensive alignment with an envisioned digital transformation. During the process, various stakeholders were engaged, and the corporate plan was reviewed to ensure alignment. Key business themes were identified as imperative for the Bank's success.




The revised IT strategy provides a foundation for the inclusion of multiple integrated channels being available to clients. This will ultimately improve service delivery and create both short- and long-term value. Automation and integrated, client-centric processes will enable improved operational delivery – all of which will be supported by technological enablement of back-office support processes.

Various IT objectives and interventions were reviewed and consolidated. This was based on the understanding of the identified business priority areas as informed by the business imperatives. The amendments are summarised below.

- Business processes optimisation and automation: For improved process and customer experience.
- Robust integration of systems: Enable point-to-point system interfaces, as well as the implementation of an enterprise data staging area to enable consistency.
- Data Management and Analytics Enablement: This will enable enterprise intelligence and Management Information Systems (MIS), as well as support the Digital Data Architecture.
- Revamp of IT capability/infrastructure: By modernising IT infrastructure, future-readiness is enabled. The IT Architecture disciplines will be refined and institutionalised.
- Backend system modernisation: The security layer is to be modernised for system optimisation and provisioning.
- Digital/virtual presence: Customer channels (Omni Channel digital enablement) to be availed, enabling digital portals for secure data and file exchange.
- Building cyber security and resilience: Build security capability that safeguards customer data, systems, business processes, and infrastructure.

The Bank has made progress on delivering against the IT Strategy, by implementing a number of interventions:

- Client side enablement:
  - » Customer Online Capability - Land Bank E-Services (Browser Channel): to enable origination, client service and account maintenance
- Back-end business process enablement:
  - » SLA insourcing data migration
  - » Technical and financial assessment tool automation
  - » Debit order automation
  - » Debtor collection system optimisation
  - » Bancassurance system enablement
  - » LBI UMA (Binder holder) data hosting
  - » LBIC Policy administration system
  - » Remote management system for farm technical data (GIS Enterprise)
  - » CRM optimisation: Client review processes
- Back-end support systems:
  - » Data Centre infrastructure refresh programme
  - » Office 365 rollout

Besides internal optimisation, technology has also been deployed to improve our client offering. Land Bank has been utilising GIS technology as an internal pre-screening tool in the lending value chain since acquiring the technology under license through a service provider in September 2017. The system intelligently integrates, refines, and interprets significant agro-soil, topography, climate, natural vegetation, land cover, and land use variables. To date, at least 800 reports have been produced and utilised by the client-facing teams as part of the origination process.

In order to provide value added services, GIS has been identified as an offering that should be extended to clients. The GIS products identified for potential value-added services include the GIS report, land profile risk summary report, and crop suitability report. A subscription-based crop monitoring offering, which will enable clients to access crop monitoring reports, which includes the different physiological growth stages of crops, will also be made available soon.

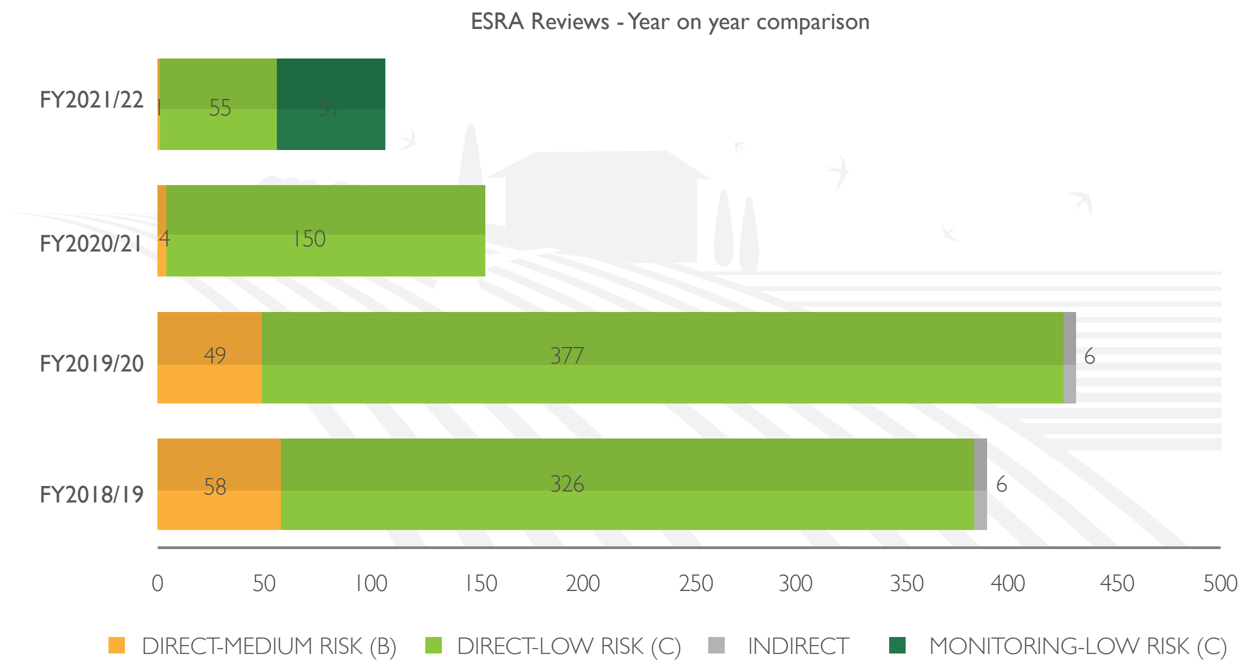
# NATURAL CAPITAL

The following section explores the Bank's progress in achieving the objectives as set out in its Environmental and Social Sustainability (ESS) Strategy.

The Bank has identified a need, and continually strives to improve the management of environmental and social risks to ensure compliance with environmental and social contractual obligations, as well as in an effort to lead the sector as a responsible corporate citizen.

An important part of the Environmental and Social Management System (ESMS) is the implementation of Environmental and Social Risk Assessment (ESRA) reviews, which provide the Bank with an indication of the potential ESS risks involved in its loan portfolio.

- A total of 107 ESRA reviews were completed (this included 56 new ESRA reviews and 51 monitoring reports). Of this, 106 reviews were categorised as low risk (category C) and 1 review was categorised as medium risk (category B).
- Of the 56 new ESRA reviews, 15 were non-compliant regarding environmental approvals (i.e. failing to obtain/provide proof of environmental authorisations or water rights). In terms of compliance with labour legislative requirements (Occupational, Health and Safety Act, Basic Conditions of Employment Act, Labour Relations Act and Minimum Wage Act), four cases of non-compliance were identified as a result of a lack of adequate OHS measures; eight cases of failing to document employment contracts; and four cases of remuneration not being correctly aligned with minimum wage. Mitigation measures have been included in the ESRA reports that address the identified non-compliances.
- Twelve ESRA reports were amended/reassessed due to additional information being received or changes to the nature of these applications.
- Nine queries were attended to which entailed providing guidance/support on ES due diligence requirements and technical ES issues.




The reduced number of ESRA reviews since FY2019/2020 is associated with the halting of lending activities, which occurred when the Bank entered a state of default.

As part of technical due diligence, the Bank undertakes ESRA reviews of bankable projects with the objective to address the identified risks and areas of improvements. Some of the findings may be translated into conditions on the clients' loan agreements as appropriate.

## BUILDING CLIMATE RESILIENCE

The Bank continues to build its climate resilience actions with clients and partners, guided by its development of a climate change policy. The policy will focus on the Bank's commitment to managing climate change risks, identified opportunities, and based on the potential exposure.

Efforts towards achieving climate resilience will include the reduction of greenhouse gas emissions generated by the Bank's operations, as well as a reduction of financed emissions. Furthermore, the Bank ensures ongoing risk identification so that it is able to proactively measure, monitor, and disclose any matters that arise. In achieving this, the Bank is further exploring adoption of the Task Force on Climate Related Financial Disclosures (TCFD) recommendations.

Through research conducted in collaboration with Wits and CSIR, climate modelling, crop, and livestock modelling, as well as credit model integration, supports a deeper understanding of climate vulnerability. This positions the Bank to better understand the vulnerability of its clients and provides insights as to which commodities it should fund. By providing climate-smart products and services, the Bank is able to assist clients in their efforts to become climate resilient.

The Bank is committed to ongoing engagements and working together with its clients and stakeholders to achieve the national commitments in relation to climate resilience readiness. This is being undertaken by encouraging the use of climate-smart and regenerative agricultural practices.

# HUMAN CAPITAL

## OVERVIEW

Land Bank is committed to achieving transformation and contributing towards the general economic growth of the country by providing job opportunities and skills development. Land Bank Employment Equity plan is set to enable transformation with robust efforts to appoint Black (ACI) candidates and females. Balancing suitability and placement of the required skills of candidates remains the primary consideration for appointments to ensure the Bank has the right and critical skills at any point in time.

While attraction is one component, the Bank operates in a highly competitive environment as it relates to critical skills in the agriculture sector and, therefore, voluntary attrition (resignations) remains a concern for Land Bank in the employee life cycle.

Land Bank is cognisant of staff attrition and accordingly recruit for critical skills. Where it is deemed appropriate not to recruit externally for a vacant position, internal candidates are appointed to act in the positions. There were 20 Acting arrangements in place during the reporting period.

- Top Management: Two in the positions of the vacant Executive Manager: Commercial Development and Business Banking. The acting arrangement for this position includes an acting Executive for the Intermediary Channel Partners (ICP) section and acting Executive for the Provincial Network. The Executive Manager: Agriculture Economics and Advisory served notice following resignation, whereby the position was vacant from 1 April 2022. In addition, the Chief Executive Officer tendered his resignation, with the position becoming vacant from 1 May 2022.
- Senior Management: Eight acting arrangements in place. One of the acting positions (General Manager: Business Performance in Finance) are currently in the process of recruitment for the replacement of the permanent employee that resigned.
- Middle Management: Eight acting arrangements in place.
- Semi-skilled: Two acting arrangements in place. These arrangements include support as Personal Assistants to Executive Managers.
- From the above acting arrangement, 15 employees acting in higher positions are at P6 to P11 and five employees are P4 to P3.

Although the Bank is experiencing challenges, it continued to extend offerings, as per the Bank's employee value propositions, to all Bank employees. The offerings included an Employee Wellness Programme, Employee Study assistance, and Employees' Children Tertiary Studies Grant.

No Internal audit findings were noted for the Human Capital related matters for the Financial Year. The Bank implements consequence management for misconducts as appropriate.

## STAFF COMPLEMENT

At the end of the Financial Year, the Bank recorded 349 permanent employees, and 28 employees on a fixed-term contract. This represents an overall decrease in headcount from 384 in FY2020/2021

## TENURE

Land Bank has retained the services of long-serving employees who have many years' experience. Such experience contributes to intellectual knowledge retained in the organisation. In return, the Bank recognises the employees' tenure through Long Service awards as an Employee Value Proposition for staff recognition. The first service tenure is acknowledged at five years, thereafter, at five-year intervals. The Bank paid R545 000 for long service awards.

The table below is a breakdown of employees' years of service.

| **Years of Service** | < 5 Years | 6 to 10 Years | 11 to 39 Years | > 40 Years |
|---|---|---|---|---|
| **Number of Employees** | 149 | 35 | 152 | 13 |

## AGE PROFILE

The majority of the Bank's employees are aged between 41 and 54 (197 employees). The Bank retirement age is 65 years; however, employees may apply for early retirement from the age of 55 years. There are 60 employees in the retirement bracket of which 30 employees qualify for Post-Retirement Medical Aid benefit, as per their employment terms and conditions.

| **Age Range** | 26 to 40 | 41 to 54 | 55 to 65 |
|---|---|---|---|
| **Number of Employees** | 92 | 197 | 60 |

## TRANSFORMATION

Land Bank embraces a diverse workforce. The Black (African, Coloured, Indian) workforce has representation at 68.19% of the total workforce. For the previous financial year, representation was at 70.83%. The decline is largely due to attrition – voluntary and non-voluntary.

| | Female | | | Male | | |
|---|---|---|---|---|---|---|
| **Occupational category and level** | ACI | White | FN | ACI | White | FN |
| Top Management (P1 –P2) | 33.33% | 0.00% | 0.00% | 66.67% | 0.00% | 0.00% |
| Senior Management (P4 – P5) | 20.83 | 8.33% | 0.00% | 50.00% | 16.67% | 4.17% |
| Prof. qualified and experienced specialists and middle-management (P6 – P7) | 23.08% | 8.33% | 0.00% | 37.28% | 28.99% | 1.78% |
| Skilled and qualified workers, junior management, supervisors, foremen, superintendents (P8 – P9) | 43.16% | 10.53% | 1.05% | 28.42% | 15.79% | 1.05% |
| Semi-skilled and discretionary decision making (P10 to P12) | 67.39% | 10.87% | 0.00% | 19.57% | 2.17% | 0.00% |
| Unskilled and defined decision making (P13 – P14) | 33.33% | 0.00% | 0.00% | 66.67% | 0.00% | 0.00% |

- ACI Females of the total permanent staff are 34.67% and ACI Males are at 34.67% (Total ACI representation = 69.34%).
- White Females of the total permanent staff are 9.17%, and White Males are at 19.77% (Total White representation = 28.94%).
- Foreign Nationals (FN) represent 1.72%.

## RECRUITMENT AND ATTRACTION

Land Bank filled 11 permanent positions, which were vacant, during the Financial Year.

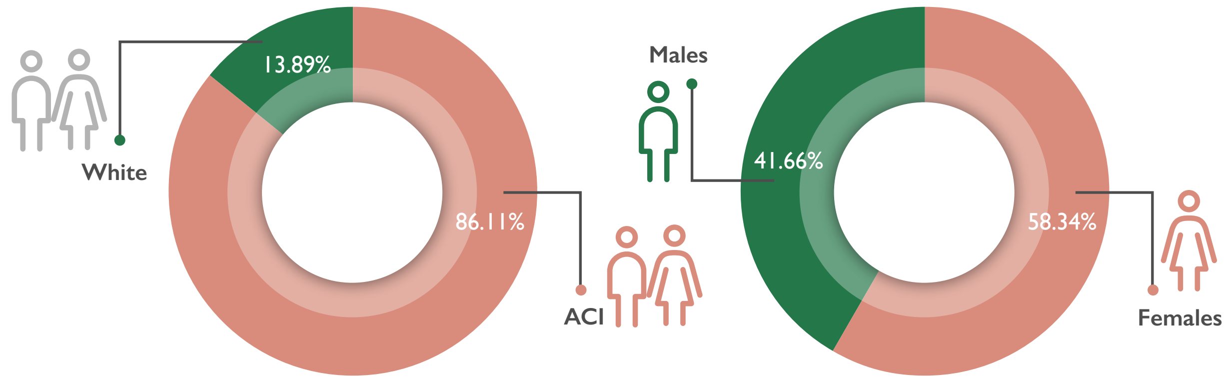
- Internal Appointments: The Bank aspires to provide career growth opportunities for employees. Two internal appointments were made – one White Male and one Black Female. In both placements, the employees were appointed in higher positions.
- External Appointments: Of the nine external appointments, 100% were ACI; 44.44% were ACI Females; and 55.56% ACI Males. Four of these positions filled were for critical roles.

| **External Appointments** | Female | | Male | Total | ACI |
|---|---|---|---|---|---|
| **Category and Level** | A | I | A | | |
| Senior Management (P4-P5) | 1 | 1 | 2 | 4 | |
| Prof. qualified and experienced specialists and mid-management (P6-P7) | | | 2 | 2 | 100% |
| Skilled and qualified workers, junior management, supervisors, foremen, superintendents (P8-P9) | 1 | 1 | 1 | 3 | |
| | | | | 9 | |

## ATTRITION

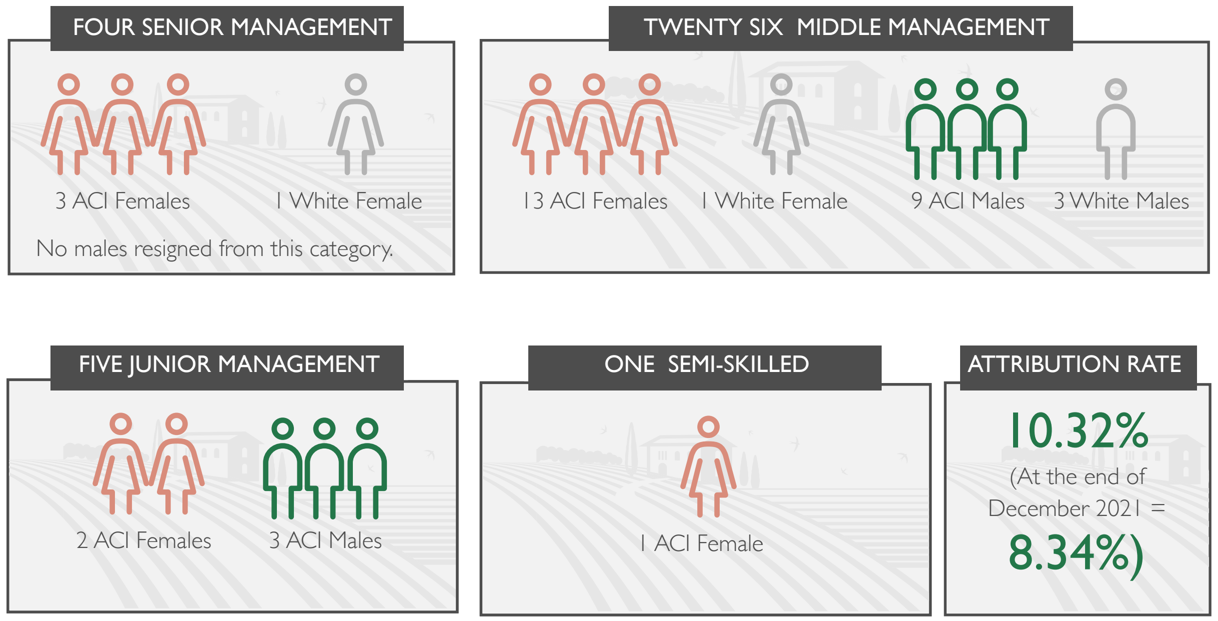
There were 36 resignations by permanent employees, two of which were due to early retirement.

### Voluntary: Gender and EE status




ACI Females 52.78% against ACI Males 33.33%. (Total ACI representation = 86.11%).
White Females 5.56% against White Males 8.33%. (Total White representation =13.89%).

### Occupational Category




The Commercial Development Business Banking Division has the most voluntary exits with 10 employees.

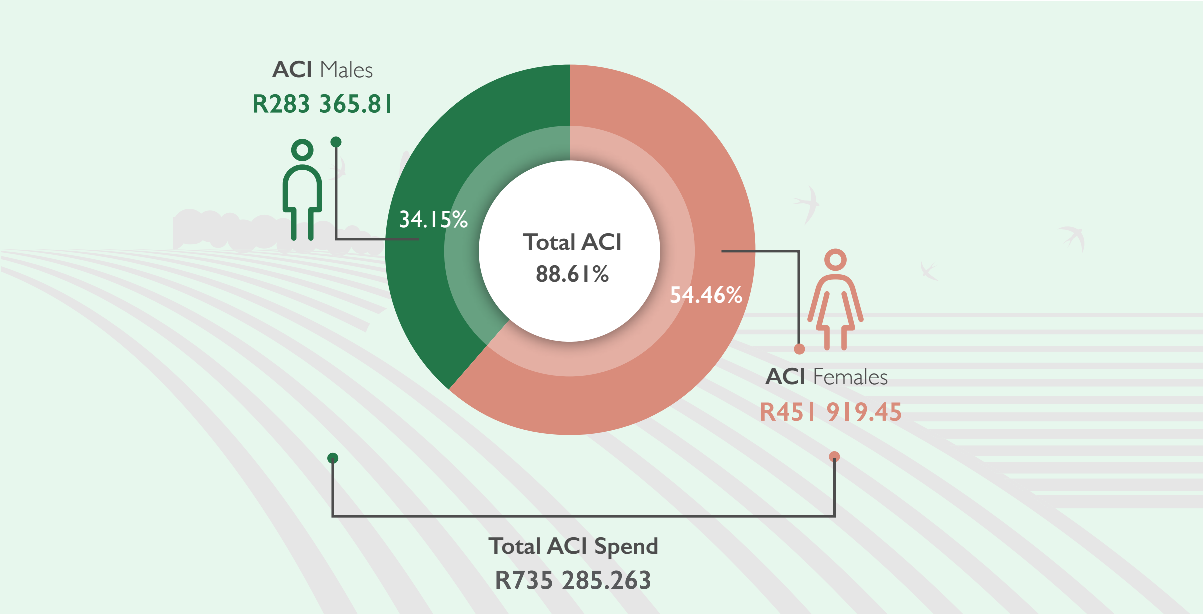
| | Female | | | Male | | | % Total | |
|---|---|---|---|---|---|---|---|---|
| **Occupational category and level** | ACI | White | ACI Females Total | ACI | White | ACI Males Total | ACI | White |
| Senior Management (P4 – P5) | 8.33% | 2.78% | | | | 33.33% | | |
| Professional qualified and experienced specialists and middle-management (P6 – P7) | 36.11% | 2.78% | | 25.00% | 8.33% | | | |
| Skilled and qualified workers, junior management, supervisor, foremen, superintendents (P8 – P9) | 5.56% | | 52.78% | 8.33% | | | 86.11% | 13.89% |
| Semi-skilled and discretionary decision making (P10 to P12) | 2.78% | | | | | | | |

## TALENT MANAGEMENT

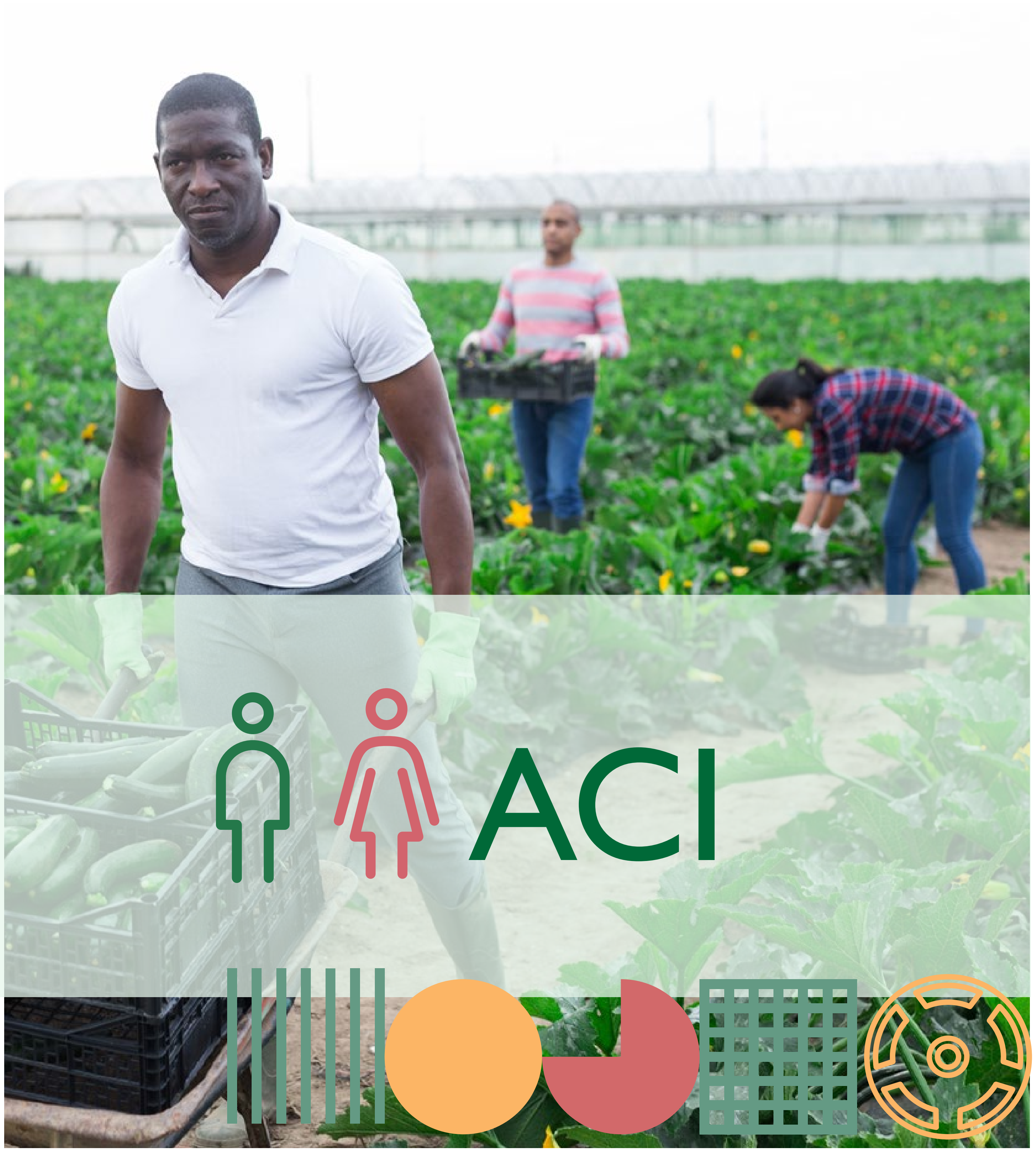
The spend on training reduced from the previous Financial Year. However, the Bank remained committed to upskill and train employees for efficiency.

## STAFF TRAINING INTERVENTIONS

Employees are required to complete a personal development plan with their Line Managers with regard to learning initiatives to be undertaken to enable further building of skills and knowledge that can be applied in the employee's positions and future growth.




ACI Females: Total of R451 919.45 (54.46% of total spend) was paid for all learning and development initiatives.
ACI Males: Total of R283 365.81 (34.15% of total spend) was paid for all learning and development initiatives.
Total ACI: R735 285.263 (88.61% of total spend) was paid for all learning and development initiatives.



| Occupational Category | Female | | | | | Male | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | African | Coloured | Indian | White | Foreign | African | Coloured | Indian | White | Foreign | |
| Top Management | R15 675.36 | | | | | R500.00 | | | | | |
| Senior Management | R8 160.49 | R3 066.66 | | | R9 199.98 | R6 133.32 | | R3 066.66 | | R6 566.66 | |
| Professionally qualified and experienced specialists and mid-management | R179 677.48 | R3 066.66 | | | R4 023.19 | R155 447.10 | R14 589.32 | R79 930.00 | | R8 353.62 | |
| Skilled and qualified workers, junior management, supervisor, foremen, superintendent. | R118 052.43 | R16 739.90 | | R13 900.00 | | R20 632.75 | | | R45 526.00 | R6 956.52 | |
| Semi-skilled and discretionary decision making | R84 267.97 | | R23 212.50 | | | R3 066.66 | | | | | |
| **ACI Totals** | **R451 919.45** | | | | | **R283 365.81** | | | | | **R829 811.23** |
| | 54.46% | | | | | 34.15% | | | | | |

## EMPLOYEES' CHILDREN TERTIARY STUDIES GRANT

Land Bank assists employees' children to further their education at tertiary level. The children are sponsored for their undergraduate qualification. In the period under review, the Bank assisted 30 employees' children to a total amount of R886 002.00 to study at registered tertiary institutions.

## EMPLOYEE STUDY ASSISTANCE

Land Bank group provides financial assistance to employees who are furthering their studies towards a qualification at undergraduate, Honours, Masters, and Doctoral level. The Bank assisted 15 employees to a total amount of R587 719.

## LEARNERSHIPS

The Bank continues to have a cohort of graduates who are enrolled in a Learnership programme. The Learners are given an opportunity to have practical on-the-job exposure, to acquire skills and, where possible, are retained at the Bank in permanent or temporary positions. Due to the impact of COVID-19 where the Learners could not get proper training during remote engagement, Land Bank extended the employment tenure of the Learners. The Learner contract came to an end on 31 January 2022. The Bank has placed the new intake on hold in accordance with the management of the cost-to-income ratio.

## REMUNERATION

Land Bank strives towards equal pay for equal work, or equal value and fair remuneration. The Bank arranged for an external law company to orientate the Employment Equity and Skills Development Committee on the legislation about equal pay for work of equal value.

- The Employment Equity Act 55 of 1998 (EEA) enshrines the notion that those who are equal should be treated equally and those who are unequal should be treated unequally. Therefore, all employees doing the same work should be similarly rewarded.
- However, the right to equality cannot preclude employers from drawing distinctions between employees or groups of employees or from treating them differently, even in instances of remuneration.
- Differences between employees in terms of remuneration illustrates the difficulties, as well as the importance, of distinguishing between differentiation and legitimate grounds for discrimination.

The above information is included to provide context against the difference in AGP with regard to occupational level, gender, and race.

- Land Bank paid performance-based increases up to FY2019/2020. Therefore, the percentage increase per level and individual would have influenced by the performance score and the percentage increase. The revised Remuneration and Compensation policy, pending approval from the Minister of Finance, would include an across-the-board increase and no longer a performance-based annual increases. No increases were paid for FY2020/2021. At the time of reporting, the annual salary increases for FY2021/2022 were still in progress.
- The majority of the White males have a longer tenure at the Bank than ACI females and males.
- Land Bank takes into consideration the individual's current annual guaranteed package against Land Bank Pay scale when making an offer. The Bank aims to pay at the midpoint of the Pay scale for the job role
- Land Bank has identified remuneration as one of the barriers in the Employment Equity Plan and are in the process of developing a long-term plan to address the barrier.

## EMPLOYEE WELLNESS

Land Bank continues to provide employees with employee wellness programmes through a service provider. The programme includes a contact centre whereby employees are encouraged to make use of the service available for counselling. The Bank continued to comply with the relevant COVID-19 regulations and therefore remote working remained in place for the larger part of the financial year. Land Bank staff participated in the vaccination against COVID-19 through their medical aid scheme offerings.

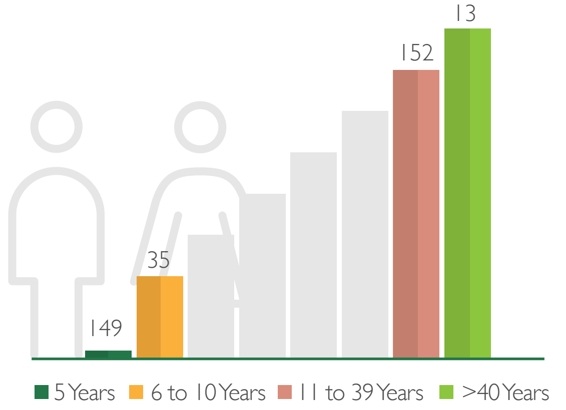
## HUMAN CAPITAL GOVERNANCE

Human Capital is an environment that is highly regulated by legislation, policies, and procedures; and it ensures that fairness in the working environment is adhered to. Human Capital, as a strategic business partner, ensures that policies are in place to guide the organisation. As such, policies and procedures are regularly reviewed.

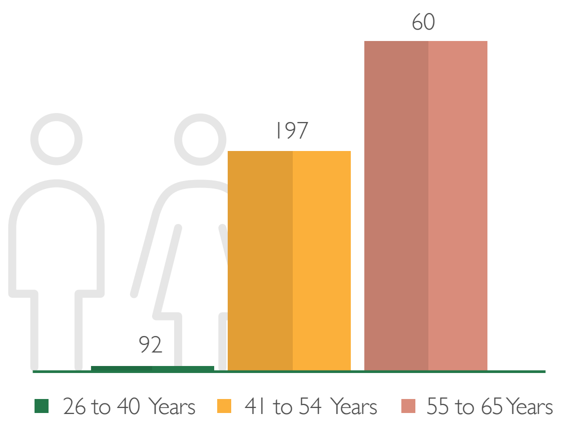
### Labour Relations

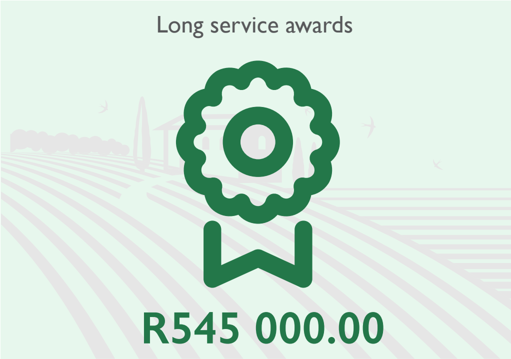
The Bank deals with consequence management in line with the relevant labour relations legislation, as well as Land Bank policies and procedures. During the financial year a total of eight disciplinary matters were recorded and the relevant processes were followed to address the areas of misconduct.

Employee count per years of service




The employee count per age bracket






## HUMAN CAPITAL RISK AND GOVERNANCE

### EMERGING RISKS

#### Operational Risk Register:

- During the review period, progress made against risk mitigation tasks were monitored.
- Compliance Risk Reviews: One incident was logged during the Financial Year under review, and this pertained to the SAP support environment.
- A Policy Risk Register is maintained on CURA. The register was updated to include five policy reviews, during the reporting period.
- Business Continuity has been captured on CURA. At the time of reporting, confirmation was awaited from the Business Continuity Management (BCM) team.

#### Performance Contracting FY2021-2022:

- A risk of operating without performance contracts for FY2021/22 was noted and appropriately highlighted in the Bank's risk register.

### POLICIES

The Bank undertakes reviews of Human Capital policies based on timeframes or changes in legislation. The Bank consults with the recognised union, SASBO, as and when policies are reviewed. All Human Capital policies will be separated for Land Bank and the LBI ensuring that the policies are aligned to legislative and regulations prescripts.

The below listed policies were reviewed during the financial year or are in the process of being reviewed.

| Policy/SOP | Action |
|---|---|
| Harassment Policy | Review of policy |
| Performance Management | Review of policy |
| Recruitment, Attraction and Selection | Review of policy |
| Remuneration and Compensation Policy | Alignment to State Owned Organisation Remuneration and Incentive Guidelines (draft 2021) |
| Leave Benefits Management | Policy in review as per EXCO request |
| Learning and Development Policy | Policy in review as per EXCO request |
| Secondment and Rotation | Review of policy |
| Overtime Policy | Review of policy |
| Acting Arrangement Policy | Review of policy as per EXCO requirements |
| Employee Health and Wellness Policy | Review of policy |

### CLIMATE AND CULTURE

The results of the Climate and Culture survey were shared with EXCO. A remedial plan was developed with the aim to address the areas that require improvement as well as the inputs provided by employees.

## FINANCIAL CAPITAL

#### Liability Solution

In April 2020 Land Bank defaulted on certain payment obligations which triggered a cross default on substantially all of Land Bank's borrowings. Since the default the Bank has been in a de facto standstill with all its lenders (except for one lender who has since been fully settled).

Since the event of default in April 2020, Land Bank has repaid arrears interest and has resumed normal interest payments on all funding. In addition to restoring interest payments the Bank has made the following four capital reduction payments to the South African lenders:

1. February 2021: 12% (R4.1 billion) of capital outstanding
2. June 2021: 10% (R3.0 billion) of the then capital outstanding
3. October 2021: 10% (R2.7 billion) of the then capital outstanding
4. A 4th capital reduction was implemented from May 2022, which has resulted in a cumulative debt capital reduction of 42.84% (R14.7 billion) of the original amount outstanding to South African lenders.

The Bank and its lenders were unable to agree on the 3rd solution proposed for implementation before the end of FY2022 as initially envisaged. A need arose for a new Liability Solution (version 4) to be constructed. This is currently in progress.

The newly appointed Land Bank Board is implementing an improved and collaborative programme of engagement with lenders, including ongoing workshops to consider all the challenges raised by the lenders about the proposed Liability Solution 4.

The main concerns raised were:

- The independent review work undertaken during late 2021 was insufficient to properly assess the state of Land Bank and Liability Solution 3;
- Address the forecast risk associated with refinancing;
- Finding a solution that is equitable and treats all lenders equally and fairly; and
- Finding a holistic and sustainable solution that will address difficulties faced by the Land Bank.

The Bank and its Lenders are collectively working towards 30 September 2022 for the conclusion and implementation of the Liability Solution 4. There is urgency for the Bank to conclude the Liability Solution 4, cure the event of default and enable it to restart the rebuilding process towards becoming a true DFI. Land Bank cannot commence with its Developmental and Transformation initiatives if it is not cured from the default. Work is in progress between Land Bank, Lenders and the Shareholder to develop a liability solution that will be acceptable to all stakeholders in order to cure the Bank's default.

- The solution will take cognisance of the conditions of the capital injection that were outlined by the Minister of Finance following the appropriation of the R7bn to be injected as equity into the Bank. Land Bank is gearing itself to support clients' working capital and production loan financing needs for the current planting season.
- The Bank's operating model will be highly impacted by the implications of the conditions that may come with the concluded Liability Solution 4.
- A Strategic trajectory, which maintains a portion of the Corporate and Commercial portfolio and grows the Development and Transformation portfolio going forward, is envisaged.

#### Group Results

The Group made an overall profit for the 2022 financial year; however, the Bank is still in a default position pending implementation of the Liability Solution 4. The Bank's margins continue to be under pressure as a result of a declining loan book, portfolio mix changes and high cost of funding.

The Group's recorded net profit of R1.391 billion against a Prior Year (PY) loss of R711.1 million) was driven primarily by net impairment release of R1.299 billion, a decrease in the non-interest expense of R 225.4 million and a R226.0 million decrease in the SLA admin fees as the Bank insourced the loan book.

The Group made net interest income of R600.5million compared to R167.6 million reported in March 2021. Interest expense decreased by R692 million from R3.1 billion to R2.4 billion, as Funding Liabilities reduced by R6.9 billion mainly due to capital repayments made to investors.

The group's operating expenses were slightly higher that prior year, at R562.7 million, mainly due to costs incurred on the restructuring costs and the work over the remediation of the loan book.

Group assets for the financial year 2022 amounted to R34.7 billion compared to the R40.2 billion reported at 31 March 2021, mainly due to a gross loan book reduction of R11.0 billion and cash and cash equivalents increased to R10.0 billion (FY2021: R5.6 billion) mainly due to collections received from clients.

## Banking Operations

Performance on banking operations has improved significantly for the year under review, with a profit of R1.310 billion, albeit driven by credit impairment provision releases. Excluding the impairment releases, the Bank has made a profit of R11.7 million.

## Net interest income

Net interest income for the year amounted to R595.5 million, which is R432.9 million above the prior year's amount of R162.6 million.

## Interest Income:

Interest income earned was R2.9 billion, which is R259 million lower than the prior year's amount of R3.2 billion. The unfavourable variance against prior year interest income was mainly attributable to the interest in suspense (IIS) release of R72 million and R357 million interest earned from the investment of excess cash.

## Interest expense:

Interest expense amounted to R2.4 billion, which is R692 million lower than the prior year's amount of R3.1 billion. The Funding Liabilities decreased to R29.2 billion, from the R36.1 billion reported at 31 March 2021, resulting in the favourable interest expense variance against the prior year.

## Net impairment and recoveries

Net impairment release for the year amounted to R1.299 billion, mainly due to the improvement of Under-Performing loans, and Bad debts recovered from customers; compared to the prior net impairment charge of R323.6 million as at 31 March 2021. The Gross impairment release was largely driven by client settlements.

## Non-interest income/(expense)

Admin Fee expenses incurred were R71.4 million. This was R226.0 million lower than the R297.4 million incurred in the prior year, mainly due to the decline in the SLA book as the Bank continued to in-source management of the SLA book. The fee expenses were also lower mainly due to the massive reduction in the SLA loan book owing to restricted disbursements and customer attrition.

## Investment Income

Total investment income for the period under review amounted to R15.4 million, which is marginally lower than the prior year of R16.0 million. This investment income is mainly driven by the Pension Fund Retirement Medical Aid Fund (PRMAF) assets, which has decreased in value hence current year results.

The Net Interest Margin (NIM) of 2.0% improved significantly in the year under review due to the better-than-expected net interest income and loan book reduction. The operating expenses of R531m for the year against the Net Interest Income (NII) of R595.5m and non-interest expense of R71.4m have resulted in a Cost to Income ratio (CTI) of 95.6%.

The Non-Performing Loans (NPL) ratio at 47.7% (31 March 2021: 32.5%), was higher compared to the prior year due to an overall book reduction from R36.9 billion in March 2021 to R25.9 billion in March 2022. This effect was the same for the ECL coverage ratio, which increased from 16.4% in March 2021 to 19.4% in March 2022.

## Cash and cash equivalents

Cash and cash equivalents were R9.8 billion as at the end of March 2022, which is an increase of R4.2 billion from the R5.6 billion recorded on 31 March 2021. The increase mainly comprises of R14.3 billion collected from clients as well as other income of R1.1 billion (interest swaps, rental and sundry income). This was partially offset by customer disbursements of R945 million, capital and interest repayments of R9.6 billion and R645 million utilised in running the operations of the Land Bank.

## Investments

The Bank's R1.3 billion investment portfolio consisted of R337.8 million in Post-Retirement Medical Aid Fund (PRMAF) assets, R650.0 million investments in the insurance subsidiaries, and equity investments in the following entities:

- Ideafruit **(R47.3 million)**
- Acorn Agri **(R78.2 million)**
- Rhodes Food Group **(R85.4 million)**
- Afgri Silico **(R96.2 million)**

The investment related to the PRMAF portfolio was set up to hedge against the Bank's post-retirement medical aid liability (a defined contribution fund), which amounted to R286.7 million. An independent fund manager on behalf of the Bank manages the investment and independent actuaries value the liability annually. Total investments had decreased from R1.431 billion as at 31 March 2021 to R1.295 billion due to the sale of the investment in Riverside (R100.7 million), as well as a fair value loss on the other remaining investments. This was partially offset by an increase in the value of the Bank's investments PRMAF and other investments. The Bank continues with its strategy of disposing of non-core investments to bolster the liquidity reserves to honour funding maturities.

## Net loans and advances

Net loans and advances decreased to R20.8 billion from the R30.9 billion reported at 31 March 2021. The main contributor is the reducing loan book owing to restricted disbursements and customer settlements as clients leave Land Bank for funding with other institutions.

Gross loans decreased by R11.0 billion to R25.9 billion from the R36.9 billion reported at 31 March 2021. This was mainly due to constrained disbursements and customer settlements.

## Non-Performing Loans

NPL's increased by R337.6 million (2.8%) to R12.3 billion for the year under review from R12.0 billion at 31 March 2021, mainly due to clients migrating from Stage 1 and Stage 2 to NPL and also SLA accounts that were not reviewed resulting in them rolling to Stage 3. The NPL ratio has also increased from 32.5% reported as at 31 March 2021 to 47.7%.

The finalisation of the Liability Solution must be prioritised. This will enable Land Bank to resume some normalcy in conducting its business. The Bank needs to continue with an effective strategy to arrest the loan book quality deterioration. The Bank needs to improve collections to facilitate faster repayment of funding liabilities.

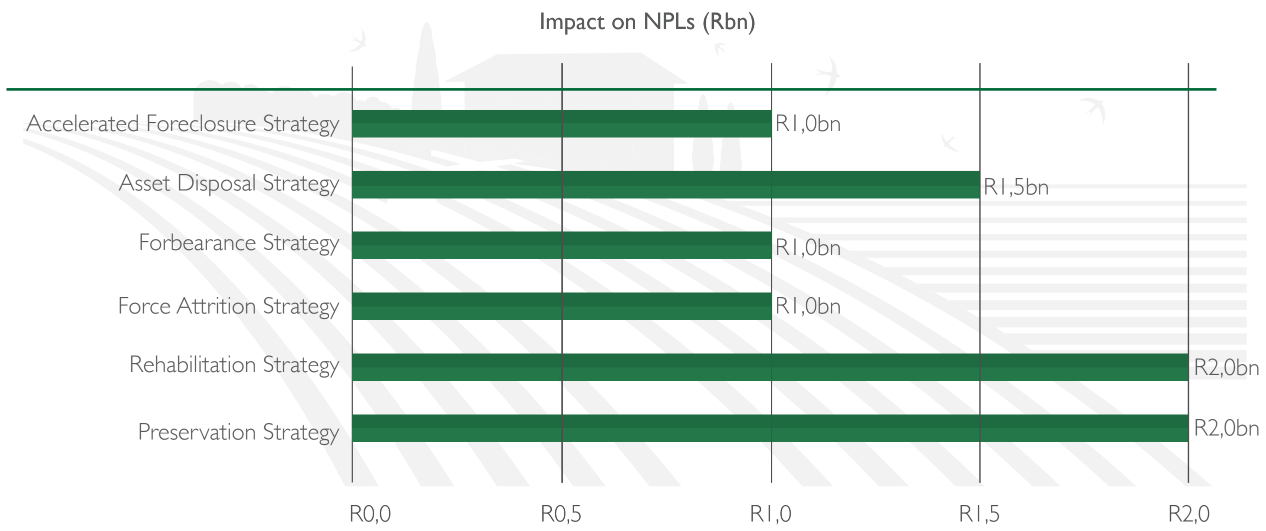
Management initiated deployment of the following 6 strategies/solutions to address further loan book deterioration and achieve substantial reduction of under-performing and non-performing loans.

**Table – NPL Strategies:**

| Adopted Strategy | Purpose of the adopted strategy |
|---|---|
| Preservation Strategy | Prevent Roll In and prevent Asset Reduction |
| Rehabilitation Strategy | Provide Soft restructures to Stage 2<br>(Includes solutions for technical arrears) |
| Forced Attrition Strategy | Exit High Risk Clients, reprice and refinance |
| Forbearance Strategy | Restructure low risk and solvent Clients<br>(Include solutions for technical arrears) |
| Asset Disposal Strategy | Sell fully provided Legal NPLs |
| Accelerated Foreclosure Strategy | Perfect Collateral on good quality Legal collateral |

The combined impact of these adopted solutions is expected to reduce Stage 2 and 3 exposures by approximately R8.5 billion over the short to medium term i.e. 6 to 12 months.

**Figure - NPL Remediation Strategies**




## Treasury Report

Land Bank's event of default has been underway for almost two years. The Bank, National Treasury and Lenders recently echoed their commitment to reach a liability solution that will deliver a fair outcome for all parties while also resulting in a more sustainable Land Bank that will be able to deliver on its mandate in the agricultural sector. As at 31 March 2022, the total debt that has reached maturity is R13.406 billion and the total debt stands at R28.826 billion.

Due to the default position and the restructuring process that is currently in progress, the Bank is not able to invest in assets that yield higher rates for fear of exposing capital to market fluctuations. As a result, accumulated cash from customer collections, asset disposals and settlements are invested in instruments, such as call accounts and bank deposit notes that aim to deliver better rates whilst preserving capital. The Bank is constantly looking out for capital preserving investments with better interest rates offered by approved counterparties and has also made capital repayments to lenders worth R11.4 billion since the default to manage the negative carry down whilst preserving capital. The Bank is constantly looking out for capital preserving investments with better interest rates offered by approved counterparties and has also made capital repayments to lenders worth R11.4 billion since the default to manage the negative carry down.

The Bank has a portfolio of swaps which were entered into over a number of years to manage the basis risk resulting from the mismatch in the interest earned on loan assets (mainly prime) and the rate paid on funding liabilities (Jibar). Since the Bank went into default, the portfolio has been reducing due to banks refusing to enter into new swap transactions with Land Bank.

# 08

# LAND BANK INSURANCE PERFORMANCE

# LAND BANK INSURANCE PERFORMANCE

## Land Bank Executive profiles

Members: 7

Historically disadvantaged: 7

Male: 6
Female: 1

**Mr A. Rakgalakane**
Managing Director: LBI

Appointed:
10 August 2016

**Mr C. Abdullah**
Executive Manager: Sales

Appointed:
15 July 2021

**Ms T. Tisane**
Head: Risk

Appointed:
1 October 2019

**Mr K. Ngwenduna**
Head Acturial, Short Term and Life

Appointed:
1 December 2020

**Mr L. Mnyandu**
Head Legal and Compliance

Appointed:
1 July 2020

**Mpho Mathithibane**
Executive Manager: Operations

Appointed:
1 August 2022

**Mr Ryan Engle**
Manager: Finance Head

Appointed:
4 April 2022

Land Bank Insurance SOC (LBIC) is registered with the regulators being the Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) in terms of the Insurance Act 18 of 2017 and is the second largest insurer of crop risks in the country, providing cover to farmers for hail and fire (among others), and yield losses due to weather conditions. Land Bank Life Insurance SOC (LBLIC) is a licensed life assurance provider that has provided individual and group credit life insurance products, as well as disability cover to Land Bank clients and other farmers since its inception in 1954. The Insurance Companies complement the Bank's financial services by providing insurance and risk management solutions to the agricultural community.

Land Bank Insurance Company and Land Bank Life Insurance Company must ensure that specific Key Performance Indicators and Areas are monitored and achieved. These are presented hereafter.

## UNDERWRITING MANAGEMENT AGENCY

LBIC has a long-term agreement with an Underwriting Management Agency (UMA) to perform the main binder functions for LBIC. The relationship between the entities dates back to March 2015, and the strategic relationship has grown over this period to include an even longer contractual agreement.

AgriSeker is a crop insurance specialist that performs the main binder functions for LBIC as envisaged in the binder regulation. AgriSeker, in this role, maintains a wide service network for Land Bank Insurance, and this positions LBIC to offer services to farmers throughout South Africa.

This partnership offers operational and insurance support services, featuring a unique underwriting and management system. Furthermore, it undertakes extensive research into technological progress to satisfy clients' ever-changing needs. It also tests the utilisation of various satellite and ground-based data applications in modern IT and mobile technology. These applications enable it to integrate information for the benefit of the farmer's risk management and better underwriting.

The LBIC-AgriSeker relationship transforms into an operational partnership which is firmly cemented into a pre-agreed strategy at the onset of every underwriting season. This blueprint is carefully executed, and where tactical adjustments need to be effected, this is executed upon consultation and consensus agreement.

LBIC focuses all efforts to ensure a sustained underwriting result which should yield positive returns through any cycle. To achieve this goal within a competitive environment, LBIC needs to define firm walk-away positions and simultaneously craft enough flexibility in order to retain the client base or to fulfil the growth projections. The competitive interactions remain tactical and are not based on any price-reduction strategy to undercut competitors in any region.

An important aim of LBIC and Agriseker is to protect the premium base and avoid any competition based on price offerings. The Company maintains its position to stabilise the Agriculture Insurance market in South Africa, and its decisions are geared and have proved to maintain this market stability – avoiding agriculture insurance market failures.

## BANCASSURANCE MODEL

In the pursuit of diversifying the insurance company insurance risk portfolio and generating additional revenue including addressing market failures, the insurance companies (LBIC and LBLIC) in collaboration with the Land Bank have entered a Bancassurance model. A strategic blueprint was developed to outline the business case and the implementation plan of the model. The Bancassurance model received support from the Boards of the insurance companies (LBIC and LBLIC) and the Land Bank.

Bancassurance is a bi-lateral partnership between a bank and an insurance company allowing the insurance company to insure the insurance risks of the Bank's client base. The insurance company develops and distributes products with its insurance know-how and the Bank provides access to its customer database and touchpoints in the customer value chain to offer the value-added insurance products. The Bank is typically able to generate non-interest review whilst providing their customers with more than banking products and thereby benefiting from improved customer satisfaction. The insurance company is able to grow its portfolio and increase revenue.

The Bancassurance Model has gained significant traction in the last financial year as the necessary systems to distribute the leads were developed and streamlined. The overall processes were mapped, and the relevant resources were identified across the insurance companies (LBIC and LBLIC) and Land Bank to successfully implement the model. The first phase of the implementation plan was successfully delivered in line with the strategic blueprint. The Bancassurance model is another initiative to advance the development mandate of the Land Bank and to improve its value proposition to clients.

## INTERNAL SYSTEMS CAPACITY BUILDING

The non-life insurance company is in the process of making an offer to purchase the Crop system used by Old Mutual Insurance (OMI), who have since divested from the Crop risk insurance. Should Land Bank Insurance be successful in acquiring the OMI Crop insurance system, this will meet one of the Vision 2025 strategic objectives and the Insurance Company acquiring its own Crop Insurance policy management system. This will reduce reliance on the system used by its Underwriting Managers Agriseker. Furthermore, the Insurance Company, following a tender process, appointed Brolink to provide the Insurance Company with its own Crop, Assets and Life policy management system. As at 31 March 2022, the policy management system for crop has gone live, with the development for the other products still in development. These activities are aimed at bolstering the insurance company Information Technology (IT) systems and complying with the insurance regulator objective requiring the insurance companies to develop own data management system instead of solely relying on third party contracted systems.

## LAND BANK INSURANCE COMPANY

### Land Bank Insurance contribution to Development and Transformation

LBIC and LBLIC has continued in its efforts to support the Land Bank in its pursuit of the transformation and development strategy. LBIC and LBLIC remains committed to transform the insurance sector and support the development of smallholder and medium-scale farmers. Amongst these initiatives are the Black Broker Development Programme and the Black Assessor Programme. In these programmes the organisation identifies and develops previously disadvantaged individuals for inclusion into both the financial and the agricultural sectors.

Crop insurance in South Africa is distributed primarily through intermediaries or brokers who have historically privileged backgrounds. In March 2016, LBIC embarked on an ambitious Black Broker Development Programme in an attempt to transform this critical part of the insurance sector. Thus far, LBIC has trained and accredited 80 Financial Services Providers (FSP's) from historically disadvantaged backgrounds. With the passion to advance transformation, LBIC focused on women-owned FSP's. In the Financial Year 2021/22, LBIC has trained and accredited 21 more FSP's from historically disadvantaged backgrounds.

The other area of the agricultural insurance market value chain, which LBIC has targeted for transformation impact is the assessors used to estimate damage to crops after any risk events such as hail. At this stage there are approximately 900 assessors used by the crop insurance providers in South Africa and this has a similar profile to the crop insurance broker sector. LBIC commenced with the Black Assessor Development Programme in March 2019, the LBIC Board approved R3.8 million for its funding. However, the COVID-19 pandemic and lockdown regulations caused delays in the completion of the programme. Despite this, twenty (20) candidates completed the first leg of the program which deals with theoretical application. The second leg of the program deals with practical application and will be facilitated by a suitable training service provider and completed in FY2022/23.

### Parametric Insurance for Smallholder and Emerging Farmers

In order to improve access to agricultural insurance for smallholder farmers, LBIC has successfully applied for grant funding from KfW Development Bank under its flagship InsuResilience Solutions Fund (ISF). The ISF grant, structured under a co-funding model with LBIC, will be used to develop and market innovative parametric drought insurance solution for crop and livestock to smallholder farmers. An Area-Yield Index Insurance (AYII) is proposed for crops and Pasture Drought Index Insurance (PDII) for livestock.

To date, LBIC – together with its strategic partner CelsiusPro have designed parametric crop and livestock insurance solutions providing cover against drought which is the main peril affecting agricultural growth and sustainability. The two products are subject to regulatory approval as first of its kind in the country since parametric insurance is not recognised in legislation. Following a submission to the Prudential Authority for regulatory approval, feedback was received in November 2020 indicating that the products cannot be accommodated in the current insurance regulatory framework as nonlife insurance business. However, regulatory relief can be granted to allow for testing of these products in order to obtain sufficient data and experience to assess the functionality and developmental impact under the classification of these products as business other than insurance. Following a consultative meeting between LBIC and the Prudential Authority, it was requested that LBIC seeks approval to provide Index Insurance solutions to the SA market.

The reason for the request was that the Minister of Finance Mandate defined the suit of products that LBI may market as an insurance company in terms of the Insurance Act. Therefore it makes it necessary for the Minister of Finance to relax the conditions of the mandate to LBI. LBI has written to the Minister of Finance through the Chairperson of the Land Bank. LBIC awaits the approval from the Minister of Finance to commence with the pilot.

### LBIC Financial Performance

- The previous 2020/21 underwriting year was a peculiar one in that farmers were able to plant abundantly relative to previous years. Crop planting is dependent on rainfall, and this was largely due to the good rain received in that period. Therefore, for the crop production season 2020/21, an all-time high GWP of R600 million was experienced since the establishment of the crop insurance portfolio by LBIC.
- In the 2021/22 financial year, the budget of R539 million was exceeded by 13%, amidst persistent heavy rainfalls experienced from late 2021 to early 2022, benefitting summer crop plantations. This is attributable to business growth in the Western regions, particularly in North West and Free State. There was a small reduction in the Winter and Fruit portfolios, attributable to wet conditions resulting from persistent heavy summer rains of 2021/22.
- From an agriculture perspective, the impact of the Russia-Ukraine war will be felt in the near term through the global agriculture commodity prices channel. A rise in prices will be beneficial for farmers. For grain and oilseed farmers, the surge in prices presents an opportunity for financial gains. This will be particularly welcome given higher fertiliser costs which have strained farmers' finances. The resultant effect is a potential growth between 5% and 10% on expiring season's premiums.
- LBIC reported a net combined operating ratio of 138% in the current reporting period (FY2021: 84%) reflecting a net loss of R28.7 million (FY2021: R51.5 million profit).
- Gross Written Premium (GWP) increased by 1.2% to R607 million (FY2021: R600 million) while operating expenses increased in line with inflation i.e., 5.2% to R24 million (FY2021: R23 million).
- The performance of the crop portfolio is 1.2% higher compared to the previous financial year. This is attributable to business growth in the Western regions, particularly in North West due to a Summer business strategy to penetrate the West and further diversify the portfolio as those regions are less susceptible to hail. There was a small reduction in the Winter and Fruit portfolios, attributable to lost market share owing to stricter underwriting applied, especially on Winter Frost. The Summer GWP increases were exacerbated by commodity price increases, which increased total sum insured despite stable insured hectares. The 1.2% increase also reflected flat premium increases applied at the start of the 2021/22 season, owing to better loss ratios. The asset portfolio has remained flat, with the focus currently being on marketing, partnering and the sales process which will enable the portfolio to gain traction in FY2023.
- Claims paid increased by 114% in the current financial year due to adverse weather conditions and is the sole driver contributing to the current net loss position of R28.7 million. Despite the high claims' ratio, LBIC still manages to maintain a healthy balance sheet and meets all regulatory capital requirements.

- LBIC's investment fund comprises of South African flexible income-bearing instruments. These consist of a mix of money market, fixed and variable rate government and corporate bonds, inflation-linked bonds, listed property and preference shares. Investment income increased by 31% during the current year driven mainly by unrealised gains.

| | | FY21 | FY22 |
|---|---|---|---|
| **LBIC** | **Gross Premiums** | R600m | R607m |
| | Net Premium Income | R148m | R153m |
| | Operating expenses | R23m | R24m |
| | Underwriting profit/(loss) | R24m | (R59m) |
| | Net profit/(loss) | R51m | (R29m) |
| | Combined operating ratio | 84% | 138% |

### LBIC Solvency Capital Requirement (SCR)

Adverse weather events of 2021/22 have exacerbated poor claims experience in the South African crop market with high risks of price increases expected in the forthcoming crop underwriting season amidst risks and concerns due to the effect of the Russian/Ukrainian war on the farming industry, high fertilizer prices and problems with fruit exports, stock diseases such as 3-day stiffness and tick born which occurred due to the good raining season, persistent drought conditions in the Eastern parts of the country, excessive or untimely rainfall affecting yields and quality, high input costs and the increase in the costs of electricity and fuel as well as the outbreak of large brown locust swarms due to humid conditions. These conditions are expected to put pressure on the agricultural sectors, with commodity prices likely to increase sporadically, thereby increasing total sums insured and premium income.

LBIC operates within a highly volatile crop insurance environment affected by a wide range of adverse climatic conditions. The 2021/22 season experienced unprecedented severe weather conditions that has led to large losses suffered within the crop insurance market. Despite the volatile crop insurance market experienced in 2021/22, LBIC continually reports a healthy solvency capital position, backed up by the existence of a diversified crop reinsurance programme and a stop loss protection.

As at 31 March 2022, the SCR Cover Ratio is five times the minimum regulatory requirement of one, and well in excess of internal risk appetite limits. In the recent ORSA calculations that project the company's capital requirement according to the business strategic plan including stresses and scenarios, the company remains in a healthy solvency position over the next five years.


### Performance Highlights

- During FY2022, reached the highest premium ever written to date and this was 13% higher than the budget and 1% higher than FY2021.
- Adapted the risk under-writing processes to weather volatility. The principle drivers were strict underwriting controls, a centralised underwriting approach and the loss assessment procedures which were revised and overseen by experienced staff members and hence retrained assessment teams.
- Successfully de-risked from the MPCI business and carefully contained the existing client base.
- Continued support from the reinsurance market, backed by excellent underwriting performance relative to the market.
- Portfolio diversification into areas less susceptible to hail risk.
- On track with the IFRS17 implementation project.
- On boarded an insurance administration to comply with the Financial Sector Conduct Authority Short Term Insurance Regulations and Policyholder Protection Rules.
- Relationship management on all tiers of operational and echelon management levels.
- Achieved its objectives to expand the Black Broker Programme. LBIC has trained and accredited more than 80 Financial Services Providers (FSPs) from historically disadvantaged backgrounds. With the zeal to deepen transformation, LBIC focused on women-owned FSPs for the ambition. Under the COVID-19 lockdown regulation and safety protocols during the crop season 2020/21, LBIC still managed to ensure business continuity by training and accrediting brokers.
- The Black Assessor Programme in partnership with Walter Sisulu University remains an important strategic objective in LBI's development and transformation agenda. The first leg of the programme was completed and the second leg, which includes practical aspect of the programme, is underway.
- LBIC insurance is one of the participants in sector discussions with National Treasury (NT) to bring about insurance solutions for smallholder farmers. LBIC is proud to contribute to this initiative and are excited about the potential of the initiative for the greater good of the sector. The business hopes to disclose details of the initiative in the next reporting cycle.
- The Bancassurance Model objective is to make use of the synergies between Land Bank and Insurance entities efficiencies to provide impactful services and product provisions to clients. The effectiveness of the Bancassurance model is a fundamental strategy to the sustainability of non-life and life business. For the year ending 2022, the first phase of the Bancassurance model was implemented.
- LBIC received clean audits (FY2020: unqualified with no findings).

### Business Challenges

- Growth remains stagnant on the agri-asset portfolio which has been implemented as a diversification tool. With the exponential premium growth in crop, the diversification set in March 2022 was not achieved.
- Lack of risk management solutions to smallholder farmers.
- LBIC operates within a highly volatile crop insurance market impacted by adverse weather events (e.g., excessive or untimely rainfalls affecting yields) and climate change.
- The Russia-Ukraine war continues to put pressure in the agricultural community, coupled with the rising inflation, cost of electricity, high fertiliser prices, fuel costs, outbreak of locust swarms due to humid conditions, high input costs, and stock diseases.

## LAND BANK LIFE INSURANCE COMPANY

Land Bank Life Insurance Company SOC Limited (LBLIC) is a licensed life assurance provider that has been providing individual and group credit life insurance products to Land Bank clients and farmers since its inception in 1954. LBLIC was established at the request of the farming community to ensure the continuity of farming activities after the death of the borrower of funds from the Land Bank. The debt to the Land Bank could be settled and the relatives could continue with the farming operations.

Business depends significantly on obtaining insurance leads from the Land Bank. In the year that has just ended, a significant decline in credit life business was noted. This was due to Land Bank not disbursing any loans due to its liquidity challenges. Adding to this challenge were the changes brought by the Trade and Industry regulation, which introduced compulsory features for a credit life policy that included how businesses would structure the pricing of the credit life policy. Due to this addition of certain conditions and those strict measures, it has made the credit life policy more expensive than it previously was. The Bancassurance model is expected to improve LBLIC's sales volume and financial sustainability.

## Whole of Life

In the past, it was mandatory for individuals to have an LBLIC credit life policy if they were granted a loan from Land Bank. The insurance premium was capitalized to the loan accounts annually, in arrears. With the introduction of the National Credit Act 34 of 2005 (NCA), the company had to develop new credit life products and offer clients an attractive value proposition to compete favourably with other industry players. The limited product offering combined with the effect of the NCA has had a severe impact on the financial sustainability of LBLIC over the past decade and the update of the Credit Insurance by the general market.

To counter this, LBLIC has developed a Whole of Life product which will cover death, disability, critical illness, and temporary disability to the agricultural sector to farmers with an agricultural loan. LBLIC is currently awaiting a variation of license approval from the Prudential Authority for the launch of this product. This is expected to boost LBLIC's financial sustainability.

## Financial Performance

- LBLIC reported a net profit of R109 million during current reporting period (FY2020/21: R157 million net profit)
- Gross Written Premium (GWP) declined by 22% to R3.8 million (FY2020/21: R4.9 million) due to the cancellation of some cancellation of the group life schemes and muted growth
- Operating expenses increased by 36.1% to R9.8 million (FY20/2021: R7.2 million)
- Investment income reduced by 34% to R127.9 million compared to R193.9 million reporting in FY2020/21. The reduction should be read in context with market performance during FY2020/21 where yields in bond market were very attractive
- Total excess assets over liabilities increased to R1.168 million (FY2020/21: R1.059 million), as a direct result of the investment increased by 11.6%.

| | | FY21 | FY22 |
|---|---|---|---|
| **LBLIC** | **Gross premiums** | R4.9m | R3.8m |
| | Net Premium Income | R2.5m | R1.8m |
| | Operating expenses | R7.2m | R9.7m |
| | Underwriting profit/(loss) | (R37m) | (R18m) |
| | Investments Income | R193m | R127m |
| | Net Profit | R157m | R109m |
| | Excess assets of liabilities | R1bn | R1.1bn |
| | Investments | R1.1bn | R1.2bn |

## LBLIC SCR

Due to LBLIC's small underwriting risk in relation to the asset base, COVID-19 has had no material impact on the overall profitability and solvency. LBLIC has held a short-term COVID-19 reserve since Sep 2020 to cater for uncertainty in claims experience as a result of the COVID-19 pandemic.

The capital of the company is invested in various assets classes, mainly investments such as equity, bonds and money market instruments. The asset allocation objective is to maximise investment return since there is no probable event that would lead to the company's capital position to change significantly.

LBLIC has a well a diversified investment portfolio of assets worth at least R1.2 billion as at 31 March 2022.The size of the assets is small relative to the credit risk business. Therefore, LBLIC is sufficiently capitalised in terms of the Insurance Act 18 of 2017.

The SCR cover ratio remains stable from year to year as the balance sheet assets are large relative to liabilities. Consequently, LBLIC reports an SCR cover ratio above 200% and well in excess of the regulatory limit of 100%.

In the recent ORSA calculations that project the company's capital requirement according to the business strategic plan including stresses and scenarios, the company remains in a healthy solvency position over the next five years, including in the event that LBLIC issues new policies as a result of the Bancassurance model and whole of life product following the PA's approval.

## Performance Highlights

- Maintained market share and increased premium income by slightly more than in FY2021.
- Managed to penetrate Western regions.
- Adapted the risk under-writing processes to weather volatility.
- Managed to settle all claims when incurred.
- The Bancassurance Model objective is to make use of the synergies between Land Bank and Insurance entities efficiencies to provide impactful services and product provisions to clients. The effectiveness of the Bancassurance model is a fundamental strategy to the sustainability of non-life and life business. For the year ending 2021, a comprehensive strategic blueprint has been designed and approved by both Boards of the entities. The Land Bank has completed the necessary work streams during FY2022, to gear for the launch of the Bancassurance distribution channel in the first quarter of FY2023. The key work streams have been listed below:
  - » Processes and procedures have been defined;
  - » Standard Operating Procedures have been defined;
  - » Staff training and assessments were conducted;
  - » Systems were developed to facilitate real-time lead distribution;
  - » A mutually beneficial fee structure was developed and concluded; and
  - » LBIC received a clean audit (FY2021: unqualified with no findings).

## Business Challenges

LBLIC's product offering is limited by its ministerial mandate which severely affects its ability to grow the book. The limited product offering combined with the effects of the National Credit Act has had a severe impact on LBLIC's financial sustainability over the past decade as the entity has not written new business since the inception of the NCA in 2017.

Credit insurance is only accessible to farmers who have access to funding (commercial farmers), therefore excluding the entire smallholder farmer, which remains not catered for.

The COVID-19 environment, Russia-Ukraine war, rising inflation and slow pace of economic continues to put pressure on consumers new business and environment.

## LBI APPROACH TO RISK

The Risk Management Strategy seeks to set out the types of risk that the business is willing to retain in implementing its business plan, and the way in which it will manage those risks. Material risks that are central to the business's risks management strategy include the lines of insurance the business plans to engage in, and the mix of insurances it is targeting.

The Audit and Risk Committee is responsible for approving the Risk Strategy and Risk Policy Suite, as well as providing oversight of the Risk Management System and risk-taking activities for both LBIC and LBLIC.

The risk strategy is underpinned by four risk principles:

- Prudent approach towards risk management and capital management. LBIC wishes to avoid taking excessive risks that could threaten the financial security of the Business in very adverse financial conditions. However, the business strategy also requires us to ensure that it covers, and addresses market gaps and failures and LBIC will not be able to successfully do so if the risk strategy is too prudent;
- To protect LBIC's reputation by maintaining trust with all stakeholders;
- Recognition of the value of diversification to avoid excessive risk concentration, so that the business does not depend excessively on matters going right in a particular area, and the sustainability of the whole business is not undermined if something does go wrong in an area; and
- Use of risk mitigation techniques to manage risk exposures.

The following reviews were made to the Risk Strategy in 2022:

### Classification of the risks that LBIC is exposed to

Risk Classification Model (RCM) forms the basis of the risk management system, ensuring consistent classification of risks and ability to aggregate similar risks across both entities to understand their full impact. The RCM and the classification remain fit for purpose the business.

### Determining risk preferences for each risk category

A few risk preferences were modified to reflect changes in how the business approaches these particular risks in executing the corporate plans.

### Quantifying the risk appetite metrics for financial soundness, earnings at risk and liquidity

Risk appetite defines the level of risk exposure that the business is willing to accept in meeting the strategic objectives. LBIC's financial resources and risk appetite determine the nature and level of growth that can be targeted, as they reflect the impact that assumed risk has on capital requirements and earnings volatility. Stress and scenario testing is also used to evaluate the earnings and balance sheet resilience of business plans and the various risk-taking activities.

### Creating target ranges for earnings at risk and statutory capital requirements

The risk appetite metrics measure capital requirements, earnings, and liquidity risks and ensure compliance with the Prudential Financial Soundness Standards. They are calibrated to allow us to manage an extreme downside scenario with sufficient resources to avoid regulatory intervention.

The sustainability and growth of LBIC's businesses and the ability to create value for all its stakeholders is dependent on an effective risk management system and prudent financial management. This is particularly important because there are many challenges in the external environment and significant change and adaption within the internal operating environments of the businesses.

The risk management process is designed to continuously monitor both the internal and external environment to identify any conditions or changes which require us to respond to mitigate the related risks and both stay within its risk appetite and also stay the course to achieve corporate plans and realise the businesses strategic objectives.

### Risk Management Process

**Risk Identification -** is focused on the key impediments to LBIC's ability to achieve its business strategy and objectives. These risks are then measured in three dimensions:

- **Inherent:** considering the likelihood of occurrence and impact (financial and non-financial) that the risk may have on the business.
- **Residual:** considering the likelihood of occurrence and impact the risk may have on the business, after considering the control environment and any mitigating actions.
- **Residual risk vs tolerance:** which compares the residual risk to the risk appetite and preferences that are stipulated by the policy for that category of risk.

**Risk Measure and Response -** relates to the process of quantifying risks by considering the likelihood and magnitude of the risk. Once quantified LBIC will focus on those risks with higher ratings to implement appropriate mitigating actions as a response.

**Risk Monitoring -** is the ongoing process of assessing the control environment and the effectiveness of mitigating actions being taken to determine a residual risk rating and considers the impacts of materialised risks, assurance work, indicators, and changes in the external and internal environment on both risks and controls.

**Risk Reporting -** is focused on comparing the residual risk exposures to risk appetite, as articulated in the risk strategy, reporting on risks that are outside of the business' risk appetite or target limit.

**Stress and Scenario Testing -** is the process of evaluating the impact of specified scenarios on LBIC's financial position using several defined probabilities. This facilitates the assessment of the resilience of earnings and the balance sheet to business plans and the various risk-taking activities.

**Business and Risk Strategy Alignment -** is the process of ensuring that the risks assumed as a result of the business plans reflecting LBIC's risk preferences, taking into account the risks and points of leverage within its risk mitigation activities.

### LBIC's Three Lines of Assurance

**LINE 1 – Management -** Responsible for implementing an effective System of Internal Control, as well as risk identification and management on a day to-day basis across the business.

**LINE 2 – Internal Assurance Provider -** Responsible for the appropriateness and effectiveness of the risk management system, ensuring that policies and procedures are followed, and that reporting is accurate and complete.

**LINE 3 – Independent Assurance Providers -** Provides assurance (through the internal and external audit) on the effectiveness of governance, risk management and compliance functions, and the system of internal control. It reports to the LBI Board committee.

### Top Residual Risks

## STRATEGY RISK

**Diversification Risk -** Growth remains stagnant on the agri-asset portfolio which has been implemented as a diversification tool. With the exponential premium growth in crop, the diversification set FY2022 was not achieved.

Management Actions

- A new Index based insurance product has been developed and concluded. The product is pending Minister of Finance approval.
- Entering into a co-insurance business model with Genric Insurance Company Limited to expand on distribution channels.
- Appointed Brolink to provide the Insurance Company with its own Crop (data hosting), Assets and Life policy management system.

**Life critical mass –** Risk relating to inability to generate enough revenue to support the life business costing structure.

Mitigation Actions

- Enhance the distribution channels through the Bancassurance Model.
- Introducing Whole of Life (WoL) insurance with additional benefits. Submission of application to add the risk class of business (variation of license) is pending regulatory review and approval.

**Insourcing Risk –** The inability to build internal capacity and skills to deliver on the crop strategic objectives, which results in heavy dependency on the UMA.

Management Action

- Finalising systems acquisition transaction.
- Test systems and bring in elements of policy administration e.g., premium management.
- Full claims assessment capability.
- New business and quoting system integration.
- Most functions operating optimally.

## EXTERNAL RISK

**Climate risk –** In the year just ended LBI has experienced persistent heavy rainfalls throughout the country leading to hail incidents and adverse claims experience for all of winter, summer, and fruit harvests. This resulted in a high observation of loss ratio compared to the previous three seasons.

Management Actions

- Continue with the extensive portfolio review focusing on multi claimants, new clients, high value crops and structure of policy excesses.
- Structured re-insurance to allow sales to write business at a particular level, in addition to this a stop loss is in place to ensure that business losses are kept at an acceptable level.
- Incidence of risk – risk premiums are reviewed on an annual basis prior to start of the season, with margins for uncertainty added on risky business.
- Premiums are increased where loss ratio is lower than 65% and historical loss cost is higher than current premium rates.
- From an external perspective LBIC continue to be part of SAIA interventions in climate risk management initiatives.

**People Risk -** Critical skill acquisition and retention - Key people risks identified are around the attraction and retention of key and critically skilled staff and the depth and strength of succession required to achieve the LBI strategy and objectives.

Management Action

- Develop a robust Board-approved Retention Strategy (recognition programme).

## COMPLIANCE RISK

**Regulatory Breaches** - The Prudential Authority has imposed penalties for alleged of the repealed section 23(1) of the Short-Term Insurance Act 53 of 1998, section 14 and 16 of the Insurance Act 18 of 2017. Both penalties of R 2 000 000 and R688 000 were paid to the PA. However, LBI has appealed against these penalties through the Reconsideration Applications as provided for in section 230 of the Financial Sector Regulation Act 9 of 2017.

Mitigation Actions

- Bolster the Risk and Compliance function.
- Continuous regulatory engagements.
- Escalate and monitor resolution of any compliance breaches.

Land Bank Insurance (LBI) strives to adhere high compliance standards in order to ensure its sustainability and continued service to its customers. As part its compliance strategy, LBI has adopted the following policies:

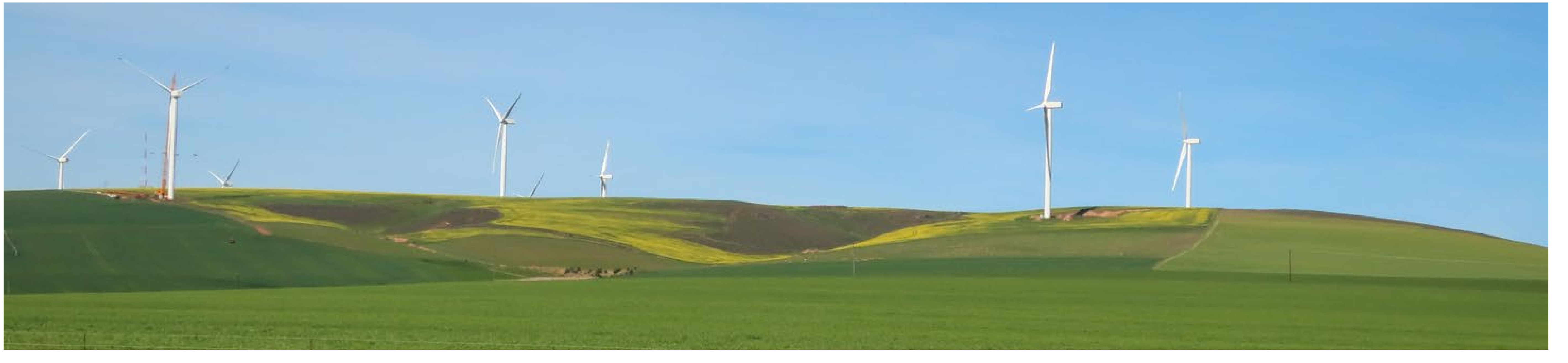
- Compliance Policy;
- Fit and Proper Policy;
- Conflict of Interest Policy
- Whistleblowing Policy;
- Insurance Fraud Risk Management Policy; and
- Outsourcing Policy.

The compliance team is guided by the Annual Compliance and Monitoring Plans, which are approved by LBI's Audit and Risk Committee.

**Table - Land Bank Insurance Company Corporate Scorecard**

| Corporate Scorecard FY2022 - LBIC and LBLIC | | | | | | |
|---|---|---|---|---|---|---|
| KPAs | KPI (FY2022) | Weighting | Measures FY2022 | | Update as at March 2022 | RAG |
| Contributing to transformation in the agricultural insurance sector (15%). | Black Broker programme. | 10% | Train and accredit a minimum 20 black brokers. | | 42 FSPs have been identified and a minimum of 20 brokers have been targeted to be on boarded, trained, and accredited. 20 brokers were on boarded, trained, and accredited. | Achieved |
| | Black Assessor programme. | 5% | Appoint practical's training provider and finalise training program, training schedule and logistics for the black assessors. | | The Board has approved the financial implications of R3.6 million. The tender process is underway to appoint a Practical Training Provider. The application was approved by Project Portfolio Committee (PPC) and was presented at the Procurement Committee in January 2022. The open tender advertisement is expected to be completed in Q1 of FY23 subject to the appointment of a suitable provider.<br>The following is expected to be concluded in Q1 of FY2023:<br>Appoint a suitable practical training provider.<br>• Develop the training program.<br>• Develop the training schedule.<br>• Finalise logistics (student transport, accommodation, and data etc.).<br>• Finalise graduation protocols with WSU and identify graduation period.<br>The following is expected to be concluded in FY2023:<br>• Actual practical training and conclusion of programme. | Not achieved |
| Financial Sustainability (30%). | Gross Written Premium (LBIC). | 10% | R539 million. | | R607 million. | Achieved |
| | Total Comprehensive Income (LBLIC). | 10% | R28 million. | | R110 million. | Achieved |
| | Diversification of premium income across product lines. | 5% | >1% of total gross written premium. | | <1% | Not achieved |
| | LBIC SCR. | 5% | 1.3 | | The SCR cover ratio amounted to 5.71 (FY2021, 5.75). The reduction in the SCR cover ratio had been impacted by the high reported crop claims (higher technical liabilities) of 2021/22, however, this is still well in excess of the regulatory limit of 100% and higher than the internal benchmark target of 150%. | Achieved |
| Insurance Model Integration (5%). | Improved Insurance Model. | 5% | Implementation of phase 1 of the Bancassurance Strategy. | | The Bancassurance project team had completed the last few significant work streams for the completion of Phase 1 of the implementation plan. The key work streams that were concluded in Q4 were developing the relevant systems (CRM). Training of staff bank wide and the development and finalisation of the commercial structure that will exist between LBI and LB (Referral Fee). The Referral Fee was approved by both EXCOs and a Referral Fee agreement was signed. All phase 1 implementation objectives were completed. | Achieved |

| Corporate Scorecard FY2022 - LBIC and LBLIC | | | | | | |
|---|---|---|---|---|---|---|
| KPAs | KPI (FY2022) | Weighting | Measures FY2022 | | Update as at March 2022 | RAG |
| **Corporate Governance (20%).** | Irregular expenditure. | 5% | Annual cumulative incidents relating to procurement, irregular, fruitless, wasteful, and unauthorised expenditures 0% of Gross Written Premium. | | Expenditure incurred in form of binder fee prior to NT approval amount to R7.6 million, which will be regarded as irregular. | Not achieved |
| | Ethical behaviour. | 10% | No findings on unethical behaviour by a staff member. | | No unethical behaviour reported for the year ended March 2022. | Achieved |
| | Audit. | 5% | Rating according to the scale of Auditor General:<br>5 = Unqualified opinion with no findings (clean audit).<br>4 = Financially unqualified opinion with findings.<br>3 = Qualified opinion.<br>1 = Adverse opinion.<br>1 = Disclaimed opinion. | | The Auditor General (AG) has completed the audit of both, the Land Bank Insurance (SOC) Ltd (LBIC) and Land Bank Life Insurance (SOC) Ltd (LBLIC) for the financial year ended 31 March 2022. The AG presented its Audit opinion as well as Management Report to the LBIC/LBLIC Audit and Risk Committee on 22 July 2022. In their (AG) Audit opinion, both companies obtained a clean unqualified Audit Opinion with no findings. | |
| **Insurance Regulatory Compliance (25%).** | Compliance with insurance regulations. | 5% | 1. Draft 2021/22 annual compliance and monitoring plan and obtain ARC approval by 30 April 2021. | | The plans for 2021/22 have been drafted and approved in ARC. | Achieved |
| | | | 2. Implement the 2021/22 approved Compliance and monitoring Plans. | | Both the Monitoring Plan and the Compliance Plan have been concluded and achieved. | Achieved |
| | Governance and Operations standards for Insurers (GOI). | 10% | Review GOI policies annually and have them approved by Board (Q4 tranche will be presented in April Board). | | All GOI policies have been reviewed and approved by Board. The Remuneration Policy was delayed due to NT input on remuneration requirements. This policy will be tabled at HRC in April 2022. | Achieved |
| | Own Risk and Solvency Assessment. | 10% | Conduct an Own Risk Assessment exercise for FY2021 and have it approved by Board and submitted to the PA on or before 31 December 2021. | | Own Risk and Solvency Assessment report for FY2021 has been approved by Board and submitted to the PA in December 2021. | Achieved |
| **Talent management (5%).** | Develop and implement a fit for purpose structure in support of the Insurance Companies strategy. | 2.5% | Board-approved organisational structure. | | The current Board approved business structure is in place and remain to be fit for purpose. | Achieved |
| | Embed talent management practices. | 2.5% | Organisation Culture Survey – development and commencement of the implementation of remediation plan for survey outcomes. | | Organisational culture survey results have been shared with LBI EXCO. Climate and Culture Remedial plan developed and approved. 60% of milestones have been implemented as at March 2022. | Achieved |



09

# LAND BANK'S RISK MANAGEMENT

# LAND BANK'S RISK MANAGEMENT

The key risks and opportunities that are specific to the Bank, including those that relate to the Bank's effects on, and the continued availability of, quality and affordability of relevant capitals in the short, medium, and long term, are explored in this section.

The Bank assesses the likelihood of a risk or opportunity being realised and evaluates the magnitude of its impact should it come to fruition. Once key items are identified, mitigation measures and/or planning may begin. Such identification includes associated strategic objectives, strategies, policies, targets, and key performance indicators. All items are continually monitored, and efforts are assessed for efficacy.

## RISK GOVERNANCE OVERSIGHT

The Board is ultimately responsible for the risk governance of the Bank and is accountable for the Bank's overall governance of risk in accordance with NT' Public Sector Risk Management Framework. Its primary responsibility is to bring its specialist expertise to guide the risk management oversight and to leverage benefits and opportunities. Where opportunities are identified, these are assessed so that the Bank may effectively manage them to enhance the Bank's performance.

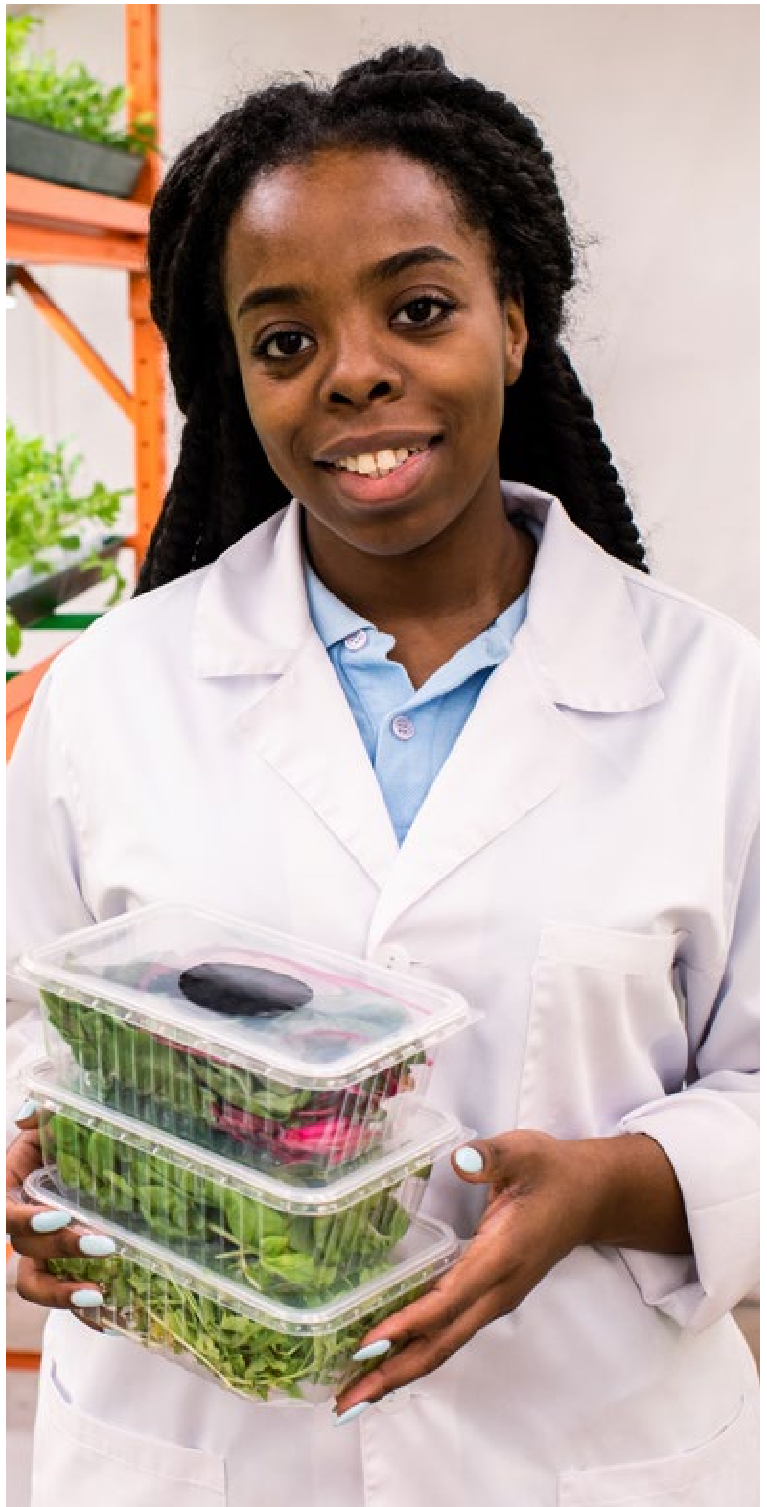
## RISK PHILOSOPHY

The Bank believes that risk management provides a process of proactively identifying risk issues, opportunities, and events, which if not well managed can adversely impact the achievement of business objectives. By applying the risk management process, the Bank is able to proactively manage issues that may impact the achievement of its goals. The risk management process enhances the overall control environment and governance in a more structured manner across all areas of business

## RISK CATEGORIES

The risk management process is iterative in nature to ensure continued alignment with the Bank's strategic goals. Typically, the risk assessment and risk management strategy have a medium term (three year) focus to foster the culture of building risk foresight. In terms of the Enterprise Risk Management Framework, the Bank's risk universe consists of:

- Strategic risk,
- Operational risk,
- Credit and Investment risk,
- Model risk, and
- Financial risk.



## STRATEGIC RISK PROFILE

Whilst various critical mitigations were implemented during the year, the overall strategic risk profile remains exceptionally high (indicated in red). This is resultant from outstanding management action plans that materially expose the Bank. These risks will be prioritised in the upcoming year.

| Risk Name and Description and Residual risk rating: | Management Action Plans: [To address control issues, root causes and mitigate likelihood and impact of risks] |
|---|---|
| **Strategy and execution risk:** | • Board strategy workshop for strategic alignment concluded.<br>• The Strategic Plan outlining future strategy including corporate budget concluded by the Board.<br>• Concluding discussions with industry partners, sister organisations, and private sector on future funding options to support the strategy. |
| **Legal and Litigation risk:** | • The Bank continue to honour interest obligations, and partial capital reduction on outstanding debt. Significant portion of capital already being paid from cashflows.<br>• Ongoing discussions to conclude agreements on the Liability Solution (L/S4).<br>• Continuous quality reporting on credit and financial information reflecting improving trend to lenders.<br><br>*Land Bank is reliant on all parties involved to help cure the default. Progress made by the Bank since inception of the crises through its self-help mechanisms has managed to bring debt down while maintaining operations – i.e. increased collections, increased repayments, improved audit outcome, stability in leadership.* |
| **Flight risk and People risks and Resource constraints:** | • Payscale benchmarking on an annual basis to ensure Land Bank compares with the market concluded.<br>• Process to review the remuneration and compensation policy for alignment against the draft State-Owned Entities Remuneration and Incentive guidelines commenced.<br>• Retention policy to enhance retention mechanism concluded.<br>• Human Capital continues to support business on their requests, where it is critical to fill the capacity gap.<br>• The final determination and approval of operating model and structure is under consideration as part of overall strategy. |
| **Financial sustainability risk: High cost to income, gearing, poor quality book.** | • Revision of pricing model being concluded to align costing and improve pricing margins where permissible.<br>• Insourcing of SLA exposures to reduce cost and improve controls on loan book management<br>• Develop white labelling strategy - on hold until restructure in place.<br>• Ongoing cost containment across the organisation. |
| **Liquidity and funding risk: due to the inability of the Bank to raise new funding as a result of the default position.** | • Ongoing syndication of exposure with other banks for selected corporate clients to enable asset solution where possible.<br>• Monitoring of cash-flows, and collections by restructuring Board committee<br>• Seeking alternatives funding sources to support future growth on the Development and Transformation book, pre and post default.<br>• Removed exclusivity clause on SLA agreements to enable settlement of facilities and reduction of liability.<br>• Sale of the non-core equity book. Ongoing disposal of non-core assets |
| **Credit default risk: High rate of impairments.** | • Ongoing recovery of instalments on non-performing.<br>• Prioritising disbursements on production and working capital facilities for performing and selected underperforming book.<br>• Ongoing stratification of the NPL book by agri-division to refocus mitigations where necessary.<br>• Closing skills gap in critical areas – i.e. recoveries, workout, business and risk through targeted recruitment and procurement. |

| Risk Name and Description and Residual risk rating: | | Management Action Plans: [To address control issues, root causes and mitigate likelihood and impact of risks] |
|---|---|---|
| **Development and Transformation Risk:** Development and Transformation risk due poor or low levels of development and transformation. | | • Focus on leveraging third party funding support, including grant support, and CSI support for non-financials; facilitate alternative funding opportunities to drive development.<br>• Collaboration with private sector in securing off-take agreements for the development farmers as well Enterprise and Supplier Development funds.<br>• Adoption of the value chain and aggregation approach for scales and efficiency.<br>• Farmers to be afforded pre and post investment support.<br>• Pro-active and targeted origination being explored to build future pipeline.<br>• Review of the credit origination process.<br>• Implementation of the operating model, regionalisation and streamlining of key roles in the value chain ongoing. |
| **External event risk:** COVID19 pandemic impact on the operations, Loan Book-clients' ability to repay loans resulting in NPLs increase. | | • Adoption of internal Business Continuity Management (BCM) measures led by the COVID task –team.<br>• Continuous review the Internal Alert levels for the Bank to support staff in managing our business.<br>• Revised process on the COVID-19 Relief Fund to create efficiency and support affected farmers.<br>• Quarterly/Monthly COVID-19 reporting on all portfolios. |
| **Stakeholder and reputational risk:** Negative stakeholder sentiment due to the ongoing challenging environment. | | • Reviewed and activating shareholder engagement strategy and communication plans.<br>• On-going engagements with the shareholder and Department of Agriculture Land Reform and Rural Developments (DALRRD) at Ministerial and Director General (DG) levels, and other key stakeholders.<br>• Shareholder participation in restructuring engagement and various lenders meetings. |
| **Intermediary/ SLA risks:** Commercial risks emanating from the intermediary model. | | • Reduced the exposure from SLA/intermediaries by resizing the assets through disposals/settlements and insourcing.<br>• Improving commercial and credit terms, on remaining SLAs through approved remedial plan-work concluded.<br>• Standardising credit risk and governance processes vial SLA remedial plan, with options to fully insource or sell down.<br>• Validation of source data from SLA intermediaries, to improve quality of information presented were implemented in the year under review, while busy insourcing. |
| **Non-compliance risk:** Non-compliance with the regulatory requirements with regards to submission of statutory returns, etc | | • Filing of the outstanding statutory returns.<br>• Finalising the Compliance Maturity Roadmap.<br>• Finalised the NCA audit.<br>• Reviewing of delegation of authority to align with the strategy and mandate of the Bank.<br>• Enhanced risk management processes. |
| **Data Integrity risk:** | | • Ongoing IT improvements and roll-out of revised processes and system updates.<br>• Implementation of data Automation to enable data exchange between systems (CRM, GIS, backend tool automation) to avoid data recapturing and inconsistencies.<br>• Continue to apply Land Bank's Standard Annual Review Process when On-boarding SLA clients current and future.<br>• Internal quality assurance of clients' file plans.<br>• Utilise lessons learnt to optimise the subsequent in-sourcing of SLA clients including exploring automation and transfer of files on the IT platforms. |

| Risk Name and Description and Residual risk rating: | | Management Action Plans: [To address control issues, root causes and mitigate likelihood and impact of risks] |
|---|---|---|
| **Third Party Funding:** Challenges in expanding and retaining the third-party funding and support for the development and transformation agenda of the Bank. | | • Engagement with DALRRD on blended finance.<br>• Concluded phase 2 of the COVID-19 Relief Fund MoA and implementing as per the envisaged Implementation Plan.<br>• Ensuring responsibilities alignment with partners to minimise duplication in processes (due diligence etc.).<br>• Revision of credit policy and credit processes to build efficiency on various programs.<br>• Ongoing improvements on Bank's poor turnaround time through continued oversight and monitoring and introduction of systems.<br>• Banks continue to service programs already contracted despite ongoing liquidity challenges to adhere to contractual obligation and sustain development/transformation under those funds.<br>• Ensuring adequate capacity in the teams involved in partnership deals to ensure delivery.. |
| **Operational inefficiencies and IT risk:**<br>• Process: review and simplification of business processes (re-engineering).<br>• IT: automation of manual processes.<br>• Human Capital: alignment of resources to ensure operational efficiency. | | • Implementation of a three-year infrastructure rollout (refresher plan/program) will be executed in phases and prioritised based on the hosted systems criticality.<br>• Approval of the reviewed IT Strategy and Implementation of the Rolling IT strategy.<br>• Automation of client facing enablement (Omni Channel) and back-end enablement:<br>» Client facing: Implementation of E-Services Portals and Contact centre capability–concept developed and approved,<br>» Backend business process enablement: (OnBase, Customer Relationship Management, GIS).<br>• Automation of back-end tools and manual business processes.<br>• Regionalization approach of credit mandates-decentralized strategy to better service clients.<br>• Training of existing staff where necessary.<br>• Capacitation (required capabilities and resources) in Systems Architecture and Programme Management. |

## CREDIT AND INVESTMENT RISKS

During the reporting period, Management has reviewed and updated the credit committee charters to enable the envisaged regionalisation of credit mandate to the provincial and regional offices. This will improve application turn-around times and client service. Ongoing reviews on credit processes underway.

Both Obaro and Unigro were fully insourced, and the facilities were integrated onto the Bank's platforms. The Bank was, however, saddled with performing a number of annual facility reviews and renewals for revolving facilities. Due to the unanticipated workload, not all reviews were conducted, this work is ongoing. To support the Bank's asset and liability solution, the Corporate Book continues to reduce, and all annual reviews in this portfolio were conducted with increased pricing above the cost of funding as per revised pricing model.

The low uptake in disbursements resulted in increased pressure being placed on the Non-Performing Loan (NPL) book which closed at 47.7% compared to 32.5% in FY2021. In order to mitigate this risk, the NPL remediation strategy has been implemented, with oversight for the Credit and Investment Committee.

## OPERATIONAL RISKS

Operational risks are managed using a bottom-up approach and are monitored and reported on by the Enterprise Risk Committee, which recommend the top risks to EXCO and Board Risk committees.

- Some of the Client files received from the SLA partners did not meet all the compliance requirements. The missing files for FICA screening and Know-Your-Customers (KYC) for the on-boarded SLA clients remained a concern for non-compliance. In addition, NCA treatment of customer accounts still under review, creates potential exposure to contravention. Clean up work in this regard underway to ensure any possible gap is closed and addressed adequately.
- The Bank experienced a high staff turnover, including the departure of two Executives members (one of whom being the CE), which may result in the loss of organisational knowledge and negatively impact upon business continuity, however adequate transitioning has occurred with process to secure permanent CEO underway.
- An Ethics Risk Assessment was conducted to assess the ethics environment. The aim of the assessment was to gain insight for use in improving organisational ethics and guiding the Bank's Ethics Risk Management Strategy and Plan for the upcoming two to three years.

## FINANCIAL AND LIQUIDITY RISKS

Land Bank's default continues while the Bank and its lenders remain committed to reach a solution to cure the default. As a result of the default position and the restructuring process that is currently in progress, the Bank is not able to raise new funding the in the market.

Liquidity risk is defined as the risk of incurring losses resulting from the inability to meet payment obligations in a timely manner when they become due or from being unable to do so at a sustainable cost. Land Bank is currently experiencing liquidity crisis in that:

- It is unable to repay matured debt;
- It's in a de-facto standstill;
- It is not able to raise new funding in the market; and is in the process of implementing a solution to cure the default.

The Bank's only source of funding is from:

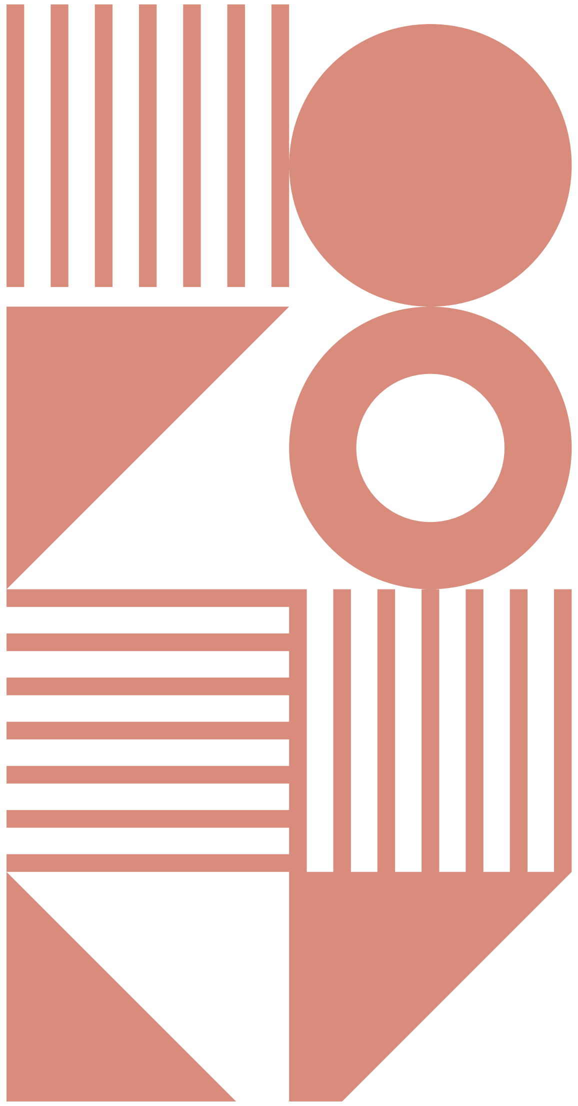
- Collections from customers;
- Sale of assets;
- Funding from National Treasury (equity injection).

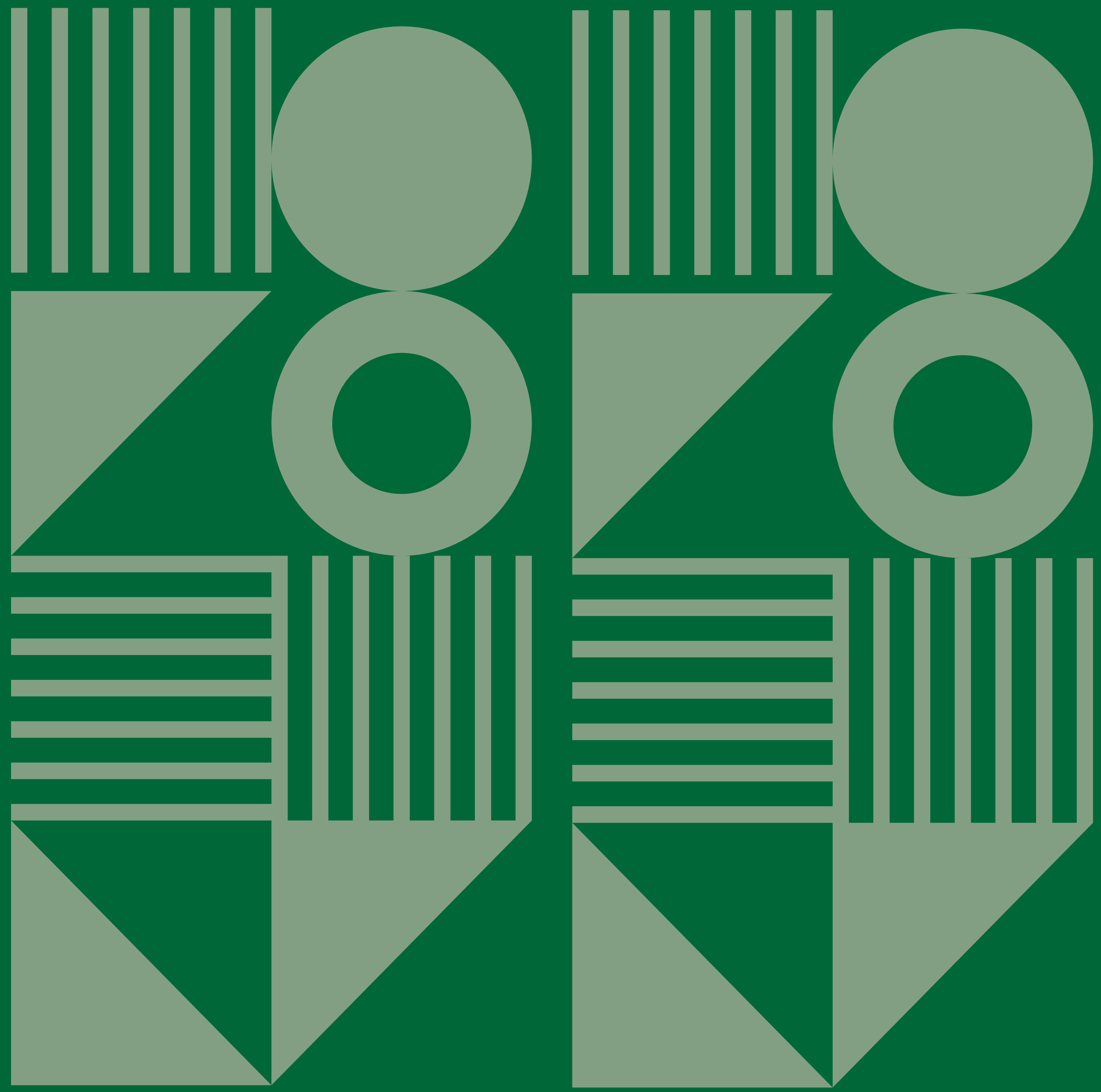
In order to manage liquidity under the current situation, there's reduced disbursements to customers and only interest repayments are made to lenders with occasional capital reduction when possible. Accumulated cash from customer collections, asset disposals and settlements are invested in instruments that aim to deliver better rates whilst preserving capital, call accounts and Bank deposit notes offered by banks and asset management companies. The Bank is avoiding to invest in assets that yield higher rates for fear of exposing capital to market risk. The Bank is constantly looking out for capital preserving investments with better interest rates offered by approved counterparties and have also made capital repayments to lenders worth R14.8 billion (42.84%) since the default in its effort in repaying outstanding debt while also managing the negative carry, given the cost of borrowing versus investment rates.

The Bank's liquidity challenges have significantly affected the Bank's ability to fund emerging farmers and foster external relationships. The Bank is currently finalising the liability solution, which remains critical in restoring stability to the Bank.

## MODEL RISKS

The model risk management was enhanced within the Bank, with the approval of the reviewed Model Governance Framework by Board and subsequent introduction of the Model Technical Committee (MTC). The MTC has been established to assist EXCO with oversight on model related matters of Land Bank and to ensure that models are monitored and recalibrated as prescribed in the framework. As a result of the change in the default definition, the Model Validation Unit performed the validation of the following models: the PD direct model; PD indirect model; PD seasonality model; PD macroeconomic model; and PD transition model, and the reports were approved by the Board. Work in this environment is ongoing.





# 10 LAND BANK'S OUTLOOK

# LAND BANK'S OUTLOOK

## DESIRED STATE

The Land Bank aims to position itself as an agricultural Development Finance Institution that effectively balances financial sustainability and developmental outcomes to meaningfully contribute to the development and transformation of South African agriculture. This will allow the Bank to meet all elements of its mandate and enhance the entity's ability to source the future capital required for its growth and refinancing needs. To realise these ambitions, the Bank is required to redesign all major components of its business model as summarized below:

**Business model component 1 – Funding:** It is crucial that the Bank's funding model supports its mandate and policy objectives. This requires a diversified stream of funding which includes fiscal and concessionary funding as well as revenue from value-added services provided by the Bank. With a more diversified funding model, the Bank will predominantly render its financial services through a blended finance model (Debt and Grant/Equity) which has proven effective in enhancing affordability and managing risk. Blended funds reduce the cost of funding, enabling pricing subsidisation and enhancing the Bank's ability to provide non-financial support to farmers, which is crucial for reducing failures associated with new entrants in the market.

Linked to its funding model, the effective management of the Bank's cost structure remains a priority. Over the transition period, the Bank aims to reduce operating costs by 17% through numerous streamlining initiatives including revision of the operating model and structure, process optimization, system automation and strategic partnering.

**Business model component 2 – Products:** In order to meet the objectives set in the Land Bank Act, the Bank must be appropriately structured and positioned to provide:

- Affordable and inclusive finance
- Long-dated finance to enable historically disadvantaged clients to acquire land and repay their debts in line with cashflow requirements
- Products to close the equity contributions and collateral gaps of clients
- Facilitation of access to productive agricultural land, and production of high socio-economic impact commodities which will significantly contribute to the achievement of socio¬economic outcomes.
- Facilitation of Pre- and Post-Finance Support programmes to minimise the risk of entrepreneurial failures of new entrants in the market
- Solutions and services that promote access to market access, particularly for developing farmers

**Business model component 3 – Operations:** To enhance its operational effectiveness and to create a distinct client value proposition, aligned with the Bank's DFI role, Land Bank has begun to overhaul its Operating Model, and is adopting a Farmer First approach. This client-centric approach entails a decentralization of operations and stronger move to digital channels of delivery to enhance client experience and access. In its restructuring of operations, the Bank has also prioritized the building of organisational competencies that are critical to successful development origination, credit management, fund management and technical monitoring.

**Business model component 4 – Origination and loan book management:** All origination and monitoring will take place on Land Bank's systems, to ensure transparency and the traceability of funds deployed. This will significantly improve monitoring and evaluation, and ensure accurate reporting of the Bank's performance and development effectiveness. To increase scale, the Bank will partner with commodity organisations and agribusinesses to facilitate access to their development farmers, off-takers and significant pre-and post-finance technical support infrastructure.

Loan book management will be improved by entrenching a relationship banking model supported by pro-active monitoring of loan book performance. Monitoring will be enhanced to not only include collections, but also provide technical support to clients. Technology will also be deployed to ensure controlled disbursements, aligned to the assessment of on-the-farm conditions and the purpose of the loan.


## A PHASED JOURNEY

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

- **Phase 1 -** Stabilisation: The focus of this phase (FY2022/23 and parts of FY2023/24) is the successful restructuring of the Bank's funding liabilities and the initiation of several initiatives aimed at addressing the immediate priorities that will set the baseline for the Bank's stability, going forward.
- **Phase 2 -** Consolidation: This phase (FY2023/24 – FY2025/26) assumes that the Bank's funding liabilities have been successfully restructured and that its state of default has been cured. The focus during this period is the consolidation of the rigorous changes to the Bank's operating model in support of the journey towards the desired state.
- **Phase 3 -** Growth: Having demonstrated tangible results in its financial and operating performance, and its developmental outcomes, in the third phase of its journey, the Bank will focus on expanding its reach through enhanced partnerships, a diverse funding mix and a broader ecosystem focus.

### IMMEDIATE INTERVENTIONS REQUIRED (YEAR 1)

- Conclude the Liability Solution with lenders and develop a revised Funding Strategy
- Improve existing Loan Portfolio Performance - manage collections and NPLs
- Optimise Revenue Opportunities (Interest income and non-interest income)
- Finalise and implement the D&T Strategy for resumption of leading activities
- Mitigate for attrition of critical and key individuals
- Commence the implementation of the approved Operating Model and new structures
- Audit Outcome (improved control environment)
- Implement the Reputation Management Strategy
- Improved Accountability and Consequence Management

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### SHORT-MEDIUM TERM INTERVENTIONS (YEAR 3)

- Implement an appropriate Asset Solution in line with the approved Liability Solution
- Implement the revised funding model in line with client segment specific requirements
- Reposition the Bank's role at sector level with the support of NT and DALRRD
- Solidify partnerships with service delivery partners (digital and technical support)
- Develop Climate adaptation offering and disaster relief support
- Accelerate process optimisation, automation and digitisation to enable improved service delivery

03

### MEDIUM TO LONG TERM INTERVENTIONS (YEAR 5)

- Secure the Catalyst role in the sector by coordinating state funds and programmes, and through other strategic partnerships
- Facilitate accelerated Land reform
- Launch the revised value proposition (products and services) for all targeted client segments
- Enhanced Client Coverage Model for increased reach (through commodity organisations and strategic partners)

05

## IMMEDIATE PRIORITIES

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

- Conclusion of the Liability Solution by 30 September 2022.
- Address quality deterioration and growth of the non-performing loans through improved portfolio management and remediation efforts.
- Improve the operating performance of the Bank – including execution capability and readiness of the Bank for resumption of lending activities, as well as appropriate cost containment.
- Reduce the attrition of critical staff and start the implementation of the action plans in response to the culture survey feedback.
- Remediate audit findings and strengthen internal controls to maintain a Clean Audit Outcome for FY2022/23.
- Established an Accountability and Consequence Management Board Task Team to facilitate the expeditious resolution of outstanding instances of confirmed or potential misconduct that may have contributed to the Bank's current position.
- Implement the Development and Transformation Strategy.
- Work towards regaining a positive reputation for the Bank.
- Improve income and finalise the revised Funding Model Strategy.

### ORGANISATIONAL EFFECTIVENESS OUTCOMES

### ENABLEMENT OUTCOMES

**DEVELOPMENT EFFECTIVENESS**

- Development disbursements (debt and grants)
- COVID-19 Grant disbursements
- Approvals in line with AAMP priority commodities
- Enhance Development Effectiveness Reporting

**FINANCIAL SUSTAINABILITY**

- Implement the Liability Solution milestones
- Finalise the revised Funding Model Strategy and Business Case
- Reduce Non-Performing Loans
- Improve Cost to Income

**STAKEHOLDER MANAGEMENT AND CLIENT CENTRICITY**

- All credit facilities are reviewed in time
- Improve turn-around times for new applications
- Finalise the pre- and post-finance offering
- Improve stakeholder engagement to restore the reputation of the Bank

**ORGANISATIONAL CAPACITY AND PEOPLE**

- Retention of critical skills and key staff
- Revised Organisational Operating Model Approved
- Design the structure in line with the revised Operating Model

**GOVERNANCE**

- Create an Effective control environment
- Enterprise Risk Management controls effectively implemented
- Improved FY2023 External Audit outcome

LAND BANK
We stand by you

11

# GOVERNANCE

# GOVERNANCE

## OUR GOVERNANCE FRAMEWORK

The Land Bank Group is guided by the values of human dignity, the achievement of equality, advancement of human rights and freedoms, and the rule of law – as entrenched in the South African Constitutional Bill of Rights. The Group remains committed to the practice of good governance and strives to live by its organisational values, as well as the values advocated by the King IV.

The Board of directors of the Land Bank Group is collectively responsible for promoting the success of the Land Bank by directing and supervising its affairs. Its role is among others to:

i. provide entrepreneurial leadership to the Bank within a framework of prudent and effective controls which enable risk to be assessed and managed;
ii. determine the Bank's strategic objectives, ensure that the necessary financial and human resources are in place for the Bank to meet its objectives, and review management performance; and
iii. determine the values and standards of the Bank and ensure that its obligations to the Shareholder and all other stakeholders are understood and met.

The business and affairs of the Land Bank Group are managed and directed by, or under direction of the Board of Directors of the bank who are appointed by the Minister. In terms of the Land Bank Act, members of the Board are individually and collectively accountable to the Minister of Finance for the direction and control of the operations and business of the Bank. They act as a Board and not as individuals.

The Company Secretary is appointed in terms of the Companies Act, 2008, and plays a key role in ensuring that Board procedures are followed and regularly reviewed. The Company Secretary is the primary source of advice on the conduct of the business.

## BOARD ETHICS

The Board has adopted Code of Ethics and Business Conduct which seeks to assist members in fulfilling their duties to the Land Bank Group. The Code charges Board members to act in good faith and to exercise the powers vested in them in order to honestly fulfil the duties imposed by their office. Each director has a duty to act in what he/she considers to be the best interests of the Bank, and all such action must be for a proper corporate purpose. The Board ensures that this approach to doing business permeates throughout the Bank and holds management accountable to ensure this commitment manifests itself throughout the organisation.

## BOARD RESPONSIBILITIES

The responsibility of the Board is to effectively represent and promote the interests of the people of the Republic South Africa with a view to adding long-term value to the South African agricultural sector. The Board directs and supervises the management of the business and affairs of the Group including:

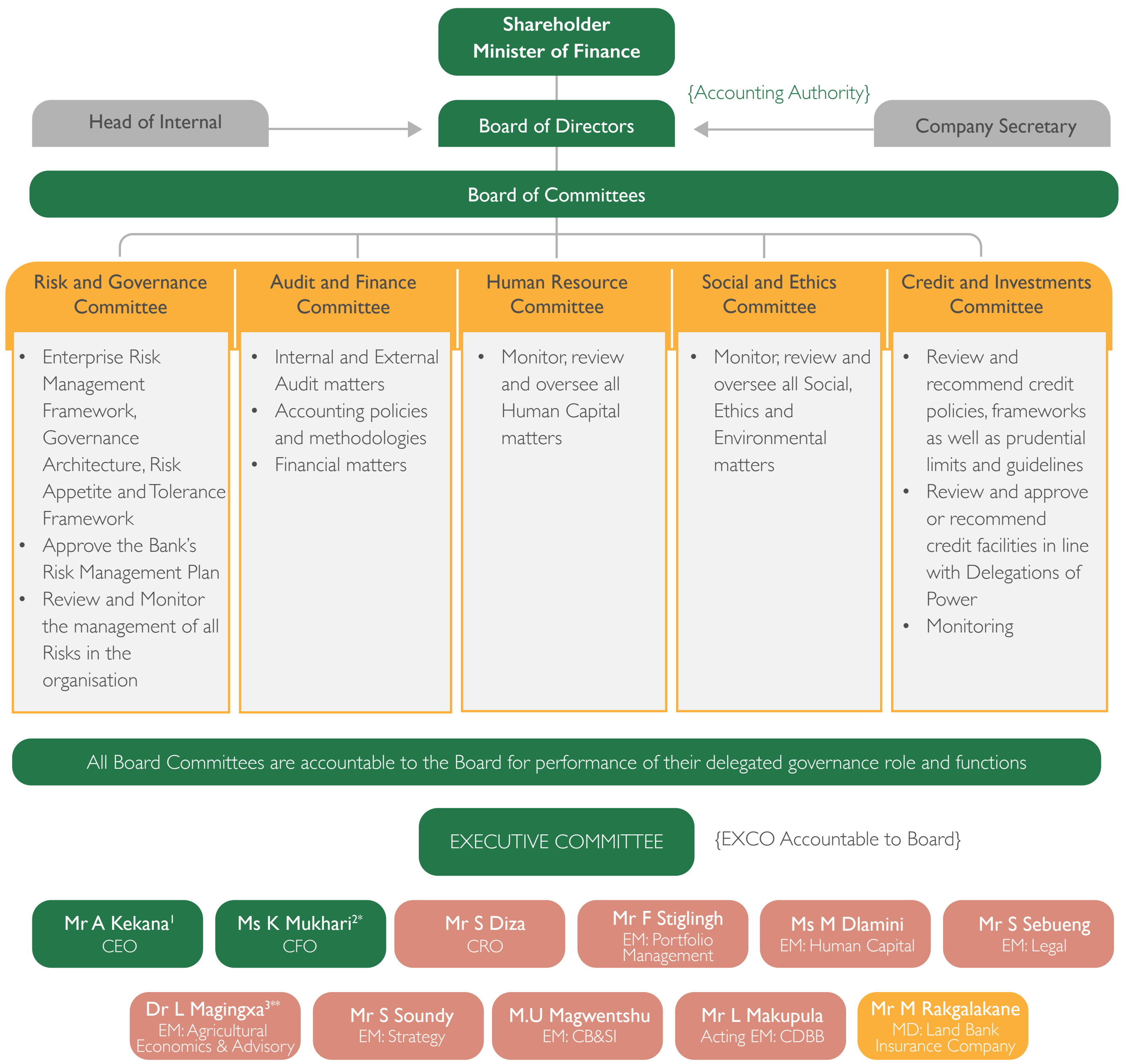
- Ensuring that the goals of the Bank are correctly interpreted, clearly understood, and that strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from management).
- Establishing policies for strengthening the performance of the Bank including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products, and the development of its business capital.
- Monitoring the performance of management.
- Recommending to the Minister the appointment, as well as the terms and conditions of service of the CEO and, where necessary, the termination of the CEO's employment with the Bank.
- Managing matters of discipline pertaining to the executive directors.
- Deciding on whatever steps are necessary to protect the Group's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken.
- Ensuring that the Bank's financial statements are true and fair, and that they otherwise conform with law.
- Ensuring that the Bank adheres to high standards of ethics and corporate behaviour.
- Ensuring that the Bank has appropriate risk management/regulatory compliance policies in place.

The Management team is responsible for the oversight of the daily operations of the Bank.

## FRAMEWORK

The Bank is guided by King IV, which advocates implementing a governance structure that supports leadership, sustainability, and corporate citizenship. This includes the establishment of appropriate Board committees.

The structure of Land Bank's governance oversight is depicted below.




1. Mr A Kkekana resigned, effective 30 April 2022
2. Ms K Mukhari was appointed as Acting CEO
3. Dr L Magingxa resigned, effective 31 March

*Mr B Padachie was appointed as Acting CFO
**Mr G Maritz was appointed as Acting EM: Agricultural Economics and Advisory

## BOARD COMPOSITION

The Board consists of no fewer than seven and no more than 12 persons. Members of the Board are appointed for a period of no more than five years. The Board membership comprises of Non- Executive Directors. The chief executive officer is a member of the Board by virtue of their office and the Minister can appoint any other employee of the Bank. The Minister appointed the Chief Financial Officer as an Executive Director. The Minister designates one of the Non-Executive Members of the Board as Chairman and another as Deputy Chairman who acts as Chairman when the Chairman is unable to do so. The composition of the Board is such that the common purpose, involvement, participation, harmony, and sense of responsibility of the members are not jeopardised.

### Board Changes

A new Board was appointed with effect from 8 December 2021. The CEO resigned and the CFO was appointed as Acting CEO from May 2022.

The Board is also reflective of the demographic composition of the country with regard to race, colour, age, and gender.

| Land Bank Board members | M | F | B | I | C | W |
|---|---|---|---|---|---|---|
| NON-EXECUTIVE DIRECTORS | | | | | | |
| Ms N R Nkosi (Board Chair) | | ✓ | ✓ | | | |
| Mr A Makenete (Deputy Chair) | ✓ | | ✓ | | | |
| Prof J Kirsten | ✓ | | | | | ✓ |
| Ms D Maithufi | | ✓ | ✓ | | | |
| Ms M Makgatho | | ✓ | ✓ | | | |
| Ms T Mashanda | | ✓ | ✓ | | | |
| Ms N Motshegoa | | ✓ | ✓ | | | |
| Ms E Pillay | | ✓ | | ✓ | | |
| Dr M Tom | ✓ | | ✓ | | | |
| Adv D Van Der Westhuizen | ✓ | | | | | ✓ |
| TERM ENDED 30 NOVEMBER 2021 | | | | | | |
| Mr M A Moloto (Board Chair) | ✓ | | ✓ | | | |
| Ms D R Hlatshwayo (Board Deputy Chair) | | ✓ | ✓ | | | |
| Dr S Cornelius | ✓ | | | | ✓ | |
| Ms S A Lund | | ✓ | | | | ✓ |
| Ms M E Makgatho | | ✓ | ✓ | | | |

## BOARD PERFORMANCE

The Board is committed to the continued improvement of own its performance and effectiveness. It believes that a highly effective Board is essential if Land Bank is to produce sustainable returns for the shareholders, its broad range of stakeholders, as well as the wider society. Corporate governance outcomes and the quality of Land Bank Board is an important evaluation factor for funders and institutional investors.

## BOARD COMMITTEES

The Board is supported by five Board Committees established in terms of section 15 of Land Bank Act. The standing Board Committees that have been delegated the responsibility of assisting in specific matters and reporting to the Board on a quarterly basis are, the Audit and Finance Committee, the Human Resource Committee, the Risk and Governance Committee, the Credit and Investment Committee, and the Social and Ethics Committee. Other committees are formed for specific purposes, such as the Restructuring Committee, which was established to address the liability issue of the Bank and is disbanded as required. The delegated responsibility and the powers, limits, as well as authorities attached to Board Committees, are approved by Land Bank Board.

## AUDIT AND FINANCE COMMITTEE

### Mandate

The Audit and Finance Committee is an independent committee that deals with matters such as recommending approval of Land Bank Group financial results, review of the Integrated Report, approval of the risk-based internal audit plan, the combined assurance model, and review of the groups' Internal Financial Controls (IFC). The Committee discharges its responsibilities with the support of the audit, finance and fraud management functions within the Bank, which reports to the Committee on a quarterly basis. The Committee's approach is strongly influenced by its commitment to the principles of good governance contained in the KING IV code. It consists of at least three independent, Non-Executive Directors who are duly elected to membership of the Committee by the Shareholder at the AGM.

The Committee is responsible for the following:

- Ensure that the Bank maintains adequate and accurate accounting records and management information, including the recommendation for approval to the Board, amongst others, in terms of the annual budget and financial statements;
- The Bank develops and maintains sound systems of internal control and information security, including disclosures of irregular or wasteful expenditures and the appointment of auditor service providers;
- The integrity and reliability of the published financial and statutory reporting of Land Bank and oversees integrated reporting;
- Funding and liquidity position of the Bank;
- Transparency, accountability, and good corporate governance as required by Land Bank Act, KING IV, PFMA, and Companies Act;
- Ensures that requisite risk management culture, practices, policies, resources, and systems are in place and functioning effectively; and
- Oversees the internal and external audit functions, monitoring their effectiveness and independence.

### Performance

The Committee assisted the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems, and auditing processes applied within the Bank in its day-to-day operations.

The key focus areas for the committee during the period included the Liquidity challenges faced by the Bank and the need to stabilize the Bank. Implementation of the Audit remediation plan was a specific priority for the year under review. The Committee will continue to focus on returning the bank to profitability.

## RISK AND GOVERNANCE COMMITTEE

### Mandate

The Risk and Governance Committee assists the Board in discharging its responsibility for the entire process of risk management and compliance within the Bank. The Committee deals with various matters relating to risk and risk management systems, including ensuring that appropriate risk management culture, practices, policies, and systems are in place and functioning effectively. The Committee also assists the Board in ensuring transparency, accountability, and good corporate governance as required by Land Bank Act and other relevant laws and regulations, standards, and protocols that apply to the Bank's activities or that the Bank has voluntarily adopted.

### Performance

The Committee continued to monitor and, where necessary, improve the risk mitigation effectiveness and risk control. The Strategic Risk Register was revised and shared with the Board for approval.

The key focus areas for the committee during the period included the Liquidity challenges faced by the Bank and the need to stabilize the Bank. Ensuring an effective control environment was a specific priority the year under review. The Committee will continue to focus on returning the bank to profitability.

## HUMAN RESOURCE COMMITTEE

### Mandate

The Human Resources Committee's duty is to oversee the establishment of appropriate human resources policies and strategies that provide Land Bank with the capability to achieve its short- and long-term business objectives.

The Committee is mandated and authorised by the Board to fulfil the following roles:

- Transformation focusing on Black Economic Empowerment and Employment Equity.
- Compliance with relevant labour-related legal requirements of the Bank as well as best practice codes.
- Oversee (amongst other things), recruiting, developing, and retaining critical skills.
- Oversee remuneration processes as well as consider and approve remuneration-related issues and proposals.
- Assist the Board in identifying suitable members that will address the Board's requirements in terms of knowledge and skills.
- Assist the Board with appointments, dismissal, succession planning, reviewing committee structures, and reviewing the performance of the Board and its committees.

### Performance

The Committee continued to ensure that its mandate, as derived from the Board, was diligently executed – ensuring the implementation of the human resources strategy and maintaining appropriate human resources policies.

The key focus areas for the committee during the period included the Liquidity challenges faced by the bank and the need to stabilize the Bank. Implementation of the Organisational culture survey remedial plan was a specific priority for the year under review. The Committee will continue to focus on returning the bank to profitability.

## SOCIAL AND ETHICS COMMITTEE

### Mandate

The Social and Ethics Committee is appointed in terms of section 72 of the Companies Act and is responsible on behalf of the Bank for this function. The Committee provides oversight of the Bank's compliance with relevant social, ethical, and legal requirements as well as best practice codes. The Committee is also responsible for providing oversight of the Bank's activities in the field of ethics, corporate social responsibility (stakeholder engagement, and environmental sustainability, including the Management of non-financial issues, and reputational risk, as listed and defined in the Bank's enterprise risk management framework).

### Performance

The Committee provided governance oversight on matters relating to Land Bank as a good corporate citizen, including alignment to the Principles for Responsible Banking. The Committee continued to ensure that sufficient oversight is implemented to ensure that the business is ethically conducted.

The key focus areas for the committee during the period included the Liquidity challenges faced by the bank and the need to stabilize the Bank. Strategic alignment of the of the Bank's role as Development Finance Institution towards development effectiveness outcomes, has been a specific priority for the year under review. The Committee will continue to focus on returning the bank to profitability.

## CREDIT INVESTMENT COMMITTEE

### Mandate

Credit risk management is guided by Land Bank Act, PFMA, National Credit Act (NCA) of 2005, Financial Intelligence Centre Act (FICA) of 2001 and Basel Accords. The Committee periodically reviews the Bank's credit policies, investment policy, and strategies together with risk management and significant credit risk management policies. This also includes tolerance and appetite for credit risk and the level of profitability the Board expects to achieve from assuming various credit risks. The Committee ensures appropriate credit and investment approval mandates structure, composition and quorum of the credit risk committees. All credit decisions are Committee-based, with charters prescribing the roles and responsibilities, delegated amounts, quorum requirements, and recording of any dissenting views by members for a specific transaction.

### Performance

The responsibilities of the Committee include the review and approval of credit facilities and investment proposals from the respective management committees, including write-offs and restructuring in line with the approval framework.

The key focus areas for the committee during the period included the Liquidity challenges faced by the Bank and the need to stabilize the Bank. Implementation of the Non-Performing Loans Strategy was a specific priority for the year under review. The Committee will continue to focus on returning the bank to profitability.

| Board Members | Land Bank Board | Audit and Finance Committee (AFC) | Risk and Governance Committee (RGC) | Human Resource Committee (HRC) | Social and Ethics Committee (SEC) | Credit And Investment Committee (CIC) | Nominations Committee |
|---|---|---|---|---|---|---|---|
| NON-EXECUTIVE DIRECTORS | | | | | | | |
| Ms N R Nkosi (Board Chair) | ✓ | | | ✓ | ✓ | | ✓ |
| Mr A Makenete (Deputy Chair) | ✓ | | | | ✓ | | ✓ |
| Prof J Kirsten | ✓ | | | | | ✓ | |
| Ms D Maithufi | ✓ | | ✓ | | | ✓ | |
| Ms M Makgatho | ✓ | ✓ | | | | ✓ | |
| Ms T Mashanda | ✓ | ✓ | ✓ | | | | |
| Ms N Motshegoa | ✓ | | | | ✓ | ✓ | |
| Ms E Pillay | ✓ | ✓ | | | | | |
| Dr M Tom | ✓ | | | ✓ | | | ✓ |
| Adv D Van Der Westhuizen | ✓ | | ✓ | ✓ | | | |

## BOARD PROFILES

**Ms Thabi Nkosi**
Non-Executive - Chairman

Profile:

Ms Nkosi is an experienced NED and agricultural economist with over 15 years of experience in agribusiness finance and operations, and agricultural policy-making and strategy. She is a founding partner of African Green Alpha, a South African food and agribusiness investment vehicle. Thabi is the Chairman of the Mintirho Foundation. Thabi was also serves as Chairperson of the Investment Committee of the National Empowerment Fund.

Thabi holds an MBA, a Postgraduate Diploma from GIBS and a BSc in Agricultural Economics from UP

Period of service:

8 December 2021 - 7 December 2024

Board committees:

Risk and Governance Committee Member, Joint Land Bank, Land Bank Insurance and Land Bank Life Insurance Social and Ethics Committee Member.

**Mr Andrew Makenete**
Non-Executive – Deputy Chairman

Profile:

Mr Makenete is an Agricultural specialist with more than 25 years' experience in the Agricultural sector, serves on a number of boards and is an active agri-entrepreneur, which includes the Banking and Insurance industries. He heads an Agricultural Investment Group and was key in the Development of the Agriculture and Agro processing Master plan. He holds and MSc in Agricultural Management.

Period of service:

8 December 2021 - 7 December 2024

Board committees:

Human Resource Committee Member, Joint Land Bank, Land Bank Insurance and Land Bank Life Insurance Social and Ethics Committee Member

**Ms Dineo Maithufi**
Non-Executive Director

Profile:

Ms Maithufi is a seasoned Chartered Accountant and Credit Risk Management expert. She has worked in various managerial roles at key Banking and Financial Services institutions since 2007. She serves on various Boards as a NED and holds a BCom (Hon.) Accounting Degree.

Period of service:

8 December 2021 - 7 December 2024

Board committees:

Chair Risk and Governance, Credit and Investment Committee Member

**Dr Monde Tom**
Non-Executive Director

Profile:

Dr Tom has extensive experience in socio-economic development, financial economics, social economics, econometric modelling (building, maintenance, forecasting and impact studies); input-output modelling; economic service development; leading economic development-oriented teams with microeconomic focus; and turning-around struggling institutions. He holds a PhD on Technology and Innovation Management.

Period of service:

8 December 2021 - 7 December 2024

Board committees:

Chair Human Resource Committee, Risk and Governance Committee Member Audit and Finance Committee Member

**Ms Ntuthu Mbiko-Motshegoa**
Non-Executive Director

Profile:

A full time beef Farmer/ self accomplished Agripreneur. She holds various development and economic transformation roles in the Agri and Biodiversity Economy sector. She was awarded the BRICS Special Recognition Women Innovation Award in 2021 amongst other awards.

Period of service:

8 December 2021 - 7 December 2024

Board committees:

Joint Land Bank and Land Bank Life Insurance Social and Ethics Committee Member, Credit and Investment Committee Member

**Ms Mathane Makgatho**
Non-Executive Director

Profile:

Ms Makgatho has extensive experience in the Financial space, especially Treasury and Structured Finance. She has held various director and executive management positions for more than 24 years. She has lead SAA cash and liquidity activities under challenging conditions and averted default on loan. She has headed various debt transactions in the domestic and international capital markets. She is a Founder and Executive of Matla Capital and holds a Master's Degree in Development Finance and an Honours Degree in Economics.

Period of service:

Reappointed:
8 December 2021 - 7 December 2023

Board committees:

Chair: Credit and Investment Committee; Audit and Finance Committee Member

**Adv Dimitri van der Westhuizen**
Non-Executive Director

Profile:

Advocate van der Westhuizen has extensive experience in Labour relations and is owner of a Consulting Company that specializes in Business Development, Commercial Negotiation and Contracting, Corporate Structuring focusing on BEE Structures, Skills Development and Employment Equity. He has headed various restructuring and business re-engineering initiatives in the Banking space and holds an LLB (PMB).

Period of service:

8 December 2021 - 7 December 2024

Land Bank Board sub committees:

Human Resource Committee Member, Risk and Governance Committee Member

**Ms Thulisile Mashanda**
Non-Executive Director

Profile:

Ms Mashanda is an experienced Chartered Accountant in the audit and financial disciplines in various industries. She provides professional advice on strategic disciplines such as financial reporting, taxation, SCM processes, auditing, forensic accounting to name a few. She has consulted in various key auditing and fraud preventing activities and established internal audit departments at various entities. She serves on various Boards and holds a BA (Hon.) Accounting.

Period of service:

8 December 2021 - 7 December 2024

Board committees:

Audit and Finance Committee Member, Human Resource Committee Member

**Ms Egashnee Pillay**
Non-Executive Director

Profile:

Ms Pillay is an experienced Chartered Accountant with a focus on audits and assurance. She has been actively involved in audits with national departments, public entities and constitutional institutions. She is sitting on several Board committees, chairs a number of Audit and Finance Committees and holds a B.Com (H) Accounting.

Period of service:

8 December 2021 - 7 December 2024

Board committees:

Chair: Audit and Finance Committee

**Prof Johann Kirsten**
Non-Executive Director

Profile:

Prof Kirsten is a Professor in Agricultural Economics and Director of the Bureau of Economic Research at Stellenbosch University. He has published more than 130 articles and had 78 Masters students and 31 PhD students in the last 30 years under his supervision. He is an experienced academic leader and has participated in national policy at the highest level. He has held leading roles in various Domestic and International Associations.

Period of service:

8 December 2021 - 7 December 2024

Board committees:

Chair: Joint Land Bank and Land Bank Insurance and Land Bank Life Insurance Social and Ethics Committee, Credit and Investment Committee Member

## BOARD MEETING ATTENDANCE

| LAND BANK BOARD ATTENDANCE FY21/22 | Board | AGM | Board Workshops and Strategy Sessions | Risk and Governance | Audit and Finance | Credit and Investment Committee | Land Bank Human Resources Remuneration Committee | Social and Ethics Committee |
|---|---|---|---|---|---|---|---|---|
| | 22 | 1 | 5 | 5 | 14 | 11 | 4 | 4 |
| **Non-executive directors** | | | | | | | | |
| Mr A Moloto[1] | 13 | 1 | 1 | 4 | - | 9 | 3 | 2 |
| Me D Hlatshwayo[1] | 13 | 1 | 1 | - | 11 | 7 | 3 | 3 |
| Ms SA Lund[1] | 13 | 1 | 1 | 4 | 11 | 1 | 3 | - |
| Me M E Makgatho[1/2] | 21 | 1 | 5 | 4 | 14 | 11 | - | - |
| Dr S Cornelius[1] | 13 | 1 | 1 | - | 11 | 9 | 3 | - |
| Mr M Makgoba[1] | 13 | 1 | 1 | 4 | - | 8 | - | 2 |
| Ms N R Nkosi[2] | 9 | - | 4 | 1 | - | 2 | - | 1 |
| Mr A Makenete[2] | 7 | - | 4 | - | - | - | 1 | 1 |
| Ms D Maithufi[2] | 9 | - | 4 | 1 | - | 2 | - | - |
| Prof J Kirsten[2] | 8 | - | 4 | - | 1 | 2 | - | 1 |
| Dr M Tom[2] | 8 | - | 4 | - | 3 | - | 1 | - |
| Ms N Motshegoa[2] | 9 | - | 4 | 1 | 1 | 2 | - | 1 |
| Adv D vd Westhuizen[2] | 7 | - | 4 | 1 | - | 2 | 1 | - |
| Ms E Pillay[2] | 6 | - | 3 | - | 2 | 1 | - | - |
| Ms T Mashanda[2] | 8 | - | 4 | - | 3 | - | 1 | - |
| Mr A Kanana[3] | 21 | 1 | 5 | 5 | 14 | 9 | 4 | 4 |
| Executive directors | | | | | | | | |
| Ms K Mukhari | 21 | 1 | 5 | 4 | 14 | 6 | 0 | 2 |

*1. Term ended 30 November 2021*

*2. New Director from 8 December 2021*

*3. Resigned February, effective 30 April 2022*

## REMUNERATION REPORT

Land Bank employs a Total Remuneration approach, which considers monetary and non-monetary rewards within Land Bank Employee Value Proposition that is aligned to Corporate Strategy.

The Bank reviewed the Remuneration and Compensation policy to attract, engage, and retain the right employees, promote internal equity, and encourage behaviour that aligns with its values. However, the Bank's remuneration policy is a regulated draft State Owned Companies (SOC) Remuneration and Incentive Guidelines (referred to as SOC Guidelines). These guidelines were developed by the Department of Public Enterprises together with NT. Whilst these guidelines are still to be approved, Land Bank has aligned the Remuneration and Compensation policy as per the request by NT.

The remuneration policy is aligned with the King IV Code of Corporate Governance, including its principles relevant to the governance of remuneration and reward. The Integrated Annual Report provides transparency in the disclosure of the Bank's remuneration policies and practices, and their implementation. Remuneration guidelines are regulated by the SOCRIG requirements, PFMA and Land Bank Act, relating to the remuneration of the Board and executives.

Directors' remuneration is paid in accordance with NT guidelines on remuneration for SOE board members, as determined by the Minister of Finance.

In accordance with the Act, the Minister of Finance determines the remuneration, allowances, and associated benefits of the CEO, and approves the bonuses of the CEO, CFO, and executive management. This process represents a misalignment with King IV, which states that it is the Board's responsibility to approve CEO and executive remuneration. The Bank continues to engage with the Minister to find an appropriate resolution that will ensure that the interests of all relevant parties are considered when approving remuneration to give effect to the intention and spirit of the King IV Code, principles, and recommended remuneration policy practices.

For details of the Board remuneration, please refer to the Annual Financial Statements included in this report.

## KING IV CODE™ DISCLOSURES FOR THE YEAR ENDED 31 MARCH 2022

Land Bank Board is committed to alignment with the corporate governance philosophies and principles contained in the King IV Report on Corporate Governance for South Africa (2016) (King IV Report) and achievement of the 17 Principles set out in the King IV Code of Corporate Governance (King IV Code) contained in the King IV Report, and achieving their associated good governance outcomes.

The Bank has reviewed its current corporate governance practices to assess its degree of alignment with each of the 17 Principles, and with the Recommended Practices associated with each Principle. The Board's assessment of Land Bank's application of each of the King IV Principles towards the achievement of the King IV governance outcomes is summarised in the disclosure reference table below.

These Disclosures include cross-references to where additional or other corporate governance disclosures are available within Land Bank's suite of external reports published for the 2021 reporting period, specifically:

- The 2022 Land Bank Annual Integrated Report.
- Land Bank's audited Annual Financial Statements for the year ended 31 March 2022.

The Board takes ultimate responsibility for the good governance of Land Bank Group The Board has delegated some of its responsibilities to various structures and functionaries. These include the Audit and Finance Committee, the Social and Ethics Committee, the Risk and Governance Committee, the Credit and Investment Committee and the Human Resource Committee, individual directors and members of Management. All Delegations of Power are in writing and are reviewed and approved by the Board on an annual basis.

All delegations of authority are in terms of Land Bank Act, the PFMA, Treasury Regulations and best practices. All Board Committees function in terms of a comprehensive written terms of reference (Charter), which is reviewed and annually approved by the Board. The Committees of the Board operate in terms of Work Plans which are approved by each Committee on an annual basis and revised in-year if and when circumstances dictate. The focus areas of each Board Committee are agreed upon by each Committee on an annual basis.

Board Committees approve such matters as may have been delegated to them by the Board.

At least once every quarter or as often as is considered necessary, Board Committees receive reports from Management regarding the matters set out in the Committee Charters and Committee Work plans. Committees can make such recommendations and give such directions to Management on matters that fall within the ambit of their authority as they may consider appropriate. At least once every quarter or as often as is considered necessary Committees report to the Board on their activities and on how they have discharged their responsibilities.

Committees also make recommendations to the Board on matters that are reserved for the Board and on such others as it may consider appropriate. The Board exercises oversight over the functions and activities of all Board Committees and Management in terms of its own Work Plan, which it develops and approves on an annual basis. The Board Work plan can be reviewed and amended in-year if, and when, circumstances dictate.

## KING IV CODE™ PRINCIPLES LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

**Principle 1: The Board should lead ethically and effectively.**
The conduct of the Board is governed by, among others, a Board Charter, a Board Code of Ethics and Business Conduct, a Board Conflict of Interest Policy and a Board Manual. This is over and above the fact that the Board subscribes to the principles advocated in among others, the King Report on Corporate Governance for South Africa, 2016.

Board members have an individual and collective responsibility to set the tone for ethical organisational culture, both at board level and across the Group. Board members hold each other to account for their actions, in particular those actions which may be viewed in conflict with their fiduciary responsibilities as directors.

The Board engages at least once a year with employees regarding the goals and strategic objectives of the Bank, which are driven by the Board's unapologetic approach and adherence to high ethical standards. The Board will not hesitate to act against employees regardless of their designation or level where it is considered that these standards have been in breach.

Land Bank prides itself on the governance processes in place and that in the face of any corporate governance lapses, the Board does not hesitate to take disciplinary action and dismiss individuals where necessary.

Refer also to the disclosures contained in the Integrated Report (page 112) in relation to the Board's ethical and effective leadership of the Bank in respect of the Board's performance of the governance functions for the Bank.

**Principle 2: The Board should govern Land Bank's ethics in a way that supports the establishment of an ethical culture.**
The Board has approved a Code of Ethics and Business Conduct to which all members of staff are required to adhere. These are clearly articulated ethical standards and the Board, through its Social and Ethics Committee, ensures that they are adhered to in all aspects of the business, thus achieving a sustainable, ethical corporate culture.

Through the Social and Ethics Committee, the Board also ensures that Management develops and implements programmes, guidelines, and practices congruent with Land Bank's social and ethics policies and reviews the material risks and liabilities relating to the provisions of the Code of Ethics and Business Conduct and ensures that such risks are managed as part of Land Bank's risk management programme which is overseen by the Risk and Governance Committee. Towards that end, the Social and Ethics Committee receives and reviews a quarterly AML (Anti-money Laundering) Report, which deals with, among others, PIPs (Politically Influential Persons) and PEPs (Politically Exposed Persons). The Committee also receives reviews and advises on an Ethics Report, which covers the status of ethical conduct within the Bank.

Refer also to the disclosures contained in the Integrated Report (page 117) in relation to the Social and Ethics Board Sub-Committee's performance of governance oversight functions in relation to the Bank's Management and monitoring of organisational ethics.

**Principle 3: The Board should ensure that Land Bank is and is seen to be a responsible corporate citizen.**
The Board has approved the Bank's adoption of the United Nations Environmental Programme Finance Initiative's Principles for Responsible Banking (PRB) programme.

The Board has approved an ESS Policy and Programme which recognises that it has an opportunity to play an important role in promoting land stewardship, protecting the environment and communities impacted by its activities and help secure the long-term sustainability of natural resources, communities, and society at large.

The Board also recognises its dependence on the environment and the resources it provides for the achievement of its objectives. As such, the Board aims to be a responsible steward in the protection of the environment and human rights to strengthen its social license to operate.

Refer to the disclosures contained in the Integrated Report (pages 114 to 118). Sub-committee initiatives (pages 114 to 122) Board profiles and (pages 120 to 121) EXCO profiles in relation to the Board and Executive Management team's leadership of the Bank's various initiatives demonstrating its commitment to responsible corporate citizenship.

## STRATEGY, PERFORMANCE AND REPORTING

**Principle 4: The Board should appreciate that Land Bank's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.**
The NT Framework governs the strategic planning processes of the Bank for Strategic and Annual Performance Plans (2010), which seek to ensure that strategic and annual performance planning is aligned to the outcomes-oriented monitoring and evaluation approach led by the Presidency, in particular, the National Development Plan.

It is the responsibility of the Management to develop a Corporate Strategy for the Bank, which each standing Committee of the Board then reviews to ensure that it is in line with the mandate and goals of the Bank with regard to the empowerment of previously disadvantaged communities, the promotion of emergent farmers, the sustainability of commercial agriculture and food security. The Strategy is then considered and approved by the Board, which seeks to ensure that it resonates with the identified risks and opportunities, performance parameters, the future outlook and governance arrangements of the Bank, and establishes a strategic platform for the Bank to create value over the short, medium and long-term aligned to identified needs and expectations of the Bank's key stakeholder base.

The Board is, however, cognisant of the fact that it is entitled to discharge such responsibility by way of express delegation of its authority to control, manage and direct its own affairs. The Board has. therefore, approved a primary and secondary Delegations of Power.

Refer to the disclosures contained in the Integrated Report (pages 106 to 109) in relation to the Board and Executive Management team's role in relation to directing and executing the Bank's approved business strategy aligned to its approved Corporate Plan.

**Principle 5: The Board should ensure that the reports issued by Land Bank enable its stakeholders to make informed assessments of Land Bank's performance and its short-, medium-, and long-term prospects.**
Reporting is governed by Land Bank Act, the PFMA, NT Regulations, NT Guidelines for Annual and Quarterly Reporting and the Rules of the Johannesburg Securities Exchange (JSE). All external reports are first reviewed by the Committees of the Board for accuracy, usefulness, timeliness and completeness before they are tabled before the Board for approval and for release to third parties. Where applicable, such reports are first validated by internal audit before they are tabled before the Board and its Committees for consideration and approval.

The Board and its Committees, therefore, review and have oversight over the integrity of the Bank's external reporting which includes reliance on the effective application of the Bank's combined assurance arrangements. Internal and external assurance is applied to the various components of the external reporting suite under the oversight and direction of the relevant Board Committees and with reference to any legal requirements for independent, external audit and/or assurance contained in any relevant law and/or regulations (as applicable for instance to certain types of external reports, such as the Bank's statutory Annual Financial Statements).

The Board continues to work at achieving better audit outcomes and remedying the findings, which resulted in a Disclaimer Opinion by the Auditor General in the previous Financial Year. Progress in this respect is evidenced by the Qualified Audit Opinion issued by the Auditor General for the Financial Year under review. The opinion would have been unqualified but for the lack of cooperation by an SLA Partner is not providing bank statements required by the Auditor General for the auditing of its affairs. This resulted in a limitation of the scope of the audit.

Refer to the Integrated Report (page 14) in relation to the Board's performance of its governance oversight role in relation to the Integrated Annual Report, and to the audited statutory annual financial statements, as well as the Auditor-General Report included therein, in relation to the Board's approval of those financial statements.

**Principle 6: The Board should serve as the focal point and custodian of corporate governance in Land Bank.**
The Board is the custodian of corporate governance and is ultimately responsible for corporate governance. Board actions are governed by the law and regulation, a Board Charter and Manual, Treasury Guidelines and Practice Notes, and corporate governance best practices, including the King Report on Corporate Governance for South Africa.

*[https://landbank.co.za/About-Us/Pages/Our-Board.aspx].*

Refer to the disclosures contained in the Integrated Report (pages 114 to 120) in relation to the Board's performance of its role as custodian of corporate governance for the Bank, including information about the meetings of the Board that occurred during the relevant reporting period.

**Principle 7: The Board should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively.**
Section 8(6) of Land Bank Act provides that Land Bank Board must when viewed collectively, represent a broad cross-section of the South African population; be suited to serve on the Board by virtue of qualifications, expertise and experience; and be committed to the objectives of Land Bank. Towards that end, a Board Skills is in progress for the new Board appointed in December 2021. The Matrix takes cognisance of:

- Determining the Board and Board Committee optimal structures
- Identifying the current skills, knowledge, experience and competencies of the Board and Board Committees
- Identifying the skills gaps at the Board and Board Committee level
- Designing programmes to close skills gaps
- Informing programmes for the continuing development of Directors
- Integrating board evaluation with succession planning

Providing guidance for:
- The recruitment of Directors for Subsidiary Entities;
- The assignment of Directors of the parent entity to the Boards of Subsidiaries;
- Recommending directors to the Minister for appointment, reappointment, and termination;
- The assignment of directors to, among others, to Board Committees, Board Task Teams, and Board Working Groups;
- Nominating directors for appointment to third-party entities where the Bank has equity interests;
- Selecting advisers to the Board, Board Committees and Management; and
- Identifying and developing potential director talent in and outside the Bank.

A skills audit of the new Board will be conducted and used to inform the above and will be used in particular to determine skills gaps and development areas on the Board, and to inform recommendations to the Minister regarding the filling of Board vacancies.

It should be noted that regardless of the above, in terms of Land Bank Act, the exclusive authority to appoint Board members ultimately resides in the Minister.

Refer to the disclosures contained in the Integrated Report (pages 114 to122 ) in relation to the Board's performance of its role as custodian of corporate governance for the Bank, including information about the meetings of the Board that occurred during the relevant reporting period.

**Principle 8: The Board should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of duties.**
The business and affairs of Land Bank are managed by or under the direction of the Board, which has the authority to exercise all of the powers and perform any of the functions of Land Bank, except to the extent that Land Bank Act otherwise provides. The Board acknowledges its authority and responsibility to control, manage and direct its own affairs. The Board is, however, cognisant of the fact that it is entitled to discharge such responsibility by way of express delegation of its authority to control, manage and direct its own affairs.

Towards that end, the Board has delegated some of its powers, duties and functions to the CEO of Land Bank, certain Directors, Board Committees, employees of Land Bank, and holders of certain specific positions or bodies.

The Board has approved primary and secondary delegations of power, which comprehensively set out the powers it has reserved for itself, and the powers delegated to Board Committees and other structures and functionaries.

In delegating its powers, function or duties, the Board has not divested itself of its responsibility concerning the exercise of the delegated powers or the performance of the delegated functions or duties. The holders of delegated power are accountable to the Board for the exercise of delegated power and must report to the Board on how the delegated power has been exercised. All material facts or information regarding the exercise of delegated power has to be disclosed.

The Board can confirm, vary, or set aside any decision made under any delegation subject to any rights that may have become vested as a consequence of the decision. All delegations by the Board are subject to any statutory limitations and conditions that the Board may impose. All delegations are supported by a system of checks and balances to ensure good governance and the mitigation of the undue concentration of powers. The Board must amend or withdraw any delegation at any time. The Board must agree to the levels of sub-delegation immediately below the CEO. The Board will not delegate its authority to delegate.



Refer to the disclosures contained in the Integrated Report (pages 114 to 120) in relation to the Board's governance structures and the various Board sub-committee reports setting out each Committee's performance and focus areas during the relevant reporting period.

**Principle 9: The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.**
The Board believes that appraising its performance helps clarify Directors' individual and collective roles and responsibilities and better knowledge of Directors' expectations helps the Board become more effective. It assists in identifying skills and capacity gaps which, when filled, enables the Board to be better positioned to deliver on its mandate, goals and strategic objectives.

The Board assessment report was tabled to the Board and a development plan was created to for development and training purposes.

Refer to the disclosures contained in the Integrated Report (pages 114 to 120) in relation to the Board's process for periodic independent evaluation of its performance and effectiveness in respect of discharging its statutory functions and the other governance functions as set out in the Board Charter.

**Principle 10: The Board should ensure that the appointment of, and delegation to, Management contribute to role clarity and the effective exercise of authority and responsibilities.**
The Board has an approved Delegation of Powers framework to enable appropriate delegation of authority and responsibility to the executive functions that comprise Land Bank's appointed executive team and role clarity to promote effective arrangements for the Management of the Bank. The Board delegates authority to the executive directors to manage the day-to-day business and affairs of the business, but maintains overall responsibility for governance-level leadership of the Bank.

The delegations of power are supported by a system of checks and balances to ensure good governance and pre-empt undue concentration of powers. The approved Delegation of Powers promotes role clarity and effective arrangements for the Management of the Bank.

Refer to the disclosures contained in the Integrated Report (pages 12 and 114 to 118) in relation to the Board's performance of its governance oversight functions in relation to the Bank's Executive and Management functions under the approved Delegation of Powers.

**Principle 11: The Board should govern risk in a way that supports Land Bank in setting and achieving its strategic objectives.**
Risk oversight is a primary Board responsibility, and the Board develops and continuously improves practices to establish a well-defined and effective oversight function. The Board plays a critical role in influencing Management's processes for monitoring risks and clearly defines which risks the full Board should regularly discuss, versus risks that can generally be delegated to a Board Committees. Management maintains a list of all enterprise-wide risks, which are mapped for the specific oversight of Board committees, particularly the Risk and Governance Committee.

Refer to the disclosures contained in the Integrated Report (page 98 and 113) in relation to the Board's governance oversight of the Executive's performance of the risk management functions for the Bank.

**Principle 12: The Board should govern technology and information in a way that supports Land Bank setting and achieving its strategic objectives.**
Information and technology governance is the responsibility of the Board and Management. It is an integral part of the overall governance structures of Land Bank, and directors take an active role in information and technology strategy and governance through the Risk and Governance Committee.

The Board ensures the proper value delivery of information and technology, that the expected return on investment from information and technology projects is delivered and that the information and intellectual property contained in the information systems are protected.

The Board governs technology and information in a way that supports the setting and achieving of the strategic objectives of Land Bank. It also ensures that the information and technology of Land Bank sustains and extends the strategy and objectives of the Bank. To this end, the Board had appointed an IT specialist to assist and review the technology strategy and framework.

The Board specifies the decision rights and accountability framework designed to encourage the desirable culture in the use of information and technology. The Board specifies the decision rights and accountability framework designed to encourage the desirable culture in the use of information and technology.

Refer to the disclosures contained in the Integrated Report (page 64) in relation to the Board's governance oversight of the Executive's performance of the information and technology management functions for the Bank.

**Principle 13: The Board should govern compliance with applicable laws and adopt, non-binding rules, codes and standards in a way that supports Land Bank being ethical and a good corporate citizen.**

The Board insists on compliance with the law. The Board insists that exceptions permitted in law and shortcomings in the law are handled in a responsible manner.

The Board defines the approach and approves the policy for the Management of compliance.

The Board considers if adhering to applicable non-binding rules and standards achieves good governance and adheres to them if that would result in best practice. The Board discloses the applicable non-binding rules and standards to which it adheres on a voluntary basis. This includes a subscription to the recommendations of the King Report on Corporate Governance for South Africa, 2016. The Board timeously identifies the laws, regulations and non-binding rules and standards applicable to it.

Directors sufficiently familiarise themselves with the content of applicable laws and regulations and those non-binding rules and standards that Land Bank voluntarily abides by, to ensure that they have a sufficient understanding of the applicable content and effect of such laws, regulations, rules and standards on Land Bank and the business of Land Bank.

Refer to the disclosures contained in the Integrated Report (page 117) in relation to the Board's governance oversight of the Executive's performance of the compliance management functions for the Bank.

**Principle 14: The Board should ensure that Land Bank remunerates fairly, responsibly, and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium, and long term**.

The Board regularly reviews and approves a remuneration policy for all Land Bank staff members.

The Board regularly reviews and approves the remuneration arrangements of Executives including fixed and variable remuneration components, performance measures and targets for incentives, having regard to the outcome of the annual performance review of the Executives.

The Board regularly reviews and approves the terms and conditions of the employment contract of the Chief Executive Officer, including remuneration arrangements of the Chief Executive for approval by the Minister.

The Board considers and, if deemed appropriate, approves the terms and conditions of the contracts of employment of other members of the Executive and Senior Management. The Board considers and, if deemed appropriate, approves the remuneration arrangements for other members of the Executive and Senior Management, as recommended by the Chief Executive Officer.

The Board satisfies itself that all governance, accounting, legal, approval and disclosure requirements in relation to remuneration are complied with.

The Board satisfies itself that any new or varied contracts with the Chief Executive Officer are disclosed in accordance with any governance, accounting, and legal requirements.

The Board oversees Management's preparation of the Remuneration Report for inclusion in Land Bank's Integrated Report, reviews the Remuneration Report to ensure it is consistent with the information known to the Board, and appropriately reflects the decisions of the Board and the outcomes of those decisions. The Board manages Land Bank's engagement and communications with key stakeholders in relation to the content of the Remuneration Report.

Refer to the disclosures contained in the Integrated Report (page 116) in relation to the Board's governance oversight of the Executive's performance of the compliance management functions for the Bank.

**Principle 15: The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of Land Bank's external reports.**

The Board has adopted a Combined Assurance Model, which consists of three internal lines of defence, viz.

i. people, systems and controls;
ii. risk management and compliance function;
iii. internal audit function; and
iv. independent external assurance (AG).

The combined assurance model ensures a coordinated approach to all assurance activities. The Combined Assurance model is based on:

i. identified risks;
ii. how assurance is achieved for the particular risk;
iii. an identified assurance provider for the risk; and
iv. where this assurance is reported.

The Board seeks to ensure that the assurance which is provided by the three lines of defence is credible. This is achieved by ensuring that the skill and experience levels of the assurance providers are appropriate for the work to be performed and that the extent of the work performed will address the potential and actual exposures.

The Board also ensures a comprehensive plan for combined assurance, including the risk-based assurance coverage, which is analysed per the assurance provider and the Management/Governance Committee responsible.

The Audit and Finance Committee approves and oversees the combined assurance initiative. From an operational point of view, an internal audit acting in consultation with risk management reviews the continued relevance of the combined assurance plan and makes recommendations to the Audit and Finance Committee about improvements.

***Internal Audit champions Combined Assurance.***
Refer to the disclosures contained in the Integrated Report (page 141 to 143) in relation to the Board's governance oversight of the quality and effectiveness of the Bank's internal audit function and its combined assurance arrangements.

## STAKEHOLDER RELATIONSHIPS

**Principle 16: In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach.**

The Board has adopted an inclusive approach to stakeholder management. The Board has approved a Communication Policy which governs all its interactions with stakeholders, internal and external.

The Board exercises oversight over the Group Communication function through the offices of the Social and Ethics Committee, which receives and reviews the following quarterly reports:

i. Labour and Employment Practices Report
ii. Marketing and Communications Report
iii. Stakeholder Management Report
iv. Development and Transformation Report
v. Environmental and Social Sustainability Report
vi. Corporate Social Investment (CSI) Report
vii. Research Report
viii. Organisational Integration and Project Support Report - A Group Governance Framework, which sets out
ix. The principles of good group governance
x. The Group Governance Philosophy
xi. Ethical Leadership
xii. Group Governance Processes and Structures
xiii. The Roles and Responsibilities of role players
xiv. Key Group Governance Policies
xv. Reporting
xvi. Contracting
xvii. Dispute Resolution
xviii. Implementation and monitoring

The Group Governance Framework has been prepared strictly in accordance with the guidelines provided by the IoD in January 2019 and recognises the independence of the subsidiaries and the corresponding fiduciary duties of the directors of the Board of directors.

Refer to the disclosures contained in the Integrated Report (pages 117 to 123) in relation to the Board's governance oversight of the quality and effectiveness of the Bank's stakeholder engagement, and related policies and practices, and its group governance framework applied to co-ordinate the corporate governance arrangements of the entities within Land Bank Group.

**Principle 17: The Board should ensure that responsible investment is practiced by Land Bank to promote good governance and the creation of value by the companies in which it invests.**

Land Bank Board performs oversight of the Banks investment management activities through its nominated asset managers and investment managers, including by ensuring that they support the principles of responsible investment and are either signatories of the United Nations Principles for Responsible Investments (UNPRI), or subscribe to the Code for Responsible Investing in South Africa (CRISA).

The Bank's Management is responsible for proactively monitoring investment performance, its asset managers in their responsible stewardship practices, and requesting the incorporation of environmental, social and governance factors in the investment selection process.

The Board has requested that Management develop a formal Responsible Investment Policy that, once approved by the Board, will require adjustments to the Bank's investment mandates for the Bank's outsourced investment management activities. The policy will apply to all business units in the Bank in respect of investment and investment management activities of Land Bank and its subsidiary companies.

Refer to the disclosures contained in the Integrated Report (pages 114 to 118) in relation to the Board's governance oversight of the Bank's responsible investment policies and practices.

## TASK FORCE ON CLIMATE RELATED FINANCIAL DISCLOSURES

In the context of integrated reporting, the King IV Report provides detail of the organisation's uses and/or effects on all Capitals. Within Land Bank, and Agricultural sector at large, the Natural Capital is of significant importance. The King IV Code™ is designed to promote good corporate governance in South African companies. Such governance encompasses the roles and responsibilities of the Board of Directors, strategy, performance, reporting, and stakeholder relationships. Land Bank strives to comply to the Code and ensure that an integrated governance process is instituted.

Acknowledging the governance for Natural Capitals with regards to The Task Force on Climate Related Financial Disclosures (TCFD) is critical. *The TCFD is an industry-led initiative created to develop a set of recommendations for voluntary climate-related financial disclosures. These are aimed at all financial actors, from companies and investors to asset owners and managers, as the goal is to provide consistent and transparent information to global markets.* The TCFD is aligned to King IV, as a deliberate response to addressing climate adaptation, climate resilience, and sustainable financing as per NT's Handbook on Sustainable Finance. TCFD governance element relates to *Disclosing the organisations governance around climate-related risks and opportunities.*

*"Governing Bodies have a critical role to play in responding to climate change which is an imperative and no longer optional" – King Committee on Corporate Governance, 2021.*

The Bank is implementing various action in order to adopt this approach as progress is made towards reporting on Natural Capital elements. Progress to date in this regard is as follows:

| | | |
|---|---|---|
| **Strategic progress** | Draft Development Effectiveness Strategy | This policy provides an integrated approach to funding and reporting, drawing on the Natural Capital elements. |
| | Draft Climate Change Policy | This policy provides a holistic approach to the strategy and operational process to infuse climate adaptation, climate mitigation and climate resilience across the Bank and operations. |
| **Tactical progress** | Land Bank Development Indicator Framework | This indicator framework provides relevant and inclusive indicators for data capturing and reporting purposes. The Natural Capital indicators are included in this document and provides a basis for collection of climate related data for the Bank. |
| | Principles of Responsible Banking | The Bank became a signatory in September 2019. At a high level the PRB requires all Banks to align their strategy, process and procedures to the Paris Agreement and the SDGs. |
| | Case Study on Climate Services for Land Bank | The study aims to identify through modelling the expected changes in temperature and the results and effect on Maize yields for the North West Province. This will allow the Bank to start integrating the associated risks into the Banks credit modelling and decision making. |
| | Understanding climate adaption responses and needs. | This is a survey understanding by the Bank with clients to assess the effect of climate change on their operations, their response, and their future needs to adapt to climate change. |
| **Operational progress** | Environmental and Social Risk Assessment (ESRA) | The Environmental and Social Risk Assessment Tool is imbedded as part of due diligence process and tools. This aims to identify the risks that the Bank is exposed through the funding and to enable mitigation of risks through cooperation. |

*References:*
*King Committee. 2021. Guidance paper on the responsibilities of governing bodies in responding to climate change.*

# 12 FINANCIAL STATEMENTS

## Index



## General Information

| | |
|---|---|
| Shareholder | National Treasury, Government Department |
| Public entity | Governed by the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002) and is a schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). |
| Country of incorporation and domicile | The Republic of South Africa |
| Nature of business and principal activities | The Land Bank provides retail and wholesale finance to emerging, commercial farmers and Agri-Businesses. In addition to its banking operations, the Land Bank extends its services to the insurance sector through its subsidiaries. |
| Head office physical address | 272 Lenchen Avenue<br>Lakefield Office Park, Building A, First Floor<br>Die Hoewes<br>Centurion |
| Postal address | P. O. Box 375<br>Tshwane<br>0001 |
| Bankers | First National Bank Limited, a division of First Rand Limited<br>ABSA Limited,<br>Nedbank Limited,<br>The Standard Bank of South Africa Limited |
| Funding sponsors | The Standard Bank of South Africa Limited |
| Auditors | The Auditor-General of South Africa |
| Company secretary | Mashumi Mzaidume (appointed 9 October 2017) |

## General Information

| | |
|---|---|
| Land bank subsidiaries | Land Bank Life Insurance Company (SOC) Limited (LBLIC) 1954/003095/06<br>Land Bank Insurance Company (SOC) Limited (LBIC) 2012/115426/30<br>All of the above entities are incorporated in the Republic of South Africa |
| Holding company | Land and Agricultural Development Bank of South Africa (the Land Bank or the Bank) |
| Nature of business and principal activities | Land Bank Life Insurance Company (LBLIC) and Land Bank Insurance Company (LBIC) operate in the insurance sector.<br>LBLIC offers credit life insurance products and LBIC offers primarily crop insurance products to the wider agricultural sector. LBLIC and LBIC are incorporated in terms of the Companies Act of South Africa, 2008 (Act No. 71 of 2008) and are schedule 2 Public Entities in terms of the PFMA. |
| Head office physical address | 272 Lenchen Avenue<br>Lakefield Office Park, Building A, First Floor<br>Die Hoewes<br>Centurion |
| Postal address | P. O. Box 375<br>Tshwane<br>0001 |
| Bankers | LBLIC: ABSA Bank Limited<br>LBIC: RMB Private Bank, division of First Rand Limited |
| Auditors | The Auditor-General of South Africa |
| Company secretary | Mashumi Mzaidume |

## Directors' Responsibility for Financial Reporting

The Directors are required by the South African Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate annual financial statements satisfy the financial reporting standards as to form and content and present fairly the consolidated and separate statement of financial position, results of operations and business of the Group, and explain the transactions and financial position of the business of the Group at the end of the financial year. The consolidated and separate annual financial statements are based upon appropriate accounting policies consistently applied throughout the Group and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a robust control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that is above reproach in all reasonable circumstances.

The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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 and Finance Committee and various other risk-monitoring committees. Management enables the Directors to meet these responsibilities.

The consolidated financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS) (with consent from the Accounting Standards Board per Directive 12 of 2015) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), applying the accrual basis of accounting, the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

The consolidated annual financial statements were prepared under the supervision of the Bank's Acting Chief Financial Officer.

The previous board's term ended on the 30 November 2021. The Minister of Finance has since appointed a new board effective 8 December 2021.

The financial statements set out on pages 148 to 272, which have been prepared on the going concern basis, were approved by the board of directors on 29 July 2022 and were signed on their behalf by:

**Ms. Thabi Nkosi**
Chairman of the Board
31 July 2022

**Ms. Khensani Mukhari**
Acting Chief Executive Officer
31 July 2022

## Directors' Report

The directors have the pleasure of presenting this report on the Annual Financial statements of the Land and Agricultural Bank of South Africa for the year ended 31 March 2022.

### Going concern

The Bank is still navigating through some challenges that the Board is working hard to resolve. These challenges threaten the going concern status of the Bank. The Board however believes that through interventions that have and continue to be implemented, the Bank will continue to operate as a going concern in the near future.

The Bank is still operating under a state of default which occurred during April 2020. It is unfortunate that the liability solution intended to cure the default has taken longer than initially anticipated to conclude. However, supported by the Shareholder, the Bank together with its advisors continues working together with lenders to find a solution that is suitable for all stakeholders. Successful closure of the liability solution will ensure the Land Bank remains a going concern by allowing the Bank to transition to implementation of the solution as well as the Bank's rebuilding strategy. The Shareholder has been very supportive through this process as evidenced by the continued engagements with all stakeholders through the restructuring process as well as by the R10bn allocated to recapitalise Land Bank. R3bn was transferred to Land Bank during September 2020. The remaining R7bn was rolled over to the FY2023 and FY2024 financial years as it is dependent on the Land Bank meeting conditions precedent which requires the Bank to utilise the funds to cure the event of default as well as re-establish the development and transformation mandate as encapsulated in the Land Bank Act. Reaching an agreement with lenders on the debt restructuring process will unlock this funding. The Bank also continues to receive the support of its lenders to date only one lender has accelerated their debt. All other lenders remain committed to work with the Bank in order to find an amicable solution to the default challenge.

Despite its challenges the Bank has been able to accumulate sufficient cash that enabled the repayment of ~43% of debt outstanding at default and the Bank has been able to continue to operate.

During the past financial year Land Bank was able to improve the audit outcome from a disclaimer of opinion to a qualified audit opinion. This was as a result of a focussed and extensive remedial plan that was implemented by the Bank to address identified control deficiencies. The remedial process was extended to the current financial year to ensure residual gaps in the control environment are closed, this resulted to the unqualified audit opinion we received.

The Board has through the Audit and Finance Committee been continually monitoring and guiding this process. It is on this basis as well as information and explanations received from management that the Directors are of the opinion that the system of internal control provides reasonable assurance that the financial records are reliable for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

During the previous financial year, the Minister of Finance has in terms of Section 92 of the Public Finance Management Act No. 1 of 1999, exempted Land Bank from submitting the FY2022 and FY2023 Corporate plans as required by Section 52 of the same Act until Land Bank is cured of its default position and more certainty is gained regarding the future structure of the Bank. Owing to the state of default the Bank is still operating under, the exemption remains in place. The Bank however continues to contract with the Shareholder on annual performance targets and to account to Parliament.

### Leadership & Capacity

Land Bank has seen the resignation of its previous CEO who left the Bank at the end of April 2022. The Executive Manager for Agricultural Economics and Advisory also left the Bank during the end of the current financial year. Interim measures have been implemented to ensure continuity. The recruitment process for the CEO role is currently in progress.

### Other risks

The Bank plays a pivotal role in the agricultural sector in the country and has continued to work with industry bodies to find solutions not only for its clients but broadly in response to disasters that have affected the sector in the past year. The impact of COVID-19 and natural disasters such as heavy rainfall/ floods, foot and mouth disease (FMD) has been assessed as follows:

#### COVID-19

The agri-food industry is among the few sectors that were classified as essential services under COVID-19 lockdown restrictions and was largely able to operate, even though with some restrictions. Despite such protection, COVID-19 had a direct impact on certain commodities as well as an indirect impact on most sectors within the agricultural industry.

The magnitude of the impact of lockdown restrictions varied between the different lockdown levels and between various commodity groups. The agricultural industries that were impacted the most are wine grapes, wine producers, wool, mohair, broilers, flowers, nurseries as well as tobacco.





## Directors' Report continued

The Land Bank book is largely concentrated in grain and has therefore been minimally impacted by the COVID-19 pandemic. The Land Bank customers that were affected by COVID-19 restrictions were limited to livestock and this impact was not material.

Different types and levels of support will however still be required to assist distressed farmers as a result of COVID-19 in order to improve chances of sustainability. To this effect, in addition to measures implemented by Land Bank to assist its clients, the Bank received R100m COVID-19 relief fund from the Department of Agriculture, Land Reform and Rural Development (DALLRD) in order to support its clients who have been negatively impacted by COVID-19 pandemic. The Bank continues to monitor the impact of COVID-19 in the agricultural sector.

#### Heavy rainfall/ floods

The past summer season was characterized by excessive rains in many parts of the country. There are four provinces that have been severely affected by the floods. These are, KwaZulu-Natal, Eastern Cape, North West and Free State. Both excessive rains and floods have resulted in the saturation of farm land to the extent that planting in most areas was affected. Those who had already planted early, had their crops damaged by hailstorms and floods. The Bank performed an assessment of the financial impact on the Land Bank through client site visits. The financial impact was assessed as not significant.

#### Foot and mouth disease

South Africa is currently facing three outbreak events of FMD. The first event started in May 2021 and is affecting KwaZulu-Natal province. The second outbreak event started in March 2022 in the previous "free zone" in Limpopo Province. The third outbreak event also started in March 2022 in the North West Province. The disease has gone outside boundaries of the disease management area and therefore poses a big threat to the trade of animals and by-products. Due to the Land Bank being largely concentrated in grain, this impact is not significant.

### Financial Performance

The financial results of the group are fully disclosed on pages 148 to 161. The key financial indicators for the year are:

- Net profit of R1,4 billion (31 March 2021: R711 million loss) Cost to income ratio improved to 96% (31 March 2021: -964%);
- Operating income increased to R1,9 billion (31 March 2021: R0,410 million operating loss);
- Net interest income increased by more than 100% to R596 million (31 March 2021: R163 million);
- Expected credit losses on financial assets at amortised cost reduced to R5,0 billion (31 March 2021: R6,0 billion); Cash flows generated from operations increased to R11.5 billion (31 March 2021: R8,1 billion);
- Total assets decreased by 13% to R34,7 billion (31 March 2021: R40.1 billion);
- NPL ratio worsened to 47,7% (31 March 2021:32,5%);
- ECL Coverage Ratio increased to 19,4% (31 March 2021:16,4%);
- Basel II CAR increased to 12,2% (31 March 2021:10%);
- LCR improved to 66% (31 March 2021:35,8%)
- NSFR dropped slightly to 95,8% (31 March 2021:96,8%)
- Banking Gearing Ratio has improved to 1001% (31 March 2021: 2250%)
- Solvency Ratio has improved to 110% (31 March 2021: 104%)

### Recommencement of lending

Land Bank, in consultation with lenders, has set aside from its cash resources an amount of R500m in FY2022/2023 to be deployed as loans in its resumption of new lending activities for the development portfolio on a blended finance basis. An equivalent amount of R500m is being sourced from strategic funding partners to be offered as grants on these new facilities, resulting in a planned support of R1bn to the development sector made up of R500m loans by the Bank and R500m of grants from strategic partners.

The Land bank board with its management are still committed to see the Land Bank cross over onto the new dawn as it strengthens its control environment and recommence lending towards a sustainable development bank.

Ms. Thabi Nkosi
Chairman of the Board
31 July 2022

Ms. Khensani Mukhari
Acting Chief Executive Officer
31 July 2022

## Group Secretary's Certification

In terms of section 88(2)(e) of the Companies Act 71 of 2008, hereafter referred to as the Companies Act, I declare that to the best of my knowledge, for the year ended 31 March 2022, the Land and Agricultural Development Bank of South Africa has lodged with the Registrar of Companies all such returns as are required of a State Owned Company in terms of the Act and that such returns are true, correct and up to date.

Mashumi Mzaidume

Mashumi Mzaidume
Company Secretary
31 July 2022

## Audit & Finance Committee Report

I herewith present the report of the Land Bank Audit and Finance Committee (the Committee) for the financial year ended 31 March 2022. The Committee acts in consultation with other committees of the entity in particular the Risk and Governance Committee.

### The Committee is responsible for overseeing:

- Quality and integrity of the entity's integrated planning and reporting, including its financial statements and sustainability reporting;
- Appointment, remuneration, independence and performance of the external auditor and the integrity of the audit process, including the approval of non-audit services;
- Effectiveness of the entity's governance, in particularly, that the internal audit function is adequately resourced and capacitated.

### Statutory duties

The Committee is constituted as a statutory committee of the Land Bank in line with the Principles of King IV, the Companies Act 71 of 2008 and the Public Finance Management Act no.1 of 1999, and is accountable in this regard, to both the Board and the Land Bank representative shareholder, the Ministry of Finance. It is a committee of the board regarding all the duties that the Board assigns to it and has been delegated extensive powers to perform its functions per the Companies Act, and the National Treasury Regulations issued in terms of the Public Finance Management Act.

The Committee also provides oversight of the entity's information and technology (IT) functions. In this regard, the Committee reviews management's IT reports, IT Governance, and IT systems controls.

The Committee has adopted appropriate formal terms of reference in our charter, in line with the requirements of section 51(1)(a) of the PFMA and Treasury Regulation 27.1. We further report that we have conducted our affairs in compliance with this charter. which is reviewed annually and approved by the Board. The functions of the Committee are outlined in its charter, which is available on the Land Bank website.

The Committee, acting in consultation with the Risk and Governance Committee of the Bank, provided significant oversight and monitoring of the following key areas:

- The volatile macro-economic environment and management's responses thereto;
- Internal controls, risk management and compliance processes, delegations of authority, combined assurance and business continuity; and
- Controls to prevent irregular, fruitless and wasteful expenditure.

As a result of the Qualified Audit Opinions received by Land Bank from the Auditor General of South Africa (AGSA) during the 2021 financial year audit, the Audit and Finance Committee continued to include in its audit plan oversight and monitoring of the Board approved remediation plan intended to ensure restoration and improvement of the control environment in the Bank, in order to ensure integrity of the Annual Financial Statements. Accordingly, this has been one of the key focus areas for the committee with regular meetings held with management to track and assess progress on implementation of the remediation plan to ensure adequate resolution of the risks arising from the matters that led to the unfavourable audit opinion and to drive a favourable outcome for the 2022 financial year, and to ensure embedding of processes of internal controls to avoid a recurrence in future.

### Composition

The Land Bank Audit and Finance Committee comprises of independent non-executive directors who are elected annually at the company's Annual General Meeting (AGM).

The members are Ms Michelle Pillay (Chairperson), Ms. Mathane Makgatho, and Ms. Thulisile Mashanda, all are independent non-executive directors of Land Bank. The qualifications of the members of the Committee are listed in the Land Bank Governance Report. These members collectively possess the experience and expertise needed to execute their duties in relation to the Committee's mandate.

Executive directors comprising of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) are invitees to the Committee meetings, but are excluded from the Committee's private sessions with the Auditor-General and the head of Internal Audit.

The Committee has met all legal and regulatory requirements in respect of independence and corporate governance experience.

## Audit & Finance Committee Report continued

### Annual confirmation of key functions for the year

### Financial control, financial reporting and the Integrated Report

The Committee reviews the Annual Financial Statements, and Integrated Report, and recommends these to the Board for approval. This role includes an assessment of the accounting policies and key assumptions applied in the preparation of the financial statements, as well as dealing with technical reporting matters. In doing so, the Committee also confirmed compliance of the Annual Financial Statements with International Financial Reporting Standards (IFRS).

The Committee confirms that it has assessed and confirms the appropriateness of the going concern basis for the preparation of the Annual Financial Statements. This is based on the on-going discussions that the Bank is having with its lenders to ensure successful conclusion of the liability solution to take Land Bank out of its event of default and the R10bn recapitalisation of the Bank by the Shareholder, of which R3bn was received during September 2020 and the remaining R7bn to be received over the medium term. The R10bn capital injection together with the successful conclusion of the liability solution will ensure that the Land Bank continues to operate as a going concern. Despite operating in a state of default the Bank has been able to accumulate sufficient cash reserves amounting to R9,8 billion at year end. Over and above that, the bank was able to repay over R16,3 billion in capital to its lenders to date along with servicing all interest due.

The committee presided over the board instituted remediation plan over the past two financial years. The remedial plan was instituted to address deficiencies identified on the loan book during the FY2020 and FY2021 financial years. The committee through its oversight over the work conducted by managements' national task team has seen a significant improvement in the internal control environment pertaining to the management of the loan book and this is evidenced by the improved audit outcome for the current year articulated below, in this report. In addition, a significant portion of the land Bank book previously managed by intermediaries has been insourced as part of the remedial work, which has brought management closer to the root cause of the previously identified deficiencies. This insourcing has also contributed to the improved control environment and the committee is pleased with the success and is currently monitoring its continued sustainability.

The Committee considered the maturity of combined assurance in the Group and the specific attestations from Internal Audit, External Audit and Risk in regard to the adequacy and effectiveness of the internal controls within the Group. We are comfortable that these controls are adequately in place, but there is room for improvement to strengthen the control environment and to realise the full benefits of combined assurance.

### External audit

The Auditor General of South Africa (AG (SA) is the external auditor for Land Bank. The Committee nominates the external auditor to the Board for appointment by the shareholder, and the Committee approves the terms of engagement and remuneration for the external audit services. The Committee has assessed the external auditor's independence and has obtained the assurance that the auditor's independence is not impaired.

### Internal audit

The Head of internal audit reports to the chairman of the Committee and the Committee is responsible for the review

and approval of the internal audit charter, the internal audit plan as well as the resources of the internal audit department. The Committee evaluated the internal audit function's independence and is satisfied with its independence.

Expertise and experience of the finance function and the Group Chief Financial Officer

The Committee has considered the expertise and experience of the Acting Chief Financial Officer, and has concluded that the appropriate requirements have been met.

All critical roles in the Finance function have been filled, with the exception of one who's recruitment is currently underway. Filling of these roles bolsters the control environment in the organisation and ensures adequate skills and focus is given to support and enable the organisation.

### External audit report

### External Audit Opinion

Land Bank received an "Unqualified opinion with no findings" audit outcome from the Auditor General of South Africa on the FY2022. This is a significant improvement from the qualified audit opinion received in the prior year's audit. The board instituted remediation plan shall continue being implemented to address any specific residual deficiencies that remain. The committee will continue to monitor progress regarding those matters.

## Audit & Finance Committee Report continued

### Other key audit matters as reported by the external auditors

### Material uncertainty on going concern

The AG highlighted that a material uncertainty exists with regards to the ability of the Land Bank to continue as a going concern as disclosed, sighting the liquidity challenges, cross default as some of the reasons casting doubt on the entity's ability to continue as a going concern. Land Bank is undergoing a restructuring process to take it out of its event of default. A liability solution is being negotiated with the lenders in this regard. The Committee will continue to monitor progress of the liability solution.

### In conclusion

The Committee is quite pleased with the audit outcome and the evident successful results of the work covered by the remedial plan. The Committee will continue to ensure there is continuous improvement regarding the controls around overall management of the loan book to ensure that these results are sustained and improved even further towards helping the Land Bank achieve its mandate.

The Committee is satisfied it has fulfilled its responsibilities in terms of its charter during the year under review and believes that it complied with its legal, regulatory and governance responsibilities as set out in the Companies Act and Public Finance Management Act.

The previous board's term ended on the 30 November 2021. The Minister of Finance has since appointed a new board effective 8 December 2021.

Ms Michelle Pillay
Chairman Audit and Finance Committee
31 July 2022

## Report of the Auditor-General to Parliament on the Land and Agricultural Development Bank of South Africa

### Report on the audit of the consolidated and separate financial statements

#### Opinion

1. I have audited the consolidated and separate financial statements of the Land and Agricultural Development Bank of South Africa and its subsidiaries (the group) set out on pages 148 to 272, which comprise the consolidated and separate statement of financial position as at 31 March 2022, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the of the Land and Agricultural Development Bank of South Africa (the Bank) and its subsidiaries as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Amendment Act 29 of 1999 (PFMA) and the Companies Act 71 of 2008 (the Companies Act).

#### Basis for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.

4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

#### Key audit matters

6. Key audit matters are those matters which, in my professional judgement, were of the most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming the opinion, and I do not provide a separate opinion or conclusion on these matters. The following key audit matters will be included in my auditor's report:

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| Expected Credit Loss of loans and advances | |
| Loans and advances (note 9), which are a significant portion of total assets and the associated impairment provisions, are significant in the context of the consolidated and separate financial statements.<br><br>Estimating expected credit losses (EGL) is inherently uncertain and subject to significant judgement. Furthermore, the models used to determine credit impairments are complex, and certain inputs are not fully observable.<br><br>The assessment process requires detailed knowledge of the borrower. It further requires the use of judgement in determining whether there is an expected credit loss and the amount of the resulting loss. .<br><br>Given the combination of the inherent subjectivity in the valuation and the material nature of the balance, I considered the audit of the expected credit loss to be a key audit matter in my audit of the financial statements. | My audit procedures included assessing the adequacy of the audit action plan developed by the Bank which covered the findings from the prior year.<br><br>Due to the prior year audit findings and weak internal controls in the management of loans and advances, I had to follow a fully substantive audit approach in the current audit cycle<br><br>My substantive audit approach included detailed testing of the data that is used for EGL inputs, such as loan staging, risk ratings, collaterals, loan modification, etc.<br><br>I have critically considered the Bank's policies and their application on collateral, staging and modification when testing the EGL inputs |

## Report of the Auditor-General to Parliament on the Land and Agricultural Development Bank of South Africa

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| Expected Credit Loss of loans and advances | |
| | I engaged an auditor's expert to assess the appropriateness and reasonableness of the EGL model and assumptions used by the Bank in determining the ECL.<br><br>Before I placed reliance on the work of an auditor's expert, I assessed the independence, objectivity and competency in line with the requirements of ISA 620 and I was satisfied with this.<br><br>I assessed the expert's work by evaluating significant assumptions and methods as well as the relevance and reasonableness of those assumptions and methods in the circumstances.<br><br>The expert conducted the following procedures:<br>• Reviewed the Bank's approved ECL calculation methodology documentation for the probability of default (PD), the loss given default (LGD) and exposure at default (EAD), and reviewed this against the requirements of IFRS 9.<br>• Inspected the Bank's ECL model in light of the requirements of IFRS 9, including key elements such as portfolio segmentation, modelling approach adopted, behavioural life such as time on book post default, effective interest rate (EIR) and related discounting of cash flows, the use of forward-looking information, default and significant increase in credit risk (SICR), and other key judgements and assumptions relevant for the models.<br>• Independently calculated the ECL estimate based on the approved methodology and data provided by the Bank.<br>• Independently calculated the model overlays based on the approved methodology and data provided by the Bank.<br><br>Based on the abovementioned procedures, I identified misstatements relating to the ECL models. The Bank was able to subsequently correct these misstatements.<br><br>I found the Bank's credit risk models and assumptions used to determine the expected credit losses to be reasonable and consistent with my expectations.<br><br>I have also assessed the IFRS 7 disclosures included in the consolidated and separate financial statements and I am satisfied that these disclosures are consistent with the requirements of IFRS 7. |

#### Material uncertainty relating to going concern

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

8. As disclosed in note 3.3 to the consolidated and separate financial statements, a material uncertainty relating to going concern of the entity exists due to the default position that has not been cured. Towards the end of April 2020, the Bank experienced a liquidity shortfall, which resulted in the Bank defaulting on some of its obligations. This triggered a cross default and resulted in de-facto standstill on capital and interest payments to its funders. At the date of this report, the liability solution to cure the default was still in progress and finalisation was dependent on the signing of the commitment agreements with lenders. The liability solution is planned to be concluded by 30 September 2022. These events or conditions as set forth in note 3.3 indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

## Report of the Auditor-General to Parliament on the Land and Agricultural Development Bank of South Africa

### Responsibilities of the board of directors for the consolidated and separate financial statements

9. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

10. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

### Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

11. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

12. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

### Report on the audit of the annual performance report

13. The Land Bank is not required to prepare a report on its performance against predetermined objectives, as it was exempt from submitting its corporate plan in terms of section 92 of the Public Finance Management Act 1 of 1999. As a result of the exemption, I did not audit and report on the usefulness and reliability of the performance information for the entity. The exemption was published in the Government Gazette 44799 dated 2 July 2021.

### Report on the audit of compliance with legislation

### Introduction and scope

14. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
15. I did not raise any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

### Other information

16. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported on in this auditor's report.

17. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

18. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

19. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information and if I conclude that, there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

20. I considered internal controls relevant to my audit of the financial statements and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Auditor General

Pretoria
31 July 2022

AUDITOR-GENERAL SOUTH AFRICA
Auditing to build public confidence



## Report of the Auditor-General to Parliament on the Land and Agricultural Development Bank of South Africa

### Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected objectives and on the entity's compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
   - obtain an understanding of internal control relevant to the audit 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.
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Bank and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the Bank to cease operating as a going concern.
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## Statements of Financial Position

| | Notes | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 4 | 9 983 760 | 5 589 889 | 9 845 216 | 5 558 401 |
| Trade and other receivables | 5 | 1 353 026 | 1 049 425 | 421 407 | 206 492 |
| Short-term insurance assets | 6 | 266 040 | 159 014 | – | – |
| Investments | 7 | 2 133 387 | 2 318 659 | 1 295 063 | 1 431 304 |
| Derivatives | 8 | 9 896 | 11 340 | 9 896 | 11 340 |
| Loans and advances | 9 | 20 856 582 | 30 887 859 | 20 856 582 | 30 887 859 |
| Non-current assets held-for-sale and assets of disposal groups | 10 | 9 609 | 4 058 | 9 609 | 4 058 |
| Long-term insurance assets | 17 | 4 855 | 4 987 | – | – |
| Investment property | 11 | 97 400 | 95 100 | 97 400 | 95 100 |
| Property, plant and equipment | 12 | 29 149 | 21 855 | 29 058 | 21 755 |
| Right of use assets | 13.1 | 3 909 | 20 746 | 3 909 | 20 651 |
| Intangible assets | 14 | 1 615 | 2 766 | 1 615 | 2 766 |
| **Total assets** | | 34 749 228 | 40 165 698 | 32 569 755 | 38 239 726 |
| **Equity and liabilities** | | | | | |
| **Equity** | | | | | |
| Accumulated loss | 15 | (2 823 937) | (4 262 853) | (3 887 525) | (5 245 288) |
| Capital Fund | 15 | 7 397 655 | 7 397 655 | 7 397 655 | 7 397 655 |
| Revaluation reserve | 15 | 140 941 | 133 080 | 140 941 | 133 080 |
| Fair Value Through Other Comprehensive Income (FVTOCI) | 15 | (737 412) | (682 072) | (737 412) | (682 072) |
| **Total equity** | | 3 977 247 | 2 585 810 | 2 913 659 | 1 603 375 |
| **Liabilities** | | | | | |
| Trade and other payables | 16 | 833 544 | 770 814 | 171 591 | 116 695 |
| Short-term insurance liabilities | 6 | 373 907 | 220 061 | – | – |
| Long term policyholder's insurance liabilities | 17 | 75 804 | 66 589 | – | – |
| Funding liabilities | 18 | 29 162 958 | 36 074 791 | 29 162 958 | 36 074 791 |
| Lease liabilities | 13.2 | 4 932 | 23 176 | 4 932 | 23 071 |
| Provisions | 19 | 34 181 | 140 456 | 29 960 | 137 794 |
| Post-retirement obligation | 20 | 286 655 | 284 000 | 286 655 | 284 000 |
| **Total Liabilities** | | 30 771 981 | 37 579 887 | 29 656 096 | 36 636 351 |
| **Total equity and liabilities** | | 34 749 228 | 40 165 698 | 32 569 755 | 38 239 726 |

## Statements of Profit or Loss and Other Comprehensive Income

| | Notes | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|---|
| **Net interest income** | | 600 471 | 167 562 | 595 547 | 162 570 |
| Interest income | 21 | 2 975 318 | 3 234 822 | 2 970 394 | 3 229 393 |
| Interest expense | 22 | (2 374 847) | (3 067 260) | (2 374 847) | (3 066 823) |
| Net impairment charges, release, claims and recoveries | 9 | 1 298 552 | (323 565) | 1 298 552 | (323 565) |
| **Total income/(loss) from lending activities** | | 1 899 023 | (156 003) | 1 894 099 | (160 995) |
| Non-interest expense | 23 | (75 934) | (301 334) | (71 358) | (297 378) |
| Non-interest income | 24 | 30 781 | 47 993 | 30 781 | 47 993 |
| **Operating income/ (loss) from banking activities** | | 1 853 870 | (409 344) | 1 853 522 | (410 380) |
| Other income | 24 | 37 209 | 36 231 | 30 668 | 28 233 |
| Net insurance premium income | 25 | 158 299 | 150 785 | – | – |
| Net insurance claims | 25 | (151 139) | (75 309) | – | – |
| Other costs from insurance activities | 25 | (51 063) | (58 293) | – | – |
| Investment income and fees | 26 | 98 596 | 69 905 | 15 357 | 16 043 |
| Interest on post-retirement obligation | 20 | (27 548) | (32 444) | (27 548) | (32 444) |
| Interest on lease liabilities | 13 | (1 138) | (3 384) | (1 135) | (3 367) |
| Gains/(losses) on financial instruments | 27 | 20 821 | (18 270) | 20 821 | (18 270) |
| Fair value gains | 27 | 89 394 | 207 895 | 21 668 | 50 337 |
| **Operating income/(loss)** | | 2 027 301 | (132 228) | 1 913 353 | (369 848) |
| Operating expenses | 28 | (562 775) | (593 479) | (530 575) | (564 829) |
| **Net operating income/ (loss)** | | 1 464 526 | (725 707) | 1 382 778 | (934 677) |
| Non-trading and capital items | 29 | 2 300 | 30 456 | 2 300 | 30 456 |
| **Income/(loss) before taxation** | | 1 466 826 | (695 251) | 1 385 078 | (904 221) |
| Indirect taxation | 30 | (27 910) | (52 220) | (27 315) | (51 856) |
| Income/(loss) for the year | | 1 438 916 | (747 471) | 1 357 763 | (956 077) |
| **Other comprehensive income** | | | | | |
| Items that will not be reclassified into profit or loss | | | | | |
| Revaluation gains/(losses) of land and buildings | | 7 861 | (5 392) | 7 861 | (5 392) |
| Actuarial Gain on the post-retirement obligation | 20 | 7 582 | 16 582 | 7 582 | 16 582 |
| **Total items that will not be reclassified to profit or loss** | | 15 443 | 11 190 | 15 443 | 11 190 |
| **Items that may be reclassified to profit or loss:** | | | | | |
| Net (loss)/gain on financial assets designated at fair value through other comprehensive income | | (62 922) | 25 157 | (62 922) | 25 157 |
| **Total Items that may be reclassified to profit or (loss):** | | (62 922) | 25 157 | (62 922) | 25 157 |
| **Other comprehensive (loss)/income** | | (47 479) | 36 347 | (47 479) | 36 347 |
| **Total comprehensive income/(loss) for the year** | | 1 391 437 | (711 124) | 1 310 284 | (919 730) |

## Statements of Changes in Equity

| | Capital fund R'000 | Revaluation reserve R'000 | Fair Value through other Comprehensive income R'000 | Accumulated loss R'000 | Total Equity R'000 |
|---|---|---|---|---|---|
| Group | | | | | |
| Opening balance at 01 April 2020 | 4 397 655 | 138 472 | (723 811) | (3 515 382) | 296 934 |
| Loss for the year | – | – | – | (747 471) | (747 471) |
| Other comprehensive (loss)/income for the year | – | (5 392) | 41 739 | | 36 347 |
| Total comprehensive (loss)/income for the year | – | (5 392) | 41 739 | (747 471) | (711 124) |
| Shareholder Equity Injection | 3 000 000 | | | | 3 000 000 |
| Opening balance at 01 April 2021 | 7 397 655 | 133 080 | (682 072) | (4 262 853) | 2 585 810 |
| Profit for the year | – | – | – | 1 438 916 | 1 438 916 |
| Other comprehensive income/(loss) for the year | – | 7 861 | (55 340) | – | (47 479) |
| Total comprehensive income/(loss) for the year | – | 7 861 | (55 340) | 1 438 916 | 1 391 437 |
| Balance at 31 March 2022 | 7 397 655 | 140 941 | (737 412) | (2 823 937) | 3 977 247 |
| Company | | | | | |
| Opening balance at 01 April 2020 | 4 397 655 | 138 472 | (723 811) | (4 289 211) | (476 895) |
| Loss for the year | – | – | – | (956 077) | (956 077) |
| Other comprehensive (loss)/income for the year | – | (5 392) | 41 739 | – | 36 347 |
| Total comprehensive (loss)/income for the year | – | (5 392) | 41 739 | (956 077) | (919 730) |
| Shareholder Equity Injection | 3 000 000 | | | | 3 000 000 |
| Opening balance at 01 April 2021 | 7 397 655 | 133 080 | (682 072) | (5 245 288) | 1 603 375 |
| Profit for the year | – | – | – | 1 357 763 | 1 357 763 |
| Other comprehensive income/(loss) for the year | – | 7 861 | (55 340) | – | (47 479) |
| Total comprehensive income/(loss) for the year | – | 7 861 | (55 340) | 1 357 763 | 1 310 284 |
| Balance at 31 March 2022 | 7 397 655 | 140 941 | (737 412) | (3 887 525) | 2 913 659 |

## Statements of Cash Flows

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Income/ (Loss) for the year | 1 438 916 | (747 471) | 1 357 763 | (956 077) |
| *Adjustments to reconcile profit to net cash flows:* | (1 649 443) | 252 217 | (1 488 851) | 438 016 |
| Interest expense | 2 374 847 | 3 067 260 | 2 374 847 | 3 066 823 |
| Interest income | (2 975 318) | (3 234 822) | (2 970 394) | (3 229 393) |
| Net impairments raised/ released | (943 021) | 285 473 | (943 021) | 285 473 |
| Interest on lease liabilities | 1 138 | 3 384 | 1 135 | 3 367 |
| Fair value movement (financial instruments) | (89 394) | (207 895) | (21 668) | (50 337) |
| (Losses)/gains on financial instruments | (20 821) | 18 270 | (20 821) | 18 270 |
| Dividends received | (29 337) | (28 391) | (10 034) | (13 056) |
| Interest received | (69 259) | (41 514) | (5 323) | (2 987) |
| Depreciation and amortisation | 21 246 | 33 186 | 21 132 | 32 966 |
| Fair value adjustments on properties | 8 073 | 8 073 | 8 073 | 8 073 |
| Movement in provisions | (106 275) | (250 102) | (107 834) | (251 950) |
| Movement in post-retirement medical aid liability | 27 548 | 32 444 | 27 548 | 32 444 |
| Profit on properties | (130) | (1 628) | (130) | (1 628) |
| Losses on Foreign exchange | (7) | (36 897) | (7) | (36 897) |
| Impairment relating to loan commitments and guarantees | 157 658 | 576 851 | 157 658 | 576 851 |
| Impairment of other assets | (12) | (4) | (12) | (4) |
| Movement in policyholders' liabilities | (6 379) | 28 528 | – | – |
| Changes in working capital | (184 704) | (430 218) | (160 019) | (271 178) |
| (Increase)/decrease in Trade and other receivables | (303 601) | 188 227 | (214 915) | 514 288 |
| (Decrease)/Increase in Trade and other payables | 62 730 | (641 219) | 54 896 | (785 466) |
| Increase in short-term and long-term insurance liability | 163 061 | 5 083 | – | – |
| (Increase)/Decrease in short-term and long-term insurance assets | (106 894) | 17 691 | – | – |
| Cash generated from operations | (395 231) | (925 472) | (291 106) | (789 239) |

## Statements of Cash Flows (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Cash flows from operations | 11 570 431 | 8 166 654 | 11 567 363 | 8 161 242 |
| Interest expense paid | (2 325 392) | (2 932 793) | (2 325 392) | (2 932 793) |
| Interest income received | 2 918 913 | 2 800 449 | 2 915 841 | 2 795 020 |
| Interest on lease liabilities paid | (1 138) | (3 384) | (1 135) | (3 367) |
| Dividends received | 3 750 | 5 218 | 3 750 | 5 218 |
| Decrease in funding to clients | 10 974 298 | 8 297 163 | 10 974 298 | 8 297 163 |
| Cash inflow from operating activities | 11 175 200 | 7 241 181 | 11 276 256 | 7 372 002 |
| Cash flow from investing activities | | | | |
| Purchase of property and equipment | (1 752) | (653) | (1 752) | (653) |
| Proceeds from sale of non-current assets held-for-sale | – | 15 528 | – | 15 528 |
| Proceeds from sale of financial instruments | 300 000 | 539 628 | – | 363 136 |
| Purchase of financial instruments | (100 000) | (351 717) | – | (200 000) |
| Cash inflow/(outflow) from investing activities | 198 248 | 202 786 | (1 752) | 178 011 |
| Cash flow from financing activities | | | | |
| Decrease in funding received from funders | (6 960 124) | (5 474 689) | (6 960 124) | (5 474 689) |
| Lease liability repaid | (19 454) | (27 733) | (27 565) | (27 564) |
| Equity injection[1] | – | 2 925 633 | | 2 925 633 |
| Cash outflows from financing activities | (6 979 578) | (2 576 789) | (6 987 689) | (2 576 620) |
| Net (decrease)/increase in cash and cash equivalents | 4 393 870 | 4 867 178 | 4 286 815 | 4 973 393 |
| Cash and cash equivalents at beginning of year | 5 589 889 | 722 711 | 5 558 401 | 585 008 |
| Cash and cash equivalents at end of year | 9 983 759 | 5 589 889 | 9 845 216 | 5 558 401 |

*1 Cash received for the R3bn equity injection by the Shareholder was R2.9 billion. The balance was used to repay lenders who instituted claims against government guarantees on their debt.*

## Segment reporting Business

The Group reports in four distinct segments, grouped according to the nature of products and services provided by the respective business units and divisions. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Operating Officer, supported by the executive committee. The four segments are:

1) Commercial Development Banking, which consists of 9 Regional Offices and 16 satellite branches spread across the country, provides finance to developing and commercial farmers.
2) Corporate Banking, which consists of two branches, provides finance to the corporate agri-related businesses.
3) Group capital consists of the treasury, finance and other central functions.
4) Insurance Operations consists of LBLIC and LBIC which provides Life and Non-Life Crop Insurance respectively.

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

### Quantitative thresholds

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

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

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

## Segment reporting Business (continued)

Group – 2022

### Statement of profit or loss and other comprehensive income

| | Commercial Development and Business Banking R'000 | Corporate Banking and structured Investment R'000 | Group Capital and Inter-segment eliminations[1] R'000 | Total Bank R'000 | Insurance Operations[2] R'000 | Total Group R'000 |
|---|---|---|---|---|---|---|
| **Net interest income/(expense)** | **581 466** | **14 624** | **–** | **596 090** | **4 381** | **600 471** |
| Interest income | 2 409 865 | 561 071 | – | 2 970 937 | 4 381 | 2 975 318 |
| Interest expense | (1 828 400) | (546 447) | – | (2 374 847) | – | (2 374 847) |
| Impairment releases/(charges) on loans and advances | 1 376 142 | (77 590) | | 1 298 552 | – | 1 298 552 |
| **Total income/(loss) from lending activities** | **1 957 607** | **(62 966)** | **–** | **1 894 642** | **4 381** | **1 899 023** |
| Non-interest expense | (71 358) | – | – | (71 358) | (4 576) | (75 934) |
| Non-interest income | 12 075 | 5 145 | 7 064 | 24 284 | 6 497 | 30 781 |
| **Operating income/(loss) from banking activities** | **1 898 324** | **(57 821)** | **7 064** | **1 847 568** | **6 302** | **1 853 870** |
| Other income | | | 30 712 | 30 712 | 6 497 | 37 209 |
| Operating profit from insurance activities | – | – | – | – | (43 903) | (43 903) |
| Investment income | – | 4 269 | 11 088 | 15 357 | 83 239 | 98 596 |
| Interest in Post Retirement Obligation | – | – | (27 548) | (27 548) | – | (27 548) |
| Interest on Lease Liability | (486) | (241) | (407) | (1 135) | (3) | (1 138) |
| Gains and losses on financial instruments | 19 090 | 1 731 | – | 20 821 | – | 20 821 |
| Fair value loss | – | – | 21 669 | 21 668 | 67 726 | 89 394 |
| **Operating income/(loss)** | **1 916 927** | **(52 062)** | **42 578** | **1 907 444** | **119 858** | **2 027 301** |
| Operating expenses | (15 017) | 472 | (160 156) | (174 700) | (15 072) | (189 772) |
| Staff costs | (67 235) | (13 742) | (253 764) | (334 742) | (16 868) | (351 610) |
| Depreciation and amortisation | (4 664) | (1 833) | (14 635) | (21 132) | (260) | (21 392) |
| **Net operating (loss)/income** | **1 830 011** | **(67 165)** | **(385 977)** | **1 376 869** | **87 658** | **1 464 526** |
| Non-trading and capital items | (75) | (11) | 2 386 | 2 300 | – | 2 300 |
| **Net profit/(loss) before indirect taxation** | **1 829 937** | **(67 176)** | **(383 592)** | **1 379 169** | **87 658** | **1 466 827** |
| Indirect taxation | – | – | (27 331) | (27 331) | (579) | (27 910) |
| **Net profit/(loss)** | **1 829 937** | **(67 176)** | **(410 924)** | **1 351 838** | **87 079** | **1 438 916** |
| **Other comprehensive income** | **–** | | **(47 479)** | **(47 479)** | **–** | **(47 479)** |
| Actuarial losses on the post-retirement obligation | 7 582 | | | 7 582 | | 7 582 |
| Revaluation of land and buildings | 7 861 | | | 7 861 | | 7 861 |
| Profit on financial assets at fair value through other comprehensive income | (62 922) | | | (62 922) | – | (62 922) |
| **Total comprehensive income/(loss) for the year** | **1 829 937** | **(67 176)** | **(458 403)** | **1 304 359** | **87 079** | **1 391 438** |

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

*2 The Insurance Operations consists of LBLIC (Life Insurance) and LBIC (Short term asset and Crop Insurance).*

## Segment reporting Business (continued)

Group – 2022

### Statement of financial position

| | Commercial Development and Business Banking R'000 | Corporate Banking and structured Investment R'000 | Group Capital and Inter-segment eliminations[1] R'000 | Total Bank R'000 | Insurance Operations[2] R'000 | Total Group R'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Segment assets** | **14 717 425** | **66 802 592** | **(48 952 292)** | **32 567 725** | **2 181 503** | **34 749 228** |
| Working capital (incl. net loans and advances) | 14 685 907 | 66 454 926 | (50 009 763) | 31 131 070 | 1 072 191 | 32 203 261 |
| Investments | – | 346 405 | 948 659 | 1 295 064 | 838 323 | 2 133 387 |
| Investment properties | 31 244 | – | 66 156 | 97 400 | | 97 400 |
| Property and equipment | 274 | 1 261 | 31 431 | 32 967 | 94 | 33 061 |
| Non-current assets held-for-sale | – | – | 9 609 | 9 609 | – | 9 609 |
| Intangible assets | – | – | 1 615 | 1 615 | – | 1 615 |
| Insurance assets | – | – | – | – | 270 895 | 270 895 |
| **Assets** | | | | | | |
| **Segment liabilities** | **22 163 972** | **6 213 234** | **1 275 719** | **29 652 925** | **1 119 056** | **30 771 981** |
| Working capital (incl. funding liabilities) | 22 150 453 | 6 208 650 | 972 275 | 29 331 379 | 665 124 | 29 996 503 |
| Provisions | 10 156 | 2 791 | 17 013 | 29 960 | 4 221 | 34 181 |
| Post-retirement obligation | – | – | 286 655 | 286 655 | – | 286 655 |
| Lease liabilities | 3 363 | 1 793 | (224) | 4 932 | – | 4 932 |
| Insurance liabilities | – | – | – | – | 449 711 | 449 711 |

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

*2 The Insurance Operations consists of LBLIC (Life Insurance) and LBIC (Short term asset and Crop Insurance).*

## Segment reporting Business (continued)

| Group – 2021 | Commercial Development and Business Banking R'000 | Corporate Banking and structured Investment R'000 | Group Capital and Inter–segment eliminations[1] R'000 | Total Bank R'000 | Insurance Operations[2] R'000 | Total Group R'000 |
|---|---|---|---|---|---|---|
| **Statement of profit or loss and other comprehensive income** | 66 501 | 96 069 | – | 162 570 | 4 992 | 167 562 |
| Interest income | 2 427 654 | 801 738 | – | 3 229 393 | 5 429 | 3 234 822 |
| Interest expense | (2 361 153) | (705 669) | – | (3 066 823) | (437) | (3 067 260) |
| Impairment releases/(charges) on loans and advances | (79 765) | (243 800) | | (323 565) | – | (323 565) |
| **Total income/(loss) from lending activities** | **(13 264)** | **(147 732)** | **–** | **(160 995)** | **4 992** | **(156 003)** |
| Non-interest expense | (299 586) | 2 208 | – | (297 378) | (3 956) | (301 334) |
| Non-interest income | 20 116 | 25 272 | 2 605 | 47 993 | | 47 993 |
| **Operating income/(loss) from banking activities** | **(292 734)** | **(120 252)** | **2 605** | **(410 381)** | **1 036** | **(409 345)** |
| Other income | | | 28 233 | 28 233 | 7 998 | 36 231 |
| Operating profit from insurance activities | – | – | – | – | 17 183 | 17 183 |
| Investment income | (6) | – | 16 049 | 16 044 | 53 862 | 69 906 |
| Interest in Post Retirement Obligation | – | – | (32 444) | (32 444) | – | (32 444) |
| Interest on Lease Liability | (1 060) | (385) | (1 922) | (3 367) | (17) | (3 384) |
| Gains and losses on financial instruments | (4 545) | (13 725) | – | (18 270) | – | (18 270) |
| Fair value loss | – | – | 50 338 | 50 337 | 157 558 | 207 895 |
| **Operating income/(loss)** | **(298 345)** | **(134 361)** | **62 860** | **(369 848)** | **237 620** | **(132 228)** |
| Operating expenses | (9 954) | (175) | (131 308) | (141 437) | (10 844) | (152 281) |
| Staff costs | (79 280) | (18 487) | (292 658) | (390 425) | (17 546) | (407 971) |
| Depreciation and amortisation | (6 173) | (1 830) | (24 963) | (32 966) | (260) | (33 226) |
| **Net operating (loss)/income** | **(393 752)** | **(154 854)** | **(386 069)** | **(934 677)** | **208 970** | **(725 707)** |
| Non-trading and capital items | 442 | – | 30 010 | 30 456 | – | 30 456 |
| **Net profit/(loss) before indirect taxation** | **(393 310)** | **(154 854)** | **(356 059)** | **(904 221)** | **208 970** | **(695 251)** |
| Indirect taxation | – | – | (51 856) | (51 856) | (364) | (52 220) |
| **Net profit/(loss)** | **(393 310)** | **(154 854)** | **(407 915)** | **(956 077)** | **208 606** | **(747 471)** |
| **Other comprehensive income** | – | – | 36 347 | 36 347 | – | 36 347 |
| Actuarial losses on the post-retirement obligation | – | – | 16 582 | 16 582 | – | 16 582 |
| Revaluation of land and buildings | – | – | (5 392) | (5 392) | – | (5 392) |
| Profit on financial assets at fair value through other comprehensive income | – | – | 25157 | 25157 | – | 25157 |
| **Total comprehensive income/(loss) for the year** | **(393 310)** | **(154 854)** | **(371 568)** | **(919 730)** | **208 606** | **(711 124)** |

## Segment reporting Business (continued)

| Group – 2021 | Commercial Development and Business Banking R'000 | Corporate Banking and structured Investment R'000 | Group Capital and Inter–segment eliminations[1] R'000 | Total Bank R'000 | Insurance Operations[2] R'000 | Total Group R'000 |
|---|---|---|---|---|---|---|
| **Statement of financial position** | | | | | | |
| **Assets** | | | | | | |
| **Segment assets** | **24 658 740** | **66 802 190** | **(53 221 203)** | **38 239 726** | **1 925 972** | **40 165 698** |
| Working capital (incl. net loans and advances) | 24 623 745 | 66 425 563 | (54 385 216) | 36 664 093 | 874 421 | 37 538 514 |
| Investments | – | 373 524 | 1 057 780 | 1 431 303 | 887 355 | 2 318 658 |
| Investment properties | 31 244 | – | 63 856 | 95 100 | – | 95 100 |
| Property and equipment | 3 751 | 3 104 | 35 551 | 42 406 | 195 | 42 601 |
| Non-current assets held-for-sale | – | – | 4 058 | 4 058 | – | 4 058 |
| Intangible assets | – | – | 2 767 | 2 767 | – | 2 767 |
| Insurance assets | – | – | – | – | 164 001 | 164 001 |
| **Assets** | | | | | | |
| **Segment liabilities** | **27 539 880** | **7 801 407** | **1 295 064** | **36 636 351** | **943 536** | **37 579 887** |
| Working capital (incl. funding liabilities) | 27 522 379 | 7 794 637 | 874 470 | 36 191 486 | 654 118 | 36 845 604 |
| Provisions | 10 431 | 3 107 | 124 255 | 137 794 | 2 663 | 140 457 |
| Post-retirement obligation | – | – | 284 000 | 284 000 | – | 284 000 |
| Lease liabilities | 7 070 | 3 663 | 12 338 | 23 071 | 105 | 23 176 |
| Insurance liabilities | – | – | – | – | 286 650 | 286 650 |

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

## Segment reporting Business (continued)

### Segment information

The Group's reportable operating segments are strategic business units that offer products to various classes of clients. These are managed separately since each segment requires different marketing and technical strategies to service a client base with unique needs. The accounting policies of the reportable operating segments are the same as those described in the summary of

significant accounting policies. In addition, the cost of funding is allocated based on the monthly average cost of funding for Land Bank and the segment's loan book net of non-performing loan balances as at 31 March 2022. The identified reportable segments are how the Group's businesses are managed and reported to the Chief Operating Decision Maker (CODM).

### Segmental reporting Geographic

According to the client's location, the geographical segments consist of 9 provincial offices and 14 satellite offices within the boundaries of the respective provinces of the Republic of South Africa. Group Capital and Insurance Operations is included in the Northern segment, as the head office is situated in Pretoria. All revenue per geographical segment is attributable to the Republic of South Africa. All non-current assets are located in the Republic of South Africa.

| Statement of profit or loss and other comprehensive income | Interest income R'000 | Interest expense R'000 | Net interest income R'000 | Impairment (charges)/ releases, claims and recoveries R'000 | Non-interest income/ (expense) and Other income R'000 | Operating income from insurance activities R'000 | Fair value gains, investment income and non-trading and capital items R'000 | Operating expenses and indirect taxes excluding depreciation and amortisation R'000 | Interest on Post Retirement Medical Aid and Lease Liability R'000 | Depreciation and amortisation R'000 | Staff costs R'000 | Net profit/ (loss) R'000 | Other Comprehensive Income R'000 | Other Comprehensive Income R'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group – 2022 | | | | | | | | | | | | | | |
| Northern region | 2 237 703 | (1 822 490) | 415 213 | 1 695 071 | (15 705) | (43 903) | 208 356 | (212 353) | (28 059) | (16 829) | (308 858) | 1 692 933 | (47 479) | 1 645 455 |
| Southern region | 737 614 | (552 357) | 185 257 | (396 519) | 7 761 | - | 2 755 | (5 328) | (628) | (4 563) | (42 753) | (254 017) | – | (254 017) |
| **Total operations** | **2 975 318** | **(2 374 847)** | **600 470** | **1 298 552** | **(7 944)** | **(43 903)** | **211 111** | **(217 681)** | **(28 686** | **(21 392)** | **(351 610)** | **1 438 917** | **(47 479)** | **1 391 438** |

| Statement of financial position | Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment R'000 | Working Capital (incl. loans and advances R'000 | Total assets R'000 |
|---|---|---|---|
| **Assets** | | | |
| Northern region | 2 537 216 | 8 294 963 | 10 832 180 |
| Southern region | 8 751 | 23 908 297 | 23 917 048 |
| **Total operations** | **2 545 968** | **32 203 261** | **34 749 228** |

| | Working Capital (incl. funding) R'000 | Other liabilities R'000 | Total liabilities R'000 |
|---|---|---|---|
| **Liabilities** | | | |
| Northern region | 23 274 450 | 765 315 | 24 039 765 |
| Southern region | 6 722 104 | 10 113 | 6 732 216 |
| **Total operations** | **29 996 554** | **775 428** | **30 771 981** |

## Segment reporting Business (continued)

### Segment information

| Statement of profit or loss and other comprehensive income | Interest income R'000 | Interest expense R'000 | Net interest income R'000 | Impairment (charges)/ releases, claims and recoveries R'000 | Non-interest income/ (expense) and Other income R'000 | Operating income from insurance activities R'000 | | Fair value gains, investment income and non-trading and capital items R'000 | Operating expenses and indirect taxes excluding depreciation and amortisation R'000 | Interest on Post Retirement Medical Aid and Lease Liability R'000 | Depreciation and amortisation R'000 | Staff costs R'000 | Net profit/ (loss) R'000 | Other Comprehensive Income R'000 | Other Comprehensive Income[1] R'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group – 2021 | | | | | | | | | | | | | | | |
| Northern region | 2 765 481 | (2 497 234) | 268 247 | (9 287) | (245 885) | 17 183 | | 304 145 | (199 513) | (34 722) | (27 734) | (357 306) | (284 872) | 36 347 | (248 525) |
| Southern region | 469 341 | (570 026) | (100 685) | (314 278) | 28 775 | - | | (14 157) | (4 993) | (1 102) | (5 493) | (50 665) | (462 599) | – | (462 599) |
| **Total operations** | **3 234 822** | **(3 067 260)** | **167 562** | **(323 565)** | **(217 111)** | **17 183** | | **289 988** | **(204 507)** | **(35 824)** | **(33 226)** | **(407 971)** | **(747 471)** | **36 347** | **(711 124)** |

| Statement of financial position | Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment R'000 | Working Capital (incl. loans and advances R'000 | Total assets R'000 |
|---|---|---|---|
| **Assets** | | | |
| Northern region | 2 613 816 | 30 969 344 | 33 583 160 |
| Southern region | 13 368 | 6 569 170 | 6 582 538 |
| **Total operations** | **2 627 183** | **37 538 513** | **40 165 698** |

| | Working Capital (incl. funding) R'000 | Other liabilities R'000 | Total liabilities R'000 |
|---|---|---|---|
| **Liabilities** | | | |
| Northern region | 28 530 010 | 718 999 | 29 249 008 |
| Southern region | 8 315 594 | 15 285 | 8 330 878 |
| **Total operations** | **36 845 604** | **734 283** | **37 579 887** |

## Accounting Policies

### Corporate information

### 1. Basis of Preparation

The consolidated and separate financial statements have been prepared in accordance with IFRS (with consent from the National Treasury for all Schedule 2 public entities) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), applying the accrual basis of accounting, the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies. A summary of significant accounting policies is set out in note 3.

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

The financial statements are prepared based on accounting policies applicable to a going concern. This basis presumes that the Land Bank will continue to receive the support of its Shareholder and that the

realisation of assets and settlement of liabilities will occur in the ordinary course of business. Full disclosure relating to the directors' going concern assessment can be found in Note 3.3.

The Annual Financial Statements have been prepared on the historical cost basis, except for the following items, which were measured at fair value:

- Financial instruments held at fair value through profit or loss;
- Financial instruments designated at fair value through profit or loss;
- Derivative financial instruments;
- Equity investments;
- Land and buildings;
- Post-retirement medical aid benefit investment; and
- Funeral benefit and post-retirement medical aid liability.

The methods used to measure fair values are detailed in notes.

### 2.1 Functional and presentation currency

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

### 2.2 Distinction between current and non-current

The Group presents the assets and liabilities in decreasing order of liquidity as it provides information that is more reliable and relevant than a current/non-current presentation because the Group does not supply goods or services within a clearly identifiable operating cycle. In addition, other similar financial institutions also provide the information in this manner, and hence it is more comparable.

### 3 Summary of Significant accounting policies

The Group has not applied the following new, revised or amended pronouncements that have been issued by the International Accounting Standard Board (IASB) as they are not yet effective for the financial year beginning 1 April 2021. The Board anticipates that the new standards, amendments and interpretations will be adopted in the Group's consolidated financial statements when they become effective. The Group has assessed, where practicable, the potential impact of all these new standards, amendments and interpretations that will be effective in future periods.

### 3.1 New standards and interpretations not yet adopted

The Group has assessed, where practicable, the potential impact of all these new standards, amendments and interpretations that will be effective in future periods.

#### IAS 1 amendments on classification

The International Accounting Standards Board (IASB) has issued 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)' providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in the Classification of Liabilities as Current or Noncurrent.

(Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.



## Accounting Policies

### 3.1 New standards and interpretations not yet adopted (continued)

- Clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the ""right"" to defer settlement by at least twelve months and make explicit that only rights in place ""at the end of the reporting period"" should affect the classification of a liability;
- Clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- Make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendment is not expected to have a material impact on the group.

#### IFRS 17 Insurance contracts

IFRS 17 Insurance Contracts was issued in May 2017 and will be effective for annual periods beginning on or after 1 January 2023. The previous IFRS Standard on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements. In contrast to the requirements of IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct and reinsurance), regardless of the type of entity that issue these contracts. The General Model (also referred to as building block approach) forms the core of IFRS 17. It is supplemented by:

- A specific adaption for contracts with direct participation features ("the variable fee approach"); and
- A simplified approach ("the premium allocation approach") mainly for short-duration contracts.

The implementation of IFRS 17 will have different financial and operational implications for each entity that adopts the standard. It is, however, expected that fundamental changes will be required in the following areas:

- Liability measurement
- Data requirements
- Operations and the underlying systems
- Management reporting

#### 2018-2020 annual improvements cycle

On 14 May 2020, the IASB issued 'Annual Improvements to IFRS Standards 2018–2020'. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

#### IFRS 9, Financial Instruments

Fees in the '10 per cent' test for derecognition of financial liabilities. The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The assessment will have minimal impact on the group as the group is currently including only fees paid/received between the group and its lenders/customers where applicable.

#### IFRS 16, Leases

Lease incentives. The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. This will have no impact for the group.

#### IAS 37 – Onerous Contracts: Cost of Fulfilling a Contract

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets did not specify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous.

This amendment clarifies that the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after 1 January 2022. The impact will be minimal for the group, full assessment of the impact will be made in the 2023 financial year.

#### IAS 16 – Proceeds before Intended Use

The Interpretations Committee received a request to clarify the accounting for the net proceeds from selling any items produced while bringing an item of PPE to the location and condition necessary for it to be capable of operating in the manner intended by management.

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022. This will have no impact on the group.

## Accounting Policies

### 3.1 New standards and interpretations not yet adopted (continued)

#### IAS 8 amendments on accounting estimates

On 12 February 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8) to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023. The impact on the annual financial statements has not yet been fully determined. The group will commence assessing the impact in the 2024 financial year.

#### IAS 1 Disclosure of accounting policies

On 12 February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023. This will have minimal impact to the group. The full impact for the group will be assessed in the 2023 financial year.

#### IAS 12 Deferred tax related to assets and liabilities arising from a single transaction

On 7 May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after 1 January 2023. This will have minimal impact to the group as the group is exempt from paying tax. The full impact for the group will be assessed in the 2023 financial year.

### 3.2 New standards and interpretations adopted

#### Interest Rate Benchmark Reform Phase 2

On 27 August 2020, the IASB issued 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021.

This amendment will benefit the Group by allowing hedging relationships to continue upon the replacement of an existing interest rate benchmark with a Risk Free Rate (RFR). The assessment of the impact for the group is ongoing.

#### IFRS 3 Business Combinations (amendment)

The amendments clarify the definition of a business, to assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

There were no business combinations that took place during the current financial year. Therefore, these amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations as the amendment is applied prospectively.

#### IFRS 16 amendment

On 27 August 2020, the IASB issued 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021. These amendments had no impact on the consolidated financial statements of the Group.

### 3.3 Going Concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The going concern basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Towards the end of April 2020, the Land Bank experienced a liquidity shortfall, which resulted in the Bank defaulting on some of its obligations. This triggered a cross default and resulted in de-facto stand still on capital and interest payments to its funders. The Bank appointed legal and corporate finance advisors to support the process of turning the organisation around. Solutions comprising of the emergency liquidity funding solution, liability solution, equity solution as well as the review of the Land Bank's repurposing strategy and the operating model were undertaken. With the exception of the liability solution which is still in progress, the other solutions have been concluded and implemented or being implemented in the case of Land Bank repurposing strategy.



## Accounting Policies

### 3.3 Going Concern (continued)

As with the previous years, Land Bank has remained undercapitalised. The Bank, as a specialist Development Finance Institution whose business is concentrated in the agricultural sector and acknowledges the challenging operating conditions that were faced by the agricultural sector over a period of years. Sustained droughts, uncharacteristic hail in usually hail-free areas, and increased frequency of disease outbursts has disrupted the ability of the Bank's customers to repay their loans. In addition, declining capital buffers that challenged its ability to meet some loan covenants while fulfilling its developmental mandate and related loan growth targets. The sovereign downgrade downgrades of South Africa. All these challenges weakened the Land Bank's standalone credit profile. This hampered Land Bank's ability to raise funding in the market and this combines with the funding structure of the Bank which was around 40% short term at the time and therefore requiring constant refinancing resulted in the Bank defaulting on its obligations.

Since the default Land Bank with its advisors and supported by the Shareholder has been working together with the lenders towards the implementation of a liability solution which requires lenders to commit to this solution which is a prerequisite to the shareholder for the injection of the amount of equity appropriated in the Feb 2021 Budget speech and further rolled forward in the February 2022 budget speech. It was anticipated that the liability solution would have been concluded and the event of default cured by 31 March 2022. This was however not to be. During January 2022, it became clear that an agreement on the liability solution was not going to be reached between Land Bank and its lenders and that the parties needed to negotiate further, which negotiations are still in progress and expected to be concluded during the new financial year (2023). On the going concern the most significant factor is that Lenders have not taken any legal action and remain in a de facto standstill in terms of capital repayments due to them. The Bank continues to work with all lenders to negotiate the terms of the commitment agreement, and reach an amicable solution to cure the default.

Land Bank continues servicing of interest on the funding liabilities together with agreed upon capital reduction payments with lenders. The de-facto standstill on capital repayments however still ensues.

The lenders have, by their conduct committed to a de facto standstill and this has been the position for two years and the lenders remain engaged.

Land Bank received a Qualified audit outcome from the AGSA on the 2021 Financial Year Audit, this was an improvement from a Disclaimed audit Opinion received on the 2020 Financial Year Audit. The Group recorded a net profit of R1,4 billion (2020: R0,7 billion net loss) for the year ended 31 March 2022, mainly driven by material impairment releases as the loan book reduces.

Despite the above challenges, the Bank's business and operational fundamentals remain strong, and further measures have been adopted to manage the Bank's financial sustainability and credit worthiness.

In the last number of months since the default the Bank has achieved and the following:

- The Board-led Restructuring Committee that was established when the restructuring process started continues to provide guidance and support to the executive management's efforts to address the liquidity challenges, and monitors implementation of crafted solutions to take Land Bank out of its event of default and to reposition the organisation.
- Critical vacancies are being prioritised.
- The Bank collected over R20bn from own customers
- At 31 March 2022, Land Bank Group had a cash balance of R9.9 billion, compared to R5.6 billion at 31 March 2021.
- The Bank continues to operate.
- Interest on funding liabilities continues to be serviced.
- Capital repayments totalling R16,3 billion have been made towards reduction of funding liabilities. The total debt repaid to lenders since default is 40.43 % to date. Payments to all international Development Financial Institutions has not yet been made, but the funds have been ring fenced, which will bring the total reduction to 42.84%.
- The repurposing of the Bank in line with its mandate is being implemented, with R500m already approved for support of emerging farmers.
- In addition to the R3 billion equity injection during September 2020, the Shareholder has rolled forward the R7bn previously appropriated during the FY2022 medium term budget over the FY2023 medium
- term period, to recapitalise the Bank.
- On the liability solution, no other lender has taken legal action against the Bank to date with the exception of one that was fully settled in April 2021. The lenders remain supportive of the Bank and are working closely with the Bank in crafting the new liability solution 4.
- A remedial plan to address deficiencies identified by the Auditor General of South Africa, continues being implemented. The remedial process is overseen by the Audit and Finance Committee of the Board.

The directors are of the view that the initiatives reflected above will ensure Land Bank meets the going concern requirement in the foreseeable future, being 12 months from the approval of these annual financial statements although a material uncertainty exists. Given already received and expected capital injections from National Treasury as well as current cash sources available, Land Bank is expected to have a surplus of available cash resources to be able to meet its liquidity requirements.

## Accounting Policies

### 3.4 Business combinations

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their value at the acquisition date.

The Group recognise any non-controlling interest in the acquirer on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest proportionate share of the recognised amounts of acquiree identifiable net assets.

Consolidated financial statements comprise the financial statements of the Land Bank and its subsidiaries, LBLIC and LBIC as at 31 March 2022. Intra-group transactions are eliminated upon consolidation.

Investments in subsidiaries are measured at cost at acquisition and subsequent measurement on each reporting date.

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

### 3.5 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, assumptions and judgements 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 judgements and estimates are summarised below:

#### 1) Impairment losses on loans and advances

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the credit risk of default occurring over the expected life between the reporting and initial recognition. In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in the credit quality of a financial asset. Please refer to note 36 for more details.

#### 2) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, the valuation models 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 the reported fair value of financial instruments.

i) Unlisted investments

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

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

(ii) Policy liabilities in respect of long-term insurance contracts

The following process is followed to determine the valuation assumptions:

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







### 3.5 Critical accounting judgements and key sources of estimation uncertainty (continued)

Investment return

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

Decrements

Assumptions with regard to future mortality and lapse rates are consistent with the experience for the five years up to the current financial year-end. Mortality rates are adjusted to allow for expected deterioration in mortality rates as a result of AIDS.

(iii) Policy liabilities in respect of short-term insurance contracts

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

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

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

Process to determine significant assumptions

Insurance risks are unpredictable and the Group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Using historical data, the insurance companies aim to establish provisions that have an above average likelihood of being adequate to settle all contractual insurance obligations.

Outstanding claims

Claim provisions are determined based upon previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and experience with similar cases. The Group's estimates for outstanding claims are continually reviewed and updated as future developments take place and better information becomes available regarding the current circumstances. The ultimate cost of the claim may therefore vary from this initial estimate. Adjustments resulting through this review are reflected in the statement of profit or loss and other comprehensive income as and when identified.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is carried out to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred and under which reinsurance programme the recovery will be made as well as the size of the claim, and whether there will be a stop loss recovery based on the overall loss ratio of the portfolio.

Claims incurred but not reported (IBNR)

The policyholders' liabilities include a provision for the expected cost of IBNR claims. This relates to claims expected to be made by policyholders in respect of events that occurred before the financial year end but that have not yet been reported to the Group by year end. The IBNR is not discounted due to the short-term nature of IBNR claims on crop policies. For short-term business, the incurred but not reported reserve (IBNR) is based on the minimum requirements of the Insurance Act of 2017, as required by the Financial Sector Conduct Authority (FSCA) Board, previously FSB Board Notice 169 issued on 28 October 2011 and effective for the year ends after January 1, 2012. In line with this computation, premiums in different classes of business for the last six financial years are multiplied by an industry wide historical claims development factors introduced separately and the outcomes are added up. The Group underwrites crop insurance under the property class as well as agri-asset reinsurance inwards, cover under the motor and property classes. A separate calculation is carried out to calculate the reinsurance portion of the IBNR reserve.

The calculation of insurance liabilities is an inherently uncertain process. The company seeks to provide adequate levels of insurance provisions by taking into account all know facts and experience from a variety of sources as well as statutory requirements.

## Accounting Policies

### 3.5 Critical accounting judgements and key sources of estimation uncertainty (continued)

Premium provisions – short-term

The Group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires according to the remaining days method for the assets and winter crop policies. In the current reporting period, for the new crop policies written through the underwriting management agreement, the unearned premium for "summer hail", "summer multi-peril" and "horticulture" is calculated according to the claims occurring patterns based on an historic claims analysis of claims incurred. In the prior reporting period, crops written through the reinsurance agreement were released according to the remaining days method over the period of the reinsurance treaty.This is a prospective change with the change in the nature of the underlying transaction from a reinsurance agreement to an underwriting management agreement.

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

The provision for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised based on the relevant reinsurance contract. Deferred acquisition costs and reinsurance commission revenue is recognised on the 365th basis over the term of the policy.

3) Depreciation rates, methods and residual values

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

4) Post-employment medical benefits

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

5) Management expense provisions and accruals

At each statement of financial position date, the Group might be exposed to various liabilities of uncertain timing or amount. Such liabilities are provided for if a present obligation has arisen, payment is probable and the amount can be reliably estimated. Management uses its discretion to estimate the expenditure required to settle the present obligation as at year-end, i.e. the amount that the Group would rationally pay to settle the obligation.

### 3.6 Revenue recognition

Interest income

In terms of IFRS 9 interest income is recognised in profit or loss using the effective-interest method taking into account the expected timing and amount of cash flows. The effective-interest method is a method of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the relevant period. Interest income include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing financial instrument and its amount at maturity calculated on an effective-interest-rate basis.

IFRS 15 Revenue from Contracts with Customers.

The group is able to identify the contract when both the client and the group have accepted the terms of the agreement. The contract will also identify all the services (performance obligations) the group will render to the client. Based on this, the transaction price is allocated to each identified performance obligation. The group recognises the revenue once the performance obligation is satisfied, which may occur over time or at a point in time.

(i) Fee and commission income.

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

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

(ii) Dividend Income.

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

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



## Accounting Policies

### 3.6 Revenue recognition (continued)

(iii) Investment surpluses.

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

(iv) Rental income.

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

(v) Realised gains and losses.

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

(vi) Unrealised gains and losses.

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

(vii) Insurance premium income Refer to note 3.20

### 3.7 Expenses

(i) Administration costs.

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

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

(ii) Commission.

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

### 3.8 Fruitless and wasteful and irregular expenditure

Items of expenditure which meet the requirements of the Public Finance Management Act (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 or internal policy.

When discovered, irregular expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either condoned by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of profit or loss and other comprehensive income.

### 3.9 Property, plant and equipment

Items of property and equipment are initially recognised at cost if it is probable that any future economic benefits associated with the items will flow to the group and they have a cost that can be measured reliably.

Land and buildings comprise owner occupied property. Land and buildings are shown at fair value, based on valuations by external independent valuators, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

## Accounting Policies

### 3.9 Property, plant and equipment

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as Revaluation Reserves in the Statement of Changes in Equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against Revaluation Reserves directly in equity; to the extent that decreases exceed the Revaluation reserve the decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income, and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Reversals of impairment loss on an a revalued asset is recognised in other comprehensive income and increases the revaluation surplus of the asset. However to the extent that an impairment loss on that asset was recognised directly in profit and loss, that reversal shall be to profit and loss.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end.

Depreciation is provided on the straight-line basis, which, it is estimated, will reduce the carrying amount of the property and equipment to their residual values at the end of their useful lives. Items of property and equipment are depreciated from the date that they are installed and available for use. Land is not depreciated as it is deemed to have an indefinite life. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment.

The major categories of property and equipment are depreciated at the following rates:

| | |
|---|---|
| Building | 2.5% per annum |
| Motor vehicles | 20% per annum |
| Computer equipment | 33.3% per annum |
| Leasehold improvements | Equal months in relation to lease period |
| Furniture and fittings | 20% per annum |

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. On derecognition any surplus in the revaluation reserve in respect of an individual item of property and equipment is transferred directly to retained earnings in the statement of changes in equity.

### 3.10 Investment property

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

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

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

### 3.11 Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

Intangible assets that are acquired and have finite useful lives are initially recognised at cost with subsequent measurement at cost less any accumulated amortisation and any impairment losses.

Intangible assets are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.



## Accounting Policies

### 3.11 Intangible assets (continued)

(i) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software license fees are paid for in advance, recognised as a prepayment and expensed to the statement of profit or loss and other comprehensive income over the period of the license agreement. Should the license agreement extend beyond 12 months, the software license would be capitalised as an intangible asset and amortised on a straight-line basis over the period of the license agreement.

(ii) Amortisation

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

Tier 1 asset – Software relating to core business applications for which any change to a different application suite would require a significant investment in resources and time.

Tier 2 asset – Software that is directly integrated with the core financial systems and additional developments and modules may have be added. Other – Commodity software.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

| Item | Depreciation method | Average useful life |
|---|---|---|
| Tier 1 asset | Straight line | 10 years |
| Tier 2 asset | Straight line | 5 years |
| Other | Straight line | 3 years |

Impairment of non-financial assets

Intangible and tangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

### 3.12 Financial instruments

Classification and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual terms of the instrument. Regular way purchase and sales of financial assets are recognised on trade date, the date on which the group commits to purchase or sell the asset.

At initial recognition, the group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets or financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

(i) Amortised cost and effective-interest rate

The amortised cost of a financial instrument is the amount at which the financial instrument is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective-interest method of any difference between the initial contractual amount and the maturity amount, less any cumulative impairment losses.

## Accounting Policies

### 3.12 Financial instruments (continued)

The effective-interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECLs and includes transaction costs, premiums or discounts, fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate, discounted using the original effective interest rate. Any changes are recognised in profit or loss.

(ii) Fair value
The fair value of a financial instrument is the amount that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of instruments that are quoted in an active market is determined using quoted prices where they represent those at which regularly and recently occurring transactions take place. The group uses valuation techniques to establish the fair value of instruments where quoted prices in active markets are not available.

For a detailed discussion of the fair value of financial instruments, refer to note 36.

Modification
The group modifies the terms of the loans provided to its clients due to commercial renegotiations or in cases of distressed loans, with the aim of maximising recovery. Such restructuring activities include changes in payment frequency, payment date, term, interest rate or consolidation of borrower's loan agreements into a single agreement to mitigate credit risk.

The modified asset is assessed to determine whether it constitutes a substantial or non-substantial modification by considering both quantitative and qualitative features. For example, if the present value of the new contractual cash flows discounted using the original effective interest rate, differs by 10% when compared to the original contractual cash flows, the Land Bank deems the modification to be substantial and results in the de-recognition of the original asset. If the present value is below 10% and the qualitative assessment performed does not deem it so, the Land Bank deems the modification to be non-substantial and does not result in de-recognition of the original asset. The modification gain/loss will then be determined.

The gain/loss shall be derived by comparing the present value of the restructured loan (discounted using the original effective interest rate) to the carrying value at time of modification. derecognition.

Financial assets
Debt instruments are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in "Net interest income" in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Investments in equity instruments:
For equity investments that are held neither for trading nor for contingent consideration the group may irrevocably elect to present subsequent changes in the fair value of these equity investments in OCI. The cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified in equity.

Financial liabilities
Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: This classification is applied to derivative financial liabilities, financial liabilities held for trading and other financial liabilities designated as such at initial recognition.
- Financial guarantee contracts and loan commitments.

(iii) Derivative financial instruments, strategic trading asset and hedge accounting
The Group elected an accounting policy choice under IFRS 9 "Financial Instruments" to apply the hedge accounting requirements under IFRS 9 "Financial Instruments: Recognition and Measurement". As part of the requirements to apply hedge accounting, the Group documents, at the inception of the hedge relationship, the relationship between hedging instruments and hedged items, the risk being hedged, the Group's risk management objective and strategy for undertaking hedge transactions, and how effectiveness will be measured throughout the life of the hedge relationship.



## Accounting Policies

### 3.12 Financial instruments (continued)

All derivatives are recognised in the statement of financial position at fair value and are classified as trading except where they are designated as part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is measured at fair value throughout the life of the contract. Derivatives are disclosed as assets when the fair value is positive and as liabilities when the fair value is negative.

The derivative assets and derivative liabilities are offset and the net position is presented in the statement of financial position as the Group has a legal right to offset the amounts and intends to settle on a net basis. Each swap has the same counterparty and the "net asset/ liability" is as a result of movements in FVTOCI.

All strategic trading asset and repurchase agreements are recognised in the statement of financial position at fair value and are classified as trading. The carrying value of an asset is measured at fair value and are disclosed as assets when the fair value is positive and as liabilities when the fair value is negative.

(iv) Cash held under investments
The "Cash" held under investments is held with the Asset Managers (external party) to invest on the Group's behalf. At various stages as the markets move, the Asset Managers may buy and sell shares and bonds, and would invariably have cash on hand at certain points in time. This cash is held in the possession of the Asset Managers and is intended to be used for the purpose of purchasing new financial instruments. The cash is not necessarily available to be used as working capital by the Group and therefore is not disclosed as "Cash and cash equivalents". Please refer to note 4.

(v) Derecognition of financial asset
Upon derecognition of equity instruments designated at fair value through other comprehensive income, the cumulative fair value gains/ (losses) recognised in other comprehensive income is not subsequently recycled to profit or loss.

Financial assets
A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

(i) The Group has transferred substantially all the risks and rewards of the asset, or

(ii) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Impairment of financial instruments Impairment of financial assets
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the credit risk of default occurring over the expected life between the reporting date and the initial recognition. In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in the credit quality of a financial asset.

The amount of Expected Credit Loss (ECL) is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the group and all the cash flows that the group expects to receive. The amount of the loss is recognised using a provision for "Expected Credit Loss account".

## Accounting Policies

### 3.12 Financial instruments (continued)

Key principles of the group's accounting policy for impairment of financial assets are listed below.

The Group assesses at initial recognition of financial assets whether to use a 12-month expected loss approach or a lifetime expected loss approach in order to calculate its impairment provision.

A 12-month expected loss approach is used for the following instruments:

Purchased or newly originated financial assets that are not credit impaired. A lifetime expected loss approach is used for the following instruments: Purchased or newly originated credit impaired financial assets.

Although some financial assets within the Bank's portfolio might meet the definition of low credit risk, the Bank opted not to apply this in application of its ECL methodology as given the nature of the Bank's

business it is deemed not to be prudent not to consider whether a significant increase in credit risk exits.

For subsequent measurement, the group applies a three-stage approach to measuring expected credit loss (ECL) on debt instruments accounted for at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associate with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
If the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2.

The group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the group expects to receive. The amount of the loss is recognised using a provision for "Expected Credit Loss account".

The group considers its historical loss experience and adjusts this for current observable data. In additional, the group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macro-economic factors that which include but are not limited to the World Food Index as well as the Volume of Imports of Goods and Services, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macro-economic factors will affect ECL. The methodology, assumptions and macro-indices, including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses the previously assessed significant increase in credit risk since origination, then the ECL reverts from lifetime ECL to 12-months ECL.

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

#### Collateral
Collateral refers to an asset bonded or pledged under a security document to the Bank by a borrower or surety in support of a loan granted. In the event of a default by a client or surety, collateral is a secondary source of repayment.



## Accounting Policies

### 3.12 Financial instruments (continued)

All collateral items ceded to the Land Bank shall be valued or revalued within the frequency timelines, failing which will be regarded as stale and in non-compliance to the Collateral Management policy.

Market values for properties (and ultimately fair value) must be conducted in line with industry standards as determined by the South African Council for the Property Valuers Profession (SACPVP), as amended from time to time. This involves the use of comparable sales of similar properties (for Land Bank it's 3 recent comparable sales).

Fair value is determined by limiting collateral reporting to the lower of registered bond/ cession amount or forced sale value (FSV).

The collateral valuation must take into account the forced sale margins (or liquidation cost provision) based on historical recovery and liquidation costs incurred by Land Bank to determine security value and /or forced sale value. These liquidations cost margins must be re-assessed annually.

#### Cash and cash equivalents
Cash comprises cash on hand and at bank and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are stated at carrying amount which is deemed fair value.

#### Funds administered on behalf of related parties
The Group manages funds on behalf of related parties. The net position in terms of legal right to offset of these funds administered on behalf of related parties are separately disclosed in the notes to the annual financial statements. These funds are not carried on the statement of financial position of the Group.

#### Trade and other payables
Trade and other payables, including accruals, are recognised when the Group has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the Group.

#### Funding Liabilities
The carrying values of all funding liabilities are measured at amortised cost in alignment with IFRS 9 requirements.

The arranging fees that are paid upon acquisition of the liability are deferred to the Statement of Other Comprehensive Income over the term of the loan facility and included in the interest expense line as these arranging fees form part of the "Effective Interest Rate" of funding instruments. The prepaid arranging fee is carried as part of the funding liabilities.

### 3.13 Tax

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

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

As part of the restructuring of the operations, the tax status of the Land Bank Insurance Company (SOC) Limited and Land Bank Life Insurance Company (SOC) Limited are currently under review with South African Revenue Service (SARS). Please refer to the notes of the annual financial statements for additional disclosure regarding the probabilities/possibilities of contingent liability raised in this regard.

### 3.14 Leases

#### Lessee accounting policies
The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. At inception of a contract, the Group assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has elected to apply the practical expedient method to account for each lease component and any non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Lease terms range from 2 to 5 years for offices and vehicles. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The group applies the cost model subsequent to the initial measurement of the right of use assets.

## Accounting Policies

### 3.14 Leases

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The interest component of the lease liability payment is presented as part of operating activities on the cash flow statement.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

#### Lessor accounting policies

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

### 3.15 Related parties

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

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

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

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

### 3.16 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

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

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

### 3.17 Non-current assets (disposal groups) held for sale (NCAHFS) or distribution to owners

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



## Accounting Policies

### 3.17 Non-current assets (disposal groups) held for sale (NCAHFS) or distribution to owners (continued)

#### Properties in possession

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

#### Disposal of properties in possession

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

The Group has satisfied the following IFRS 5 conditions to classify the properties as NCAHFS:

The appropriate level of management must be committed to a plan to sell the asset; and An active programme to locate a buyer and complete the sale must have been initiated.

The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except where events and circumstances may extend the period to complete the sale beyond one year

Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

### 3.18 Employee benefits

#### Post-employment benefit plans

The Group provides post-employment benefits through various defined contribution and defined benefit plans.

i) Defined contribution plans.

The Group pays fixed contributions into independent entities in relation to several state plans and insurance for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

#### Retirement fund

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

The Land Bank Retirement Fund ("LBRF") in an umbrella fund within the Alexander Forbes Retirement Fund (AFRF).

ii) Defined benefit plans.

Under the Group's defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies. The liability recognised in the statement of financial position for defined benefit plans is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets.

Management estimates the DBO annually with the assistance of independent actuaries. This is based on standard rates of inflation, salary growth and mortality. Discount rates are determined by reference to market yields at the end of the reporting periods on government bonds that have terms to maturity approximating to the terms of the related pension liability. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income. They are included as a separate component of equity in the statement of financial position and in the statement of changes in equity. Service cost on the net defined benefit liability is included in employee benefits expense. Net interest expense on the net defined benefit liability is included in finance costs.

## Accounting Policies

### 3.18 Employee benefits (continued)

#### Medical aid fund

The Bank provides a post-retirement medical aid benefit to all employees who were either employees or pensioners of the Bank at 1 December 2005. The fund functions as a defined benefit scheme. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age. It is the Group's policy to pay the medical fund subscription fees on behalf of all pensioners in full and to fund the total obligation as and when it arises actuarial valuations of the Bank's liability are conducted on an annual basis by an independent qualified actuary on the projected unit credit method. The liability recognised in the statement of financial position in respect of defined benefit medical plan is the present value of the defined benefit obligation at the statement of financial position date. The benefit obligation at the statement of financial position date is not reflected net of assets since these assets are not held in a legally separate entity that is not available to the Bank's own creditors. The past service costs and interest costs are accounted for in the statement of profit or loss. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the statement of profit or loss and other comprehensive income in full.

#### 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 on an undiscounted basis.

Accruals for employee entitlement to annual leave represents the present obligation, which the Group has to pay as a result of employees' services, provided to the reporting date. The accruals have been calculated at undiscounted amounts based on current salary rates.

A liability is recognised for the amount expected to be paid under short-term bonuses in the Group as the Group has a present legal constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably. A present legal constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### 3.19 Provisions

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

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

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

Provision is made for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

### 3.20 Insurance contracts

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

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



## Accounting Policies

### 3.20 Insurance contracts (continued)

#### Short-term insurance

**Gross written premiums**

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

**Commission**

Commission is payable to brokers and underwriting managers on non-life insurance business. Commission is accounted for on all in-force policies in the financial period during which it is incurred. Acquisition costs for non-life insurance business is deferred over the period in which the related premiums are earned on a remaining days basis.

**Fee income**

The reinsurance broker pays the brokerage fee they earn on reinsurance premiums to the company in exchange for a flat brokerage fee earned over the period of the treaties. This fee income is earned quarterly on settlement of the accounts to reinsurers.

**Provision for unexpired risk**

Unexpired risks refer to policies that have already been written, but the period for which premium was received or is receivable has not expired as at the measurement date and extends into the following period. The Unexpired Risk Provision (URP) comprises of the Unearned Premium Provision (UPP) and the Additional Unexpired Risk Provision (AURP).

**Notified Outstanding Claims Provision**

The Notified Outstanding Claims Provision (NOCP) is held in respect of those claims that have been notified but have not been paid or fully settled by the measurement date. These are estimated based on management expert estimation and are reviewed to be in line with recent historical claims experience.

**Deferred acquisition costs (DAC).**

Deferred Acquisition Costs (DAC) consist of commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. Deferred acquisition costs are amortised at incidence of risk basis and are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

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

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

The reinsurer's share of unearned premiums represents the portion of the current year's reinsurance premiums that relate to risk periods covered by the related reinsurance contracts extending into the

following year. The reinsurer's share of unearned premium is calculated using the same method applied to calculate the unearned premium reserve.

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

**Receivables and payables related to insurance contracts**

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders and are included at amortised cost.

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

**Long-term insurance**

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

## Accounting Policies

### 3.20 Insurance contracts (continued)

Recognition and measurement.

**Premiums**

Premiums are recognised as revenue when they become payable by the contract holder, viz at policy inception. Premiums are shown before deduction of commission.

**Fees and commission earned**

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

**Underwriting benefits**

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

**Liability adequacy test.**

At each statement of financial position date, the Group performs a liquidity adequacy test to assess whether its recognised insurance liabilities are adequate in terms of the Financial Soundness Valuation (FSV) basis as described in SAP 104. The FSV basis meets the minimum requirements of the liquidity adequacy test. If this assessment shows that the carrying amount of its insurance liabilities are inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the statement of comprehensive income.

**Reinsurance contracts held**

Contracts entered into with reinsurers under which the Group is compensated for losses on one or more long-term policy contracts issued by the Group are classified as long-term reinsurance contracts. The expected claims and benefits to which the Group is entitled to under these contracts are recognised as assets.

The Group assesses its long-term reinsurance assets for impairment annually. If there is objective evidence that the reinsurance asset is impaired, the carrying amount is reduced to a recoverable amount, and the impairment loss is recognised in the statement of profit or loss and other comprehensive income. Reinsurance liabilities are premium payable for reinsurance contracts and are recognised as expenses when incurred.

**Long-term insurance liability**

In terms of IFRS 4 – Insurance contracts, defined insurance liabilities are allowed to be measured under existing local practice. The company used the FSV method, as described in the Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (Actuarial Society), to determine the actuarial value of the policyholders' liabilities. The underlying philosophy is to recognise profits prudently over the term of each contract consistent with the work done and risk borne. In the valuation of liabilities, provision is made for:

- The best estimate of future experience;
- The compulsory margins prescribed in the Insurance Act of 2017; and
- Actuarial guidance also provides for the use of discretionary margins were deemed appropriate. The best estimate of future experience is determined as follows:
- Future investment return assumptions are derived from market yields of fixed-interest securities on the valuation date, with adjustments for the other asset classes, taking a long-term view. The appropriate asset composition of the various asset portfolios, investment management expenses, taxation at current tax rates and charges for investment guarantees are taken into account. It is assumed that the Group will retain its tax-exempt status for the foreseeable future;
- "Per policy" expenses are based on the latest actual expenses and escalated at the estimated annual expense inflation rate. In addition, expense overruns in the medium term were reserved for separately;
- Assumptions with regard to future mortality rates are consistent with the Group's recent experience or expected future experience if this would result in a higher liability. In particular, mortality rates are adjusted to allow for expected deterioration in mortality rates as a result of AIDS; and
- Persistency assumptions with regard to lapse rates are consistent with the Group's recent experience or expected future experience if this would result in a higher liability.

**Acquisition costs**

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

## Notes to the Financial Statements

### 4. Cash and cash equivalents

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| Bank balances | 1 007 726 | 965 068 | 869 233 | 933 630 |
| Short term deposits | 8 976 034 | 4 624 821 | 8 975 983 | 4 624 771 |
| | 9 983 760 | 5 589 889 | 9 845 216 | 5 558 401 |

Cash at banks are primarily held to mitigate the Bank's refinancing/liquidity risk. Refer to note 36. for the credit risk ratings of the counterparties where bank accounts are held.

Short-term investments are made for one day periods, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates. The average rate earned on invested cash in FY2022 is 4.21% (FY2021: 4.23%)

Due to the short-term nature of cash and cash equivalents, their carrying amount is considered to be the same as their fair value.

### 5. Trade and other receivables

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| Trade receivables | 1 047 348 | 859 385 | 163 788 | 380 |
| Accrued income[1] | 36 807 | 22 275 | 36 807 | 22 275 |
| Accrued interest – hedging[2] | 18 944 | 41 105 | 18 944 | 41 105 |
| Receivable – Disposal of equity investment | 108 038 | – | 108 038 | – |
| Premium receivable[3] | 506 143 | 495 320 | – | – |
| Reinsurance receivable[3] | 377 417 | 300 685 | – | – |
| Other receivables[4] | 305 677 | 190 040 | 257 618 | 143 112 |
| | 1 353 026 | 1 049 425 | 421 407 | 206 492 |

*1 Accrued income comprises of accrued interest on short-term investments and accrued fees from funds under admin.*
*2 The accrued interest on the hedging derivatives are offset and the net position is presented as the Group has a legal right to offset the amounts and intends to settle on a net basis.*
*3 The reinsurance and premium receivables have a low probability of default as the recovery is close to 100% year-on-year.*
*4 Other receivables consists of prepaid expenses, staff loans, recovery second loss and sundry debtors. Due to the short-term nature of these assets and historical experience, these assets are regarded as having a low probability of default; therefore, ECL is insignificant on these balances, because recoverability is close to 100%, staff loans are collected from staff salaries month-on-month, second loss recovery is recovered from the SLA partners month-on-month.*

**Classification of trade and other receivables**

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| Prepaid expenses[3] | 13 301 | 5 922 | 3 684 | 5 173 |
| Accrued income | 36 807 | 22 275 | 36 807 | 22 275 |
| Accrued interest – hedging | 18 944 | 41 105 | 18 944 | 41 105 |

## Notes to the Financial Statements

| | | | | |
|---|---|---|---|---|
| Trade and other receivables net of non-financial instruments | 1 283 974 | 980 123 | 361 972 | 137 939 |

### 6. Short-term insurance assets and liabilities

| | Group | |
|---|---|---|
| | 2022 R'000 | 2021 R'000 |
| **Short-term insurance liabilities** | 373 907 | 220 061 |
| Technical provision | 365 139 | 211 255 |
| Outstanding claims | 314 878 | 160 078 |
| Provision for unearned premiums | 49 492 | 49 704 |
| Provision for unexpired risk reserve | – | – |
| Incurred but not reported claims | 769 | 1 473 |
| Unearned commission income | 8 768 | 8 806 |
| *Less: Short-term insurance assets* | (266 040) | (159 014) |
| **Reinsurers' share of technical provisions** | (253 667) | (146 588) |
| Outstanding claims | (218 489) | (110 414) |
| Incurred but not reported claims | (533) | (952) |
| Provision for unearned premiums | (34 645) | (35 222) |
| Provision for unexpired risk reserve – ceded portion | – | – |
| Deferred acquisition costs | (12 373) | (12 426) |
| **Net short-term insurance technical provisions** | 107 867 | 61 047 |

The crop unearned premium provision (UPP) is calculated on the claims occurring basis for the published accounts, based on historical claims occurrence tables, which are reviewed annually. The winter crop premium is fully earned by 31 March. Below are the provisions calculated according to the statutory basis.

| | Gross R'000 | Reinsurance R'000 | Net R'000 |
|---|---|---|---|
| **Unearned Premium Reserve movement** | | | |
| Balance at 31 March 2020 | 29 818 | (21 262) | 8 556 |
| Provision earned | (29 818) | 21 262 | (8 556) |
| New provision raised | 49 704 | (35 222) | 14 482 |
| Balance at 31 March 2021 | 49 704 | (35 222) | 14 482 |
| Provision earned | (49 704) | 35 222 | (14 482) |
| Provision increased | 49 492 | (34 645) | 14 847 |
| Balance at 31 March 2022 | 49 492 | (34 645) | 14 847 |

| | Gross R'000 | Reinsurance R'000 | Net R'000 |
|---|---|---|---|
| **Deferred acquisition costs** | | | |
| Balance at 31 March 2020 | 7 454 | (5 316) | 2 138 |
| Provision earned | (7 454) | 5 316 | (2 138) |
| Provision increased | 12 426 | (8 806) | 3 620 |
| Balance at 31 March 2021 | 12 426 | (8 806) | 3 620 |
| Provision earned | (12 426) | 8 806 | (3 620) |
| Provision increased | 12 373 | (8 762) | 3 611 |
| Balance at 31 March 2022 | 12 373 | (8 762) | 3 611 |

## Notes to the Financial Statements

### 6. Short-term insurance assets and liabilities (continued)

**Claims development table**

The following tables show claims paid in the year that it occurred as well as one year thereafter. Historically, no claims have been paid more than one year after the end of each incident year.

| | Group | |
|---|---|---|
| | 2020 R'000 | 2021 R'000 |
| **Gross claims paid** | | |
| **Incident year** | | |
| At end of the incident year | (47 158) | 159 399 |
| One year later | (207 728) | 166 603 |
| **Current estimate of gross cumulative claims paid** | (254 886) | 326 002 |
| | | |
| **Net claims paid** | | |
| **Incident year** | | |
| At end of the incident year | (14 157) | 47 820 |
| One year later | (62 318) | 49 981 |
| **Current estimate of net cumulative claims paid** | (76 475) | 97 801 |

| | Gross R'000 | Reinsurance R'000 | Net R'000 |
|---|---|---|---|
| **Outstanding claims movement** | | | |
| **Balance at 31 March 2020** | 190 245 | (133 171) | 57 074 |
| Movement in outstanding claims provisions | (30 167) | 22 757 | (7 410) |
| Balance at 31 March 2021 | 160 078 | (110 414) | 49 664 |
| Movement in outstanding claims provisions | 154 800 | (108 076) | 46 724 |
| Balance at 31 March 2022 | 314 878 | (218 490) | 96 388 |

| | Gross R'000 | Reinsurance R'000 | Net R'000 |
|---|---|---|---|
| **Incurred but not reported movement** | | | |
| **Balance at 31 March 2020** | 6 330 | (4 431) | 1 899,00 |
| Movement in IBNR | (4 858) | 3 479 | (1 379) |
| **Balance at 31 March 2021** | 1 472 | (952) | 520 |
| Movement in IBNR | (702) | 419 | (283) |
| **Balance at 31 March 2022** | 770 | (533) | 237 |

## Notes to the Financial Statements

### 7. Investments

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Investment in LBLIC | – | – | 30 | 30 |
| Investment in LBIC | – | – | 650 000 | 650 000 |
| Unlisted investments | 221 828 | 387 354 | 221 828 | 387 354 |
| Investment held with Coronation | 337 823 | 303 104 | 337 823 | 303 104 |
| Investment in listed shares | 85 382 | 90 816 | 85 382 | 90 816 |
| Investments held by LBLIC | 1 234 694 | 1 106 703 | – | – |
| Investments held by LBIC | 253 660 | 430 682 | – | – |
| | 2 133 387 | 2 318 659 | 1 295 063 | 1 431 304 |
| **Investment held with Coronation** | | | | |
| These are investments held with Coronation Asset Managers. | | | | |
| **Listed investments** | 313 004 | 278 129 | 313 004 | 278 129 |
| Local equity | 173 459 | 164 557 | 173 459 | 164 557 |
| Local bonds | 66 713 | 60 834 | 66 713 | 60 834 |
| Foreign equity | 72 832 | 52 738 | 72 832 | 52 738 |
| **Other** | 15 786 | 13 419 | 15 786 | 13 419 |
| Commodities | 11 586 | 7 625 | 11 586 | 7 625 |
| Local Hedge Funds | 3 304 | 2 868 | 3 304 | 2 868 |
| Foreign unit trusts | 896 | 2 926 | 896 | 2 926 |
| **Cash** | 9 032 | 11 556 | 9 032 | 11 556 |
| Local | 7 866 | 11 311 | 7 866 | 11 311 |
| Foreign | 1 166 | 245 | 1 166 | 245 |
| | 337 823 | 303 104 | 337 823 | 303 104 |

The funds are entrusted to portfolio managers for investment purposes. The funds are earmarked to fund the future medical aid contributions of retired employees. The investments are classified at fair value through profit or loss and are measured and disclosed at fair value, except for cash which is measured at amortised cost. These investments are exposed to interest rate risk, equity price risk and foreign exchange risk. Refer to note 35 for more information on the related risks and mitigation strategies.



## Notes to the Financial Statements

### 7. Investments (continued)

| | Group | | Company | |
|---|---|---|---|---|
| **Investments held with Coronation are invested as follows:** | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| **Local equities** | | | | |
| Financial (excl. real estate) | 26% | 24% | 26% | 24% |
| Basic materials | 26% | 30% | 26% | 30% |
| Industrials | 3% | 2% | 3% | 2% |
| Consumer goods | 8% | 7% | 8% | 7% |
| Health care | 2% | 3% | 2% | 3% |
| Consumer services | 16% | 30% | 16% | 30% |
| Telecommunications | 4% | – | 4% | – |
| Technology | 11% | – | 11% | – |
| Other securities | 6% | 4% | 6% | 4% |
| Refer to note 20. for the post-retirement obligation disclosure. | | | | |
| **Unlisted investments** | | | | |
| **Fair value** | | | | |
| Ordinary shares in Acorn Agri (Pty) Ltd | 78 190 | 89 000 | 78 190 | 89 000 |
| Ordinary shares in Ideafruit (Pty) Ltd | 47 397 | 44 256 | 47 397 | 44 256 |
| Ordinary shares in Riverside Holdings (Pty) Ltd | – | 100 650 | – | 100 650 |
| Ordinary shares in Afgri Grain Silo Company Pty Ltd | 96 241 | 153 448 | 96 241 | 153 448 |
| | 221 828 | 387 354 | 221 828 | 387 354 |

The above equity investments constitute neither control, nor significant influence. Land Bank elected to apply its irrevocable right to designate these equity instruments at fair value through other comprehensive income.

**Acorn Agri & Food Ltd**
Land Bank holds 3.37% interest in Acorn Agri & Food Ltd. Acorn Agri & Food Ltd investment was valued as at 31 March 2022. The valuation was based on the Net Asset Value (NAV) of the company, resulting in an investment value of R78 million (FY2021: R89 million) for the Bank.

**Ideafruit (Pty) Ltd**
Land Bank holds 19.9% interest in Ideafruit (Pty) Ltd and the investment was valued as at 31 March 2022. The valuation was based on the DCF and current asset valuations, resulting in an investment value of R47 million (FY2021: R44 million) for the Bank.

**Riverside (Pty) Ltd**
The Land Bank sold all 19.90% interest in Riverside (Pty) Ltd for R108.3 million during the current year.

**Afgri Grain Silo Company Pty Ltd**
Land Bank holds 19.9% interest in Afgri Grain Silo Company (Pty) Ltd and the investment was valued as at 31 March 2022. The valuation was based on the DCF and current asset valuations, resulting in an investment value of R96 million (FY2021: R153.4 million) for the Bank.

| | Group | | Company | |
|---|---|---|---|---|
| **Investments in Listed Shares** | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Rhodes Food Group Holdings Limited | 85 382 | 90 816 | 85 382 | 90 816 |

Rhodes Food Group Holdings Limited was valued in March 2022 based on the listed share price. The listed share price of Rhodes Food Group Holdings Limited as at 31 March 2022, was R11.0 per share (FY2021: R11.7), resulting in an investment value of R85.38 million (FY2021: R90.82 million ) for the Bank. The shares are traded daily hence the share price is regarded as a fair share price.

## Notes to the Financial Statements

### 7. Investments (continued)

**Investments held by LBLIC**

These are investments held by subsidiaries with the following Asset Managers:
- Coronation Fund Managers Limited
- Momentum Asset Management
- Argon Asset Management
- Investec Asset Management
- Old Mutual Investment Group (South Africa) (Pty) Ltd

| | Group | |
|---|---|---|
| | 2022 R'000 | 2021 R'000 |
| Equities | 530 710 | 433 293 |
| Commodities | 22 130 | 23 722 |
| Bonds | 345 614 | 313 885 |
| Collective investment schemes | 131 999 | 127 891 |
| Cash deposits and similar securities | 204 221 | 207 904 |
| Investment policy | 17 | 9 |
| | 1 234 693 | 1 106 704 |
| Designated at fair value through profit or loss | | |
| **Equities** | | |
| Equities comprise: | | |
| Ordinary shares listed on the Johannesburg Stock Exchange (JSE) [1] | 530 710 | 433 292 |
| | 530 710 | 433 292 |
| Equities are classified as designated as at fair value through profit or loss | | |
| **Commodities** | | |
| Exchange traded funds (ETF's) – local [1] | 22 130 | 23 722 |
| | 22 130 | 23 722 |
| Commodity ETF's are classified as designated as at fair value through profit or loss. | | |
| **Collective investment schemes ("CIS")** | | |
| Equity – foreign unit trusts | 105 609 | 132 092 |
| Balanced fund – foreign | 26 389 | 2 635 |
| Foreign cash | | (6 837) |
| | 131 999 | 127 890 |

CIS are classified at fair value through profit or loss.

*[1] Investments at market prices per the JSE.*

## Notes to the Financial Statements

### 7. Investments (continued)

| | Group | |
|---|---|---|
| | 2022 R'000 | 2021 R'000 |
| **Investments in interest bearing assets** | | |
| Bonds listed on the JSE Debt Market – at market value | 345 614 | 313 885 |
| Government | 92 114 | 87 723 |
| Corporate | 253 500 | 226 162 |
| Cash, deposits and similar securities[1] | 204 221 | 207 904 |
| Deposits with banks – local | 119 643 | 107 499 |
| Money market instruments | 84 578 | 100 405 |
| | 549 836 | 521 789 |
| **Classification of investments in interest bearing assets** | | |
| – Amortised cost instruments | 119 643 | 107 499 |
| – Fair value through profit or loss | 430 193 | 414 290 |
| | 549 836 | 521 789 |

*1 Due to the short-term nature of Cash, deposits and similar securities, their carrying amount is considered to be the same as their fair value*

| | Group | |
|---|---|---|
| | 2022 R'000 | 2021 R'000 |
| **Investment policy** | | |
| Other non-cash | 17 | 9 |
| The Investment policy is classified at fair value through profit or loss. | | |
| Investments in foreign equities were made utilising pooled funds. The risk is managed by the LBLIC Investment and Actuarial Committee. | | |
| A register containing details of all investments is available for inspection at the registered office of LBLIC. | | |
| **Investments held by LBIC** | | |
| This investment is held by Future growth Asset Managers. | | |
| **Investments in interest bearing assets** | | |
| Total investment in interest bearing assets | 253 660 | 430 682 |
| Bonds – valued at fair value through profit and loss | 199 738 | 183 571 |
| Cash – valued at fair value through profit and loss | 53 921 | 247 111 |

## 8. Derivative Assets

The Bank's main driver of earnings is net interest income, which is the difference between interest income received on assets and interest expense incurred on funding liabilities.

The Bank is exposed to "basis risk" as a result of different underlying reference rates of interest earning assets and interest incurring liabilities with Prime and Jibar respectively.

To manage the Bank's exposure to "basis risk" and in an effort to protect the Bank's net interest margin, the Land Bank Board approved an Interest Rate Risk Management Strategy during FY2018; hedging the mismatch moderately between the lending and funding rate.

The Bank's Interest Rate Management Strategy was drafted and is reviewed annually in the context of the Corporate Plan, Risk Appetite Framework, Borrowing and Funding Plan and Treasury Policy Framework.

In the current year under review, management's review revealed that the current hedge documentation and the Interest Rate Risk Management Strategy would strictly not meet the requirements in IFRS 9 to hedge account the interest rate basis swaps. If hedge accounting is not applied to a derivative, IFRS 9 requires gains and losses to be recognised in profit or loss and not in other comprehensive income (OCI).

The table below sets out derivative assets and liabilities by the type of hedge relationship in which they are designated.

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| **Hedging derivatives** | | | | |
| Interest rate swap* | 9 896 | 11 340 | 9 896 | 11 340 |
| The nominal amount of derivatives designated in cash flow hedge relationships is as follows. | | | | |
| Interest rate swaps** | | | | |
| – Asset | 4 400 000 | 10 370 000 | 4 400 000 | 10 370 000 |
| – Liability | (4 400 000) | (10 370 000) | (4 400 000) | (10 370 000) |
| | – | – | – | – |

The following tables show the notional amount of derivatives in time bands based on the maturity of the derivatives.

| | 0 to 12 months R'000 | 1 to 2 years R'000 | 2 to 3 years R'000 | 3 to 5 years R'000 | Total R'000 |
|---|---|---|---|---|---|
| 2022 | | | | | |
| **Group and Bank** | | | | | |
| **Interest rate swaps** | | | | | |
| – Pay | | 3 600 000 | | 800 000 | 4 400 000 |
| – Receive | – | 3 600 000 | – | 800 000 | 4 400 000 |
| **Group and Bank** | | | | | |
| **Interest rate swaps** | | | | | |
| – Pay | 5 970 000 | 3 600 000 | – | 800 000 | 10 370 000 |
| – Receive | 5 970 000 | 3 600 000 | – | 800 000 | 10 370 000 |



**Notes to the Financial Statements**

## 9. Loans and advances

Group and Company

| **Gross loans per business segment** | Gross loans R'000 | Expected Credit Loss (ECL) R'000 | Net loans R'000 |
|---|---|---|---|
| 2022 | | | |
| Corporate Banking and Structured Investments (CB&SI) | 8 928 203 | (1 294 553) | 7 633 650 |
| Commercial Development and Business Banking (CDBB) | 17 004 357 | (3 566 517) | 13 437 840 |
| Loan commitments and guarantees | | (157 658) | (157 658) |
| Loan Modifications4 CB&SI | (35 210) | – | (35 210) |
| Loan Modifications4 CDBB | (22 040) | – | (22 040) |
| | 25 875 310 | (5 018 729) | 20 856 582 |
| 2021 | | | |
| Corporate Banking and Structured Investments | 8 466 246 | (812 695) | 7 653 551 |
| Commercial Development and Business Banking | 28 542 988 | (4 653 758) | 23 889 230 |
| Loan commitments and guarantees | | (576 851) | (576 851) |
| Loan Modifications4 CB&SI | (37 020) | – | (37 020) |
| Loan Modifications4 CDBB | (41 050) | – | (41 050) |
| | 36 931 164 | (6 043 304) | 30 887 859 |

| **Loan type** | Nature of interest rate | Average term of repayment | Average interest rate 2022 | Average interest rate 2021 |
|---|---|---|---|---|
| Short term loans | Variable | 1 year | 8,99% | 8,35% |
| Medium term loans | Variable | 1 to 5 years | 9,20% | 8,28% |
| Long term loans | Variable/ Fixed | > 5 years | 8,39% | 7,71% |

**Loans by maturity profile**

Refer to note 35 for details about maturity analysis .

## Notes to the Financial Statements

### 9. Loans and advances (continued)

| | Performing loans[1] R'000 | Under performing loans[2] R'000 | Non-performing loans[3] R'000 | Total R'000 |
|---|---|---|---|---|
| 2022 | | | | |
| Corporate Banking and Structured Investments | 3 421 602 | 3 027 085 | 2 479 516 | 8 928 203 |
| Commercial Development and Business Banking | 5 137 983 | 1 990 022 | 9 876 352 | 17 004 357 |
| Loan Modifications[4] CB&SI | (21 485) | (13 725) | | (35 210) |
| Loan Modifications[4] CDBB | (12 056) | (6 347) | (3 637) | (22 040) |
| **Gross loans and advances** | **8 526 044** | **4 997 035** | **12 352 231** | **25 875 310** |
| Expected Credit Loss (ECL) | (171 566) | (622 526) | (4 066 978) | (4 861 070) |
| **Net loans and advances** | **8 354 478** | **4 374 509** | **8 285 253** | **21 014 240** |
| Guarantees | | | | 4 290 |
| Loan commitments[5] | | | | 1 491 686 |
| **Gross loan commitments and guarantees** | | | | **1 495 976** |
| Expected Credit Loss (ECL) | | | | (157 658) |
| **Net loan commitments and guarantees** | | | | **1 338 318** |

| Loans by credit quality | Performing loans[1] R'000 | Under performing loans[2] R'000 | Non-performing loans[3] R'000 | Total R'000 |
|---|---|---|---|---|
| 2021 | | | | |
| Corporate Banking and Structured Investments | 1 705 204 | 6 233 020 | 528 022 | 8 466 246 |
| Commercial Development and Business Banking | 11 925 245 | 5 129 042 | 11 488 701 | 28 542 988 |
| Loan Modifications[4] CB&SI | (21 564) | (15 456) | – | (37 020) |
| Loan Modifications[4] CDBB | (19 493) | (15 434) | (6 123) | (41 050) |
| **Gross loans and advances** | 13 589 392 | 11 331 172 | 12 010 600 | 36 931 164 |
| Expected Credit Loss (ECL) | (210 605) | (1 455 116) | (3 800 732) | (5 466 453) |
| **Net loans and advances** | 13 378 787 | 9 876 055 | 8 209 868 | 31 464 711 |
| Guarantees | | | | 15 580 |
| Loan commitments[5] | | | | 4 366 729 |
| **Gross loan commitments and guarantees** | | | | 4 382 309 |
| Expected Credit Loss (ECL) | | | | (576 851) |
| **Net loan commitments and guarantees** | | | | 3 805 458 |

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

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

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

*[4] Refer to note 35 for modification disclosure.*

*[5] The loan commitments are undrawn balances.*

## Notes to the Financial Statements

### 9. Loans and advances (continued)

Expected Credit Loss provision: reconciliation of movement per business unit

| Group and Company | Corporate Banking and Structured Investments R'000 | Commercial Development and Business Banking R'000 | Loan commitments and guarantees R'000 | Total R'000 |
|---|---|---|---|---|
| 2022 | | | | |
| Balance at the beginning of the year[1] | 785 378 | 3 765 240 | 576 851 | 5 127 470 |
| Movement for the year | | | | |
| Credit losses written off: | (1 641) | (7 441) | – | (9 081) |
| – Statement of financial position write off (utilisation) | | (2 159) | – | (2 159) |
| – Statement of comprehensive income write off | (1 641) | (5 281) | – | (6 922) |
| Net impairment raised to the statement of comprehensive income | 372 959 | (896 786) | (419 194) | (943 021) |
| Balance at the end of the year[1] | 1 156 697 | 2 861 013 | 157 658 | 4 175 367 |
| 2021 | | | | |
| Balance at the beginning of the year[1] | 744 324 | 4 061 187 | 330 001 | 5 081 617 |
| Movement for the year | | | | |
| Credit losses written off: | (234 040) | (59 475) | – | (293 516) |
| – Statement of financial position write off (utilisation) | (232 894) | (38 974) | – | (271 868) |
| – Statement of comprehensive income write off | (1 146) | (20 501) | – | (21 647) |
| Net impairment raised/ (released) to the statement of comprehensive income | 275 094 | (236 472) | 246 850 | 285 473 |
| Balance at the end of the year [1] | 785 378 | 3 765 240 | 576 851 | 5 073 575 |

*[1] The balances excludes suspended interest of R843.3 million (FY2021: R915.8 million).*

Impairment releases/ (charges), claims and recoveries

| Group and Company | Corporate Banking and Structured Investments R'000 | Commercial Development and Business Banking R'000 | Loan commitments and guarantees R'000 | Total R'000 |
|---|---|---|---|---|
| 2022 | | | | |
| Net impairments raised to the statement of comprehensive income | 372 959 | (896 786) | (419 194) | (943 021) |
| Recoveries in respect of amounts previously written off[1] | (213 968) | (62 122) | – | (276 090) |
| Second loss sharing | – | (79 441) | – | (79 441) |
| | 158 991 | (1 038 350) | (419 194) | (1 298 552) |
| 2021 | – | – | – | |
| Net impairments raised/ (released) to the statement of comprehensive income | 275 094 | (236 472) | 246 850 | 285 473 |
| Recoveries in respect of amounts previously written off[1] | (8 553) | (7 250) | – | (15 803) |
| Second loss sharing[2] | – | 53 895 | – | 53 895 |
| | 266 541 | (189 827) | 246 850 | 323 565 |

*1 Off balance sheet debt collection amounting to R61.7million (2021 R333.9 million) that was previously written off is still subject to legal action.*

*2 Second loss sharing is a recovery of losses incurred on loans acquired through the SLA partners.*

## Notes to the Financial Statements

### 9. Loans and advances (continued)

#### Collateral held as security

The Group holds collateral which it is entitled to sell in the case of default by the owner of the collateral. The amount and type of collateral held for the exposure depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of the types of collateral. The value of the collateral is determined with reference to the realisable value (recoverable amount) of security under forced-sale conditions.

The Land and buildings is disclosed at the lower of bond value or security value after taking into account haircuts. The collateral policy of Land bank, is that collateral is valued at inception and in three year intervals. The collateral is also valued when a facility is renewed or restructured.

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

| | Company | |
|---|---|---|
| | 2022 R'000 | 2021 R'000 |
| **Nature of assets*** | | |
| Bank Guarantees | 54 854 | 601 456 |
| Biological Assets | 1 734 617 | 1 456 985 |
| Cash Deposits | 214 550 | 299 291 |
| Trade Debtors | 391 883 | 1 457 123 |
| Inventory | 800 872 | 1 009 746 |
| Land and Buildings | 26 115 843 | 37 067 571 |
| Plant and Equipment | 465 354 | 681 844 |
| Shares and investments | 527 591 | 879 899 |
| Vehicles and implements | 132 725 | 116 208 |
| | 30 438 289 | 43 570 124 |

The quality of the collateral has not deteriorated from previous years. The reduction in collateral values is primarily due to the attrition of the loan book through client settlements as the Land Bank has not been able to fully support the sector as a result of its current state of default. Customers have sought assistance in other commercial banks. The Bank is also conducting frequent collateral valuations in line with the updated policies, thereby ensuring that the most recent Market Values, which takes into account prevailing market conditions, are relied upon.

Refer to note 35 for details about the maximum exposure to credit risk for each class of financial instrument exposed to credit risk as at 31 March 2022.

At the end of the Financial year ended 31 March 2022, loans where collateral held covered the carrying amount in full amounted to R113.4 million (2021:R117.2 million).

Collateral held as security and other credit enhancements relating to credit impaired financial assets.

| | Gross Exposure R'000 | Impairment Allowance R'000 | Carrying Amount R'000 | Realisable value of collateral held R'000 |
|---|---|---|---|---|
| 2022 | | | | |
| Loans and advances | 12 352 231 | (4 066 978) | 8 285 253 | 9 582 097 |
| 2021 | | | | |
| Loans and advances | 12 010 600 | (3 800 732) | 8 209 868 | 10 636 864 |



## Notes to the Financial Statements

### 9. Loans and advances (continued)

#### Concentration of credit risk

Land Bank's business is exposed to credit concentration risk in the agricultural sector, as well as to certain counterparties/group of connected parties mainly within the Corporate Banking & Structured Investments portfolio. During the year under review, the Land Bank performed a concentration risk analysis to determine acceptable risk absorption capacity taking into account the current balance sheet size and income statement.

The Board of Directors maintained credit concentration limits during the FY2022, with a single obligor limit of 7,5% (FY2021: 7,5%) of the Land Bank's equity to any counterparty or group of connected parties in the Commercial Development & Business Banking segment and R150 million (FY2021: R150 million). At the approval of the limits in FY2021, the Board of Directors condoned all exposures in excess of the approved limit with a strategy to reduce them to the required level using the asset solution or sell down underway.

As at the close of FY2022,there were ten obligors (R5.9 billion) with individual exposures in excess of 7,5% of the Land Bank's own equity in the Corporate Banking & Structured Investments segment, two single obligors (R343 million) in the Commercial Development & Business Banking segment and six obligors (R622.5 million) in the SLA books.

### 10. Non-current assets held-for-sale

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Properties in possession | 9 609 | 4 058 | 9 609 | 4 058 |
| | 9 609 | 4 058 | 9 609 | 4 058 |
| | 4 058 | 105 112 | 4 058 | 105 112 |
| **Reconciliation of movement** | | | | |
| **Opening balance** | | | | |
| Plus: Additions | 5 700 | 1 030 | 5 700 | 1 030 |
| Less: Disposals | – | (13 910) | – | (13 910) |
| Re-measurement recognised | (149) | – | (149) | – |
| Reclassification from Investment Properties* | – | (88 174) | – | (88 174) |
| **Closing balance** | 9 609 | 4 058 | 9 609 | 4 058 |

#### Properties in possession

These represent the properties brought in by the Group due to clients defaulting on their loan payments. The intention of the Group is to sell these properties to recover the outstanding payments on the defaulted loans. The Group exclusively hold these properties with a view to dispose of them. These properties in possession are farm holdings and the Group has no intention to occupy them. The Group was committed to sell these properties as they were all advertised for sale. In view of the current volatile market conditions, the properties in possession will only be disposed of, as and when conditions render it economically viable.

BP 1938 located in Pietermaritzburg
BP 2102 located in East London
BP 2116 located in Theunissen
BP 2118 located in Theunissen
BP 2119 located in Potchefstroom
BP2120 located in Polokwane
BP2121 located in Ventersburg
BP2122 located in Polokwane

## Notes to the Financial Statements

### 10. Non-current assets held-for-sale (continued)

*Owned building

In FY2019 the board approved the disposal of the property previously classified as investment properties. The Group was committed to sell these properties as they were all advertised for sale. In view of the current volatile market conditions, it was not be possible to dispose all properties therefore they have been reclassified to investment properties. Please refer to note 11.

Based on the requirements of IFRS 5, the assets have been disclosed as disposal groups, and are separately disclosed on the statement of financial position. The disposal groups are measured at the lower of carrying amount and fair value less costs to sell.

The following disposals took place and profits/(losses) recognised are:

2022

There were no disposals for the period ending 31 March 2022

| 2021 | Carrying amount | Selling Price | VAT | Profit/(Loss) after tax |
|---|---|---|---|---|
| BP 2114 located in Nelspruit | 1 121 | 1 739 | – | 618 |
| Heidelberg Building ERF 130 | 6 189 | 7 050 | – | 861 |
| George Building ERF 2108 | 6 600 | 6 739 | – | 139 |
| | 13 910 | 15 528 | | 1 618 |

Refer to note 36 for the methods used to determine the fair values for these assets. Refer to note 11 for the reasons of the transfer of the assets.

### 11. Investment property

Group

| 2022 | Cost or Revaluation | Accumulated depreciation | Transfers * | Fair value adjustments | Carrying value |
|---|---|---|---|---|---|
| Investment property | 95 100 | – | – | 2 300 | 97 400 |

| 2021 | Cost or Revaluation | Accumulated depreciation | Transfers * | Fair value adjustments | Carrying value |
|---|---|---|---|---|---|
| Investment property* | 15 000 | – | 88 174 | (8 074) | 95 100 |

Company

| 2022 | Cost or Revaluation | Accumulated depreciation | Transfers * | Fair value adjustments | Carrying value |
|---|---|---|---|---|---|
| Investment property | 95 100 | – | – | 2 300 | 97 400 |

| 2021 | Cost or Revaluation | Accumulated depreciation | Transfers * | Fair value adjustments | Carrying value |
|---|---|---|---|---|---|
| Investment property | 15 000 | - | 88 174 | (8 074) | 95 100 |

* *These properties were reclassified from NCAHFS to investment properties as they no longer meet the requirements of IFRS 5. Please refer to note 10. There are no restrictions on the title of the property and no property has been pledged as security.*

The fair value of investment property was determined by using the opportunity cash flow method (OCF). This is a combination of capitalisation and discounting. The inputs used are gross market rentals, operating costs, the perpetual vacancy, market capitalisation rate and net present value of the OCF. Refer to note 36.



## Notes to the Financial Statements

### 12. Property, plant and equipment

| Group | 2022 Cost/ Revaluation | 2022 Accumulated depreciation | 2022 Carrying value | 2021 Cost/ Revaluation | 2021 Accumulated depreciation | 2021 Carrying value |
|---|---|---|---|---|---|---|
| Land | 4 383 | | 4 383 | 2 200 | – | 2 200 |
| Buildings | 21 378 | (911) | 20 467 | 16 808 | (1 108) | 15 700 |
| Furniture, fittings and office equipment | 17 923 | (15 849) | 2 074 | 19 081 | (16 777) | 2 304 |
| Motor vehicles | 524 | (419) | 105 | 524 | (419) | 105 |
| IT equipment | 38 080 | (36 020) | 2 060 | 36 441 | (35 144) | 1 297 |
| Leasehold improvements | 795 | (735) | 60 | 15 332 | (15 083) | 249 |
| **Total** | 83 083 | (53 934) | 29 149 | 90 385 | (68 530) | 21 855 |

| Company | 2022 Cost/ Revaluation | 2022 Accumulated depreciation | 2022 Carrying value | 2021 Cost/ Revaluation | 2021 Accumulated depreciation | 2021 Carrying value |
|---|---|---|---|---|---|---|
| Land | 4 383 | | 4 383 | 2 200 | – | 2 200 |
| Buildings | 21 378 | (911) | 20 467 | 16 808 | (1 108) | 15 700 |
| Furniture, fittings and office equipment | 17 664 | (15 636) | 2 028 | 18 829 | (16 577) | 2 253 |
| Motor vehicles | 524 | (419) | 105 | 524 | (419) | 105 |
| IT equipment | 37 743 | (35 728) | 2 015 | 36 149 | (34 901) | 1 249 |
| Leasehold improvements | 795 | (735) | 60 | 15 332 | (15 083) | 249 |
| **Total** | 82 487 | (53 429) | 29 058 | 89 842 | (68 087) | 21 755 |

Reconciliation of property, plant and equipment – Group – 2022

| | Opening balance | Additions | Disposals | Revaluations/ devaluations | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 2 200 | – | – | 2 183 | – | **4 383** |
| Buildings | 15 700 | – | – | 5 678 | (911) | **20 467** |
| Furniture, fittings and office equipment | 2 306 | 53 | – | – | (285) | **2 074** |
| Motor vehicles | 105 | – | – | – | – | **105** |
| IT equipment | 1 295 | 1 699 | (11) | – | (923) | **2 060** |
| Leasehold improvements | 249 | – | (184) | – | (5) | **60** |
| **Total** | 21 855 | 1 752 | (195) | 7 861 | (2 124) | 29 149 |

Reconciliation of property, plant and equipment – Group – 2021

| | Opening balance | Additions | Disposals | Revaluations/ devaluations | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 4 243 | – | – | (2 043) | – | **2 200** |
| Buildings | 20 157 | – | – | (3 349) | (1 108) | **15 700** |
| Furniture, fittings and office equipment | 2 682 | – | (26) | – | (350) | **2 306** |
| Motor vehicles | 105 | – | – | – | – | **105** |
| IT equipment | 1 530 | 653 | (18) | – | (870) | **1 295** |
| Leasehold improvements | 254 | – | – | – | (5) | **249** |
| **Total** | 28 971 | 653 | (44) | (5 392) | (2 333) | 21 855 |

## Notes to the Financial Statements

### 12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – Company – 2022

| | Opening balance | Additions | Disposals | Transfers* | Revaluations/ devaluations | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 2 200 | – | – | – | 2 183 | – | 4 383 |
| Buildings | 15 700 | – | – | – | 5 678 | (911) | 20 467 |
| Furniture, fittings and office equipment | 2 256 | 53 | – | – | – | (282) | 2 028 |
| Motor vehicles | 105 | – | – | – | – | – | 105 |
| IT equipment | 1 245 | 1 699 | (11) | (28) | – | (890) | 2 015 |
| Leasehold improvements | 249 | – | (184) | – | – | (5) | 60 |
| **Total** | 21 755 | 1 752 | (195) | (28) | 7 861 | (2 088) | 29 058 |

Reconciliation of property, plant and equipment – Company – 2021

| | Opening balance | Additions | Disposals | Transfers* | Revaluations/ devaluations | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 4 243 | – | – | – | (2 043) | – | 2 200 |
| Buildings | 20 157 | – | – | – | (3 349) | (1 108) | 15 700 |
| Furniture, fittings and office equipment | 2 625 | – | (26) | – | – | (343) | 2 256 |
| Motor vehicles | 105 | – | – | – | – | – | 105 |
| IT equipment | 1 424 | 653 | (18) | – | – | (814) | 1 245 |
| Leasehold improvements | 254 | – | – | – | – | (5) | 249 |
| **Total** | 28 808 | 653 | (44) | – | (5 392) | (2 270) | 21 755 |

* *These are intercompany transfers of assets from the parent company to the subsidiaries and vice versa as and when a need arises. This does not relate to reclassifying assets from one class to another.*

The land and buildings are valued by independent property valuators at year end. The methods used for the valuations are based on market rentals, as obtained from independent companies who operate in the area, and the capitalisation rate for the areas, as obtained from the valuator's report.

There are no restrictions on the title of the property and no property has been pledged as security. The Group does not have any contractual commitments for the acquisition of property.

IFRS requires that the carrying values of land and buildings if they had to be carried using the historical cost method should be disclosed. As a result of the buildings being purchased many years ago, the latest being 1998, it is not possible for the Bank to determine and disclose the carrying values of each property and in addition to this the values at which the properties were purchased are negligible in comparison to the current carrying values disclosed using the revaluation method.

## Notes to the Financial Statements

### 13. Leases

#### 13.1 Right of use of assets (ROU)

Group

| 2022 | Buildings* R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|
| **At 1 April 2021** | 18 652 | 2 094 | 20 746 |
| Additions | 2 128 | – | 2 128 |
| ROU derecognised | (692) | – | (692) |
| Depreciation | (16 179) | (2 094) | (18 273) |
| **At 31 March 2022** | 3 909 | – | 3 909 |

| 2021 | Buildings* R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|
| **At 1 April 2020** | 42 311 | 5 682 | 47 993 |
| Additions | 300 | – | 300 |
| ROU derecognised | (1 976) | – | (1 976) |
| Depreciation | (21 983) | (3 588) | (25 571) |
| **At 31 March 2021** | 18 652 | 2 094 | 20 746 |

Company

| 2022 | Buildings* R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|
| **At 1 April 2021** | 18 652 | 1 999 | 20 651 |
| Additions | 2 128 | – | 2 128 |
| ROU derecognised | (692) | – | (692) |
| Depreciation | (16 179) | (1 999) | (18 178) |
| **At 31 March 2022** | 3 909 | – | 3 909 |

| 2021 | Buildings* R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|
| | R'000 | R'000 | R'000 |
| **At 1 April 2020** | 42 311 | 5 424 | 47 735 |
| Additions | 300 | – | 300 |
| ROU derecognised | (1 976) | – | (1 976) |
| Depreciation | (21 983) | (3 425) | (25 408) |
| **At 31 March 2021** | 18 652 | 1 999 | 20 651 |

## Notes to the Financial Statements

### 13. Leases (continued)

#### 13.2 Lease Liabilities

Group

| 2022 | Buildings* R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|
| **At 1 April 2021** | 20 856 | 2 320 | 23 176 |
| Additions | 2 128 | – | 2 128 |
| Interest expense | 1 072 | 66 | 1 138 |
| Lease liability derecognised | (918) | – | 918 |
| Lease payments | (18 206) | (2 386) | (20 592) |
| **At 31 March 2022** | **4 932** | **–** | **4 932** |

| 2021 | Buildings* R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|
| **At 1 April 2020** | 44 574 | 6 035 | 50 609 |
| Additions | 300 | – | 300 |
| Interest expense | 3 002 | 382 | 3 384 |
| Lease payments | (27 020) | (4 097) | (31 117) |
| **At 31 March 2021** | 20 856 | 2 320 | 23 176 |

Maturity analysis for lease liabilities

Refer to note 35 for details about maturity analysis

Company

| 2022 | Buildings* R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|
| **At 1 April 2021** | 20 856 | 2 215 | 23 071 |
| Additions | 2 128 | – | 2 128 |
| Interest expense | 1 072 | 63 | 1 135 |
| Lease liability derecognised | (918) | – | (918) |
| Lease payments | (18 206) | (2 278) | (20 484) |
| **At 31 March 2022** | **4 932** | **–** | **4 932** |

| 2021 | Buildings* R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|
| **At 1 April 2020** | 44 574 | 5 761 | 50 335 |
| Additions | 300 | – | 300 |
| Interest expense | 3 002 | 365 | 3 367 |
| Lease payments | (27 020) | (3 912) | (30 932) |
| **At 31 March 2021** | **20 856** | **2 214** | **23 070** |

Maturity analysis for lease liabilities

Refer to note 35 for details for the maturity analysis.

* *In the current year under review the Mthatha office lease as well as the Head office lease expired, both these buildings were therefore disposed. The Head office lease was extended for a period of 4 months ending 31 March 2022, this extension was not capitalised as it falls outside the IFRS 16 scope. The significant movement between prior year and current year for both the right of use assets and liabilities, is as a result of the winding down of the assets and liabilities as the most of the contracts are close to maturity.*

## Notes to the Financial Statements

### 14. Intangible assets

Group

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Cost or Revaluation | Accumulated depreciation | Carrying value | Cost or Revaluation | Accumulated depreciation | Carrying value |
| Computer software | 82 335 | (80 720) | 1 615 | 82 335 | (79 569) | 2 766 |

Company

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Cost or Revaluation | Accumulated depreciation | Carrying value | Cost or Revaluation | Accumulated depreciation | Carrying value |
| Computer software | 82 335 | (80 720) | 1 615 | 82 335 | (79 569) | 2 766 |

Reconciliation of Intangible assets Group – 2022

Group

| | Opening balance | Depreciation | Total |
|---|---|---|---|
| Computer software | 2 766 | (1 151) | 1 615 |

Reconciliation of Intangible assets Group – 2021

Group

| | Opening balance | Depreciation | Total |
|---|---|---|---|
| Computer software | 8 043 | (5 277) | 2 766 |

Reconciliation of Intangible assets Company – 2022

Company

| | Opening balance | Depreciation | Total |
|---|---|---|---|
| Computer software | 2 766 | (1 151) | 1 615 |

Reconciliation of Intangible assets Company – 2021

Company

| | Opening balance | Depreciation | Total |
|---|---|---|---|
| Computer software | 8 043 | (5 277) | 2 766 |

The Group reassessed the useful lives of all the intangible assets at the beginning of the FY2022 financial year together in order to reflect the most correct estimated useful lives of all intangible assets.

## Notes to the Financial Statements

### 15. Distributable and other reserves

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| Distributable reserves from continuing operations | | | | |
| Capital fund | **7 397 655** | 7 397 655 | **7 397 655** | 7 397 655 |
| Accumulated loss | **(2 823 937)** | (4 262 853) | **(3 887 525)** | (5 245 288) |
| Total distributable reserves | **4 573 718** | 3 134 802 | **3 510 130** | 2 152 367 |
| FVTOCI | **(737 412)** | (682 072) | **(737 412)** | (682 072) |
| Revaluation reserve | **140 941** | 133 080 | **140 941** | 133 080 |
| | **3 977 247** | 2 585 810 | **2 913 659** | 1 603 375 |

#### Description of equity components

**Accumulated loss**

Comprises of accumulated retained loss.

**Capital fund**

The Capital fund consists of an initial loan by government, which was converted to equity in 2006 as part of the government commitment to support the Bank as well as further capital injections from the National Treasury in FY2015 and FY2021.

**FVTOCI**

The reserve relates to the fair value adjustment on the unlisted and listed investments held by the Bank and actuarial gain on the post-retirement obligation.

**Revaluation reserve**

The revaluation reserve represents the net surplus arising on the revaluation of owner occupied properties. The revaluation surplus on a property is transferred to the General reserve only once that property is disposed of.

## Notes to the Financial Statements

### 16. Trade and other payables

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| Accrued expenses | **50 871** | 28 696 | **44 143** | 27 336 |
| Premiums received in advance | **6** | 6 | **–** | – |
| Amounts due to reinsurers | **635 532** | 639 425 | **–** | – |
| Trade payables | **19 818** | 43 807 | **19 818** | 43 807 |
| Deferred Income | **1 176** | 1 115 | **1 176** | 1 115 |
| Loan costs and fees received in advance | **45 402** | 37 240 | **45 402** | 37 240 |
| Other[1] | **35 615** | 12 575 | **22 562** | 4 347 |
| Breakage penalty fee payable | **35 640** | – | **35 640** | – |
| Amounts due to SASRIA | **6 634** | 5 100 | **–** | – |
| Client deposits for approved loans | **2 850** | 2 850 | **2 850** | 2 850 |
| | **833 544** | 770 814 | **171 591** | 116 695 |

[1] *Included in the other payables is conditional deposits from the sale of repossessed properties.*

As noted in the maturity analysis, Group payables amounting to R33.5 million (FY2021: R37.5 million) are expected to be settled after more than 12 months.

## Notes to the Financial Statements

### 17. Long-term policyholders' liabilities

| | Group 2022 R'000 | Group 2021 R'000 |
|---|---|---|
| Policyholders' liability excluding Incurred But Not Reported (IBNR) and notified claims | | |
| Present value of policy liabilities | 61 488 | 53 317 |
| Plus: present value of future expenses | 51 400 | 44 570 |
| Less: present value of future premiums | (45 950) | (39 844) |
| Liability excluding COVID reserve | 66 938 | 58 043 |
| Plus: COVID reserve | 6 035 | 5 701 |
| Less : reinsurance reserve | (3 223) | (3 812) |
| Plus: expense overrun reserve | – | |
| Total policyholders' liability excluding IBNR and notified claims | 69 750 | 59 932 |
| | | |
| Movement in the long-term policyholders' liability | | |
| Balance at the beginning of the year | 59 932 | 31 397 |
| Movement in the long-term policyholders' liability | 9 818 | 28 535 |
| Balance at the end of the year | 69 750 | 59 932 |

| Movement in the IBNR | Gross R'000 | Ceded R'000 | Net R'000 |
|---|---|---|---|
| 2022 | | | |
| Balance at the beginning of the year | 2 682 | (1 093) | 1 589 |
| Movement in the IBNR | (137) | (395) | (532) |
| Balance at the end of the year | 2 545 | (1 488) | 1 057 |
| 2021 | | | |
| Balance at the beginning of the year | 301 | (216) | 85 |
| Movement in the IBNR | 2 381 | (877) | 1 504 |
| Balance at the end of the year | 2 682 | (1 093) | 1 589 |

| Movement in notified (outstanding) claims | Gross R'000 | Ceded R'000 | Net R'000 |
|---|---|---|---|
| 2022 | | | |
| Balance at the beginning of the year | 163 | (82) | 81 |
| Movement in the IBNR | 124 | (62) | 62 |
| Balance at the end of the year | 287 | (144) | 143 |
| 2021 | | | |
| Balance at the beginning of the year | 6 207 | (5 133) | 1 074 |
| Movement in the IBNR | (6 044) | 5 051 | (993) |
| Balance at the end of the year | 163 | (82) | 81 |



## Notes to the Financial Statements

### 17. Long-term policyholders' liabilities (continued)

| Total long-term insurance liabilities | Gross R'000 | Ceded R'000 | Net R'000 |
|---|---|---|---|
| 2022 | | | |
| Long-term policyholders' liability | 72 972 | (3 223) | 69 749 |
| Notified claims | 287 | (144) | 143 |
| IBNR | 2 545 | (1 488) | 1 057 |
| Total long-term insurance liabilities | 75 804 | (4 855) | 70 949 |
| 2021 | | | |
| Long-term policyholders' liability | 63 744 | (3 812) | 59 932 |
| Notified claims | 163 | (82) | 81 |
| IBNR | 2 682 | (1 093) | 1 589 |
| Total long-term insurance liabilities | 66 589 | (4 987) | 61 602 |

### 18. Funding liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| At amortised cost* | 29 162 958 | 36 074 791 | 29 162 958 | 36 074 791 |

* *Towards the end of April 2020, the Land Bank experienced a liquidity shortfall, which resulted in the Bank defaulting on some of its obligations. This triggered a cross default and resulted in a de-facto stand still on capital and interest payments to its funders. Land Bank resumed servicing of interest on funding liabilities during August 2020 to date. The significant movement on funding liabilities between current and the prior year is due to the capital reductions.*

## Notes to the Financial Statements

### 18. Funding liabilities (continued)

#### Analysis of funding

2022

| Commercial Funding | Opening Balance | Amortised Cost re– alignment | New Issues/ Utilisation | | Repayment/ Settlements | Accrued Interest | Discount/ Premium | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|---|---|---|
| **Commercial Paper** | **12 906 768** | **27 033** | **–** | | **(2 457 422)** | **60 682** | **(25 743)** | **152** | **–** | **10 511 470** |
| Bills | 1 164 854 | 91 232 | | | (238 656) | 2 134 | (25 143) | | | 994 421 |
| Call bonds | 31 848 | (97) | | | (6 033) | 91 | | | | 25 809 |
| Floating rate notes – 1 year | 1 504 806 | (8 894) | | | (241 455) | 5 402 | | | | 1 259 858 |
| Floating rate notes – 2 to 5 years | 222 189 | (2 631) | | | (84 484) | 1 818 | | 152 | | 137 045 |
| Promissory notes | 9 983 071 | (52 578) | | | (1 886 794) | 51 237 | (600) | | | 8 094 337 |
| | | | | | | | | | | |
| **"Deposits"** | **429 260** | **–** | **–** | | **(79 949)** | **–** | **–** | **–** | **–** | **349 311** |
| Agri-related business deposits | 257 255 | – | | | (26 030) | | | | | 231 225 |
| Forced stock sale deposits | 171 607 | – | | | (53 932) | | | | | 117 675 |
| Small institutional deposits | 50 | | | | 2 | | | | | 52 |
| Rent deposits | 347 | – | | | 11 | | | | | 358 |
| | | | | | | | | | | |
| **Facilities** | **1 459 351** | **(7 351)** | **–** | | **(559 819)** | **4 545** | **–** | **–** | **–** | **896 727** |
| Committed | 1 459 351 | (7 351) | | | (559 819) | 4 545 | | | | 896 727 |
| Uncommitted | – | – | | | | | | | | – |
| | | | | | | | | | | |
| **DMTN Issuances** | **14 326 045** | **(196 383)** | **–** | | **(2 684 636)** | **118 276** | **–** | **(253)** | **(531)** | **11 562 520** |
| Floating rate notes | 11 285 366 | (53 053) | – | | (2 134 139) | 29 357 | – | 1 084 | (459) | 9 128 157 |
| – LBK15 | 1 233 481 | (19 679) | | | (230 622) | 4 357 | | | | 987 537 |
| – LBK18 | 647 486 | (1 276) | | | (122 780) | 2 320 | | | | 525 750 |
| – LBK22 | 501 888 | (2 048) | | | (94 970) | 1 794 | | | | 406 665 |
| – LBK23 | 540 731 | (3 006) | | | (102 168) | 1 929 | | (77) | (1) | 437 409 |
| – LBK26 | 216 483 | (883) | | | (40 964) | 774 | | | | 175 410 |
| – LBK27 | 1 780 947 | (3 343) | | | (337 745) | 2 287 | | (487) | (5) | 1 441 653 |
| – LBK30 | 270 102 | (462) | | | (51 232) | 968 | | | | 219 376 |
| – LBK31 | 811 612 | (1 868) | | | (153 851) | 1 122 | | (151) | (27) | 656 836 |
| – LBK32 | 443 545 | (3 545) | | | (83 600) | 3 096 | | 86 | (16) | 359 566 |
| – LBK33 | 665 428 | (4 228) | | | (125 628) | 2 354 | | 1 834 | (57) | 539 704 |
| – LBK35 | 882 150 | (2 150) | | | (167 200) | 486 | | (90) | (68) | 713 128 |
| – LBK36 | 176 721 | (721) | | | (33 440) | 632 | | | | 143 192 |
| – LBK37 | 705 342 | (1 342) | | | (133 760) | 679 | | (106) | (82) | 570 730 |
| – LBK38 | 454 622 | (2 874) | | | (85 832) | 2 459 | | 377 | (45) | 368 707 |
| – LBK39U | 864 331 | (1 931) | | | (163 856) | 1 084 | | (223) | (126) | 699 279 |
| – LBK40U | 370 355 | (755) | | | (70 224) | 442 | | (77) | (32) | 299 709 |
| – LBK41U | 720 138 | (2 938) | | | (136 268) | 2 575 | | | | 583 507 |
| Fixed rate notes | 3 040 679 | (143 330) | – | | (550 496) | 88 919 | – | (1 337) | (72) | 2 434 363 |
| – LBK20 | 758 161 | (56 881) | | | (133 243) | 18 096 | | 5 145 | (2) | 591 276 |
| – LBK24 | 744 777 | (35 907) | | | (134 685) | 27 986 | | (1 498) | (33) | 600 639 |
| – LBK28 | 845 417 | (31 417) | | | (154 660) | 26 146 | | (3 149) | (18) | 682 319 |
| – LBK29 | 692 325 | (19 125) | | | (127 908) | 16 691 | | (1 835) | (18) | 560 129 |

## Notes to the Financial Statements

### 18. Funding liabilities (continued)

| | Opening Balance | Amortised Cost re– alignment | New Issues/ Utilisation | Repayment/ Settlements | Accrued Interest | Discount/ Premium | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|---|---|
| **Term Loans – Amortising** | 3 179 625 | 264 995 | – | (573 835) | 6 388 | – | 86 625 | (282 300) | 2 681 497 |
| 7 year syndicated loan (Government guaranteed) | (2 368) | 2 368 | | | | | | (958) | (958) |
| 10 year syndicated loan (MIGA supported) | 3 181 992 | 262 627 | | (573 835) | 6 388 | | 86 625 | (281 342) | 2 682 455 |
| **Term Loans – Bullet Term** | 879 859 | 141 | – | (167 200) | 2 238 | – | – | - | 715 038 |
| 3 year term facility | 881 169 | (1 169) | | (167 200) | 2 238 | | | | 715 038 |
| 6 year syndicated loan (Government guaranteed) | (1 310) | 1 310 | | | | | | | - |
| **Step Rate Notes** | 916 994 | (13 889) | – | (171 590) | 12 832 | – | 206 | - | 744 553 |
| Step Rate Notes | 916 994 | (13 889) | | (171 590) | 12 832 | | 206 | | 744 553 |
| **Total Commercial Funding** | 34 097 902 | 74 546 | – | (6 694 451) | 204 962 | (25 743) | 86 730 | (282 831) | 27 461 115 |
| **Multilateral and Development Funding** | | | | | | | | | |
| **Term Loans – Amortising** | 1 724 797 | (3 329) | – | (228 188) | 9 824 | – | (715) | (5 209) | 1 497 180 |
| 10 year term loan – KFW | 734 663 | 5 896 | | (137 278) | 327 | | (199) | (5 209) | 598 200 |
| 15 year term loan – AFDB | 594 826 | (3 917) | | (90 909) | 3 934 | | (415) | | 503 518 |
| 25 year term loan – World Bank | 395 308 | (5 308) | | | 5 563 | | (101) | | 395 462 |
| **Total Multilateral and Development Funding** | 1 724 797 | (3 329) | – | (228 188) | 9 824 | – | (715) | (5 209) | 1 497 180 |
| **Disaster Relief Funding** | | | | | | | | | |
| **Drought Relief** | 252 093 | 1 065 | – | (48 100) | 1 944 | – | – | (2 338) | 204 663 |
| 10 year term loan – IDC | 252 093 | 1 065 | | (48 100) | 1 944 | | | (2 338) | 204 663 |
| **Total Disaster Relief** | 252 093 | 1 065 | – | (48 100) | 1 944 | – | – | (2 338) | 204 663 |
| **Total Funding Liabilities** | 36 074 791 | 72 281 | – | (6 970 738) | 216 730 | (25 743) | 86 015 | (290 377) | 29 162 958 |

## Notes to the Financial Statements

### 18. Funding liabilities (continued)

#### Analysis of funding

2021

| Commercial Funding | Opening Balance | Amortised Cost re-alignment | New Issues/ Utilisation | Repayment/ Settlements | Accrued Interest | Discount/ Premium | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance | Fair Value |
|---|---|---|---|---|---|---|---|---|---|---|
| **Commercial Paper** | **14 743 952** | **397 861** | **2 188 189** | **(4 396 201)** | **71 191** | **(98 181)** | **(43)** | **–** | **12 906 768** | **12 906 996** |
| Bills | 1 243 562 | 183 809 | | (171 284) | 2 459 | (93 691) | | | 1 164 854 | 1 206 746 |
| Call bonds | 36 247 | (167) | | (4 330) | 97 | | | | 31 848 | 31 750 |
| Floating rate notes – 1 year | 1 610 387 | (25 987) | | (88 488) | 8 894 | | | | 1 504 806 | 1 495 912 |
| Floating rate notes – 2 to 5 years | 592 639 | (9 139) | | (363 941) | 2 674 | | (43) | | 222 189 | 244 430 |
| Promissory notes | 11 261 117 | 249 345 | 2 188 189 | (3 768 158) | 57 068 | (4 490) | | | 9 983 071 | 9 928 157 |
| **"Deposits"** | **776 138** | **–** | **–** | **(346 878)** | **–** | **–** | | **–** | **429 260** | **429 260** |
| Agri-related business deposits | 313 224 | | | (55 969) | | | | | 257 255 | 257 255 |
| Forced stock sale deposits | 462 091 | | | (290 484) | | | | | 171 607 | 171 608 |
| Small institutional deposits | 48 | | | 2 | | | | | 50 | 50 |
| Rent deposits | 775 | | | (428) | | | | | 347 | 347 |
| **Facilities** | **1 659 311** | **(9 311)** | **–** | **(196 645)** | **6 711** | **–** | – | **(716)** | **1 459 351** | **1 453 588** |
| Committed | 1 659 311 | (9 311) | | (196 645) | 6 711 | | | (716) | 1 459 351 | 1 453 588 |
| Uncommitted | – | – | | | | | | | – | |
| **DMTN Issuances** | **16 275 286** | **(190 037)** | **–** | **(1 925 590)** | **164 315** | **–** | **33 104** | **(1 036)** | **14 326 045** | **13 670 050** |
| Floating rate notes | 12 824 953 | (38 704) | – | (1 523 939) | 44 543 | – | 9 433 | (923) | 11 285 366 | 10 810 923 |
| – LBK15 | 1 404 997 | 20 – 3 | | (161 198) | 18 381 | | 1 382 | (84) | 1 233 481 | 1 178 214 |
| – LBK18 | 733 641 | (641) | | (86 790) | 1 042 | | 357 | (123) | 647 486 | 611 111 |
| – LBK22 | 571 514 | (3 514) | | (68 160) | 2 048 | | | | 501 888 | 499 840 |
| – LBK23 | 614 946 | (3 946) | | (73 274) | 2 344 | | 665 | (3) | 540 731 | 508 893 |
| – LBK26 | 245 368 | (368) | | (29 400) | 883 | | | | 216 483 | 215 600 |
| – LBK27 | 2 022 778 | (2 778) | | (242 397) | 2 561 | | 798 | (15) | 1 780 947 | 1 685 613 |
| – LBK30 | 306 683 | (683) | | (36 360) | 335 | | 132 | (5) | 270 102 | 260 701 |
| – LBK31 | 922 201 | (2 201) | | (110 256) | 1 126 | | 787 | (45) | 811 612 | 748 075 |
| – LBK32 | 506 447 | (6 447) | | (60 000) | 3 628 | | (56) | (26) | 443 545 | 440 033 |
| – LBK33 | 756 655 | (6 655) | | (88 800) | 2 540 | | 1 761 | (72) | 665 428 | 658 102 |
| – LBK35 | 1 001 065 | (1 065) | | (120 000) | 799 | | 1 453 | (102) | 882 150 | 831 656 |
| – LBK36 | 200 212 | (212) | | (24 000) | 721 | | | | 176 721 | 176 000 |
| – LBK37 | 800 989 | (989) | | (96 000) | 748 | | 713 | (119) | 705 342 | 662 207 |
| – LBK38 | 517 926 | (4 674) | | (61 504) | 2 746 | | 224 | (95) | 454 622 | 385 678 |
| – LBK39U | 981 432 | (1 432) | | (117 600) | 1 210 | | 889 | (168) | 864 331 | 862 400 |
| – LBK40U | 420 586 | (586) | | (50 400) | 491 | | 329 | (65) | 370 355 | 369 600 |
| – LBK41U | 817 511 | (2 511) | | (97 800) | 2 938 | | | | 720 138 | 717 200 |
| Fixed rate notes | 3 450 333 | (151 333) | – | (401 651) | 119 773 | – | 23 671 | (114) | 3 040 679 | 2 859 127 |
| – LBK20 | 856 174 | (61 174) | | (93 720) | 24 358 | | 32 536 | (12) | 758 161 | 723 941 |
| – LBK24 | 842 382 | (37 382) | | (96 131) | 37 832 | | (1 878) | (46) | 744 777 | 729 910 |
| – LBK28 | 958 422 | (33 422) | | (111 000) | 35 096 | | (3 657) | (21) | 845 417 | 740 061 |
| – LBK29 | 793 355 | (19 355) | | (100 800) | 22 487 | | (3 329) | (34) | 692 325 | 665 215 |

## Notes to the Financial Statements

### 18. Funding liabilities (continued)

| | Opening Balance | Amortised Cost re-alignment | New Issues/ Utilisation | Repayment/ Settlements | Accrued Interest | Discount/ Premium | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance | Fair Value |
|---|---|---|---|---|---|---|---|---|---|---|
| **Term Loans – Amortising** | 3 673 453 | 345 002 | – | (573 835) | 6 624 | – | 68 700 | (340 319) | 3 179 625 | 3 792 678 |
| 7 year syndicated loan (Government guaranteed) | (3 778) | 3 778 | | | | | | (2 368) | (2 368) | – |
| 10 year syndicated loan (MIGA supported) | 3 677 231 | 341 224 | | (573 835) | 6 624 | | 68 700 | (337 952) | 3 181 992 | 3 792 678 |
| **Term Loans – Bullet Term** | 998 500 | 1 500 | – | (120 000) | 2 728 | – | (292) | (2 577) | 879 859 | 899 029 |
| 3 year term facility | 1 001 754 | (1 754) | | (120 000) | 2 728 | | (292) | (1 267) | 881 169 | 899 029 |
| 6 year syndicated loan (Government guaranteed) | (3 254) | 3 254 | | | | | | (1 310) | (1 310) | – |
| **Step Rate Notes** | 1 013 989 | (13 989) | – | (96 895) | 13 933 | – | (44) | – | 916 994 | 961 766 |
| Step Rate Notes | 1 013 989 | (13 989) | | (96 895) | 13 933 | | (44) | | 916 994 | 961 766 |
| **Total Commercial Funding** | 39 140 630 | 501 028 | 2 188 189 | (7 656 045) | 265 503 | (98 181) | 101 425 | (344 648) | 34 097 902 | 34 113 367 |
| **Multilateral and Development Funding** | | | | | | | | | | |
| **Term Loans – Amortising** | 1 924 478 | (6 307) | – | (196 703) | 9 900 | – | (494) | (6 077) | 1 724 797 | 1 928 682 |
| 10 year term loan – KFW | 839 609 | 6 744 | | (105 794) | 401 | | (220) | (6 077) | 734 663 | 856 575 |
| 15 year term loan – AFDB | 689 678 | (7 860) | | (90 909) | 4 214 | | (298) | | 594 826 | 611 651 |
| 25 year term loan – World Bank | 395 190 | (5 190) | | | 5 285 | | 24 | | 395 308 | 460 456 |
| **Total Multilateral and Development Funding** | 1 924 478 | (6 307) | – | (196 703) | 9 900 | – | (494) | (6 077) | 1 724 797 | 1 928 682 |
| **Disaster Relief Funding** | | | | | | | | | | |
| **Drought Relief** | 287 426 | 253 | – | (34 521) | 1 741 | – | – | (2 806) | 252 093 | 247 551 |
| 10 year term loan – IDC | 287 426 | 253 | | (34 521) | 1 741 | | | (2 806) | 252 093 | 247 551 |
| **Total Disaster Relief** | 287 426 | 253 | – | (34 521) | 1 741 | – | – | (2 806) | 252 093 | 247 551 |
| **Total Funding Liabilities** | 41 352 534 | 494 974 | 2 188 189 | (7 887 270) | 277 144 | (98 181) | 100 931 | (353 531) | 36 074 791 | 36 289 600 |

## Notes to the Financial Statements

## 18. Funding liabilities (continued)

### Reconciliation of notes in issue[1]

| | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|
| **Opening balance** | 14 129 662 | 16 055 252 |
| LBK29 Capital Reduction | (94 970) | (68 160) |
| LBK22 Capital Reduction | (33 440) | (24 000) |
| LBK36 Capital Reduction | (230 622) | (161 198) |
| LBK15 Capital Reduction | (122 780) | (86 790) |
| LBK18 Capital Reduction | (125 628) | (88 800) |
| LBK33 Capital Reduction | (102 168) | (73 274) |
| LBK23 Capital Reduction | (40 964) | (29 400) |
| LBK26 Capital Reduction | (337 745) | (242 397) |
| LBK27 Capital Reduction | (51 232) | (36 360) |
| LBK30 Capital Reduction | (136 268) | (97 800) |
| LB41U Capital Reduction | (154 660) | (111 000) |
| LBK28 Capital Reduction | (153 851) | (110 256) |
| LBK31 Capital Reduction | (127 908) | (100 800) |
| LBK29 Capital Reduction | (83 600) | (60 000) |
| LBK32 Capital Reduction | (133 243) | (93 720) |
| LBK20 Capital Reduction | (163 856) | (117 600) |
| LBK39U Capital Reduction | (70 224) | (50 400) |
| LBK40U Capital Reduction | (134 685) | (96 131) |
| LBK24 Capital Reduction | (167 200) | (120 000) |
| LBK35 Capital Reduction | (133 760) | (96 000) |
| LBK37 Capital Reduction | (85 832) | (61 504) |
| LBK38 Capital Reduction | | |
| **Closing balance** | 11 445 026 | 14 129 662 |

**Step rate notes**

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

| Notes in default[2] | | | 2022 R'000 | 2021 R'000 |
|---|---|---|---|---|
| LBK36 | 25 June 2019 | 25 June 2020 | | (176 000) |
| LBK22 | 04 September 2017 | 04 September 2020 | | (499 840) |
| LB41U | 16 March 2020 | 16 March 2021 | | (717 200) |
| LBK26 | 23 March 2018 | 23 March 2021 | | (215 600) |
| LBK30 | 20 September 2018 | 20 September 2021 | (218 408) | (215 600) |
| LBK15 | 12 October 2016 | 12 October 2021 | (983 179) | (215 600) |
| | | | (1 201 587) | (2 039 840) |

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

*2 Notes that have matured but are in default.*



## Notes to the Financial Statements

## 18. Funding liabilities (continued)

**Step rate notes**

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

| | | | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| **Reconciliation of notes in issue[1]** | | | | |
| Opening balance | | | 903 105 | 1 000 000 |
| **Notes redeemed:** | | | | |
| SRN 4, capital reduction | 11 May 2017 | 11 May 2022 | – | (61 611) |
| SRN 4, capital reduction | 10 May 2017 | 11 May 2022 | – | (61 540) |
| Notes issued: | | | | |
| SRN 4, capitalised interest | 11 May 2017 | 11 May 2022 | (85 845) | 12 832 |
| SRN 4, capitalised interest | 10 May 2017 | 11 May 2022 | (85 745) | 13 424 |
| **Closing balance** | | | 731 515 | 903 105 |

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

## 18.1 Development and multilateral funding

Land Bank's Multilateral funds are made up of the following::

- R1.0 billion loan with the African Development Bank. the purpose of the loan is was to on-lend to the Land Bank's commercial and Development clients whom meet qualifying usage criteria.
- $93 million funding line with the World Bank. This facility was earmarked to give financial aid to participating financial intermediaries and direct beneficiaries. As at 31 March 2022 R390 million has been utilised. The balance of the undrawn facility was cancelled in FY2022.
- R899 million funding line with KfW Development Bank. This facility is was earmarked to finance small-sized and medium sized agricultural enterprises. To date the facility has been fully drawn and disbursed to qualifying projects.

**Disaster relief**

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

The loan was used for :

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

Loans under this arrangement would only be extended where there is a viable business case with repayment ability, as well as sufficient collateral to cover the potential losses to the Bank. The facility was fully utilised, relief assistance closed on 31 March 2019 and the facility now is amortising.

## Notes to the Financial Statements

### 18. Funding liabilities (continued)

#### 18.1 Weighted average interest cost of commercial funding (NACM)

| | 2022 * Spread to 3 | 2021 * Spread to 3 |
|---|---|---|
| Short-term: ≤ 1 year | 2% | 3% |
| Medium-term: > 1 year ≤ 5 years | 3% | 4% |
| Long-term: > 5 years | 6% | 4% |
| Total Cost of Funding | 3% | 3% |
| **Weighted average interest cost of development and multilateral funding (NACM)** | | |
| Long-term: > 5 years** | 3% | 3% |
| **Weighted average interest cost of natural disaster relief funding (NACM)** | | |
| Long-term: > 5 years | 1% | 1% |

*Weighted average Jibar*

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

### 19. Provisions

Reconciliation of provisions – Group – 2022

| | Opening balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Staff Incentives | 1 201 | 1 199 | | – | 2 400 |
| Leave pay | 34 256 | 2 553 | (5 028) | – | 31 781 |
| Labour disputes | – | – | – | | – |
| Litigation and claims | 104 999 | – | (55 000) | (49 999) | – |
| | **140 456** | **3 752** | **(60 028)** | **(49 999)** | **34 181** |

Reconciliation of provisions – Group – 2021

| | Opening balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Staff Incentives | 527 | 1 200 | (526) | – | 1 201 |
| Leave pay | 7 484 | 30 702 | (3 930) | – | 34 256 |
| Labour disputes | 8 712 | – | – | (8 712) | – |
| Litigation and claims* | 373 835 | – | (231 950) | (36 886) | 104 999 |
| | **390 558** | **31 902** | **(236 406)** | **(45 598)** | **140 456** |

Reconciliation of provisions – Company – 2022

| | Opening balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Leave pay | 32 795 | 2 950 | (5 785) | – | 29 960 |
| Litigation and claims | 104 999 | – | (55 000) | (49 999) | – |
| | **137 794** | **2 950** | **(60 785)** | | **29 960** |

Reconciliation of provisions – Company – 2021

| | Opening balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Leave pay | 7 195 | 29 241 | (3 641) | – | 32 795 |
| Labour disputes | 8 712 | – | – | (8 712) | – |
| Litigation and claims* | 373 835 | – | (231 950) | (36 886) | 104 999 |
| | **389 742** | **29 241** | **(235 591)** | **(45 598)** | **137 794** |

## Notes to the Financial Statements

### 19. Provisions (continued)

**Staff incentives**

The provision for discretionary performance bonuses is payable to employees and is determined by taking into account both the performance of the Bank as well as the performance of individual employees.

**Leave pay**

Accumulated leave is payable to employees upon termination of services. Provision for leave pay is calculated on the leave days outstanding at the end of the year multiplied by the cost to company of the employees in terms of employment contracts.

An accrual raised in respect of government guarantee fees payable to National Treasury. The fees are charged at 0.3% of the total issued government guarantee.

**Litigation and claims**

Provision raised in respect of debtors loan guarantee and breakage fee. Breakage fee of R50m became payable during the current year and was reallocated to payables. Debtors loan guarantee was also settled during the current year.

### 20. Post-retirement obligation

**Medical benefit plan**

The defined benefit obligation plan is unfunded. The estimated medical aid contributions for the next year effective 1 April 2022 amounts to R19.8 million (FY2020: R20.1 million). The time value of money has not been taken into account as it is believed that the difference will be insignificant.

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| **Movement in the present value of the:** | | | | |
| Defined benefit obligation 1 April | 284 000 | 285 362 | 284 000 | 285 362 |
| Service cost – PRMA | (1 408) | (1 541) | (1 408) | (1 541) |
| Interest cost – PRMA | 27 548 | 32 444 | 27 548 | 32 444 |
| Actuarial (losses) and gains on post retirement obligation | (7 582) | (16 582) | (7 582) | (16 582) |
| Benefits paid | (15 903) | (15 683) | (15 903) | (15 683) |
| **Defined benefit obligation 31 March 2022** | **286 655** | 284 000 | **286 655** | 284 000 |

Total expenses resulting from the Group's defined benefit plans charged to income statement can be analysed as follows:

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| **Components of net periodic medical benefit cost:** | | | | |
| Service cost – PRMA | (1 408) | (1 541) | (1 408) | (1 541) |
| Interest cost – PRMA | (27 548) | (32 444) | (27 548) | (32 444) |
| Total included in interest and staff costs | (28 956) | (33 985) | (28 956) | (33 985) |
| Total expenses recognised in profit or loss | (28 956) | (33 985) | (28 956) | (33 985) |
| Actuarial (losses) recognised in other comprehensive income | 7 582 | 16 582 | 7 582 | 16 582 |

## Notes to the Financial Statements

### 20. Post-retirement obligation (continued)

#### 20.1 Maturity profile of members

| Employee status | 2022 Membership Profile | | | |
|---|---|---|---|---|
| | Number | Average age (years) | Average past service (years) | Average number of dependents |
| Active | 92 | 52 | 27 | 2 |
| Pensioners | 244 | 70 | – | 1 |
| | 336 | | | |

| Employee status | 2021 Membership Profile | | | |
|---|---|---|---|---|
| | Number | Average age (years) | Average past service (years) | Average number of dependents |
| Active | 94 | 52 | 26 | 2 |
| Pensioners | 258 | 70 | – | |
| | 352 | | | |

The actuarial valuation report complies with the requirements of Advisory Practice Note (APN) 301 of the Actuarial Society of South Africa in all respects that are deemed to be in the context of the exercise undertaken. The valuation is based on the Projected Unit Credit valuation method, as prescribed by IAS19. The actuarial assumptions are unbiased and mutually compatible, as required. The results of the valuation depend on the assumptions used.

#### 20.2 Actuarial key assumptions used:

Medical inflation
Contribution rates on the benchmark medical option, Bankmed, have increased by, on average, 3% – 4% over the period. This is less than the medical inflation assumptions of 7.7% and 7.4% made at the time of the last valuation. This resulted in a decrease in liability of approximately R10.7 million.

Economic basis
The net discount rate over the period has decreased by 1.0% for active members. Since the net discount rate was unchanged for continuation members, the average net discount rate has decreased by 0.2%. This has caused an increase in liability of approximately R7.9 million.

Mortality
The liability decreased by approximately R2.6 million due to pensioner mortality being higher than expected over the period.

Withdrawals
There were more withdrawals than expected during the valuation year. This has resulted in an actuarial gain of some R1.4 million.



## Notes to the Financial Statements

### 20. Post-retirement obligation (continued)

#### 20.3 Sensitivity analysis

The results are dependent on the assumptions used. The table below shows how the past service cost as at 31 March 2022 would be impacted by changes to these assumptions:

| In-Service and Continuation Members | Accrued Service Liabilities as at 31.03.2022. (R'000) | % Increase | Accrued Service Liabilities as at 31.03.2021. (R'000) | % Increase |
|---|---|---|---|---|
| Assumptions as above | 286 655 | | 284 000 | |
| Discount rate – increases by 1% p.a. | 259 680 | -9% | 257 741 | -9% |
| Discount rate – reduces by 1% p.a. | 318 860 | 11% | 315 285 | 11% |
| Medical inflation – increases by 1% p.a. | 317 264 | 11% | 314 006 | 11% |
| Medical inflation – reduces by 1% p.a. | 259 646 | -9% | 257 624 | -9% |
| Retirement age – 64 | 291 230 | 2% | 287 897 | 1% |
| Retirement age – 66 | 282 369 | -1% | 280 389 | -1% |

### 21. Interest income

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| **Measured at amortised cost** | | | | |
| Interest from loans and advances* | 2 613 023 | 3 025 155 | 2 613 016 | 3 025 148 |
| Interest on short-term deposits | 334 864 | 158 722 | 334 864 | 158 722 |
| Interest from banks | 26 901 | 49 875 | 22 514 | 45 523 |
| Interest on premiums written | 530 | 1 070 | – | – |
| | 2 975 318 | 3 234 822 | 2 970 394 | 3 229 393 |

** Included in the interest income is a release of interest in suspense of R225.7m (FY2021: charge of R301.2m)*

### 22. Interest expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Commercial funding | 2 085 923 | 2 737 076 | 2 085 923 | 2 737 076 |
| Development and multilateral funding | 115 063 | 135 229 | 115 063 | 135 229 |
| Interest on swaps & debentures | 86 508 | 93 329 | 86 508 | 93 329 |
| Arranging fees – effective interest rate method * | 63 209 | 66 371 | 63 209 | 66 371 |
| Other** | 24 144 | 35 255 | 24 144 | 34 818 |
| **Total interest expense** | 2 374 847 | 3 067 260 | 2 374 847 | 3 066 823 |

** These arranging fees form part of the "Effective Interest Rate" of funding instruments.*
***Other consists of interest paid on Drought Relief funding, Government guarantee fee paid.*

### 23. Non-interest expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Account administration & Net Interest Margin fee expense[1] | 75 934 | 301 334 | 71 358 | 297 378 |

*1 Account administration & Net Interest Margin fee expense relate to management fees paid to intermediaries in terms of service level agreements relating to the Bank's acquisition loan books. Net interest income (interest income less interest expense) earned from, and impairments incurred on these books are included under note, 21 note 22 and note 9 respectively. Significant movement due to the SLA insourcing.*

## Notes to the Financial Statements

### 24. Non-interest income and Other income

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Fee and commission income | 30 781 | 47 993 | 30 781 | 47 993 |
| Account administration fee income | 16 721 | 41 697 | 16 721 | 41 697 |
| Fund administration fees | 14 060 | 6 296 | 14 060 | 6 296 |
| Other Income | 37 209 | 36 231 | 30 668 | 28 233 |
| Administration fee from LBLIC | – | – | 1 254 | 1 249 |
| Investment property rentals | 11 753 | 11 700 | 11 753 | 11 700 |
| Sundry income* | 25 456 | 24 531 | 17 661 | 15 284 |

** Net margin fee due to the Bank which was previously overcharged by a SLA partner.*

### 25. Operating profit from insurance activities

| | Group | |
|---|---|---|
| | 2022 R'000 | 2021 R'000 |
| Net premium income | | |
| Gross written premium | 611 555 | 590 803 |
| Long-term insurance contracts | 3 895 | 4 947 |
| Short-term insurance contracts | 607 660 | 585 856 |
| Gross written premium | 607 448 | 600 226 |
| Change in the unearned premium reserve | 212 | (19 887) |
| Change in the unexpired risk reserve (URR) | – | 5 517 |
| Less: reinsurance premium | 453 256 | 440 018 |
| Long-term insurance contracts | 2 005 | 2 425 |
| Short-term insurance contracts | 451 251 | 437 593 |
| Reinsurance premium written | 450 673 | 447 964 |
| Change in the unearned premium reserve | 578 | (13 959) |
| Change in the unexpired risk reserve (URR) | | 3 588 |
| | 158 299 | 150 785 |
| Net insurance claims | | |
| Long-term insurance contract claims | (1 228) | 3 549 |
| Claims paid | (2 455) | 4 542 |
| Movement in notified claims (OCR) | 1 227 | (993) |
| Short-term insurance contracts claims | 152 367 | 71 760 |
| Claims & assessment fees paid | 105 927 | 80 548 |
| Movement in IBNR | (283) | (1 379) |
| Movement in outstanding claim provisions | 46 724 | (7 409) |
| | 151 139 | 75 309 |
| Other costs from insurance activities | | |
| Movement in policyholders' liability | (9 348) | (29 048) |
| Net commission and administration fees | (41 715) | (29 245) |
| | (51 063) | (58 293) |

## Notes to the Financial Statements

### 26. Investment income and fees

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| An analysis of revenue is as follows: | | | | |
| Investment income from financial assets classified as at fair value through profit or loss: | 106 749 | 76 844 | 17 507 | 17 875 |
| Dividend income – other investments | 29 337 | 28 391 | 10 034 | 13 056 |
| Interest income[1] | 77 412 | 48 453 | 7 473 | 4 819 |
| Investment management and performance fees | (8 153) | (6 939) | (2 150) | (1 832) |
| | 98 596 | 69 905 | 15 357 | 16 043 |

*1 These are assets invested with asset management companies.*

### 27. Gains and losses on financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| Losses on financial assets measured at amortised cost[1] | 20 821 | (18 270) | 20 821 | (18 270) |
| Fair value (losses) gains | | | | |
| Designated at fair value through profit or (loss) | (1 444) | (31 600) | (1 444) | (31 600) |
| Strategic trading assets | – | 733 | – | 733 |
| Instruments in (Repos) | – | (966) | – | (966) |
| Interest rate swap[2] | (1 444) | (31 367) | (1 444) | (31 367) |
| Investment income | 90 838 | 239 495 | 23 112 | 81 937 |
| Realised gains | 51 237 | 25 566 | 29 101 | 16 066 |
| Unrealised fair value gains (losses) | 39 601 | 213 929 | (5 989) | 65 871 |
| | 89 394 | 207 895 | 21 668 | 50 337 |

*1 These are modifications gains/(losses) on loans and advances.*
*2 To manage the Bank's exposure to "basis risk" and in an effort to protect the Bank's net interest margin, the Land Bank Board entered into an interest rate swap arrangement; hedging the mismatch moderately between the lending and funding rate. IFRS 9 require gains and losses on this derivatives to be recognised in profit or loss when hedge accounting is not applied.*

## Notes to the Financial Statements

### 28. Operating expenses

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| Depreciation – Owned assets | 2 121 | 2 338 | 2 088 | 2 281 |
| Depreciation – Leased assets | 17 973 | 25 571 | 17 892 | 25 408 |
| Amortisation – computer software | 1 152 | 5 277 | 1 152 | 5 277 |
| Auditors remuneration – External auditors | 16 875 | 16 264 | 14 391 | 14 391 |
| – Current | 16 875 | 12 796 | 14 391 | 10 923 |
| – Prior year | | 3 468 | | 3 468 |
| Audit fees – Internal | – | 142 | – | 142 |
| Directors' emoluments | 18 400 | 17 454 | 14 748 | 13 580 |
| – Executive | 10 583 | 10 788 | 7 251 | 7 234 |
| – Non-executive | 7 817 | 6 666 | 7 497 | 6 346 |
| Management fees | 117 | 537 | 117 | 537 |
| Professional fees | 27 031 | 22 603 | 24 144 | 17 978 |
| Staff costs | 346 143 | 398 894 | 328 899 | 383 191 |
| – Salaries and contributions | 338 396 | 391 287 | 321 729 | 375 965 |
| – Staff related provisions and other | 7 747 | 7 607 | 7 170 | 7 226 |
| Other operating expenses | 132 963 | 104 398 | 127 144 | 102 044 |
| – Computer and data costs | 31 196 | 26 546 | 29 825 | 26 118 |
| – Repairs and maintenance | 1 301 | 1 728 | 1 301 | 1 728 |
| – Rates and taxes | 7 128 | 7 827 | 7 128 | 7 827 |
| – Travel and accommodation | 2 222 | 621 | 2 131 | 584 |
| – Corporate social investment | 5 073 | 1 105 | 5 073 | 1 105 |
| – Litigation and claims | 11 014 | 10 187 | 11 014 | 9 778 |
| – Other[1] | 75 029 | 56 384 | 70 672 | 54 904 |
| | 562 775 | 593 479 | 530 575 | 564 829 |

*1 Other operating expenses includes sundry operating expenses such as security, short-term lease, cleaning and marketing amongst others.*

### 29. Non-trading and capital items*

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| Fair value gain/(loss) on investment properties | 2 300 | (8 073) | 2 300 | (8 073) |
| Foreign exchange gain/(loss) | 7 | 36 897 | 7 | 36 897 |
| Impairment of other assets | 12 | 4 | 12 | 4 |
| Non-current assets held-for-sale fair value adjustment | (149) | – | (149) | – |
| Profit on disposal of property and equipment | 130 | 442 | 130 | 442 |
| Profit on disposal of non-current assets held-for-sale | – | 1 186 | – | 1 186 |
| | 2 300 | 30 456 | 2 300 | 30 456 |

** Transactions that are either once a year or not periodic/frequent in nature.*

## Notes to the Financial Statements

### 30. Indirect taxation

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| **Major components of the tax expense** | | | | |
| Value Added Tax[1] | 27 910 | 52 220 | 27 315 | 51 856 |

*1 Value-added taxation is levied on all non-interest income of the Land Bank, an input is claimed on an apportionment basis for Land Bank operating expenses.*

### 31. Funds under administration

Cash balance held for the funds administered on behalf of the Department of Agriculture, Land Reform and Rural Development (DALRRD). The Land Bank has no rights to these funds, they are ring-fenced into separate bank accounts solely for the funds. The Land bank only administers the funds on behalf of the department.

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| **Asset** | 1 384 821 | 1 254 951 | 1 384 821 | 1 254 951 |
| **Liabilities** | | | | |
| DALRRD | 1 384 821 | 1 254 951 | 1 384 821 | 1 254 951 |
| | 1 384 821 | 1 254 951 | 1 384 821 | 1 254 951 |
| **Funds administered on behalf of DALRRD** | | | | |
| Agri-BEE | 321 001 | 275 563 | 321 001 | 275 563 |
| MAFISA Fund | 15 192 | 13 899 | 15 192 | 13 899 |
| Covid 19 | 94 092 | 95 522 | 94 092 | 95 522 |
| Job Fund | 29 570 | 33 667 | 29 570 | 33 667 |
| Emerging Farmers' Support Facility & CGA Primary Project | 161 973 | 190 811 | 161 973 | 190 811 |
| Blended Finance | 750 168 | 645 489 | 750 168 | 645 489 |
| Kat River Farmers | 12 824 | – | 12 824 | – |
| | 1 384 821 | 1 254 951 | 1 384 821 | 1 254 951 |
| **Reconciliation of movement in funds under administration** | | | | |
| Agri-BEE | | | | |
| **Balance at the beginning of the year** | 275 563 | 258 980 | 275 563 | 258 980 |
| Receipts | 41 251 | 14 000 | 41 251 | 14 000 |
| Accrued interest | 9 791 | 9 852 | 9 791 | 9 852 |
| Disbursements | (5 603) | (7 269) | (5 603) | (7 269) |
| **Balance at the end of the year** | 321 002 | 275 563 | 321 002 | 275 563 |
| MAFISA fund | | | | |
| **Balance at the beginning of the year** | 13 899 | 13 387 | 13 899 | 13 387 |
| Accrued interest | 503 | 512 | 503 | 512 |
| Transfer from/(to) the fund | 790 | – | 790 | – |
| **Balance at the end of the year** | 15 192 | 13 899 | 15 192 | 13 899 |

## Notes to the Financial Statements

### 31. Funds under administration (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| **COVID-19** | | | | |
| Balance at the beginning of the year | 95 522 | – | 95 522 | – |
| Transfer from/(to) Land Bank | 388 | 100 329 | 388 | 100 329 |
| Accrued interest | 3 260 | 1 247 | 3 260 | 1 247 |
| Disbursements | (5 078) | (6 054) | (5 078) | (6 054) |
| Balance at the end of the year | 94 092 | 95 522 | 94 092 | 95 522 |
| **Job fund** | | | | |
| Balance at the beginning of the year | 33 668 | 38 107 | 33 668 | 38 107 |
| Accrued interest | 934 | – | 934 | – |
| Disbursements | (18 252) | 1 339 | (18 252) | 1 339 |
| Transfer from/(to) the fund | 13 221 | (5 779) | 13 221 | (5 779) |
| Balance at the end of the year | 29 570 | 33 667 | 29 570 | 33 667 |
| **Blended Finance** | | | | |
| Balance at the beginning of the year | 645 489 | 3 999 | 645 489 | 3 999 |
| Accrued interest | 14 301 | 16 027 | 14 301 | 16 027 |
| Disbursements | (434 919) | (2 305) | (434 919) | (2 305) |
| Transfer from/(to) the fund | 525 297 | 627 767 | 525 297 | 627 767 |
| Balance at the end of the year | 750 168 | 645 489 | 750 168 | 645 489 |
| **Kat River Farmers** | | | | |
| Balance at the beginning of the year | – | – | – | – |
| Accrued interest | 446 | – | 446 | – |
| Receipts | 35 000 | – | 35 000 | – |
| Disbursements | (22 622) | – | (22 622) | – |
| Transfer from/(to) the fund | – | – | – | – |
| Balance at the end of the year | 12 824 | – | 12 824 | – |

#### Description of the funds under administration

**Agri-BEE Fund**

Parliament approved a sector specific allocation for the Agri-BEE Fund that will allocate grants to promote the rural community based empowerment groups. The bank acts as an agent on behalf of the DALRRD in the administration of the Fund. Disbursements amounted to R5.6m (FY2021:R7.3m). An injection of R41.2 million (FY2021:R14.0 million) from DALRRD.



## Notes to the Financial Statements

### 31. Funds under administration (continued)

**MAFISA fund**

The MAFISA Fund has been set up on request of the DALRRD to invest money in approved projects of the Department through on-lending to individuals. Monies received from the DALRRD for the MAFISA Fund is invested in a separate bank account on behalf of the DALRRD. No on-lending has taken place during the period under review. There were no injections during the current period under review (FY2021:Rnil).

**Blended Finance**

The Blended Finance fund has been set up on request of the DALRRD to provide blended support to Black Commercial Producers in the agricultural, forestry and fisheries sectors in an attempt to accelerate agricultural development and to transform these sectors. The support will include blended funding, skills and technical support required by these producers. The Land Bank is responsible for the utilisation of it's own existing infrastructure and discretion to consider loan applications from Black Commercial Producers, and all funds are received in an interest bearing account. The DALRRD injected R525.2 million (FY2021:R627.8 million) which is used to support Black Commercial Producers either in the form of equity contributions or interest rate subsidy, technical support contributions.

**COVID-19**

Sole purpose of the Fund is to provide relief to distressed farmers affected by the COVID-19 pandemic who are involved in the entire food value chain, from farm-related operations, agro-processing, food manufacturing, logistics and related services, wholesale and retail services to all support functions that ensure efficient delivery of the agro-food system, and are existing clients of Land Bank. COVID Relief Fund" is a fund created by DALRRD to be administered by Land Bank with the sole purpose being to address the challenges created for farmers and/or producers by the COVID-19 Pandemic in South Africa. Disbursements amounted to R 5.1m (FY2021:R6.1m).

**Jobs Fund**

The specific goal of the Fund is to provide a mechanism that can identify and fund creative solutions to overcome identified short-term barriers to job creation and a better functioning labour market. Furthermore, the Fund's aim is to catalyse innovation in job creation through structured and strategic Private and Public Sector Partnership. Disbursements amounted to R18.3 million (FY2021:Rnil million).

**Kat River Farmers**

The specific goal of the fund is to assist farmers with crop preparation and related input costs by making the crop preparation facility available for administration by Land Bank which shall be disbursed by the Land Bank to the Farmers Service Providers or the farmers as the case may be, as a grant. There was an injection of R35m (FY2021:Rnil) in the current period under review and disbursements amounted to R22.6m (FY2021: Rnil).

## Notes to the Financial Statements

### 31. Funds under administration (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| **CGA Primary Project Facility** | | | | |
| **Asset** | | | | |
| Cash balance held for the support facilities | 161 973 | 190 811 | 161 973 | 190 811 |
| **Liabilities** | | | | |
| Emerging farmers support facility | 161 973 | 190 809 | 161 973 | 190 809 |
| CGA Primary Project Facility | – | 2 | – | 2 |
| | 161 973 | 190 811 | 161 973 | 190 811 |
| **Emerging farmers support facility** | | | | |
| | 190 811 | 183 733 | 190 811 | 183 733 |
| **Balance at the beginning of the year** | | | | |
| Accrued interest | 6 162 | 7 078 | 6 162 | 7 078 |
| Transfer from/(to) the fund | (35 000) | – | (35 000) | – |
| **Balance at the end of the year** | 161 973 | 190 811 | 161 973 | 190 811 |
| **CGA Primary Project Facility** | | | | |
| Balance at the beginning of the year | 2 | 1 795 | 2 | 1 795 |
| Accrued interest | – | (1 793) | – | (1 793) |
| Transfer from/(to) the fund | (2) | – | (2) | – |
| Balance at the end of the year | – | 2 | – | 2 |

#### Description of the emerging farmers support & REM wholesale finance support facility

The Land Bank received R208.0 million from the Department of Rural Development and Land Reform on the 17th of August 2011. The transfer received is a guarantee for identified deserving emerging farmers which require rescue packages. The identified farmers all have mortgage loans with the Land Bank and the Bank can only access the guarantee after complying with conditions as set by the Department of Rural Development and Land Reform.

#### CGA Primary Project Facility**

The Land Bank received a total of R150 million from the Department of Rural Development and Land Reform between October 2011 and July 2016 under this facility. The funds are meant to subsidise interest payable to the Land Bank and remunerate appointed intermediaries that identify and provide technical assistance to the Retail Emerging market farmers under this wholesale finance facility. The Land Bank and the appointed intermediaries receive interest of 4% p.a each on the loans disbursed by Land Bank to the intermediaries. The intermediaries charge the REM farmers 4% p.a. on the value of the loans disbursed for their role of supporting the emerging farmers with skills and other facilities that enhance their success. This interest is paid from the aforesaid funds. There were no injections into the fund during the current period under review (FY2021: Rnil). There were no Disbursements in the current period under review (FY2021: Rnil).

*** CGA Primary Project Facility previously named REM wholesale finance support facility.*

## Notes to the Financial Statements

### 32. Contingencies

LBLIC Tax:

The former LBLIS, which was a wholly owned subsidiary of Land Bank, was exempt from Income Tax in terms of section 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962. With effect 01 April 2012, LBIS was restructured in line with Ministerial approval of its revised business model, which was based on a preferred "Hold Co" structure by the Financial Sector Conduct Authority (FSCA), previously known as the Financial Services Board ("FSB"). The restructured insurance business now consists LBIC (Short-term insurance co) and LBLIC (Long term insurance co).

As part of the implementation of LBIS's restructure during FY2014, LBIS group management approached the South African Revenue Services ("SARS") for a tax ruling to confirm that the tax privileges of the former LBIS, would still apply to the restructured Group, as in effect nothing has changed, i.e. all companies effectively remain 100% owned by the Land Bank, albeit "indirectly".

The tax ruling received back from SARS was negative, stating that because of the inclusion of the LBIS holding company within the insurance group structure, the LBIC and LBLIC operating companies would not be entitled to exemption from Income Tax, unlike the former LBIC – these companies were not "direct" wholly owned subsidiaries of the Land Bank. LBIS group management then approached the Minister of Finance, requesting approval to remove the LBIS holding company from the group structure.

The Minister of Finance approved the request to remove the LBIS holding company on 14 May 2014, with effect on 1 April 2014. This approval allows that in terms of the new group structure, both LBIC (Short Term Insurance Company) and LBLIC (Long Term Insurance Company) can apply for tax exemption in terms of section 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962.

Following the Ministerial approval, management is re-engaging SARS with the application for a tax exemption from 1 April 2012 – 31 March 2021 for both LBLIC and LBIC, and pre 1 April 2012 for LBLIC, to apply for tax exemption in terms of section 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962, as well as to waive the tax liability for LBLIC for the period 1 April 2012 to 31 March 2014. The FSCA has approved the new structure. In the unlikely event that SARS did not waive the tax liability for the period when the holding company was in place, LBLIC will be liable for R68 million tax for the period 01 April 2012 to 31 March 2014, hence reflected as a contingent liability. Management is of the view that it is improbable that this approval will not be granted. The matter had not been resolved as at 31 March 2022, and it is still in progress.

Penalty fee:

The contingent asset relates to an early withdrawal penalty fee charged on an investment that the Land Bank had made with one of the banks during the 2020 financial year. This penalty fee was expensed in the 2020 financial year. A process is underway to recover the R16.5m penalty fee. The recovery is contingent upon successfully litigation of the matter. The matter had not been resolved as at 31 March 2022 and it is still in progress.

CCMA and Labour Court cases

Land Bank dismissed three staff members. The case is still with CCMA and Labour Court. These staff members were paid all the benefits that were due to them when they were dismissed. As a result of this incident, the Bank estimated a contingent liability amounting R8.7m. The matter had not been resolved as at 31 March 2022 and it is still in progress.

Default Interest

There is a possible legal claim against Land Bank from National Credit Act (NCA) and non-NCA clients that were previously administered by a Service Level Partners (SLA) of the Land Bank. The possible claim could be that the SLA had charged clients default interest calculated based on the "total outstanding amount" instead of the "outstanding arrears amount". This incident happened before the Bank took over the SLA loan book in February 2021. The clients could pursue this matter further and argue that the SLA did in fact act unlawfully by disregarding the NCA provisions. There are currently differing views between the Land Bank legal team and that of the SLA partner, the SLA partner stems that this is a widely used practice in the banking industry. The matter had not been resolved as at 31 March 2022 and is still in progress. A reliable estimate cannot me measured as yet.

## Notes to the Financial Statements

### 33. Commitments

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| **33.1 Loan commitments and guarantees** | | | | |
| Guarantees[1] | 4 290 | 15 580 | 4 290 | 15 580 |
| Loan commitments* | 1 491 686 | 4 366 729 | 1 491 686 | 4 366 729 |
| | 1 495 976 | 4 382 309 | 1 495 976 | 4 382 309 |

*1 The above guarantees are included in the clients' approved facility limits and it is unknown when the guarantees will be presented for payment.*
** Loan commitments relates to facilities that are undrawn.*

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| **33.2 Operating lease commitments – as lessor (income)** | | | | |
| **Minimum lease payment due** | | | | |
| – First year | 235 | 823 | 235 | 823 |
| – Fifth year | 481 | 489 | 481 | 489 |
| | 716 | 1 312 | 716 | 1 312 |

Certain of the group properties is held to generate rental income and premises for its day-to-day operations. Lease agreements are non-cancellable and have terms from 2 to 6 years. there are no contingent rents receivable.

### 34. Related party transactions

**Relationships between parents, subsidiaries and associates**
The ultimate controlling party of the Land Bank is the Government of the Republic of South Africa, represented by National Treasury.

| The following represents the significant subsidiaries of the Bank: | Ownership Interest 2022 | Ownership Interest 2021 |
|---|---|---|
| Land Bank Life Insurance Company (SOC) Limited (LBLIC) | 100% | 100% |
| Land Bank Insurance Company (SOC) Limited (LBIC) | 100% | 100% |

| **Transactions with related parties other than key management personnel** | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|
| **Amounts received from related parties during the year** | | |
| **i) Land Bank Life Insurance Company (SOC) Limited – Subsidiary[1]** | | |
| Policy administration fees received by Land Bank | 251 | 240 |
| Portion of non-executive directors emoluments paid by LBLIC | 80 | 80 |
| Property and equipment transferred (from)/ to LBLIC (at NAV) | – | – |
| | 331 | 320 |
| **ii) Land Bank Insurance Company (SOC) Limited – Subsidiary[1]** | | |
| Policy administration fees received by Land Bank | 1 003 | 961 |
| Portion of non-executive directors emoluments paid by Land Bank | 320 | 320 |
| Property and equipment transferred to LBIC (at NAV) | (28) | 14 |
| | 1 295 | 1 295 |
| Capital contribution from Land Bank | | |
| – Cash | | 200 000 |

## Notes to the Financial Statements

### 34. Related party transactions (continued)

iii) National Treasury – Stakeholder
With effect from 14 July 2008, the administrative powers over the Bank were transferred from the Ministry of the Department of Agriculture to the Ministry of Finance and, in accordance with The Land Bank Act, 2002, has the following role and responsibilities:

**The Minister in terms of paragraph 7 -**
(a) Is responsible for the development of policy with regard to agriculture, agrarian reform and matters incidental thereto; and
(b) May from time to time issue policy directives to the Board not inconsistent with this Act.

**The Minister in terms of paragraph 9(1) -**
May appoint a Board Member for such period as the Minister may determine in the case of each member but the period may not exceed five years.

| | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|
| **Transactions during the year** | | |
| A capital injection of R3 billion was received from National Treasury during the FY2021 financial year. | – | 3 000 000 |

**Government Support – Financial Guarantees**
No new government guarantees were issued to Land Bank during the period under review.
As at 31 March 2022, the Land Bank held a total of R9.6 billion guarantees which can be broken down as follows:

- R1.5 billion sustainability guarantee (Balance Sheet Guarantee)
- R8.0 billion original funding guarantees (Closing balance of R1.9 billion)
- R0.1 billion historic "consolidation of debt" guarantee. (Closing balance of R51 067)

An annual fee of 0.3% per annum is payable to National Treasury on the guarantees granted (refer to note 22).

**iv) Other related parties**
The Bank obtains funding from institutions, of which the most significant nominal values are disclosed below:

| | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|
| **Funding received[2]** | | |
| Corporation for Public Deposits | 942 678 | 1 163 800 |
| Industrial Development Corporation | 418 898 | 517 157 |
| National Housing Finance | 85 536 | 105 600 |
| Petro SA | 682 414 | 842 486 |
| Post Bank | 738 390 | 911 592 |
| Public Investment Corporation | 5 388 768 | 6 608 800 |
| Trans-Caledon Tunnel Authority | 72 615 | 89 648 |
| | 8 329 298 | 10 239 083 |
| **Other government related parties:** | | |
| African Development Bank | 499 999 | 590 909 |
| | 8 829 297 | 10 829 99 |

## Notes to the Financial Statements

### 34. Related party transactions (continued)

| | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|
| **Amounts owed by/(to) related parties** | | |
| Subsidiaries[3] | | |
| Land Bank Life Insurance Company (SOC) Limited (LBLIC) | – | – |
| Land Bank Insurance Company (SOC) Limited (LBIC) | 1 522 | 1 473 |
| Funds under administration | | |
| DALRRD | 1 210 025 | 1 064 140 |
| Micro-Agricultural Finance Institution | 15 192 | 13 899 |
| Agricultural Broad Based Black Economic Empowerment | 321 001 | 275 563 |
| Blended Finance | 750 169 | 645 489 |
| Job Fund | 29 570 | 33 667 |
| Covid 19 | 94 092 | 95 522 |
| CGA Primary Project Facility | 161 973 | 190 811 |
| Kat River Farmers | 12 824 | |
| | 1 384 822 | 1 254 951 |
| i) Agricultural Broad Based Black Economic Empowerment (Agri-BEE) | | |
| Bank balances of the Agri-BEE | 321 001 | 275 563 |
| Agri-BEE fund balance | 321 001 | 275 563 |
| ii) Micro-Agricultural Finance Institution (MAFISA) | | |
| Bank balances of the MAFISA fund | 15 192 | 13 899 |
| MAFISA fund balance | 15 192 | 13 899 |
| iii) CGA Primary Project Facility | | |
| Bank balances of the CGA Primary Project Facility | 161 973 | 190 811 |
| CGA Primary Project Facility fund balance | 161 973 | 190 811 |
| vi) Blended Finance Facility | | |
| Bank balances of the Blended Finance Facility | 750 169 | 645 489 |
| Cash balance held for the support facilities | 750 169 | 645 489 |
| vii) Blended Finance Facility | | |
| Total amount owed to related parties | 1 384 822 | 1 254 951 |
| Total cash balance held for the support facilities | 1 384 822 | 1 254 951 |



## Notes to the Financial Statements

### 34. Related party transactions (continued)

| | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|
| **Transactions between subsidiaries[1]** | | |
| An administration fee of R13,3 million (FY2021: R12.4 million) was charged to LBIC, the short-term company, for services rendered by LBLIC. | | |
| **Services paid/ (received) to related parties** | | |
| LBLIC – Salaries | 14 750 | 13 629 |
| LBIC – Salaries | (14 750) | (13 629) |
| | – | – |
| **Remuneration recharge to LBIC** | (14 750) | (13 629) |
| **Transactions with key management personnel[4]** | | |
| Short-term employee benefits | 480 | 514 |
| Other long-term benefits | 5 | 3 |
| Termination benefits | | – |
| | 485 | 517 |

*1 Transactions with subsidiaries are made in the ordinary course of business and on substantially the same terms, as those prevailing at the time for comparable transactions with other third parties. These transactions also did not involve more than the normal risk of collectability or present other unfavourable features. There was no ECL at the statement of financial position date and no bad debt expense in the year (FY2021: Rnil) relating to this intercompany transaction.*

*2 The funding from related parties are all short-term financial instruments which are repayable within a year. The funding consists mainly of promissory notes and bonds. These transactions were made on terms equivalent to those that prevail in arm's length transactions.*

*3 The intercompany account is held as a trading account between LBIC, LBLIC and it's holding company, Land Bank. In terms of the shareholders' agreement the loan is unsecured and has been sub-ordinated by Land Bank. Settlement will take place in cash. A decision was taken by the executive of the holding company that no interest would be charged on the outstanding loan balance during the current and prior financial periods under review.*

*4 Key management personnel comprises of the Group's executive management (including executive directors) and non-executive directors.*

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group

#### Financial risk management

**Credit risk**

Credit risk refers to a loss suffered by a party whereby the counterparty fails to meet its financial obligations to the party under the contract. Credit risk may also arise if there is an increasing risk of default by the counterparty throughout the duration of the contract.

The definition of credit risk includes:

a) Credit evaluation risk: Risk related to the decreased credit worthiness (based on recent financial performance) of a counterparty to a transaction. A creditor may subsequently charge the downgraded entity a higher lending rate to compensate for the increased risk. For a creditor, downgrade risk may eventually lead to default risk.
b) Credit concentration risk: Risk related to any single exposure or group of exposures large enough to cause credit losses which threaten the Bank's capital adequacy or ability to maintain its core operations. It is the risk that a common factor within a risk type or across risk types fails or an event occurs which causes credit losses.
c) Credit default risk: Risk related to the non-payment of interest and/ or capital on a loan by the borrower to the lender. This translates into a loss to the institution as a result of failure by a counterparty to meet its financial and/or contractual obligations.
d) Counterparty risk: Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered when evaluating a contract. In most financial contracts, counterparty risk is also known as default risk.

As an important partner in the execution of the Bank's development mandate, the bank however needs to comply with statutory and regulatory requirements to ensure that the Bank's activities do not lead over indebtedness in this market segment.

**Policy and responsibility**

The key components of the current general credit policy are the following:

- The primary role of the Bank is to provide finance to the agricultural sector;
- In its mandate, the Bank seeks to satisfy the needs of its customer base while maintaining a sound credit portfolio;
- The Bank insists on a thorough assessment of the client's financial position and repayment ability during the loan decision process, resulting in better quality credit decisions which result in timeous loan repayments and reduced losses in the event of a default;
- For the vast majority of the products, credit is granted on the basis of insight into the customer's circumstances and of specific assessments that provide a context for such credits;
- The facilities should match the customer's credit worthiness, capital position or assets, and the customer should be able to substantiate his or her repayment ability, and
- The Group may assume risks only within the limits of applicable legislation and other rules, including the rules of good practice for financial enterprises.

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

**Credit risk management process**

The credit risk management process has four stages. The stage can be summarised as follows:

- Credit origination entails gathering of application information, pre-screening for viability and mandate fit, client assessment and validation of business case through a due diligence.
- Credit assessment entails validation of submitted documentation from origination, risk rating and pricing, viability and affordability assessment, risk mitigation and determining appropriate terms and conditions within the Bank's risk appetite.
- Negotiating and contracting entails drafting and signing of legal documentation, ensuring all conditions precedence have been met in order effect disbursement of the loan.
- Portfolio Monitoring entails ongoing monitoring and evaluation, including base line studies, to ensure social impact and financial expectations have been met, board representation, business development support by designated teams (agricultural, financial etc.).

**Risk classification**

The Bank monitors the repayment record of its customers on an ongoing basis to ensure that any deterioration in repayment records is detected as early as possible. As part of the collection process, customers are classified according to risk, and the classification is updated on receipt of new information about the customer.

The main objectives of risk classification are to rank the Bank's customer base according to risk so as to estimate the probability of default (PD) of each customer. The risk classifications used in the day-to-day credit process are based on point-in-time estimates. This means that the Bank uses a customer's present general and financial situation as a starting point. A change in the customer's situation or financial position therefore results in an upgrade or downgrade of that customer. The Bank adheres to the principle that all classifications should reflect the customer's current situation to the greatest extent possible.

**Credit risk – insurance activities**

LBLIC is exposed to credit risk through its investment portfolios. To counteract this risk, investment portfolios are managed in terms of investment mandates that are aligned to Insurance companies' investment strategy. Investment mandates provide guidelines in terms of the average credit quality of financial instruments in the portfolio as well as limits on concentration risk.

The insurance companies are also exposed to credit risk in respect of their working capital assets from balances owed by counterparties. The following are some of the main credit risk management actions:

The use of reinsurance exposes the Group to credit risk. The counterparty risks of reinsurers are managed through formal contractual agreements which have been set up between the Group and reinsurers. These agreements include terms and conditions which regulates the relationship between the Group and reinsurers. Credit risk in respect of reinsurance is further managed by placing the Group's reinsurance only with companies that have high credit ratings. LBLIC and LBIC has quota share reinsurance treaties with internationally AA rated reinsurance companies. In addition to the proportional reinsurance treaty, another layer of reinsurance in the form of a stop loss is in place to limit the total exposure per individual claim. For overseas reinsurers, LBLIC retains 40% of ceded written premiums under quota share treaties and settles payments with the reinsurers 1 year after the placement in order to reduce the credit risk.

LBIC has a stop loss insurance treaty on the crop business with internationally AA-rated reinsurance companies.

For foreign reinsurers on the crop portfolio, LBIC retains 40% of ceded written premium as deposit premium on the quota share treaty, which is released twelve months later. A portion of the outstanding claims is also retained on the quota share accounts each quarter, which is recalculated the following quarter. For the foreign approved reinsurer, the company is issued with an updated bank guarantee through domestic AA rated bank for outstanding balances each quarter.

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

The maximum exposure to credit risk is presented in the table below

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount R'000 | Credit loss allowance R'000 | Amortised cost / fair value R'000 | Gross carrying amount R'000 | Credit loss allowance R'000 | Amortised cost / fair value R'000 |
| **Asset class with asset credit risk exposure*** | **39 557 222** | **(5 018 729)** | **34 538 493** | **45 995 176** | **(6 043 304)** | **39 951 871** |
| Loans and advances | 25 875 310 | (5 018 729) | 20 856 581 | 36 931 164 | (6 04 3 304) | 30 887 859 |
| Cash at bank | 9 983 760 | – | 9 983 760 | 5 589 889 | – | 5 589 889 |
| Trade and other receivables (excluding prepaid expenses) | 1 283 974 | – | 1 283 974 | 980 123 | – | 980 123 |
| Short-term insurance assets | 266 040 | – | 266 040 | 159 014 | – | 159 014 |
| Long-term insurance assets | 4 855 | – | 4 855 | 4 987 | – | 4 987 |
| Repurchase agreements | – | – | – | – | – | – |
| Hedging derivatives | 9 896 | – | 9 896 | 11 340 | – | 11 340 |
| Strategic trading assets | – | – | – | – | – | – |
| Investments ** | 2 133 387 | – | 2 133 387 | 2 318 659 | – | 2 318 659 |
| | | | – | | | |
| **Asset class without asset credit risk exposure** | **210 734** | **–** | **210 734** | **213 827** | | **213 827** |
| Intangibles | 1 615 | – | 1 615 | 2 766 | – | 2 766 |
| Other trade receivables | 55 751 | | 55 751 | 63 380 | | 63 380 |
| Prepaid expenses | 13 301 | – | 13 301 | 5 922 | – | 5 922 |
| Investment property | 97 400 | – | 97 400 | 95 100 | – | 95 100 |
| Right of Use of Leased Assets | 3 909 | – | 3 909 | 20 746 | – | 20 746 |
| Non-current assets held-for-sale | 9 609 | – | 9 609 | 4 058 | – | 4 058 |
| Property and equipment | 29 149 | – | 29 149 | 21 855 | – | 21 855 |
| **Total assets per statement of financial position** | 39 767 956 | (5 018 729) | 34 749 227 | 46 209 002 | (6 043 304) | 40 165 698 |
| **Add off balance sheet items exposed to credit risk** | | | | | | |
| Guarantees issued | 4 290 | – | 4 290 | 15 580 | | 15 580 |
| Loan commitments | 1 491 686 | – | 1 491 686 | 4 366 729 | | 4 366 729 |
| Operating lease commitments – group as lessor | 716 | – | 716 | 1 312 | | 1 312 |
| | 41 264 647 | (5 018 729) | 36 245 918 | 50 592 624 | (6 043 304) | 44 549 319 |
| Maximum credit exposure - selected items | 41 053 913 | (5 018 729) | 36 035 184 | 50 378 797 | (6 043 304) | 44 335 492 |

Credit exposure is calculated on the basis of selected items on and off the balance sheet (guarantees and loan commitments).

* *This amount excludes the impact of any collateral held or credit enhancements. Refer to note 9 for collateral held against the loans and advances.*
** *Included in the Group investments is an amount of R1.32 billion (FY2021: R1.16 billion) which relates to investments under asset management which do not have credit exposure (Bank: R 243.5 million; FY2022 and FY2021: R228.3 million).*

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Gross loan book exposure by agricultural sector

2022

| | Corporate Banking and Structured Investments | | Commercial Development and Business Banking | | | Classification by loan performance | | | |
|---|---|---|---|---|---|---|---|---|---|
| Agricultural Sector | Direct R'000 | Total R'000 | Direct R'000 | Indirect R'000 | Total R'000 | Total R'000 | Stage 1: Performing R'000 | Stage 2: Under performing R'000 | Stage 3: Non performing R'000 |
| Agri-Business | 206 254 | 206 254 | 1 350 061 | 4 809 | 1 354 870 | 1 561 123 | 194 202 | 280 201 | 1 086 721 |
| Citrus | 74 981 | 74 981 | 249 737 | 18 001 | 267 737 | 342 718 | 180 058 | 3 212 | 159 448 |
| Cotton | 101 445 | 101 445 | 58 784 | 333 | 59 117 | 160 563 | 102 390 | 34 155 | 24 018 |
| Dairy | – | – | 388 714 | 169 990 | 558 704 | 558 704 | 139 576 | 5 754 | 413 374 |
| Deciduous fruit | 271 891 | 271 891 | 185 751 | 61 761 | 247 512 | 519 402 | 89 959 | – | 429 444 |
| Equipment | – | – | – | 20 072 | 20 072 | 20 072 | 13 685 | 249 | 6 138 |
| Feedlot | 127 167 | 127 167 | 34 570 | – | 34 570 | 161 737 | 16 091 | – | 145 646 |
| Financial Services | 264 634 | 264 634 | 526 868 | 556 877 | 1 083 744 | 1 348 377 | 825 046 | 69 764 | 453 569 |
| Flowers | – | – | 4 237 | – | 4 237 | 4 237 | 2 603 | – | 1 634 |
| Fodder | – | – | 224 822 | 15 443 | 240 265 | 240 265 | 66 881 | 7 627 | 165 757 |
| Game | – | – | 195 818 | 1 442 | 197 260 | 197 260 | 53 928 | 8 213 | 135 119 |
| Grain | 5 622 359 | 5 622 359 | 5 013 718 | 229 987 | 5 243 705 | 10 866 064 | 3 514 813 | 3 171 802 | 4 179 448 |
| Livestock | 220 692 | 220 692 | 2 994 355 | 567 829 | 3 562 184 | 3 782 876 | 1 861 621 | 156 147 | 1 765 108 |
| Nuts | 45 041 | 45 041 | 284 232 | 32 581 | 316 813 | 361 854 | 185 514 | 1 555 | 174 785 |
| Ostriches | – | – | 51 069 | – | 51 069 | 51 069 | 21 963 | 5 311 | 23 796 |
| Other | 444 866 | 444 866 | 1 236 029 | 20 865 | 1 256 894 | 1 701 760 | 58 906 | 307 068 | 1 335 787 |
| Pork | 69 679 | 69 679 | 27 571 | – | 27 571 | 97 251 | 73 527 | 146 | 23 578 |
| Poultry | 389 825 | 389 825 | 181 492 | 25 531 | 207 023 | 596 849 | 345 172 | 78 871 | 172 806 |
| Subtropical Fruit | – | – | 31 321 | 2 236 | 33 557 | 33 557 | 19 471 | – | 14 086 |
| Sugarcane | 337 745 | 337 745 | 291 289 | (2) | 291 287 | 629 032 | 117 260 | 388 542 | 123 230 |
| Table grapes | – | – | 280 404 | 54 731 | 335 135 | 335 135 | 90 029 | 31 003 | 214 103 |
| Tea | – | – | 26 326 | – | 26 326 | 26 326 | 19 205 | 4 429 | 2 691 |
| Timber | 270 039 | 270 039 | 82 586 | – | 82 586 | 352 625 | 25 448 | 270 039 | 57 137 |
| Tobacco | – | – | 137 300 | – | 137 300 | 137 300 | 6 831 | 4 885 | 125 583 |
| Vegetables | 313 691 | 313 691 | 817 672 | 154 382 | 972 054 | 1 285 745 | 272 865 | 33 484 | 979 395 |
| Wine | 132 683 | 132 683 | 323 167 | 47 560 | 370 727 | 503 411 | 229 001 | 134 579 | 139 830 |
| **Total** | **8 892 993** | **8 892 993** | **14 997 892** | **1 984 426** | **16 982 317** | **25 875 309** | **8 526 044** | **4 997 035** | **12 352 231** |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Gross loan book exposure by agricultural sector

2021

| Agricultural Sector | Corporate Banking and Structured Investments | | Commercial Development and Business Banking | | | Classification by loan performance | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Direct R'000 | Total R'000 | Direct R'000 | Indirect R'000 | Total R'000 | Total R'000 | Stage 1: Performing R'000 | Stage 2: Under performing R'000 | Stage 3: Non performing R'000 |
| Agri-Business | 135 539 | 135 539 | 4 552 937 | 1 041 747 | 5 594 684 | 5 730 223 | 748 865 | 1 804 033 | 3 177 325 |
| Agro-processing | – | – | – | 60 667 | 60 667 | 60 667 | | 20 753 | 40 187 |
| Citrus | 160 466 | 160 466 | 125 288 | 441 338 | 566 625 | 727 091 | 566 947 | 35 159 | 124 986 |
| Cotton | – | – | 6 513 | 412 | 6 924 | 6 924 | 556 | 5 056 | 1 312 |
| Dairy | – | – | 339 368 | 296 456 | 635 824 | 635 824 | 301 146 | 25 426 | 309 252 |
| Deciduous fruit | 245 603 | 245 603 | 149 289 | 191 898 | 341 187 | 586 790 | 375 131 | 28 277 | 183 382 |
| Equipment | – | – | – | 33 809 | 33 809 | 33 809 | 25 584 | 13 | 8 212 |
| Feedlot | 30 668 | 30 668 | 26 130 | – | 26 130 | 56 798 | 36 400 | 5 137 | 15 262 |
| Financial Services | 879 178 | 879 178 | 575 382 | 496 917 | 1 072 300 | 1 951 478 | 845 119 | 501 224 | 605 135 |
| Flowers | – | – | 4 320 | – | 4 320 | 4 320 | 1 770 | 1 008 | 1 542 |
| Fodder | – | – | 84 948 | 27 672 | 112 620 | 112 620 | 46 171 | 21 762 | 44 687 |
| Game | – | – | 199 392 | 28 705 | 228 098 | 228 098 | 62 010 | 26 777 | 139 310 |
| Grain | 4 985 240 | 4 985 240 | 1 480 004 | 9 875 517 | 11 355 521 | 16 340 760 | 5 803 968 | 6 850 912 | 3 685 604 |
| Inputs supplier | 14 630 | 14 630 | – | 39 634 | 39 634 | 54 264 | 52 249 | 2 015 | – |
| Livestock | 218 438 | 218 438 | 2 788 092 | 454 855 | 3 242 947 | 3 461 386 | 1 730 868 | 189 091 | 1 541 427 |
| Logistics | – | – | – | 513 875 | 513 875 | 513 875 | 398 875 | 114 999 | – |
| Nuts | 32 147 | 32 147 | 185 550 | 84 272 | 269 822 | 301 969 | 220 976 | 12 593 | 68 400 |
| Ostriches | – | – | 53 012 | – | 53 012 | 53 012 | 20 801 | 9 683 | 22 528 |
| Other | 392 591 | 392 591 | 1 378 059 | 79 272 | 1 457 331 | 1 849 922 | 424 672 | 329 966 | 1 095 285 |
| Pork | 53 860 | 53 860 | 25 826 | – | 25 826 | 79 686 | 57 685 | 351 | 21 650 |
| Poultry | 300 845 | 300 845 | 177 643 | 144 707 | 322 351 | 623 196 | 266 547 | 283 000 | 73 649 |
| Subtropical Fruit | – | – | 33 382 | 193 | 33 575 | 33 575 | 18 051 | 868 | 14 656 |
| Sugarcane | 297 722 | 297 722 | 257 796 | 146 957 | 404 753 | 702 475 | 228 073 | 395 906 | 78 496 |
| Table grapes | – | – | 240 753 | 134 377 | 375 129 | 375 129 | 277 156 | 18 510 | 79 463 |
| Tea | – | – | 28 054 | – | 28 054 | 28 054 | 20 063 | | 7 995 |
| Timber | 403 478 | 403 478 | 71 936 | – | 71 936 | 475 413 | 27 061 | 403 626 | 44 726 |
| Tobacco | – | – | 5 259 | – | 5 259 | 5 259 | 5 259 | – | – |
| Vegetables | – | – | 737 255 | 158 717 | 895 972 | 895 972 | 287 432 | 173 613 | 434 927 |
| Wine | 278 820 | 278 820 | 333 129 | 390 627 | 723 755 | 1 002 576 | 739 959 | 71 416 | 191 201 |
| **Total** | **8 429 225** | **8 429 225** | **13 859 316** | **14 642 622** | **28 501 938** | **36 931 163** | **13 589 392** | **11 331 172** | **12 010 600** |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Credit exposure by geographic/regional distribution

| 2022 Province | Corporate Banking and Structured Investments R'000 | Commercial Development and Business Banking R'000 | Total R'000 | Total % | Stage 1: Preforming R'000 | Stage 2: Under-performing R'000 | Stage 3: Non-performing R'000 |
|---|---|---|---|---|---|---|---|
| Eastern Cape | 403 610 | 1 399 456 | 1 803 067 | 7% | 1 019 962 | 94 808 | 688 297 |
| Free State | 85 570 | 2 926 766 | 3 012 336 | 12% | 947 165 | 211 225 | 1 853 945 |
| Gauteng | 5 661 685 | 1 079 694 | 6 741 379 | 26% | 2 450 296 | 1 768 272 | 2 522 810 |
| KwaZulu-Natal | 337 745 | 705 272 | 1 043 016 | 4% | 131 614 | 438 781 | 472 621 |
| Limpopo | 101 445 | 1 941 115 | 2 042 560 | 8% | 315 888 | 288 365 | 1 438 308 |
| Mpumalanga | 22 664 | 2 133 086 | 2 155 749 | 8% | 600 789 | 427 953 | 1 127 008 |
| North West | 1 085 715 | 3 251 998 | 4 337 713 | 17% | 1 601 207 | 1 236 605 | 1 499 902 |
| Northern Cape | 284 094 | 2 228 679 | 2 512 773 | 10% | 603 859 | 253 483 | 1 655 431 |
| Western Cape | 910 465 | 1 316 251 | 2 226 716 | 9% | 855 264 | 277 543 | 1 093 909 |
| **Total** | **8 892 993** | **16 982 317** | **25 875 310** | **100%** | **8 526 044** | **4 997 035** | **12 352 231** |

| | | | | | Loan Performance | | |
|---|---|---|---|---|---|---|---|
| 2021 Province | Corporate Banking and Structured Investments R'000 | Commercial Development and Business Banking R'000 | Total R'000 | Total % | Stage 1: Preforming R'000 | Stage 2: Under-performing R'000 | Stage 3: Non-performing R'000 |
| Eastern Cape | 873 770 | 1 615 891 | 2 489 661 | 7% | 1 208 556 | 437 565 | 843 540 |
| Free State | 79 265 | 3 913 150 | 3 992 415 | 11% | 1 927 904 | 266 114 | 1 798 398 |
| Gauteng | 4 853 662 | 2 914 181 | 7 767 844 | 21% | 735 455 | 6 020 755 | 1 011 635 |
| KwaZulu-Natal | – | 979 097 | 979 097 | 3% | 533 082 | 86 467 | 359 549 |
| Mpumalanga | 549 085 | 5 902 996 | 6 452 081 | 17% | 3 496 397 | 1 562 842 | 1 392 841 |
| Northern Cape | 1 044 976 | 4 249 338 | 5 294 314 | 14% | 1 790 936 | 613 609 | 2 889 770 |
| Limpopo | – | 3 258 577 | 3 258 577 | 9% | 571 050 | 1 274 669 | 1 412 858 |
| North West | 407 195 | 2 803 200 | 3 210 395 | 9% | 1 069 738 | 552 944 | 1 587 713 |
| Western Cape | 621 271 | 2 865 508 | 3 486 780 | 9% | 2 256 274 | 516 209 | 714 296 |
| **Total** | **8 429 225** | **28 501 938** | **36 931 163** | **100%** | **13 589 392** | **11 331 172** | **12 010 600** |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Credit risk concentration by credit rating (rated externally)

The table below provides an analysis of the ratings attached to the Group's exposure to instruments subject to credit risk:

| 2022 | Bonds R'000 | Cash, deposits and similar securities R'000 | Collective Investment Schemes R'000 | Net working capital assets R'000 | Total R'000 |
|---|---|---|---|---|---|
| AAA | 384 452 | 225 985 | – | – | 610 437 |
| AA+ | 136 435 | – | 141 700 | – | 278 135 |
| AA | 92 076 | 31 886 | – | – | 123 962 |
| AA- | – | 7 163 | – | 930 106 | 937 269 |
| A | – | 6 407 | – | – | 6 407 |
| A- | – | – | – | 2 638 | 2 638 |
| BB- | – | 9 845 216 | – | – | 9 845 216 |
| Other* | – | 20 856 582 | – | – | 20 856 582 |
| Not rated** | – | 1 380 606 | – | – | 1 380 606 |
| **Total** | **612 963** | **32 353 846** | **141 700** | **932 745** | **34 041 254** |
| **2021** | | | | | |
| AAA | 332 073 | 436 636 | | – | 768 709 |
| AA+ | 104 703 | 24 476 | 127 891 | – | 257 070 |
| AA | 116 611 | – | – | – | 116 611 |
| AA- | 330 | 4 965 | – | – | 5 295 |
| A+ | 715 | – | – | – | 715 |
| A | 807 | 14 288 | – | – | 15 095 |
| A- | – | – | – | 3 601 | 3 601 |
| BBB+ | – | – | – | 838 423 | 838 423 |
| BB | – | 5 558 400 | – | – | 5 558 400 |
| Other* | – | 30 887 859 | – | – | 30 887 859 |
| Not rated** | 3 051 | 1 330 428 | – | – | 1 333 479 |
| **Total** | **558 290** | **38 257 053** | **127 891** | **842 024** | **39 785 258** |

* *This includes clients that are not rated externally. The Bank has its own credit rating system for these clients. The Bank performs a credit assessment by verifying security provision, cash flow forecasts the level of financial leverage which determines the level of financial risk and indicates the extent that debt is covered by assets. Please refer to note 9 and note 4.*

** *These assets do not have a formal rating and mainly relate to premium debtors.*

**Credit exposure by line of business – loan book**

| Gross loan book | 2022 R'000 | % Total | 2021 R'000 | % Total |
|---|---|---|---|---|
| Corporate Banking and Structured Investments | 8 928 203 | 35% | 8 466 246 | 23% |
| Commercial Development and Business Banking | 17 004 357 | 66% | 28 542 988 | 77% |
| Loan Modification | (57 250) | – | (78 070) | – |
| Total gross loan book from continuing operations | 25 875 311 | | 36 931 163 | |
| Less: Expected Credit Loss (ECL) | (5 018 729) | | (6 043 304) | |
| Carrying amount of loans from continuing operations | 20 856 582 | | 30 887 858 | |
| **Balance per annual financial statements – total carrying amount** | **20 856 582** | **100%** | 30 887 858 | 100% |

**Balance as per the following notes**

The Bank's Commercial Development and Business Banking division, which provides loans to agricultural cooperatives and agribusiness companies, continues to account for the bulk of the Bank's overall credit exposure.



## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Credit risk management practices in relation to the recognition and measurement of expected credit losses

**1. Stage 1: 12-months ECL**

For exposures where there has not been a significant increase in credit risk since initial recognition and that there are not credit impaired upon origination, the portion of the lifetime ECL associate with the probability of default events occurring within the next 12 months recognised.

**2. Stage 2: Lifetime ECL – not credit impaired**

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

**3. Stage 3: Lifetime ECL – credit impaired**

If the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2.

**Methods, inputs, assumptions and estimation techniques used to measure expected credit losses**

| Methods used to determine | Method | Inputs | Assumptions | Estimation techniques |
|---|---|---|---|---|
| 12-month and lifetime expected credit losses | Expected loss methods based on probability at default (PD), loss given default (LGD) and exposure at default (EAD); expected credit losses are discounted to the reporting date using the effective interest rate. | PD, LGD and EAD over the lifetime of the loan. | Current PDs are the output of the calibrated rating model; PDs in subsequent years are determined based on migration, seasoning and cyclicality effects. | PDs: migration matrices for multi-year migration effects, term structure analysis for seasoning effect, macro-economic overlay for cyclicality.<br><br>LGD: LGD model calibrated with own data history.<br><br>EAD: credit conversion factor (CCF) modelling with own data, inclusion of repayment schedules. |
| | | | The current LGD is The output of the LGD model; analyses showed that The subsequent LGDs are The same as the first year's LGD. | |
| | | | Lifetime is the Contractual tenor of the loan;<br>No prepayments assumed | |
| Whether a credit Risk has Increased significantly since initial recognition | 1.According to the Stage 2 definition; different Land Bank specific identifiers including the minimum 30 days past due criteria have been selected for the identification of SICR. | Information On single loan Level, such as Loans management risk indicators, Arrears information etc. | While each loan is Firstly considered on its own, the final classification Is performed on a client-level,i.e. the worst stage of All loans is assumed to be The correct stage for all loans of the same client. | Stage classification is fact based using current flags And information Available in the Land Bank's data base. |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

| Methods used to determine | Method | Inputs | Assumptions | Estimation techniques |
|---|---|---|---|---|
| | Early Warning Indicators(a combination of macroeconomic factors (SA Maize Volatility Index – SAVI, Agricultural GDP, International Food Index ,and business rules) have been implemented for the monitoring and classification of SICR. | | | 1. Maximum stage across all loans per client rule applies. |
| Whether a financial asset is a credit-impaired financial asset | According to default definition; in general, unlikeliness to pay as well as >90 days past due are the criteria considered; these criteria are interpreted in terms of Land Bank's identifier e.g. for specific cases of unlikeliness to pay. | Information on single loan level, such as Loans management risk indicators, arrears information, etc. | While each loan is firstly considered on its own, the final classification is performed on a client-level, i.e. if one loan is considered to be credit-impaired (stage 3) then all loans of the same clients are considered to be so as well. | Stage classification is fact based using current flags And information Available in the Land Bank's data base. Maximum stage across all loans per client rule applies. |

**Macro-economic factors**

IFRS 9 introduced the use of macro-economic factors when calculating ECL. The Group has used macro-economic factors in the ECL methodology. Such factors include but are not limited to the World Food Index as well as the Volume of Imports of Goods and Services, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macro-economic factors will affect ECL. The methodology, assumptions and macro-indices, including any forecasts of future economic conditions are reviewed regularly.

For information on financial assets' credit risk exposure, including significant credit risk concentrations please see note 36.

Defaults and write offs: expected credit losses

Land Bank defines a default as past due > 90 days.

### Write off policy

The Group defines bad debt as an irrecoverable debt or uncollectible debt, where all the recovery processes and or steps are exhausted and the client or counter parties do not have any means whatsoever to repay the debt that is due and payable and there are no reasonable prospects of success.

As a development bank, the Land Bank will endeavour to ensure continuity of agricultural production, and the Group shall only write off bad debt when all reasonable steps have been taken to recover the debt.

Land Bank considers the following indicators when determining whether there is no reasonable expectation of recovery:

- Recovery of the debt is not economically justified;
- Trace of the client is unsuccessful where efforts and channels to trace the client have been fully exhausted; or
- It is to the advantage of Land Bank to effect settlement of its claims or to waive the claim; or
- The sheriff has issued a nulla bona return to the effect that there are no further assets available to liquidate; or
- The loan security and/or security documents are defective and no other basis for a claim exists; or



## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

- A shortfall emanating from the agreed settlement discount offered by Land Bank and/or a compromise has been reached between the client and Land Bank and a condition of such compromise is that Land Bank must write off a portion of the outstanding debt; or
- The loan is secured by property where the asset has been "bought-in" following an auction or abandonment process; or
- No security exists at the date of insolvency/liquidation/ or business rescue and/or existing security has been sold and the proceeds thereof received by Land Bank leaves a shortfall; or
- A deceased estate where there are no assets and there is no security or spouse married in community of property from which the outstanding balance may be claimed; or
- A deceased estate where there are no assets however:

i) The estate is insolvent and will be administered in accordance with Section 34 of the Administration of Estates Act 66 of 1965; or

ii) If there are insufficient dividends for the estate and the assets within the estate are of minimal value and/or are not dispensable to the debtor's dependents; or

- The debt has prescribed as defined by the Prescription Act (68 of 1969) as amended; or
- Any amount exceeding in-duplum inclusive of interest and costs; or
- All avenues of recovery, including the realisation of security and sureties, have been exhausted and a shortfall exists; or
- Any circumstance which in the opinion of the Chief Executive Office, Chief Financial Officer and/or Executive Manager Legal Services prohibits the recovery of the debt (authorisation in line with the DOP); or
- Any circumstance which is in the public interest or may be required as a result of amendments or enactments of legislation.

From time to time the Group has financial assets that are written off but may still be subject to enforcement activity. Such fina+C195ncial assets are written off when the aforementioned criteria have been met. Any recoveries due to enforcement activities are treated as bad debt recoveries in the year which such recoveries are made. This amounted to R15.8 million (FY2020: R15.1 million) refer to note 9.

### Modification

The gross carrying amount of loans modified and the related gains/(losses) recognised where no derecognition took place:

**Loss allowance: expected credit losses**

| 2022 | Gross loans modified R'000 | Gain/(loss) on modification R'000 | Change in expected credit loss due to modification R'000 |
|---|---|---|---|
| Stage 1 | 49 850 | 7 566 | 9 292 |
| Stage 2 | 49 871 | 9 993 | 5 894 |
| Stage 3 | 35 192 | 3 262 | 3 455 |
| **Total** | **134 914** | **20 821** | **18 642** |

**Loss allowance: expected credit losses**

| 2021 | Gross loans modified R'000 | Gain/(loss) on modification R'000 | Change in expected credit loss due to modification R'000 |
|---|---|---|---|
| Stage 1 | 346 322 | (3 134) | 5 044 |
| Stage 2 | 1 027 419 | (14 360) | 27 374 |
| Stage 3 | 41 492 | (776) | 14 240 |
| **Total** | **1 415 232** | **(18 270)** | **46 657** |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Stage migration (Gross loans and relating expected credit losses)

| | Note | Stage 1[1] R'000 | Stage 2[2] R'000 | Stage 3[2] R'000 | Total R'000 |
|---|---|---|---|---|---|
| Gross loans as reported for 2022 | 9 | 8 526 044 | 4 997 035 | 12 352 231 | 25 875 310 |
| Stage migration – improvements | | **2 949 721** | **(1 912 729)** | **(1 036 992)** | |
| – Stage 2 to 1 | | 2 719 609 | (2 719 609) | – | |
| – Stage 3 to 1 | | 230 111 | – | (230 111) | |
| – Stage 3 to 2 | | – | 806 881 | (806 881) | |
| Stage migration – deterioration | | **(835 651)** | **(651 059)** | **1 486 710** | |
| – Stage 1 to 2 | | (169 011) | 169 011 | – | |
| – Stage 1 to 3 | | (666 640) | – | 666 640 | |
| – Stage 2 to 3 | | – | (820 070) | 820 070 | |
| **Net stage migration** | | **2 114 069** | **(2 563 788)** | **449 718** | |
| Expected credit losses as reported for 2022 | 9 | (171 566) | (622 526) | (4 066 978) | (4 861 070) |
| Stage migration – improvements | | **26 148** | **(15 831)** | **(10 316)** | |
| – Stage 2 to 1 | | 22 709 | (22 709) | – | |
| – Stage 3 to 1 | | 3 438 | – | (3 438) | |
| – Stage 3 to 2 | | – | 6 878 | (6 878) | |
| Stage migration – deterioration | | **(223 923)** | **(236 900)** | **460 823** | |
| –– Stage 1 to 2 | | (31 873) | 31 873 | – | |
| –– Stage 1 to 3 | | (192 050) | – | 192 050 | |
| – Stage 2 to 3 | | – | (268 772) | 268 772 | |
| **Net stage migration** | | **(197 775)** | **(252 731)** | **450 506** | |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Stage migration (Gross loans and relating expected credit losses)

| | Note | Stage 1[1] R'000 | Stage 2[2] R'000 | Stage 3[2] R'000 | Total R'000 |
|---|---|---|---|---|---|
| Gross loans as reported for 2021 | | 13 589 392 | 11 331 172 | 12 010 600 | 36 931 164 |
| Stage migration – improvements | | **1 562 084** | **(41 368)** | **(1 520 716)** | |
| – Stage 2 to 1 | | 1 135 667 | (1 135 667) | – | |
| – Stage 3 to 1 | | 426 416 | – | (426 416) | |
| – Stage 3 to 2 | | – | 1 094 299 | (1 094 299) | |
| Stage migration – deterioration | | **(8 122 482)** | **4 075 535** | **4 046 948** | |
| – Stage 1 to 2 | | (5 116 373) | 5 116 373 | – | |
| – Stage 1 to 3 | | (3 006 109) | – | 3 006 109 | |
| – Stage 2 to 3 | | – | (1 040 838) | 1 040 838 | |
| **Net stage migration** | | **(6 560 399)** | **4 034 167** | **2 526 232** | |
| Expected credit losses as reported for 2021 | 9 | (210 605) | (1 455 116) | (3 800 732) | (5 466 453) |
| Stage migration – improvements | | **55 754** | **82 995** | **(138 749)** | |
| – Stage 2 to 1 | | 30 452 | (30 452) | – | |
| – Stage 3 to 1 | | 25 302 | – | (25 302) | |
| – Stage 3 to 2 | | – | 113 447 | (113 447) | |
| Stage migration – deterioration | | **(1 488 552)** | **372 146** | **1 116 407** | |
| – Stage 1 to 2 | | (625 862) | 625 862 | – | |
| – Stage 1 to 3 | | (862 690) | – | 862 690 | |
| – Stage 2 to 3 | | – | (253 717) | 253 717 | |
| **Net stage migration** | | **(1 432 798)** | **455 141** | **977 657** | |

[1] *12 month expected credit losses*
[2] *Life time expected credit losses*

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Definition

Liquidity risk relates to the Bank's possible inability to meet its payment obligations when they fall due. This may be caused by the Bank's possible inability to liquidate assets and/or to obtain funding to meet its liquidity needs.

The Group is exposed to liquidity risk via its:

- Ability to borrow from the market, at market related interest rates;
- Ability to attract wholesale funders at favourable interest rates;
- Liquid assets ratios are not adequate for prudential requirements;
- Ability to raise long term funding to match long term assets;
- Lack of standby lines of credit.

To manage liquidity risk, the Bank has a treasury policy that takes into account limits to manage its liquidity. The liquidity risk/going concern is being addressed through the restructuring process that is currently underway at Land Bank. The Board instituted a Board Restructuring Committee which monitors progress on Land Bank's restructuring process.

#### Control and management

The following control measures are in place:
Corporate finance and legal advisors were appointed to provide expert guidance on the implementation of the liability solution of the bank.

The going concern is being addressed through the restructuring process that is currently underway at Land Bank. The Board instituted a Board Restructuring Committee which monitors progress on Land Bank's restructuring process. The committee meets on weekly or as required.

The Shareholder is a standing invitee on the committee weekly meetings.

#### Monitoring the liquidity position

The going concern is being addressed through the restructuring process that is currently underway at Land Bank. The Board instituted a Board Restructuring Committee which monitors progress on Land Bank's restructuring process. The committee meets on weekly or as required.

The Shareholder is a standing invitee on the committee weekly meetings. The Land Bank works closely with its lenders to come up with an amenable solution to the event of default of the Land Bank.

#### Insurance activities

Liquidity risk is first of all managed by matching the liabilities with assets that have similar maturity profiles. Expected cash flows are taken into account when reviewing the investment strategy annually for the allocation of financial instruments. Most of the insurance company's assets are shareholder's assets, which are held in highly liquid, open-ended instruments. The investment strategy, furthermore allocates assets backing policyholders' liabilities to short-term liquid instruments in the form of cash and bonds in equal proportions.

The insurance companies are exposed to daily calls on their available cash resources from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The companies actively manage their cash resources split between short-term and long-term requirements to ensure that sufficient cash is at hand to settle insurance liabilities and operating expense obligations based on cash flow projections. Reinsurance quota share accounts are settled quarterly, 45 days in arrears. Cash calls can be made to reinsurers for claims in excess of R5 million per risk on the crop cover for LBIC. Both LBLIC and LBIC have sufficient cash resources to cover their obligations.

Liquidity risk is managed by matching the liabilities with assets that have similar maturity profiles.



## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

LBIC invested its surplus cash in a portfolio of short-term interest bearing assets in the current reporting period. The board decided to adopt a conservative investment strategy for the company considering the volatility of crop business.

(i) Asset Liability matching risk

Asset Liability Matching (ALM) risk is the risk that the company's assets are not adequately matched to back the company's insurance contract liabilities and financial liabilities.

The main factor effecting the ALM risk is the investment performance of financial assets backing the underlying insurance contract and financial liabilities.

The investment policy allocates assets backing policyholder's liabilities to cash and bonds. The bonds have varying maturities, but are all immediately tradeable on the bond market. The policyholders' liability was calculated using the discounted mean term of the liability in the current year. In the prior year, the liability was calculated using the prevailing average medium and long-term government bond rates less fund manager fees. The risk is that the rate earned on the investments does not match the rate used to calculate the liabilities. There is a notional allocation of assets to liabilities, with sufficient surplus assets to cover any ALM mismatch.

The remaining financial liabilities, most notably the intercompany loan, are backed by a mixture of cash, bonds and equity.

#### Liquidity Coverage Ratio

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

#### Deviation from the Banking Regulations

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

- The Land Bank's previous liquidity ratio required the Bank to invest surplus cash with counterparties with rating A and above. Due to operational requirements, investing surplus funds in government bonds will cause excessive trading in bonds which increase the market risk and potential capital losses on cash. The Bank shall therefore deviate from the Banks Act in terms of classifying cash deposits and available facilities as High Quality Liquid Assets.
- Acknowledge a deviation from the regulation in terms of assumptions made regarding rollover rates with investors to assess the likelihood of rollover. The Bank will always apply the minimum rollover rate (between historic rollovers and investor discussions) to the calculations of the LCR.

These deviations from the Banking Regulations have been included in the funding agreements as financial loan covenants.

#### Net Stable Funding Ratio

The NSFR aims to establish a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one-year horizon. It aims therefore to limit over-reliance on short term wholesale funding during times of buoyant market liquidity and encourage better assessment of liquidity risk across all on and off balance sheet items.

#### Cash at bank

The pool of liquid assets (in cash) is invested with reputable financial institutions as informed by the treasury policy.

#### Trade and other receivables

Past trends indicate that payment has been received timeously and that the fair values post year-end fairly reflect the amounts received. The housing loans have been discounted to the present value using the prime interest rate.

#### Repurchase agreements, derivative assets, strategic trading assets and investments

The amounts are receivable from reputable institutions and funds invested are managed by reputable asset managers.

Past trends indicate that payment has been received timeously and that the fair values post year-end fairly reflect the amounts received.

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

Maturity analysis is presented on undiscounted cash flows as per IFRS 7.42E.

| Group – 2022 | Notes | Less than 1 year R'000 | 1 – 5 years R'000 | > 5 years R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 4 | 9 983 760 | | | 9 983 760 |
| Trade and other receivables | 5 | 1 352 700 | | 326 | 1 353 026 |
| Short-term insurance assets | 6 | 266 040 | | | 266 040 |
| Investments | 7 | 1 933 648 | 199 738 | | 2 133 387 |
| Derivatives assets | 8 | 9 896 | | | 9 896 |
| Loans and advances | 9 | 3 416 277 | 9 872 478 | 14 865 228 | 28 153 983 |
| Long term insurance assets | 17 | 3 177 | 1 678 | | 4 855 |
| **Total assets** | | 16 965 498 | 10 073 894 | 14 865 554 | 41 904 946 |
| **Financial Liabilities** | | | | | |
| Trade and other payables | 16 | 833 544 | 156 | | 833 700 |
| Short-term insurance liabilities | 6 | 373 907 | | | 373 907 |
| Long-term policyholders' liabilities | 17 | 61 196 | 14 608 | | 75 804 |
| Funding liabilities | 18 | 21 433 111 | 9 662 782 | 1 555 378 | 32 651 271 |
| Lease liabilities | 13 | 4 716 | 455 | | 5 171 |
| **Total Financial Liabilities** | | 22 706 474 | 9 678 001 | 1 555 378 | 33 939 853 |

| Group – 2021 | Notes | Less than 1 year R'000 | 1 – 5 years R'000 | > 5 years R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 4 | 5 589 888 | – | – | 5 589 888 |
| Trade and other receivables | 5 | 1 049 001 | – | 424 | 1 049 425 |
| Short-term insurance assets | 6 | 159 015 | – | – | 159 015 |
| Investments | 7 | 2 135 088 | 183 571 | – | 2 318 659 |
| Derivatives assets | 8 | 11 340 | – | – | 11 340 |
| Loans and advances | 9 | 18 141 475 | 10 835 084 | 13 218 694 | 42 195 252 |
| Long term insurance assets | 17 | 3 309 | 1 678 | | 4 987 |
| **Total assets** | | 27 089 116 | 11 020 333 | 13 219 118 | 51 328 566 |
| **Financial Liabilities** | | | | | |
| Trade and other payables | 16 | 770 656 | 158 | – | 770 814 |
| Short-term insurance liabilities | 6 | 220 059 | 2 | – | 220 061 |
| Long-term policyholders' liabilities | 17 | 51 981 | 14 608 | – | 66 589 |
| Funding liabilities | 18 | 20 738 143 | 17 416 417 | 2 800 833 | 40 955 393 |
| Lease liabilities | 13 | 20 056 | 7 064 | – | 27 120 |
| **Total Financial Liabilities** | | 21 800 895 | 17 438 249 | 2 800 833 | 42 039 977 |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Interest rate risk

When interest rates are expected to change, the ratio of the interest rate mismatch between fixed and floating interest rates applicable to assets and liabilities can be adjusted in such a manner that the bank benefits from the expected interest rate view. The current interest rate risk mismatch limit is a maximum of 25%, i.e. that the Bank cannot hold more than 25% fixed rate funding as part of its funding mix. The funding split percentage as at 31 March 2022 was 91.862% floating (FY2021: 89.62% floating). With the Bank in default, default bonds, FRN's and loans receive fixed interest based on the last interest reset rate. If these default notes and loans are added to open fixed rate bonds, the funding split percentage as at 31 March 2022 was 25.52% fixed and 74.48% floating.

#### Interest rate risk monitoring

The Asset and Liability Management Committee (ALCO) consists of the Bank's executive management and it monitors among other things, the implementation of the Bank's interest rate risk policy. ALCO considers and formulates interest rate views as the official forecast of interest rates. Sensitivity analysis is performed by the Risk Management department where the interest rate risk mismatch limit (fixed vs floating) is set.

#### Fixed/ floating rate funding

When interest rates are expected to change, the ratio of the interest rate mismatch between fixed and floating interest rates applicable to assets and liabilities can be adjusted in such a manner that the bank benefits from the expected interest rate view. The current interest rate risk mismatch limit is a maximum of 25%, i.e. that the Bank cannot hold more than 25% fixed rate funding as part of its funding mix. The funding split percentage as at 31 March 2022 was 91.862% floating (FY2021: 89.62% floating). With the Bank in default, default bonds, FRN's and loans receive fixed interest based on the last interest reset rate. If these default notes and loans are added to open fixed rate bonds, the funding split percentage as at 31 March 2022 was 25.52% fixed and 74.48% floating.

#### Interest rate risk policy

The Bank reviews its interest rate risk policy in line with market practices on an annual basis.

#### Sensitivity analysis

Annually an interest rate risk sensitive analysis is performed as part of the Risk Management input to the Annual Financial Statements. The purpose of the analysis is to indicate the Land Bank's income sensitivity to interest rate changes.

Calculations were performed to determine the Bank's projected net interest income. An interest rate sensitivity analysis was performed by applying a parallel shift of 100 basis points up and down on interest rates to anticipate the projected impact on the Bank's profitability. The expected view with four interest rate hikes concluding with 9% prime rate at 31 March 2023.

The calculation includes assumptions that will have a positive or negative impact on the net interest income for Land Bank during the 2022/23 financial year.

## 35. Financial instruments and risk management of the Group (continued)

### Market risk – Insurance activities

For assets backing policyholders' liabilities, the risk to the company is that the investment returns earned are below the actuary's assumptions. For shareholder's assets, the risk is that capital is not preserved and that investment returns earned are below expectations. The company manages market risk through the following:

i) An Investment and Actuarial Committee. The mandate of this Board sub-committee includes the following:

- Implementation of an investment strategy which sets out the investment objectives of the company, the nature and term of liabilities and the risks to which the assets and liabilities of the company are exposed. Assets backing policyholders' liabilities are limited to interest bearing assets, and are therefore exposed to limited market risks, while shareholders' assets can include equity and are therefore exposed to greater market risks;
- Appointment of investment managers and establishing investment mandates with each investment manager. Investment mandates set out investment guidelines which cover limitations on exposures to volatile assets, the use of derivatives; limits on asset concentration and limits on exposure to particular types of assets such as unlisted equities and property and hedge funds;
- Monitoring of the performance of investment managers against "appropriate benchmarks" as well as compliance with mandates; and
- Ensuring proper governance in the investment process.

ii) Appointment of an independent investment advisor. The responsibilities of the investment advisor are set out below:

- Monitor implementation of investment strategies; and
- Monthly monitoring of and reporting on investment performance.

The investment advisor provides quarterly feedback on the performance of investment managers to the Investment and Actuarial Committee who in turns provides quarterly feedback to the LBLIC Board.

### Interest rate risk policy

The Bank reviews its interest rate risk policy in line with market practices on an annual basis.

### Sensitivity analysis

Sensitivity analysis has been determined based on the exposure to interest rates for derivatives and other financial liabilities and assets at the statement of financial position date. A 100 basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of a reasonably possible change in interest rates on the Group's net interest income.

The effect of a reasonable possible change in interest rates, as explained above, and all other variables held constant, the Bank's profit would be as follows using data as at 31 March 2022:

| | 31 March 2022 | | 31 March 2021 | |
|---|---|---|---|---|
| **Bank** | Net interest income R'000 | Effect on equity R'000 | Net interest income R'000 | Effect on equity R'000 |
| **Incremental change in yield** | | | | |
| Expected NII | 568 214 | – | 509 005 | – |
| Potential movement: 100 Basis point up | 582 548 | 14 335 | 580 806 | 71 801 |
| Potential movement: 100 Basis point down | 553 879 | (14 335) | 437 204 | (71 801) |

An interest rate sensitivity analysis was performed by applying a parallel shift of 100 basis points up and down on interest rates to anticipate the projected impact on the

Bank's profitability. The expected view with four interest rate hikes concluding with 9% prime rate at 31 March 2023.

The table above is that the expected impact of a 100 basis points up and down shock in interest rates is around R14m (R72m for FY22).



**Notes to the Financial Statements**

## 35. Financial instruments and risk management of the Group (continued)

The Land Bank implemented an interest rate swaps program in the 2017/18 financial year with the implementation of the program being conducted on an increasing scale over a time period of five years, as per the Bank's Interest Rate Risk Management Policy. The interest rate risk swaps program involves hedging the basis risk that emanates from the mismatch between the Bank's JIBAR-linked funding liabilities and its prime-linked assets. The underlying nominal values of the Bank's swaps remain too small to markedly influence the Bank's interest rate risk sensitivity.
Details of the Bank's hedging program can be found in note 8.

### Interest rate risk – Insurance activities

The company is subject to interest rate risk resulting in the fluctuation of the fair value of future cash flows of interest bearing assets because of the change in interest rates. Interest rate risk arises primarily from investments in long-term fixed income securities, although the short-term money market instruments are also effected, albeit to a lesser extent. The company's investments are mainly in short dated NCD's and bonds, with a few longer dated corporate bonds. Most of the bonds have floating interest rates, with some carrying fixed interest rates. Exposure to interest rate risk is monitored through various methods including scenario and stress testing which calculates the market exposure based on interest rate movements.

### Sensitivity analysis on interest bearing assets

The market exposure that was calculated at 31 March was as follows:

| | Impact on the statement of profit or loss and other comprehensive income | |
|---|---|---|
| **LBLIC** | 31 March 2022 R'000 | 31 March 2021 R'000 |
| Incremental change in yield | | |
| 250 Basis Points increase | (509 479) | (661 712) |
| 150 Basis Points increase | (305 687) | (397 027) |
| 250 Basis Points decrease | 509 479 | 661 712 |
| 150 Basis Points decrease | 305 687 | 397 027 |
| **LBIC** | | |
| Incremental change in yield | | |
| 250 Basis Points increase | 574 | 439 |
| 150 Basis Points increase | 345 | 263 |
| 250 Basis Points decrease | (574) | (439) |
| 150 Basis Points decrease | (345) | (263) |

A portion of the assets backing policyholders' liabilities are held in bonds and the balance is held in cash and cash equivalents. The sensitivity analysis of the change in investment returns on the value of the policyholders' liabilities is reflected under the Insurance Risks sensitivity analysis for long-term business.

### Currency risk

The group is exposed to the risk of fluctuations in foreign currencies, as a result of future transactions and investments in foreign companies. The group makes use of forward exchange contracts to manage this risk.

LBLIC is exposed to currency risk resulting in the fluctuation in the value of foreign financial instruments because of the change in foreign exchange rates. The company's exposure to currency risk is in respect of foreign investments made in alignment with the investment strategy, approved by the Board, for seeking desirable international diversification of investments. The fund managers make use of currency derivatives to limit the currency exposure of instruments in the pooled funds to United Stated Dollars. The following rand value of assets denominated in foreign currencies are included in the statement of financial position:

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

| | United States Dollar US$'000 | South African Rand R'000 |
|---|---|---|
| **Group** | | |
| **31 March 2022** | | |
| Equities – unit trusts (USD base currency) | 6 844 | 105 609 |
| Balanced fund | 1 710 | 26 390 |
| Commodities – metals | 307 | 4 733 |
| Cash on deposit at call | | |
| **Foreign currency exposure** | 8 861 | 136 732 |
| **Exchange rates (ZAR:USD):** | | |
| Closing rate – 31 March 2022 | 14,90 | 0,07 |
| Average rate | 16,57 | 0,06 |

| | United States Dollar US$'000 | South African Rand R'000 |
|---|---|---|
| **Group** | | |
| **31 March 2021** | | |
| Equities – unit trusts (USD base currency) | 7 972 | 116 214 |
| Balanced funds | 159 | 21 871 |
| Commodities – metals | 286 | 4 733 |
| Cash, deposits and similar securities | (413) | (7 304) |
| **Foreign currency exposure** | 8 004 | 135 514 |
| Closing rate – 31 March 2021 | 14.90 | 0,06 |
| Average rate | 16.57 | 0,07 |

#### Sensitivity analysis – currency risk

The foreign currency exposure that was calculated at 31 March was as follows:

| | Impact on the statement of profit or loss and other comprehensive income | |
|---|---|---|
| | 31 March 2022 R'000 | 31 March 2021 R'000 |
| **LBLIC** | | |
| **Incremental change in yield*** | | |
| **USD** | | |
| 10% decrease | (13 673) | (13 262) |
| 5% decrease | (6 837) | (6 631) |
| 10% increase | 6 837 | 6 631 |
| 5% increase | 13 673 | 13 262 |

#### Sensitivity analysis

The sensitivity analysis on Expected credit loss has been determined based on the exposure to the percentage of the balance outstanding which the Land Bank expects not to recover when a loan defaults on its payment (loss given default – LGD) at the statement of financial position date. A 5% increase or decrease in the LGD is used when reporting impairment risk and represents management's assessment of a reasonably possible change in impairment expenses on the Group's loans and advances.



## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

| | ECL R'000 | Loans and advances R'000 |
|---|---|---|
| **Analysis** | | |
| **31 March 2022** | | |
| As at 31 March 2022 : Base | **5 018 729** | **20 856 582** |
| Scaled ECL (-5%) | 4 298 840 | 21 576 471 |
| Scaled ECL (+5%) | 5 731 155 | 20 144 156 |
| **Analysis** | | |
| **31 March 2021** | | |
| As at 31 March 2021 : Base | 6 043 304 | 30 887 859 |
| Scaled ECL (-5%) | 4 809 537 | 32 121 627 |
| Scaled ECL (+5%) | 5 793 387 | 31 137 777 |

**Insurance risk**

#### Insurance risk – long-term

LBLIC provides mortgage and credit life insurance for persons who take out loans with the Land Bank. Until 2008, LBLIC only had one product in issue which was a non-profit decreasing term assurance that paid the outstanding amount of a Land Bank mortgage loan at death. Since then, LBLIC in conjunction with its actuaries, has developed and issued a number of new generation mortgage and credit life products.

#### Mortality risk

Mortality risk is the risk to the Group that mortality experience in future is worse than provided for in premium rates. Higher than expected mortality will give rise to losses and will necessitate an increase in valuation assumptions.

This risk is mitigated by the following factors:

- Adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks;
- Adequate pricing and reserving;
- Specific testing for HIV/ AIDS is carried out in cases where applications for risk cover exceed a set limit; and
- Annual reviews of mortality and morbidity experience are conducted by the statutory actuary to ensure that corrective action is taken where necessary

#### Persistency risk

Persistency risk (lapse risk) relates to policies being terminated before their final due dates as a result of an increased number of mortgage loans that are paid up before their final settlement dates and an increasing number of farmers transferring loans to trusts, close corporations and companies which result in the cancellation of policies.

The Group's reserving policy is based on actual experience, adjusted for expected future changes in experience, to ensure that adequate provision is made for lapses.

#### Expense risk

Before expenses are incurred, they are checked for budget availability. For the exceptional expenses, the company has a certain approval process. This is monitored in monthly reporting by comparing actual and budgeted expenses.

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Reinsurance risk

LBLIC has reinsurance cover to reduce risks proportionally, as well as to limit exposure per risk in order to limit the impact per life on the current year's earnings.

- Reinsurance is the preferred risk transfer mechanism that is placed on a proportional reinsurance share. The structure is such that a significant portion of the risk is ceded to reinsurers relative to what is retained; and
- Furthermore, additional layers of cover that limits the Life insurance company's retention are in place to manage catastrophe risk.

The Board approves the reinsurance renewal process on an annual basis. The reinsurance program is in place with a local reinsurer which has a credit rating of AA-.

#### Claims risk

The risk that the Group may pay out fraudulent claims is mitigated by trained client service staff to ensure that fraudulent claims are identified and investigated thoroughly. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks.

It is also the risk that a change in value caused by the ultimate costs for full contractual obligations which varies from those assumed when these obligations were estimated. Estimated claims are monitored periodically and updated based on the latest information if needed. The company utilizes independent assessors who appraise and confirm claims as well as quantification by the Underwriting Manager channel. Furthermore, an actuarial

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2022, the LBLIC believes that its IBNR liability for claims is adequate, as well as outstanding claims reserve and any other additional reserve held such as COVID-19 reserve and AURR.

#### Sensitivity analysis

The objective of the sensitivity analysis is to demonstrate the effect on the policyholders' liability for changes in key assumptions underlying the valuation of liabilities.

The sensitivity analysis illustrates the effect of a change in a particular assumption on the value of the policyholders' liability as at 31 March 2022, but this cannot generally be used to determine how future earnings or profitability will be affected. The percentage change in the assumptions chosen for the sensitivity analysis is to illustrate the change in value given the change in assumption and does not represent the possible range of worst or best case experience expected.

For a given change in one assumption, all other assumptions are left unchanged. No allowance has been made for any possible management action in response to a particular change. Lapse experience is not included in the analysis as lapses have not been modelled explicitly (the actuarial reserve for any policy that had a negative reserve was increased to zero, and there are no surrender values under any policies. Lapses and other terminations will therefore result in an actuarial surplus at each future valuation).

The percentage change in the assumptions chosen for the sensitivity analysis is to illustrate the change in value given the change in assumption and does not represent the possible range of worst or best case experience expected.

For a given change in one assumption, all other assumptions are left unchanged. No allowance has been made for any possible management action in response to a particular change. Lapse experience is not included in the analysis as lapses have not been modelled explicitly (the actuarial reserve for any policy that had a negative reserve was increased to zero, and there are no surrender values under any policies. Lapses and other terminations will therefore result in an actuarial surplus at each future valuation).



## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

| 2022 | % | Value R'000 | Change R'000 | % |
|---|---|---|---|---|
| Policyholders' liability – Individual Life | | | | |
| Base value | | 63 611 | | |
| Investment return | -1% | 55 947 | (7 664) | 1,90% |
| Mortality | +10% | 73 708 | 10 097 | 1,80% |
| Expenses | +1% | 69 972 | 6 361 | 1,80% |
| | +10% | 57 250 | (6 361) | 10,20% |

| Policyholders' liability – Group Life | % | | Value R'000 | Change R'000 | % |
|---|---|---|---|---|---|
| Base value | | | 439 | | |
| Investment return | +1% | 8.3% | 386 | (53) | (12%) |
| | -1% | 6.3% | 379 | (60) | (14%) |
| Mortality | +10% | 1.1 x mortality | 483 | 44 | 10,00% |
| | -10% | 0.9 x mortality | 395 | 44 | (10%) |

| 2021 | % | Value R'000 | Change R'000 | % |
|---|---|---|---|---|
| Policyholders' liability – Individual Life | | | | |
| Base value | | 63 452 | | |
| Investment return | -1% | 55 807 | (7 645) | 1,90% |
| Mortality | +10% | 73 524 | 10 072 | 1,80% |
| Expenses | +1% | 69 797 | 6 345 | 1,80% |
| | +10% | 57 107 | (6 345) | 10,20% |

| Policyholders' liability – Group Life | % | | Value R'000 | Change R'000 | % |
|---|---|---|---|---|---|
| Base value | | | 1 652 | | |
| Investment return | +1% | from 7.3% to 8.3% | 1 453 | (199) | (12.00)% |
| | -1% | from 7.3% to 6.3% | 1 426 | (226) | (14.00)% |
| Mortality | +10% | 1.1 x mortality | 1 817 | 165 | 10,00% |
| | -10% | 0.9 x mortality | 1 487 | (165) | -10,00% |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

**Insurance risk – short-term**

LBIC provides indemnity for crops, motor vehicles and property, as well as liability cover. LBIC manages insurance risks through its underwriting strategy and reinsurance arrangements

The LBIC provides indemnity for crops while still on the field, against hail, drought, fire and excessive rain fall. Cover ceases as soon as harvesting has taken place, or when certain date limits have been reached.

Liability covered risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

Insurance risk arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Inaccurate pricing of risks when underwritten;
- Inadequate reinsurance protection;
- Inadequate reserving; and
- Fraudulent claim

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claims. The principal risks the insurance companies face are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserves set aside for policyholders' liabilities, whether they are known or still to be reported, provide to be insufficient.

Premium provision tables based on historical claims data are reviewed annually by external actuarial consultants. External assessors assist with quantifying the value of claims reported.

By the very nature of an insurance contract, this risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors, such as patterns of economic and geographical circumstances as well as climate change, may result in unexpected large claims. Insurance events are random and the actual number of claims and benefits will vary from year to year from the estimate established.

(i) Pricing risk

Both LBLIC and LBIC bases their pricing policy on the theory of probability, with consideration to historical claims data. Acquisition and administration costs, as well as reinsurance costs are included in the pricing considerations as well as a profit loading for the cost of capital.

Underwriting limits are set for the underwriting manager and brokers. Underwriting performance is monitored continuously and the pricing is adjusted accordingly. Risk factors considered as part of the review include factors such as the type of asset covered and the related commodity price, past loss experiences and risk measures taken by the insured.

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

The net claims ratio for LBIC, which are important in monitoring insurance risk are summarised below:

| | Company | |
|---|---|---|
| **Loss history** | 2022 | 2021 |
| LBIC: Net insurance benefits and claims on short-term business expressed as a % of net earned premiums | 97% | 48% |

Factors that aggravate insurance risk include a lack of risk diversification in terms of type and amount of risk, geographical location, catastrophic events and agricultural sectors covered. A stop loss reinsurance treaty mitigates the risk arising from this by capping the crop loss ratio to 105% for the season.

**Sensitivity analysis**

The objective of the sensitivity analysis is to demonstrate the effect on the underwriting result the change is in key assumptions.

The sensitivity analysis illustrates the effect or change in a particular assumption on the underwriting result, but cannot be used to determine how future earnings or profits will be effected. The percentage change in an assumption for the sensitivity analysis is to illustrate the change in value given the change in assumption, but does not represent the possible range of best or worse case experience expected.

For a given change in once assumption, all other assumptions are left unchanged. No allowance has been made for possible management action in response to a particular change.

2022

| **Underwriting result** | | Loss Ratio | Value R'000 | Change R'000 | % |
|---|---|---|---|---|---|
| Reported results | | | (60 536) | | |
| Gross Premium | 10% | +10% | (58 542) | 1 994 | -3,29% |
| | -10% | -10% | (62 530) | (1 994) | 3,29% |
| Gross Claims | 5% | +5% | (67 979) | (7 444) | 12,30% |
| | -5% | -5% | (53 092) | 7 444 | -12,30% |
| Expenses | 15% | +15% | (64 173) | (3 638) | 6,01% |
| | -15% | -15% | (56 898) | 3 638 | -6,01% |

2021

| **Underwriting result** | Loss Ratio | Value R'000 | Change R'000 | % |
|---|---|---|---|---|
| Reported results | | 24 435 | | |
| Gross Premium | 10% | 26 406 | 1 970 | -3,25% |
| | -10% | 22 465 | (1 970) | 3,25% |
| Gross Claims | 5% | 20 847 | (3 587) | 5,93% |
| | -5% | 28 023 | 3 588 | -5,93% |
| Expenses | 15% | 20 983 | (3 452) | 5,70% |
| | -15% | 27 888 | 3 453 | -5,70% |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

(i) Claims risk
The risk that the Group may pay out fraudulent claims is mitigated by trained client service staff to ensure that fraudulent claims are identified and investigated thoroughly. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks.

It is also the risk that a change in value caused by the ultimate costs for full contractual obligations which varies from those assumed when these obligations were estimated. Estimated claims are monitored periodically and updated based on the latest information if needed. The Group utilises independent assessors who appraise and confirm claims as well as quantification by the underwriting manager channel. Furthermore, an actuarial valuation is done by an independent actuary annually.

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2022, both LBLIC and LBIC believe that their liabilities for claims are adequate.

(ii) Reinsurance
LBLIC and LBIC have third party reinsurance cover to reduce risks from single events or accumulations of risks that could have a significant impact on the current year's earnings and capital.

This cover is placed on the international reinsurance market. The core components of the reinsurance programme comprise of:

Long-term insurance contracts
Reinsurance is the preferred risk transfer mechanism that is placed on a proportional reinsurance share. The structure is such that a significant portion of the risk is ceded to reinsurers relative to what is retained; and

– Furthermore, additional layers of cover that limits the Life insurance company's retention are in place to manage catastrophe risk.

Short-term insurance contracts
- Reinsurance is the preferred risk transfer mechanism that is placed on a proportional reinsurance basis through a Quota Share. The structure is such that a significant portion of the risk is ceded to reinsurers relative to what is retained; and;
- Furthermore, additional layers of non-proportional structures, in the form of a stop-loss are in place to limit retention exposures as well as manage catastrophe risk.

The LBLIC and LBIC Boards approve the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is in place with foreign reinsurers which have a credit rating of no less than A+ for Life Insurance and AA- for short-term insurance.

#### LBIC

Investment portfolio concentration risk
The allocation of investment portfolio as at 31 March was as follows:

| | 2022 R'000 | % | 2021 R'000 | % |
|---|---|---|---|---|
| Bonds – local | 199 738 | 79 % | 183 571 | 43% |
| Fixed interest | 87 148 | 44 % | 141 645 | 77% |
| Floating rate | 112 591 | 56 % | 26 660 | 15% |
| Inflation linked | – | 0 % | 15 266 | 8% |
| Cash, deposits and similar securities – local | 53 921 | 21 % | 247 112 | 57% |
| NCD's | 24 777 | 46 % | 203 724 | 82% |
| Other | 29 145 | 54 % | 43 388 | 18% |
| **Total LBIC** | **253 660** | **100 %** | **430 683** | **100%** |

Investment manager performance, portfolio and manager allocations are monitored and reported to the company management and Investment and Actuarial Committee on a regular basis by the company's investment consultants. Upper and lower bounds are assigned to each asset class and are reviewed annually, with the investment policy. The upper and lower bounds in effect as at 31 March 2022 are stated below. All classes were within bounds as at 31 March 2022.

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### LBIC

| Asset classes | 2022 Lower bound | 2022 Upper bound |
|---|---|---|
| Equities – local | 0% | 5% |
| Bonds – local | 30% | 50% |
| Bonds – inflation linked | 0% | 10% |
| Cash, deposits and similar securities – local | 40% | 80% |
| Foreign assets | 0% | 5% |

#### LBIC

| Asset classes | 2022 Lower bound | 2022 Upper bound |
|---|---|---|
| Equities – Local | 30% | 50% |
| Bonds – Local | 15% | 35% |
| Cash, deposits and similar securities – Local | 10% | 30% |
| Foreign assets | 5% | 25% |

Insurance concentration risk
Within the insurance business, concentrations of risk may arise where a particular event or series of events could impact heavily upon the company's resources. The company operates in the long-term insurance business.

Long-term insurance concentration risk
The long-term insurance portfolio is based on credit life insurance. Although the company does not consider any aggregate concentration for catastrophic risks, the company does, however, consider the age bands of the client base for reinsurance rating purposes.

Long-term insurance gross written premium by class of business

| Portfolio | 2022 R'000 | 2021 R'000 |
|---|---|---|
| Credit life insurance – Group | 2 161 | 2 703 |
| Credit life insurance – Individual | 1 734 | 2 243 |
| | **3 895** | **4 946** |

Long-term insurance gross written premium by age bands

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Portfolio | Number | Value R'000 | Average R'000 | Number | Value R'000 | Average R'000 |
| 20 – 29 | 2 | 1 585 | 793 | 4 | 6 746 | 1 686 |
| 30 – 39 | 10 | 8 139 | 814 | 55 | 54 051 | 983 |
| 40 – 49 | 29 | 17 985 | 620 | 95 | 71 544 | 753 |
| 50 – 59 | 40 | 33 196 | 830 | 261 | 113 855 | 436 |
| 60 – 69 | 11 | 5 345 | 486 | 342 | 131 410 | 384 |
| 70+ | – | – | – | 147 | 36 465 | 248 |
| | 92 | 66 250 | 3 543 | 904 | 414 071 | 4 490 |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Short-term insurance concentration risk – LBIC

Within the insurance business, concentrations of risk may arise where a particular event or series of events could impact heavily upon the short-term company's resources. The company operates on both crop and agri-asset insurance business

**Gross written premium by business**

| Portfolio | 2022 R'000 | 2021 R'000 |
|---|---|---|
| Short-term insurance (crop) | 607 236 | 599 994 |
| Short-term insurance (assets) | 212 | 233 |
| | 607 448 | 600 227 |

**Short-term crop insurance gross written premium by class of business**

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Portfolio | Gross Written Premium R'000 | Net Written Premium R'000 | Gross Written Premium R'000 | Net Written Premium R'000 |
| Winter hail | 39 492 | 22 227 | 41 703 | 23 472 |
| Multi-peril winter | | | | – |
| Fruits & Nuts | 62 121 | 10 871 | 63 466 | 11 106 |
| Hail summer | 505 262 | 119 368 | 488 286 | 115 358 |
| Multi-peril summer | 362 | 85 | 6 539 | 1 545 |
| **Total** | 607 236 | 152 552 | 599 994 | 151 481 |

**Short-term asset insurance gross written premium by class of business**

| Portfolio | 2022 R'000 | 2021 R'000 |
|---|---|---|
| Motor | 64 | 67 |
| Non-motor | 148 | 166 |
| | 212 | 233 |

| Short-term crop insurance gross written premium by geographical segment | 2022 R'000 | 2021 R'000 |
|---|---|---|
| **East** | 272 225 | 275 509 |
| Mpumalanga | 143 169 | 153 277 |
| Gauteng | 6 969 | 11 740 |
| KwaZulu-Natal | 94 945 | 87 078 |
| Eastern Cape | 27 143 | 23 413 |
| **West** | 335 011 | 324 485 |
| Free State | 220 295 | 217 398 |
| Limpopo | 27 596 | 28 601 |
| North West | 48 168 | 29 896 |
| Northern Cape | 29 742 | 39 941 |
| Western Cape | 9 210 | 8 649 |
| | 607 236 | 599 994 |

The equity risk exposures arise from the medical aid fund assets and the LBLIC investment portfolio. Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.



## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

**Price risk – LBLIC**

The company is subject to market price risk resulting from daily changes in the fair value of market prices of the instruments within its investment portfolios. The company's objective is to earn competitive returns for the shareholder by investing in a diverse portfolio of high quality, liquid securities. The company holds a variety of equity derivatives for transaction management and hedging purposes. The company does not invest policyholders' funds in equity.

**Sensitivity analysis on equity instruments**

| | Impact on the statement of profit or loss and other comprehensive income | |
|---|---|---|
| Portfolio | 31 March 2022 R'000 | 31 March 2021 R'000 |
| Incremental change in price | | |
| Excluding the impact of derivatives | | |
| 10% decrease | (53 071) | (43 329) |
| 5% decrease | (26 536) | (21 665) |
| 5% increase | 26 536 | 21 665 |
| 10% increase | 53 071 | 43 329 |
| Including the impact of derivatives | | |
| 10% decrease | (55 284) | (45 701) |
| 5% decrease | (27 642) | (22 851) |
| 5% increase | 27 642 | 22 851 |
| 10% increase | 55 284 | 45 701 |

#### Investment strategy

**LBIC**

The Investment Policy was updated and approved in May 2022.

The table below this shows the Company's strategic and tactical asset allocation limits for the short-term insurance business.

| | Long-term Target | Lower Bound | Upper Bound | Benchmark Index |
|---|---|---|---|---|
| Local equity | 0 % | 0 % | 5 % | JSE Capped SWIX |
| Local Nominal Bonds | 40 % | 30 % | 50 % | All Bond Index (ALBI) |
| Local Inflation Linked Bonds | 0 % | 0 % | 10 % | Inflation Linked Bond Index (ILBI) |
| Local cash | 60 % | 40 % | 80 % | STeFI Composite |
| Foreign Multi-Assert Class | 0 % | 0 % | 5 % | 60% MSCI Worl |

#### Fund Benchmarks

The assets of the fund are short term in nature and the fund therefore only invests in cash and short-term bonds. The fund benchmark is a long term return objective of CPI + 1.0% net of fees.

**Fund Performance**

The investment was made during the 2018 FYE and generated an annual equivalent of 8.35% as return. In the March 2022 year end, the investment reflected 4,4% return with a net disinvestment of R140m being made throughout the financial year. This performance was below the target of CPI + 1.0% which was 5.7%.

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

**LBLIC**

The Investment Policy was updated and approved by the Board in July 2020. In deriving the investment objective, the Company notionally allocated its assets into three buckets representing different levels of risk (Short-term, medium-term and long-term) as follows:

| Bucket | Matching assets | Definition |
|---|---|---|
| Short | Cash & Bonds | Policyholder & Current Liabilities plus SCR minus cash needed for Operations as defined in the Cash Management Policy Statement. |
| Medium | Cash & Bonds | Additional capital needed to augment the short-term bucket should the business meets its short-term objectives. |
| Long | Exposure to growth assets such as equities targeting a long-term real return unless there are liabilities requiring a specific matching assets. | Balance of assets to be invested long-term as the business was not likely to draw on these assets. |

The above allocations were consolidated to produce a target real return for the Company assets.

The Company will firstly aim to match its assets and liabilities and with the excess assets target an appropriate real return. With this in mind, the Company has selected the following investment objective:

A real return, after investment fees and gross of tax of 4.0% per annum measured over rolling 3 year periods. For the purpose of calculating the real return in the primary objective, inflation will be taken as the published Consumer Price Inflation (CPI) rate.

**Investment strategy**

The Company has taken a risk-based approach to setting investment strategy. The Company investable assets will be notionally tiered into three buckets representing different levels of market risk. The notional allocation to these buckets will be reviewed at least annually. Each bucket will make use of a strategic asset allocation appropriate for the risk profile it represents.

| | Local equity | Local bonds | Local cash | Foreign | Expected long-term real return |
|---|---|---|---|---|---|
| Short term | 0 % | 40 % | 60 % | 0 % | 1,6% |
| Medium term | 0 % | 60 % | 40 % | 0 % | 1,9% |
| Long term | 45 % | 22 % | 15 % | 18 % | 4,7% |

To measure the overall investment objective for all investable assets, the buckets will be consolidated into a single strategic asset allocation strategy. To manage the risk of deviation from the benchmark asset allocation, a tactical asset allocation range will be set for each asset class to allow some deviation from the strategic asset allocation. This will also allow managers to add value by making asset allocation decisions. Asset managers will be allowed to deviate outside the tactical limits. In such an event, the reasons for this will be communicated to the Investment Consultant and Investment Committee.



## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

The table below shows the Company's strategic and tactical asset allocation limits for the long-term insurance business.

| | Long-term Target | Lower Bound | Upper Bound | Benchmark Index |
|---|---|---|---|---|
| Local equity | 40% | 30% | 50% | JSE Capped SWIX |
| Local bonds | 25% | 15% | 35% | All Bond Index (ALBI) |
| Local cash | 20% | 10% | 30% | STeFI Composite |
| Foreign multi-asset class | 15% | 5% | 25 % | 60% MSCI World + 40% Citigroup Gov Bonds |

**Capital management**

The primary source of capital used by the group is shareholder's equity funds. The amount of capital required is directly linked to risks arising from insurance business underwritten, as well as the group's credit and operational risk. Accordingly risk management is an important component of effective capital management.

**Capital management objectives and approach**

The group has established the following capital management objectives and approach to managing the risks that affect its capital position:

- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholder;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders and stakeholder;
- To maintain healthy capital ratios in order to support its business objectives; and
- To support the credit rating of the Bank.
- To maintain healthy capital adequacy ratios in order to support its business objectives.
- To comply with the requirements set by the regulator of the insurance markets where the company operates.

The Group's capital management policy for its insurance and non-insurance business is to hold sufficient capital to cover statutory requirements.

The following main strategies were applied to achieve capital management objectives:

- Effective management of credit risk;
- Effective management of underwriting risk,
- Effective management of operational risk – a sound internal control framework reduces operational risk, which in turn has a positive effect in the calculation of required capital; and
- Routine forecasts of capital requirements, assessment against both available capital as well as the expected internal rate of return – including risk and sensitivity analyses.

The purpose of the Group's capital management is to ensure an efficient use of capital in relation to risk appetite and business development. The Group does not have to comply with any regulatory capital requirements.

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

**Capital Adequacy Requirements (CAR) – the Land Bank**

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

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

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

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

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

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

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

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

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

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





## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

| | Company | |
|---|---|---|
| | 2022 | 2021 |
| **Capital adequacy** | | |
| Total capital adequacy | | |
| **Capital supply** | 12,2% | 9,7% |
| Ordinary shareholders' equity | 7 397 655 | 7 397 655 |
| Retained earnings | (3 887 525) | (5 245 288) |
| Accumulated other comprehensive income | (596 471) | (548 992) |
| Property revaluation reserve | 140 941 | 133 080 |
| Other reserves | (737 412) | (682 072) |
| Common Equity Tier 1 (CET1) Capital: Instruments and reserves | 2 913 659 | 1 603 375 |
| Common Equity Tier 1 Capital: Regulatory adjustments | (360 411) | (492 705) |
| Threshold deductions (investments in subsidiaries) | (358 796) | (489 939) |
| Intangible assets | (1 615) | (2 766) |
| Total available Common Equity Tier 1 capital | 2 553 248 | 1 110 670 |
| **Total available Tier 2 capital** | 389 544 | 478 297 |
| General allowance for credit impairment | 389 544 | 478 297 |
| Total available capital | 2 942 792 | 1 588 967 |
| National Treasury guarantee* | 1 300 000 | 2 410 000 |
| **Capital demand** | | |
| **Risk weighted assets** | | |
| Credit risk | 31 135 748 | 38 189 835 |
| Counterparty risk | 27 796 | 73 913 |
| Operational risk | 1 527 595 | 1 491 232 |
| Equity risk | 568 571 | 708 756 |
| Market risk | 73 728 | 56 789 |
| Other assets risk | 671 075 | 179 280 |
| Threshold items | 728 011 | 400 152 |
| **Total** | 34 732 524 | 41 099 957 |

** Refer to note 34 for the details of the guarantees*

### 36. Fair value hierarchy of financial instruments

**Determination of fair value and fair value hierarchy**

The group's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by the level of fair value hierarchy. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement: -

**Level 1**: fair value measured using quoted prices (unadjusted) in active markets for identical financial assets or liabilities;

**Level 2**: fair value measured using inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly; and

**Level 3:** fair value measured using inputs for the financial asset or liability that are not based on observable market data. During the year, the Group had no significant transfers between instruments in Level 1, Level 2 or Level 3.

## Notes to the Financial Statements

### 36. Fair value hierarchy of financial instruments (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 R'000 | 2021 R'000 | 2022 R'000 | 2021 R'000 |
| **Levels of fair value measurements Level 1*** | | | | |
| **Financial assets** | | | | |
| Bonds | 612 066 | 558 290 | 66 713 | 60 834 |
| Local Equities | 704 169 | 597 850 | 173 459 | 164 557 |
| Foreign equities | 72 832 | 52 738 | 72 832 | 52 738 |
| Commodities | 37 916 | 37 141 | 15 786 | 13 419 |
| Listed Shares | 85 382 | 90 816 | 85 382 | 90 816 |
| **Total financial assets** | 1 512 366 | 1 336 835 | 414 173 | 382 364 |
| **Level 2 *** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 9 983 760 | 5 589 889 | 9 845 216 | 5 558 401 |
| Derivatives | 9 896 | 11 340 | 9 896 | 11 340 |
| Cash deposits and similar securities | 267 175 | 466 571 | 9 032 | 11 556 |
| Collective investment schemes | 131 999 | 127 891 | – | – |
| Investment policy | 17 | 9 | – | – |
| **Total financial assets** | 10 392 847 | 6 195 700 | 9 864 144 | 5 581 297 |
| **Level 3** | | | | |
| **Recurring fair value measurements** | | | | |
| **Assets*** | | | | |
| Financial assets | | | | |
| Loans and advances | 20 856 582 | 30 887 859 | 20 856 582 | 30 887 859 |
| Unlisted shares | 221 828 | 387 354 | 221 828 | 387 354 |
| Trade and other receivables | 1 353 026 | 1 049 425 | 421 407 | 206 492 |
| Insurance assets | 270 895 | 164 001 | – | – |
| **Total financial assets** | 22 702 330 | 32 488 639 | 21 499 817 | 31 481 705 |
| **Liabilities** | | | | |
| **Financial liabilities** | | | | |
| Trade and other payables | 833 544 | 770 814 | 171 591 | 116 695 |
| Insurance Liabilities | 449 711 | 286 650 | – | – |
| Funding Liabilities | 29 162 958 | 36 074 791 | 29 162 958 | 36 074 791 |
| Lease Liabilities | 4 932 | 23 176 | 4 932 | 23 071 |
| **Total financial liabilities** | 30 451 145 | 37 155 431 | 29 339 481 | 36 214 557 |

** Please refer to note 35 for carrying values.*



## Notes to the Financial Statements

### 36. Fair value hierarchy of financial instruments (continued)

Reconciliation of assets measured at level 3

| | Opening balance | Fair value adjustment for recognised in the statement of profit or loss | Re-measurement recognised in OCI | Purchases | Disposals | Re-classification on (to)/from other category of property | Closing balance |
|---|---|---|---|---|---|---|---|
| Group – 2022 | | | | | | | |
| **Assets** | | | | | | | |
| **Investment property** | | | | | | | |
| Investment property | 95 100 | 2 300 | – | – | – | | 97 400 |
| **Property, plant and equipment** | | | | | | | |
| Property, plant and equipment | 17 900 | – | 6 950 | – | – | – | 24 850 |
| **Non-current assets held-for sale** | | | | | | | |
| Non-current assets held-for sale | 4 058 | (149) | – | 5 700 | | | 9 609 |
| **Equity investments at fair value through other comprehensive income** | | | | | | | |
| Unlisted shares | 387 354 | – | (64 877) | – | (100 650) | – | 221 827 |
| **Total** | 504 412 | 2 151 | (57 927) | 5 700 | (100 650) | – | 353 686 |

## Notes to the Financial Statements

### 36. Fair value hierarchy of financial instruments (continued)

| | Opening balance | Fair value adjustment for recognised in the statement of profit or loss | Re-measurement recognised in OCI | Purchases | Disposals | Re-classification on (to)/from other category of property | Closing balance |
|---|---|---|---|---|---|---|---|
| Group – 2021 | | | | | | | |
| **Assets** | | | | | | | |
| **Investment property** | | | | | | | |
| Investment property | 15 000 | (8 073) | – | – | – | 88173 | 95 100 |
| **Property, plant and equipment** | | | | | | | |
| Property, plant and equipment | 24 400 | – | (6 500) | – | – | – | 17 900 |
| **Non-current assets held-for sale** | | | | | | | |
| Non-current assets held-for sale | 105 112 | – | – | 1029 | (13 910) | (88 173) | 4 058 |
| **Equity investments at fair value through other comprehensive income** | | | | | | | |
| Unlisted shares | 640 198 | – | 61 064 | – | (313 908) | – | 387 354 |
| **Total** | 784 710 | (8 073) | 54 564 | 1029 | (327 818) | – | 504 412 |

**Valuation techniques used to derive level 2 fair values**

Level 2 investments are valued using a valuation technique based on assumptions that are supported by prices from observable current market transactions:

- Cash deposits and similar securities: Value of cash deposited
- Commodities: Foreign component at the market value of the investment determined by the asset manager.
- Collective investment schemes (other than unlisted equities) (CIS) and Investment policies: Consists of unit trust that consist of underlying investments in Level 1 investments. The value of the CIS is the aggregate of the underlying value of each Level 1 instrument at its quoted market price.
- Unlisted equity: Previously listed shares that have been delisted, based on the fair value determined by the respective Asset Managers.
- Money market instruments: The face value of the investment made.

## Notes to the Financial Statements

### 36. Fair value hierarchy of financial instruments (continued)

**Description of significant unobservable inputs to level 3 valuations**

Group 2022

| Unquoted equity | Valuation technique | Significant unobservable inputs | Sensitivity of the input to the fair value |
|---|---|---|---|
| Acorn Agri (Pty) Ltd | The NAV (cost) approach has been relied upon as the primary method to value ACORN AGRI in order to derive a value of the 3.37% stake of the Land Bank in the company. The reasons we have chosen the NAV approach as primary valuation method is due to the fact that ACORN AGRI is an investment holding company and its shares are traded Over-The-Counter ("OTC") as share transactions are negotiated directly and bilaterally between willing buyer and sellers of shares. Sensitivity analysis of discount rate not applicable.<br><br>Based on the calculations, an indicative fair value of 100% of ACORN AGRI as at 28 February 2022 is R2.32bn. As at 28 February 2022, the fair value of the 3.37% is estimated to be R 78.191m after taking the discounts into account. | | |
| Ideafruit (Pty) Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 12.7% and 14.7% | Discount rate:<br>-1%: R57 118 000<br>+1%:R39 786 000 |
| Afgri Grain Silo Company Pty Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 14.7% and 15.2% | Discount rate:<br>-0.2%: R108 550 000<br>+0.2%: R84 511 000 |

| Asset | Valuation technique | Significant unobservable inputs | | Sensitivity of the input to the fair value |
|---|---|---|---|---|
| Property and equipment | Net income capitalisation method | Vacancy rate range:<br>Income/expense ratio range:<br>Capitalisation rates range: | 7.5% – 10%<br>20.9% – 37.2%<br>11% – 11.8% | Capitalisation rate:<br>+1%: R22 306 360<br>'-1%: R26 556 624 |
| Investment property | Net income capitalisation method | Vacancy rate range:<br>Income/expense ratio range:<br>Capitalisation rates range: | 3% – 7.5%<br>22% – 55.2%<br>10.5% – 12.8% | Capitalisation rate:<br>+1%: R91 051 65<br>'-1%: R107 957 849 |
| Properties in possession | Comparable sales method | Natural grazing land per ha.:<br><br>Irrigated pasture land per ha.:<br>Farm yard land per ha.:<br>Wasteland per ha.:<br>Crop Land<br>Drylands<br>Industrial land per ha.:<br>Construction price for dwellings per m²: | R4 000 – R20 000<br><br>R6 500 – R35 000<br>R0<br>R4000 – R100 000<br>R0<br>R20 000<br>R33<br>R6 500 – R8 800<br>R2 250 – R5 650 | Market value per ha. of land:<br>+ R1000 p/ha.: R18 635 287<br>- R1000 p/ha.: R13 965 361 |

## Notes to the Financial Statements

### 36. Fair value hierarchy of financial instruments (continued)

Group 2021

| Unquoted equity | Valuation technique | Significant unobservable inputs | Sensitivity of the input to the fair value |
|---|---|---|---|
| Acorn Agri (Pty) Ltd | The NAV (cost) approach has been relied upon as the primary method to value ACORN AGRI in order to derive a value of the 3.37% stake of the Land Bank in the company. The reasons we have chosen the NAV approach as primary valuation method is due to the fact that ACORN AGRI is an investment holding company and its shares are traded Over-The-Counter ("OTC") as share transactions are negotiated directly and bilaterally between willing buyer and sellers of shares. Sensitivity analysis of discount rate not applicable.<br><br>Based on the calculations, an indicative fair net assets value of 100% of Acorn as at 28 February 2021 is approximately R3.2 billion. The fair value of Land Bank's 3.37% ownership in Acorn as at 28 February 2021 is approximately R89 million after taking minority discount into consideration. | | |
| Ideafruit (Pty) Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 8.97% and 18.97% | Discount rate:<br>-5%: R134 760 759<br>+5%:R18 802 680 |
| Riverside Holdings (Pty) Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 14.49% and 15.49% | Discount rate:<br>-0.5%: R107 478 727<br>+0.5%: R94 476 651 |
| Afgri Grain Silo Company Pty Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 7.1% and 17.1% | Discount rate:<br>-5%: R1 514 893 202<br>+5%: R82 028 697 |

| Asset | Valuation technique | Significant unobservable inputs | | Sensitivity of the input to the fair value |
|---|---|---|---|---|
| Property and equipment | Net income capitalisation method | Vacancy rate range: | 12.3% – 12.3% | Capitalisation rate: |
| | | Income/expense ratio range: | 13.7% – 28.2% | +1%: R15 855 184 |
| | | Capitalisation rates range: | 12.0% – 12.0% | '-1%: R18 773 399 |
| Investment property | Net income capitalisation method | Vacancy rate range: | 12% – 12.5% | Capitalisation rate: |
| | | Income/expense ratio range: | 12.3% – 37% | +1%: R89 072 011 |
| | | Capitalisation rates range: | 11% – 13.5% | '-1%: R104 884 393 |
| Properties in possession | Comparable sales method | Natural grazing land per ha.: | R7 500 – R80 000 | Market value per ha. of land:<br>+ R1000 p/ha.: R113 167<br>- R1000 p/ha.: R69 396 957 |
| | | Irrigated pasture land per ha.: | R0 – R30 000 | |
| | | Farm yard land per ha.: | R0 – R10 000 | |
| | | Wasteland per ha.: | R0 | |
| | | Crop Land | R0 – R 0 | |
| | | Drylands | R0 – R0 | |
| | | Industrial land per ha.: | R33 | |
| | | Construction price for dwellings per m2: | R0 – R7 000 | |
| | | Construction price for other structures per m2: | R0 R2 500 | |

## Notes to the Financial Statements

### 37. Fruitless and wasteful expenditure (F&WE)

The F&WE relates to isolated incidences where penalties and interest were levied on late payments of utility accounts.

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| **Reconciliation of amounts transferred to receivables for recovery** | | | | |
| Opening balance | 66 868 | 66 613 | 66 845 | 66 613 |
| Expenditure deemed as F&WE relating to prior year discovered in the current year[1 2] | | 185 | | 185 |
| Expenditure deemed as F&WE relating to current year[1 2] | 82 | 105 | 82 | 82 |
| Less: amounts recovered in current year | (18) | (35) | (18) | (35) |
| Closing balance | 66 932 | 66 868 | 66 909 | 66 845 |

**The financial year 2022 fruitless and wasteful expenditure mainly relates to the following events:**

1) Mainly relates to the dismissed employee who had an outstanding studies amounting R58 thousand that could not be recovered. Legal is currently in the process of drawing up a repayment agreement.

2) Employees received an acting allowance amounting R18 thousand when the position acting in was filled. The total acting allowance overpayment was recovered.

**The financial year 2021 fruitless and wasteful expenditure mainly relates to the following events:**

1) Land Bank Learner who tendered her resignation in December 2019. The Human Capital Business Partner (HCBP) omitted to inform the payroll department and the payments were made to the Learner for the period from January 2020 to August 2020 amounting to R87 thousand (R33 thousand relates to FY2020) in lieu of a monthly stipend. Consequence management has been implemented for the HCBP and the Leaner has been making repayments in lieu of the debt. Matter currently handed over to Legal to ensure full recovery of debt. This was subsequent fully recovered after year end.

2) Land Bank employee who resigned on the 31st August 2019, he owed the Bank amount of R134.8 thousand for his studies in terms of the Land Bank learning and development policy. The Bank could not recover all the monies owed and matter was handed over to Legal. Legal is currently preparing the documents for court.

### 38. Irregular expenditure

| | Group 2022 R'000 | Group 2021 R'000 | Company 2022 R'000 | Company 2021 R'000 |
|---|---|---|---|---|
| Reconciliation of irregular | | | | |
| Opening balance | 986 082 | 766 380 | 986 082 | 766 380 |
| Expenditure deemed as irregular relating to prior year discovered in the current year | 686 | – | 686 | |
| Expenditure deemed as irregular relating to current year | 7 673 | 219 702 | – | 219 702 |
| Expenditure condoned by the board* | (19 479) | | (19 479) | |
| | 974 962 | 986 082 | 967 289 | 986 082 |

The irregular expenditure as disclosed is currently going through the governance structures for condonation.

* *The irregular expenditure recommended by the board for condonation was subsequently condoned by National Treasury after year end.*

## Notes to the Financial Statements

### 38. Irregular expenditure (continued)

**Analysis of irregular expenditure**

| Incident | 2022 R'000 |
|---|---|
| 1) Expenses incurred on the single source in contravention of SCM Instruction Note 3 of 2016/17. | 686 |
| 2) Upon expiration of the contract, management applied for approval from the National Treasury (NT) to grant an extension for three years. National Treasury did not approve in full the 3 year contract, only 2 years have been approved to allow Land Bank Insurance to follow and finalise competitive bidding processes in the acquisition of this service. The NT letter further indicates that any expenditure incurred prior to the approval of the request will be deemed irregular. NT's approval was received on 30 August 2021 and expenditure incurred in the form of binder fees prior to this approval amounts to R7,6m, which will be regarded as irregular. The matter was referred to Internal Audit and it is under investigation. | 7 650 |
| 3) The Land Bank insurance company procured accommodation services from Hotel Savoy & Conference centre for accommodation of Water Sisulu students during examination period. However, procurement processes were not followed as three quotations as prescribed by Treasury regulations were not obtained and there was no approval for the deviation amounting to R23 thousand. The matter was referred to Internal Audit and it is under investigation. | 23 |

**Analysis of irregular expenditure**

| Incident | 2021 R'000 |
|---|---|
| 1) Service level agreements were extended without prior approval of National Treasury as required in terms of National Treasury SCM Instruction Note 3 of 2016/17. The transaction, conditions or events have not resulted in the Bank suffering any loss, value for money was derived from the use of the goods procured or services rendered. The disciplinary/consequence management process is being handled at Board Level and is still under investigation. | 200 908 |
| 2) Extension of contract was treated as a single source deviation in line with 16.A6.4 of the Treasury Regulations and the SCM Guideline for Accounting Professionals, which allows for single source deviations on the basis of continuation of consulting services to be approved internally by the Accounting Authority. | 18 750 |
| 3) Contravention of the SCM policy and the Preferential Procurement Framework Act Regulations of 2017. This is currently under investigation. | 44 |

### 39. Events after the reporting period

In May 2022 the Bank made a fourth capital reduction repayment to its creditors amounting R4.8 bn.
The previous CEO of Land Bank resigned on during the year and left at the end of April 2022. The Minister of Finance has since appointed the CFO as Acting CEO effective 01 May 2022. The Treasurer was then appointed as the Acting CFO.

The past summer season was characterized by excessive rains in many parts of the country. There are four provinces that have been severely affected by the floods. These are, KwaZulu-Natal, Eastern Cape, North West and Free State. Both excessive rains and floods have resulted in the saturation of farm land to the extent that planting in most areas was affected. Those who had already planted early, had their crops damaged by hailstorms and floods. The Bank is currently performing an assessment of the financial impact on the Land Bank through client site visits. The full financial impact is not yet known, but is expected to be materially significant for the Bank due to the large concentration of our book being in grain across the North West, KZN and Mpumalanga regions.

## Notes to the Financial Statements

### 40. Group remuneration

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

**Table 1: Remuneration of Land Bank non-executive directors and executive directors for 2022 (R 000)**

| Non-Executive Directors | Board | AGM | Audit & Finance | Risk & Governance | Credit & Investment | HR | SEC | Ad hoc Meetings | Cash Salary | Performance Bonuses | Other Benefits[3], Fees & Expenses | 2022 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MA Moloto[1] | 483 | 9 | – | 49 | 171 | 49 | 49 | 28 | – | – | – | 839 |
| N R Nkosi[2] | 371 | – | – | 16 | 16 | 16 | 16 | 47 | – | – | – | 484 |
| DR Hlatshwayo[1] | 138 | 9 | 82 | – | 115 | 73 | 73 | 38 | – | – | – | 528 |
| LA Makenete[2] | 175 | – | – | – | – | 16 | 16 | 47 | – | – | – | 255 |
| SA Lund[1] | 138 | 9 | 82 | 73 | – | 33 | 16 | 38 | – | – | – | 389 |
| D Maithufi[2] | 175 | – | – | 42 | 16 | – | – | 57 | – | – | – | 289 |
| TN Mashanda[2] | 175 | – | 66 | – | – | 16 | – | 47 | – | – | – | 304 |
| Prof JF Kirsten[2] | 175 | – | – | – | 49 | – | 25 | 47 | – | – | 1 | 297 |
| NP Motshegoa[2] | 175 | – | – | – | 49 | – | 16 | 47 | – | – | – | 288 |
| EM Pillay[2] | 155 | – | 70 | – | 16 | | – | 47 | – | – | – | 288 |
| Dr M Tom[2] | 175 | – | 66 | 16 | – | 25 | – | 47 | – | – | – | 329 |
| D van der Westhuizen[2] | 155 | – | – | 16 | 16 | 16 | – | 47 | – | – | – | 251 |
| ME Makgatho[2] | 293 | 9 | 186 | 49 | 189 | – | – | 95 | – | – | – | 822 |
| ST Cornelius[1] | 138 | 9 | 82 | – | 115 | 49 | – | 38 | – | – | – | 432 |
| ME Makgobo[1] | 79 | 59 | 49 | 115 | – | – | 33 | 28 | – | – | – | 364 |
| Subtotal | 2 997 | 107 | 683 | 377 | 755 | 295 | 245 | 700 | – | – | 1 | 6 159 |
| **Executive Directors** | | | | | | | | | | | | |
| A Kanana[4] Chief Executive Officer | – | – | – | – | – | – | – | | 3 700 | – | 123 | 3 823 |
| K Mukhari[5] Chief Financial Officer | – | – | – | – | – | – | – | | 3 400 | – | 28 | 3 428 |
| **Total Land Bank** | **2 997** | **107** | **683** | **377** | **755** | **295** | **245** | **700** | **7 100** | **–** | **152** | **13 410** |

## Notes to the Financial Statements

### 40. Group remuneration (continued)

Table 2: Remuneration of Land Bank Insurance Services non-executive directors and executive directors for 2022 (R 000)

| Non-Executive Directors | Board | AGM | HR | Audit & Risk | Investment & Actuarial | Ad hoc Meetings | Guaranteed Package | Performance Bonuses | Other Benefits3, Fees & Expenses | 2022 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| DR Hlatshwayo[1] | 343 | – | | – | – | – | – | – | – | 343 |
| ME Makgatho 1 | 29 | – | | – | 11 | – | – | – | – | 40 |
| D Subbiah[6] | 147 | – | | 42 | 42 | 9 | – | – | – | 242 |
| S Masuku | 147 | – | | 108 | 42 | 9 | – | – | – | 307 |
| M Bosman | 147 | – | 74 | 53 | 42 | 9 | – | – | – | 327 |
| K Sukdev | 237 | – | | 42 | 84 | 9 | – | – | – | 374 |
| Subtotal | 1 052 | – | 74 | 246 | 222 | 38 | – | – | – | 1 632 |
| **Executive Directors** | | | | | | | | | | |
| A Rakgalakane – Managing Director | – | – | – | – | – | | 3 303 | – | 29 | 3 332 |
| **Land Bank Insurance services** | **1 052** | **–** | **74** | **246** | **222** | **38** | **3 303** | **–** | **29** | **4 964** |

Table 3: Remuneration – Land Bank non-executive directors and executive directors for FY2021 (R'000)

| | Board | AGM | HR | Audit & Risk | Investment & Actuarial | Ad hoc Meetings | Guaranteed Package | Performance Bonuses | Other Benefits[3], Fees & Expenses | 2022 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| MA Moloto | 737 | – | 49 | 264 | 66 | 66 | 38 | – | – | 1 220 |
| DR Hlatshwayo | 218 | 49 | – | 230 | 83 | 83 | 38 | – | – | 701 |
| SA Lund | 218 | 131 | 117 | 33 | 16 | – | 38 | – | – | 553 |
| TT Ngcobo | 88 | – | 33 | – | 47 | 47 | 19 | – | – | 234 |
| DN Motau | 88 | – | 97 | – | – | – | 19 | – | – | 204 |
| SJ Coetzee | 30 | – | 16 | – | 16 | 16 | – | – | – | 78 |
| ME Makgatho | 218 | 213 | 49 | 230 | – | – | 38 | – | – | 748 |
| ME Makgoba | 218 | 16 | 82 | 230 | – | 16 | 38 | – | – | 600 |
| ST Cornelius | 218 | 148 | – | 230 | 66 | – | 38 | – | – | 700 |
| Subtotal | 2 033 | 557 | 443 | 1 217 | 294 | 228 | 266 | – | – | 5 038 |
| **Executive Directors** | | | | | | | | | | |
| Ayanda Kanana[4] | – | – | – | – | – | – | – | 3 700 | 104 | 3 804 |
| **Chief Executive Officer** | | | | | | | | | | |
| Khensani Mukhari[5] Chief Financial Officer | – | – | – | – | – | – | – | 3 400 | 30 | 3 430 |
| **Total Land Bank** | 2 033 | 557 | 443 | 1 217 | 294 | 228 | 266 | 7 100 | 134 | 12 272 |



## Notes to the Financial Statements

### 40. Group remuneration (continued)

Table 2: Remuneration of Land Bank Insurance Services non-executive directors and executive directors for 2021 (R 000)

| | Board | AGM | HR | Audit & Risk | Investment & Actuarial | Ad hoc Meetings | Guaranteed Package | Performance Bonuses | Other Benefits[3], Fees & Expenses | 2022 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | | | | | |
| DN Motau | 30 | – | | 22 | 21 | – | 9 | – | – | 82 |
| DR Hlatshwayo | 508 | 9 | | – | – | – | 19 | – | – | 536 |
| ME Makgatho | 59 | 9 | | – | 32 | – | 19 | – | – | 119 |
| K Sukdev | 103 | 9 | | 22 | 42 | – | 9 | – | – | 185 |
| ST Cornelius | – | 9 | | – | – | – | – | – | – | 9 |
| C Masuku | 148 | 9 | | 108 | 42 | – | 19 | – | – | 326 |
| Melanie Bosman | 148 | 9 | | 32 | 42 | 16 | 19 | – | – | 266 |
| P Truijens | 81 | – | | – | 32 | – | 19 | – | – | 132 |
| TT Ngcobo | 30 | – | | – | – | – | 9 | – | – | 39 |
| SJ Coetzee | 15 | – | – | – | – | – | | – | – | 15 |
| Subtotal | 1 122 | 54 | 184 | 211 | 16 | 122 | | – | – | 1 709 |
| **Executive Directors** | | | | | | | | | | |
| Adam Rakgalakane Managing Director | – | – | – | – | – | | 3 303 | 222 | 29 | 3 554 |
| **Land Bank Insurance services** | **1 122** | **54** | **184** | **211** | **16** | **122** | **3 303** | **222** | **29** | **5 263** |

*1 Board term ended 30 November 21*
*2 New Board appointment from 8 December 21*
*3 Directors do not receive any other benefits.*
*4 Chief Executive Officer from 1 March 2020 and resigned February 22*
*5 Chief Financial Officer from 1 February 2020*

## Notes to the Financial Statements

### 40. Group remuneration (continued)

Table 5: Remuneration – Land Bank executive officers in FY2022 (R'000)

| Title | Guaranteed Package | Cell phone Allowance | Other Benefits | Total 2022 |
|---|---|---|---|---|
| Ms ETM Dlamini | | | | |
| Executive Manager: Human Capital | 2 838 | 24 | 4 | 2 866 |
| Mr SCE Soundy | | | | |
| Executive Manager: Strategy and Communications | 2 909 | 24 | 5 | 2 938 |
| Mr F Stiglingh | | | | |
| Executive Manager: Portfolio Management Services | 2 888 | 24 | 3 | 2 915 |
| Mr SN Sebueng | 2 288 | 24 | | 2 312 |
| Executive Manager: Legal | | | | |
| Dr LL Magingxa | | | | |
| Executive Manager: Agricultural Economics & Advisory | 2 600 | 24 | 5 | 2 629 |
| Mr LC Makupula[2] | 1 598 | 24 | | 1 622 |
| General Manager: Coastal | | | | |
| Mrs U Magwentshu | | | | |
| Executive Manager: Corporate Banking and Structured Investments | 2 700 | 15 | | 2 715 |
| **Total** | **17 821** | **159** | **17** | **17 997** |

Table 5: Remuneration – Land Bank executive officers in FY2021 (R'000)

| Title | Guaranteed Package | Cell phone Allowance | Other Benefits | Total 2022 |
|---|---|---|---|---|
| Ms. ETM Dlamini Executive Manager: Human Capital | 2 839 | 24 | 4 | 2 867 |
| Mr. SCE Soundy Executive Manager: Strategy and | 2 909 | 24 | 5 | 2 938 |
| Mr. LC Makupula Acting Executive Manager: CDBB | 1 598 | 14 | | 1 612 |
| Mr. F Stiglingh Executive Manager: Portfolio Management Services | 2 888 | 24 | 3 | 2 915 |
| Mr SN Sebueng Executive Manager: Legal | 2 288 | 24 | | 2 312 |
| Dr LL Magingxa Executive Manager: Agricultural Economics & Advisory | 2 600 | 24 | 5 | 2 629 |
| Mrs. U Magwentshu Executive Manager: Corporate Banking and Structured Investments | 2 700 | 24 | | 2 724 |
| **Total** | **17 822** | **158** | **17** | **17 997** |

*1 Other benefits include vitality benefits*

*2 Acting Executive Manager from 16.01.2020 till 31.03.2022*

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