INTEGRATED ANNUAL REPORT | 2018

LAND BANK
We stand by you

INTEGRATED ANNUAL REPORT **2018**

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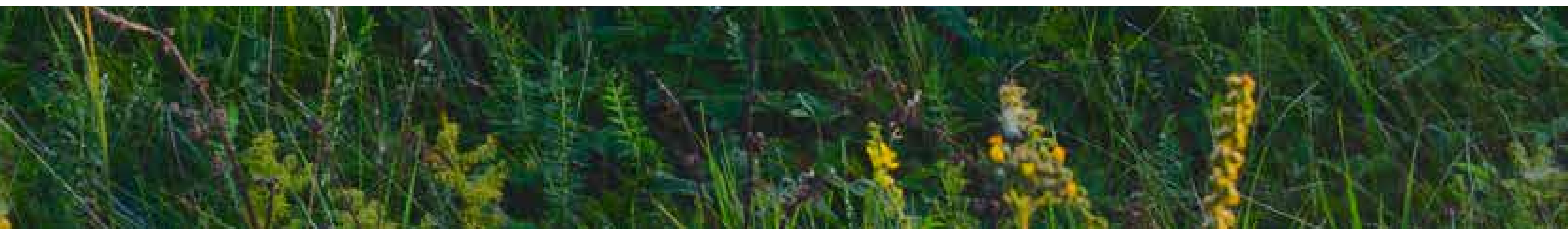

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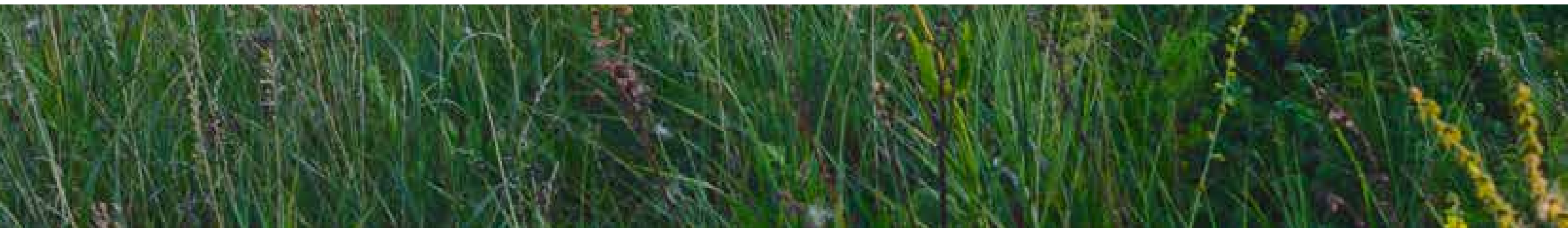

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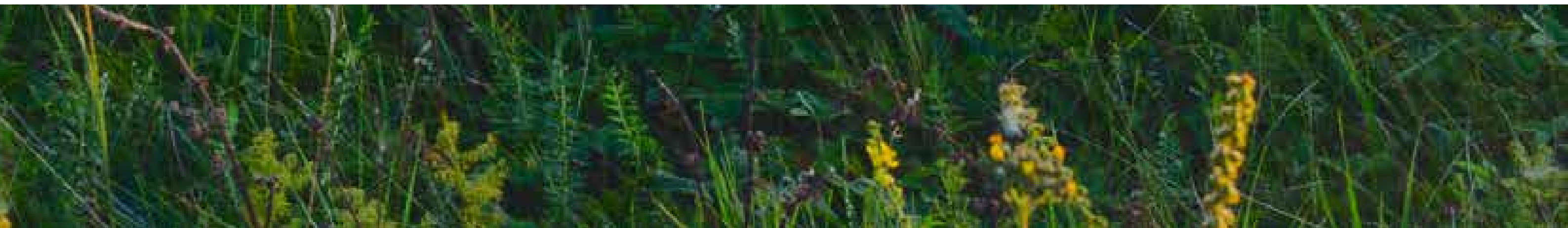


ACRONYMS

ACI	African, Coloured, Indian
AfDB	African Development Bank
AML	Anti Money-Laundering
ARC	Agricultural Research Council
BBBEE	Broad-Based Black Economic Empowerment
BFAP	Bureau for Food and Agricultural Policy
CAR	Capital Adequacy Ratio
CB&SI	Corporate Banking and Structured Investments
CDBB	Commercial Development and Business Banking
COR	Combined Operating Ratio
CRISA	Code for Responsible Investing in South Africa
CSI	Corporate Social Investment
DAFF	Department of Agriculture, Forestry and Fisheries
DBSA	Development Bank of Southern Africa
DCF	Discounted Cash Flow
DEA	Department of Environmental Affairs
DFI	Development Finance Institution
DMTN	Domestic Medium Term Note
DRDLR	Department of Rural Development and Land Reform
DOP	Delegation of Power
EAD	Exposure At Default
ECL	Expected Credit Loss
EIB	European Investment Bank
ERM	Enterprise Risk Management
ESMS	Environmental and Social Management System
ESS	Environmental and Social Sustainability
FICA	Financial Intelligence Centre Act 38 of 2001
FY	Financial Year
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
GWP	Gross Written Premium
IA	Internal Audit
IDC	Industrial Development Corporation of South Africa
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
LBIC	Land Bank Insurance Company SOC (Ltd)
LBLIC	Land Bank Life Insurance Company SOC (Ltd)
LCR	Liquidity Coverage Ratio
LDFU	Land for Development Finance Unit
LGD	Loss Given Default
NAMC	National Agricultural Marketing Council
NAV	Net Asset Value
NCA	National Credit Act 34 of 2005

NDP	National Development Plan
NPL	Non-performing Loan
NSFR	Net Stable Funding Ratio
NSIR	National Scale Issue Rating
PAIA	Promotion of Access to Information Act 2 of 2000
PAYE	Pay-as-you-earn tax
PD	Probability of Default
PEP	Politically Exposed Person
PFMA	Public Finance Management Act 1 of 1999
PIC	Public Investment Corporation
POPIA	Protection of Personal Information Act 4 of 2013
SD	Supplier Development
SDG	Sustainable Development Goal
SDI	Supplier Development Initiative
SENS	Stock Exchange News Service
SLA	Service Level Agreements
SME	Small and Medium Enterprises
SOEs	State-owned Entities, including DFIs
SOP	Standard Operating Procedure
UNPRI	United Nations Principles for Responsible Investment
WFF	Wholesale Finance Facilities

INTRODUCTION

> Land Bank is already working to facilitate transformation in the agricultural sector, and has been doing so with a healthy set of financials and a clean record of governance for more than five years.
>
> Andile Khumalo, Chief Operating Officer of MSG Afrika, Sunday Times Opinion, 20 May 2018

ABOUT THIS REPORT

This Integrated Annual Report is our primary report to stakeholders, including our shareholder, investors, regulators, partners, clients, employees and society at large. The report aims to provide a balanced, accurate and accessible overview of our business model, strategy, performance and opportunities in relation to material financial, governance, social and environmental issues. This year we provide a more detailed discussion on the material matters, particularly our risks and governance issues that could substantially impact our ability to create value and to deliver on our development mandate.

Reporting boundary

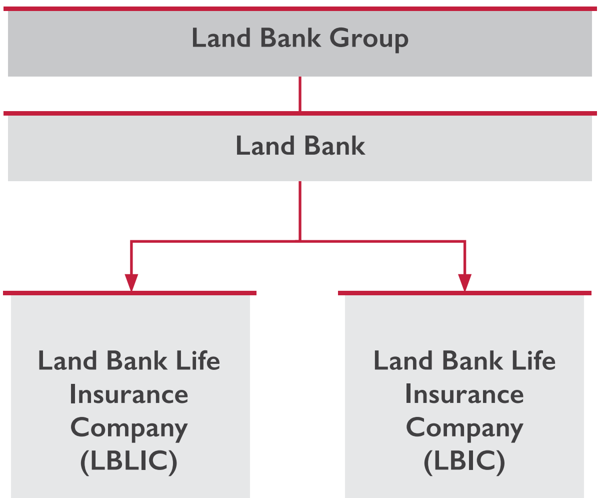
This Integrated Annual Report covers financial reporting from 1 April 2017 to 31 March 2018 (FY2018) and builds on the FY2017 Integrated Annual Report approved on 7 July 2017 by the Board of Directors.

Any notable events after 31 March 2018 up until the Board approving the Report on 30 July 2018 are included.

The boundary of the FY2018 Report represented in Figure 1 encompasses the activities of the Land Bank Group and its insurance subsidiaries. There have been no significant changes in our scope and aspect boundaries, size, structure or shareholding during the reporting period that would affect the comparability of the Bank's reporting against its FY2017 report.

Please direct any queries with regards to this report to communication@landbank.co.za.

Figure 1: Operating businesses reporting boundary for the FY2018 Integrated Annual Report



The scope of this report covers both financial reporting and non-financial performance information. It contains the Group's outlook, targets and objectives for the short term (FY2018) as well as for the medium to long term, as aligned to the National Development Plan (NDP) and Sustainable Development Goals (SDGs) with clear targets to 2030.

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

The Board promotes and supports high and ethical standards of corporate governance and, in so doing, adopts the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV). During FY2018, a number of actions were undertaken in the organisation's continuous implementation of the principles as set out in our King IV Disclosures on page 140.

Reporting frameworks

The FY2018 Integrated Annual Report utilises three frameworks for reporting on activities and achievements of the Bank.

- Our material matters are those issues that have influenced or could substantially influence the Bank's ability to create development impact and sustain stakeholder value in the short, medium and long term. Material matters were derived through a process of extensive stakeholder engagement and prioritisation to determine areas of mutual interest and interdependence. A summary of performance against each identified material matter is presented on page 28.
- In line with our mandate to support and transform the agricultural sector, we focus on five developmental objectives, each of which contributes to one or more of our four strategic pillars. The objectives and pillars were agreed by the Board and executive management as part of a strategic review in FY2016. The developmental objectives and strategic pillars are described in more depth on page 32 to 34.
- An account of value created through our activities is represented in the form of the six capitals. The Capitals Model is recommended as an integrated reporting framework by the International Integrated Reporting Council (IIRC). The inherent value of each capital and how this capital is leveraged for the purpose of meeting the developmental objectives of the Bank is reported on pages 50 to 101.

Each of the frameworks described above contain issues that are inter-related and common to each other, as is evident from the summary table below.

Table 1: Elements of our reporting framework

Material matters	Development objectives and strategic pillars	Six capitals
- Corporate governance - Developmental impact - Financial sustainability - Employee development - Environmental sustainability - Stakeholder management - Risk management	Developmental objectives - Create a transformed and inclusive sector - Grow the agricultural sector - Increase quality employment opportunities - Ensure food security - Support environmentally and socially sustainable development Strategic pillars - Sector growth support - Supply chain development - Production expansion and intensification - Agricultural innovation	Financial capital Intellectual capital Human capital Social and relationship capital Natural capital Manufactured capital

Our approach to materiality

The 2018 Integrated Annual Report provides information that we consider to be of material significance in creating short-, medium- and long-term value or in delivering on our development mandate. A detailed discussion on our material matters can be found on page 28.

Assurance and reporting guidelines

The Board, along with the Audit and Finance Committee, is ultimately responsible for the Bank's internal system of control, designed to identify, evaluate, manage and provide reasonable assurance against material misstatement and loss. Our combined assurance model applied to support the integrity of the information presented in the Integrated Annual Report continues to evolve in line with the need to optimise our approach to information governance. Further detail about improvements made to our application of risk management and combined assurance can be found on page 133. Our internal audit function plays a crucial role in assessing the effectiveness of our internal control environment. For FY2018 we have expanded the internal assurance of our Integrated Annual Report to include figures as well as factual statements.

This report was prepared applying the IIRC's Integrated Reporting <IR> Framework and also in accordance with the 'core' level Global Reporting Initiative (GRI) Standards.

I. INTRODUCTION

Table 2: Integrated Annual Reporting Assurance Framework

Integrated report element	Framework/Standard	Lines of defence and reviewers	Outcome
Integrated Annual Report (the full report)	- International Integrated Reporting Framework	- Land Bank Board - Audit and Finance Committee - Internal Audit - Executive Committee	Directors' Approval
Annual Financial Statements	- Public Finance Management Act 1 of 1999 as amended - Companies Act 71 of 2008 - International Financial Reporting Standards (IFRS)	- Auditor-General - Executive Committee	Unqualified auditor's report
Corporate Governance	- King IV Report on Corporate Governance for South Africa 2016 (King IV) - Companies Act 71 of 2008 - Land and Agricultural Development Bank Act 15 of 2002 - Public Finance Management Act 1 of 1999 as amended - Long Term Insurance Act 52 of 1998 - Short Term Insurance Act 53 of 1998	- Land Bank Board - Internal Audit - Executive Committee	Directors' Approval of the King IV disclosures
Selected information on social and environmental matters	- Financial Services Sector Code for BBBEE - GRI standards	- Empowerdex - Internal Audit - Executive Committee	Level 4 BBBEE rating confirmed
Review of internal controls and risk and compliance management	- Internal controls and management attestations - Compliance, Internal Audit and legal reviews	- Risk and Governance Committee - Audit and Finance Committee - Internal Audit - Executive Committee	

Forward-looking information

Certain statements on the financial performance and operational results of the Land Bank Group in this Integrated Annual Report contain forward-looking statements or forecasts. These statements involve risk and uncertainty that may cause the actual results and achievements to differ substantially from those implied or expressed in the forward-looking statements. These statements will not be updated subsequent to the publication of this report and have not been reviewed or reported on by the Group's auditors.

Directors' approval

The Board of Directors accepts responsibility to ensure the integrity of the FY2018 Integrated Annual Report and supplementary information referenced therein. We have considered the completeness of the material aspects addressed in this report, and the relevance and reliability of the reported performance information presented, drawing on the context of our assessment of the effectiveness of the combined assurance applied to support the integrity of material information reported in the Integrated Annual Report. Furthermore, the Board approves and confirms the integrity of the King IV disclosures. On this basis, the Board is satisfied that the 2018 Integrated Annual Report is a reasonable presentation of our material matters and a balanced view of our strategy, the integrated performance of the Group during the year, and its impact on stakeholders and the environment.

To the best of our knowledge and belief, we confirm that all information and amounts disclosed in this report are consistent with the Annual Financial Statements for the year ended 31 March 2018 audited by the Office of the Auditor-General of South Africa. Following our review and relying on the lines of defence, we believe that the report fairly reflects the operations, performance, human resources and financial information of the entity for FY2018.

Mr MA Moloto
On behalf of the Board
30 July 2018

FY2018 KEY PERFORMANCE INDICATORS

Achievements

Capital adequacy ratio

Target
> 15%

FY2018: 17.3%
FY2017: 17.7%

Non-performing loan ratio

Target
≤ 10%

FY2018: 6.7%
FY2017: 7.1%

Disbursements

Target
R1.5 billion

R1.55 billion
to transformational projects

Employees

Target
None

92% of employees
find meaning in their work
(response rate 70% to survey)

Broad Based Black Economic Empowerment

Target
BBBEE
Level 5

FY2018: Level 4 BBBEE
FY2017: Level 7 BBBEE

Funding agreements concluded with EIB and KfW

Target
None

EUR105 million
unguaranteed, long-term, multi-lateral

Challenges

Net interest margin

Target
3.0%

FY2018: 3.0% [1]
FY2017: 3.1% [1]

Ethics findings

Target
0

Two confirmed ethics findings against staff

Crop insurance claims paid

Target
≤ 80%

FY2018: 107% (R513.0 million)
FY2017: 87% (R384.8 million)

Cost to income ratio

Target
≤ 50%

FY2018: 60.5%
FY2017: 54.4%

Fruitless, wasteful and irregular expenditure

Target
≤ 0.1%
of operating expenses

FY2018: R4.5 million
FY2017: R5.7 million

Black women in senior management

Target
20%

FY2018: 18%
FY2017: 16%

[1] Including impact of LDFU reclassification = 2.9% (FY2017: 3.0%).
Refer to Note 48 of Annual Financial Statements.

MINISTER'S STATEMENT

Mr NM Nene, MP
Minister of Finance

When President Ramaphosa delivered his first State of the Nation Address in February 2018, he encouraged significant new investment in our economy to create jobs, reduce poverty and inequality and transform the economy. Land Bank remains relevant and well positioned to support this national imperative by remaining true to its mandate, and to do so on a sustainable basis and with integrity.

President Ramaphosa furthermore announced a detailed economic recovery plan which prioritises, amongst other things, job creation, a revival of the agriculture sector, greater support for black industrialists and youth as well as small business development. We are confident that the plan can be implemented as intended and that it will put our country on a new growth path.

The work required to reinvigorate the economy, however, is not without its challenges. Over the last year, the country has experienced shifts in the economy and society that have brought to bear issues of economic justice, inclusivity and transformation. To address these challenges requires that all sectors work together. National Treasury is committed to support this process through the Preferential Procurement Policy Framework Act which increases aggregate demand of locally manufactured products, enhances competitiveness in the domestic market, and supports growth and job creation through the use of local content designation, transversal contracts and set asides for Small and Medium Enterprises (SMEs).

Our efforts to maintain fiscal sustainability is a vital contributor to a more prosperous South Africa for all its people. Together with sound monetary policy implemented by an independent central bank, this forms the bedrock of confidence in our economy, allowing our citizens, businesses and households to plan and invest in the future. A renewed and urgent sense of commitment in all spheres of government to fiscal reforms and good governance practices is critical to restore confidence in our institutions.

The health of our state institutions cannot be over-emphasised. State-owned entities (SOEs) have a substantial impact on perceptions of the sustainability of public sector finances in South Africa, consequently also on confidence and growth momentum. Most critically, though, we must acknowledge the impact of SOEs on the cost structure of the economy and our overall competitiveness. We need to rebuild confidence in Government and our public entities, and trust that they exist to serve the people of South Africa. Further, that they do so effectively, efficiently and honestly. To this end, the visible commitment of Land Bank's Board and management to good corporate governance and financial sustainability should be recognised by all as an example of what is achievable by SOEs.

There is much to contemplate about the role of the agricultural sector in the recovery of the economy. We continue to grapple with the solutions to effect real transformation and change in the sector. Government, SOEs, the private sector and all those who are involved in growing the agricultural sector have to contend with many pressing issues in this regard.

The NDP positions agriculture to contribute to economic growth, social inclusion and deal decisively with poverty and inequality. Over the period under review, we have noted how the agriculturul sector contributed towards lifting the economy out of a technical recession, though more recently, we have noted with concern the contractions within the sector related to climatic conditions that had a negative impact on its growth and employment creation potential.

For Development Finance Institutions (DFIs) such as Land Bank, I believe the current policy, structural and economic debates on the role of the agricultural sector present a significant opportunity to thoroughly interrogate all the current assumptions, projections and institutional frameworks in conjunction with all the relevant stakeholders towards greater alignment and consistency of approach.

Land Bank is mandated to play a pivotal role in both the growth and inclusive transformation of the agricultural sector. We are delighted to note that Land Bank continues to deliver courageously on its mandate within certain constraints, and that it continues to strengthen both its financial and institutional governance aspects. During FY2018, the Bank further strengthened its position as a public institution best placed to facilitate transformation and inclusive access to the agricultural sector. National Treasury's ongoing challenge to the Bank has been for it to increase its support for transformative initiatives within a financial sustainability framework that is both prudent, practical and manageable. It is a careful balancing act to which I believe the organisation has already begun to make good progress.

As far as securing sustainable funding to support its transformation and development mandate, I am pleased to report that Land Bank has significantly raised its profile during the period under review to secure unguaranteed funding from both domestic capital markets and international multi-lateral financiers such as the World Bank, the European Investment Bank (EIB) and the German Development Bank (KfW). An unqualified governance record and a clear strategy have aided the Bank in attracting and sustaining the required funding to facilitate growth, transformation and inclusive access to the sector. The Bank increased the balance of its loan book for transformative purposes to R5.5 billion in FY2018 from R4.9 billion in the previous year.

Going forward, the Bank is committed to focus substantively on transformation investments in agriculture. In terms of its Corporate Plan, the Bank plans to invest over R2.5 billion during FY2019 in the developmental and transformative segment of agriculture of which R600 million will be targeted at enterprises with a majority Black female and youth ownership.

I am pleased to note that in terms of governance, the Bank has shown unwavering commitment to strengthen controls and good corporate governance. I extend my thanks to the Chairperson of the Land Bank Board, Mr. MA Moloto, the Board and the Chief Executive Officer (CEO), Mr TP Nchocho, as well as the Executive team and employees for their dedication and energy at driving this programme of good governance.

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

Mr NM Nene, MP
Minister of Finance

CHAIRMAN'S STATEMENT

Mr MA Moloto
Independent non-executive chairman

Turbulent and changing environment

Notwithstanding the external environment, the Bank was steadfast in holding its position to strengthen its financial sustainability credentials and make meaningful progress with its support of new generation farmers.

We did however operate in a volatile environment where the country's macroeconomic climate remained unsteady. As a consequence, economic growth has been muted and citizens and business alike are affected by the country's lack of global competitiveness. The governance failures of some SOEs and private corporations had adversely affected the country as an investment destination. Within this challenging macro-economic environment, the effects of the drought, particularly in the Western and parts of the Eastern Cape, also had a negative impact on agricultural production and employment. This increased the Bank's credit risk and affected our ability to execute transformational transactions.

Macro-economic and political conditions

Global economic activity stabilised, with global output estimated to have grown by 3.1% in FY2017. This was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in Europe, and signs of recovery in several commodity exporters. Global growth is expected to remain unchanged at 3.1% for the remainder of 2018, supported by strong momentum, favourable market sentiment, accommodative financial conditions, and the domestic and international effects of expansionary fiscal policy in the United States. The partial recovery in commodity prices should allow conditions in commodity exporters to improve gradually.

The possible effect of the United States imposing trade tariffs and retaliatory actions by other major trade blocs is not clear yet but may affect the South African agriculture market in unexpected ways as commodity traders shift contracts to purchase grain and oilseeds to South America and other locations. Global market uncertainty on the potential actions and impact of these decisions have been reflected in volatility of exchange rates for emerging markets.

The South African economy experienced some volatility during FY2018. The domestic economy grew by 1.3% in the FY2017 compared to FY2016, following an increase of 3.1% quarter-on-quarter (q/q) in the fourth quarter of 2017. The strengthening in economic activity in FY2017 was largely driven by the agricultural sector, which bounced back from one of the worst droughts in recent history. The finance and mining sectors also contributed positively to Gross Domestic Product (GDP) growth in 2017.

While the stabilising global economy and stronger economic growth in South Africa in the last half of 2017 were positive developments, the South African economy recorded a sharp contraction of 2.2% during the first quarter of 2018 (quarter-on-quarter (q/q), seasonally adjusted and annualised), much worse than anticipated. This contraction was mainly due to significantly lower output in the agricultural, mining and manufacturing sectors. The sector contraction shows that the horticultural sub-sector in certain areas of the Western, Northern and Eastern Cape remain under pressure due to the continuing drought in that region. In the Western Cape in particular the drought has and will continue to negatively affect agricultural exports, foreign exchange earnings and employment opportunities across the area. Agricultural job losses were recorded in most provinces, with the largest decline in the Western Cape. The outlook for domestic GDP growth for the remainder of 2018 remains subdued at +1.7%.

Continued political uncertainty during the period under review, combined with the slow pace of economic growth, contributed to low investor confidence and investment returns. International ratings agencies shared their concerns on the outlook for the South African economy in various reports and adjusted the outlook on the sovereign debt rating accordingly downward. We remain confident that the country's credit ratings and economic growth will improve with the implementation of the President's detailed economic recovery plan, as well as National Treasury's commitment to fiscal reforms and enforcement of good governance practices, particularly in SOEs. Such measures should hopefully benefit the Bank in time, creating opportunities for accelerated transformation and development impact in the agricultural sector.

Performance

In this challenging context, we must balance our financial sustainability with our transformation agenda and are pleased to report that we delivered a satisfactory set of results. We also made positive progress against our objectives to enhance our reputation and funder perception, further improve transparency and governance, and position ourselves as a credible investment destination for debt investors.

We improved our financial sustainability and delivered our transformation mandate as follows:

- Reduced our reliance on short-term funding to 43.2%, achieving our medium-term target of below 50% (from 69% in FY2015);
- Increased the number of investors from whom we received funding, specifically from multi-lateral funders;
- Concluded a number of significant development transactions with new generation farmers with specific development objectives;
- Improved investor confidence culminating in two successful listed debt auctions in terms of our Domestic Medium Term Note (DMTN) programme;
- Maintained a strong balance sheet position;
- Maintained the Bank's external credit ratings of Global Scale Issuer Rating: Baa3.za and National Scale Issuer Rating: Aa1.za; Outlook: Stable; and
- Maintained our profitability trajectory, growing profit from banking activities by 3.7%. This was largely off-set by a decline in profitability from our insurance activities mainly due to weather-related crop insurance claims.

Land reform (Expropriation without Compensation)

The Parliamentary process instigated by a vote in favour of adopting the motion on Expropriation without Compensation on 27 February 2018, is a regulatory proposal that could potentially affect the agricultural sector and the Bank sigificantly. It is important to recognise the emotions involved in the unfolding process as people are rightfully responding to centuries of inequitable land policy that has resulted in economic hardship and psychological trauma for many families.

While the proposal around Expropriation without Compensation has taken precedence, we consider improving the overall land reform programme to achieve its stated objectives as a key departure point for the process. In our opinion as part of the broader land reform programme, expropriation (with or without) compensation, if it is well executed, has the potential for some significant economic and social benefits that may accrue to the economy of South Africa in general and to the agricultural sector in particular. The agricultural sector relies heavily on the availability of land as one of its key factors of production. The land reform process may have a potential positive result though if more land is brought into production.

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

It is our considered view that it would be futile to expropriate land without compensation without an associated re-alignment and adjustment of the institutional mechanisms to deliver land reform. Land reform should be conducted in conjunction with the provision of comprehensive support to the beneficiaries which include both financial and non-financial elements. We have a central role to play in facilitating this support to the new beneficiaries towards a competitive, sustainable and transformed agricultural sector. While there are potential opportunities for the Bank associated with a well-executed land reform programme, it is difficult to quantify as the final scope of the programme is not known.

We have identified opportunities around the implementation of Expropriation without Compensation, however it would be prudent to caution that if this process is poorly executed it could have grim consequences for the Bank as a creditor, bringing the organisation's sustainability under threat. From our perspective, poor execution would include:

- Productive land being taken out of production;
- No protection for creditors;
- No effective institutional processes;
- Poor and undefined process for selection of beneficiaries;
- Corruption; and
- Lack of comprehensive support for beneficiaries.

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

Furthermore, our funding agreements typically include Event of Default; Cross Default and Financial Covenant clauses to provide lenders certainty of performance against their loans. To this end, the Bank must highlight that it has approximately R9 billion of debt, which includes the following standard market clause on 'expropriation' as an Event of Default:

The ability of the Borrower to conduct its business is wholly or substantially curtailed by any seizure, expropriation, nationalisation, intervention, restriction or other action by or on behalf of any governmental, regulatory or other authority or other person.

If Expropriation without Compensation were therefore to materialise without protection of the Bank's rights as a creditor, we would be required to repay R9 billion immediately. A Cross Default clause would be triggered should we fail to pay when these debts fall due because of inadequate liquidity or lack of alternative sources of funding. This would make our entire R41 billion funding portfolio due and payable immediately, which we would not be able to settle. Consequently, government intervention would be required to settle our lenders.

In response, the Bank has participated in numerous forums and discussions including appearances at parliamentary portfolio committees to articulate our position on Expropriation without Compensation and made a formal submission to the responsible parliamentary committee. It has modelled and assessed the impact of various outcomes of the Expropriation without Compensation process on its loan book and funding arrangements. The Bank also reviewed its processes and products to support land reform beneficiaries and investigated partnerships with government and the private sector to strengthen its ability to execute its mandate within its current funding model;

Governance

SOE instability, state capture allegations and governance failures remained an unpleasant theme in the South African discourse, and these matters affect stakeholder's perceptions of the Bank. The Board continues to demonstrate effective and ethical leadership throughout the Group governance and executive functions, and maintains a strong oversight role for risk and compliance management and governance – including financial, social and environmental governance. We are therefore proud of our status as a financially sustainable SOE that is demonstrably committed to maintaining sound governance practices. Governance and risk were identified as material matters during FY2018 and were a key strategic theme across our business units and functions. As a result there have been numerous interventions this year to strengthen risk management and control applied to the business, and to monitor and report on the effectiveness thereof. Throughout this report stakeholders will find evidence of our commitment and effort towards improving our risk and compliance management maturity, fostering the highest standards of ethical conduct throughout and enhancing governance oversight throughout the Bank.

During FY2018, a key component of our commitment to ethical practice was the Ethics Institute's appraisal of the Bank's corporate ethics environment. The report found many behaviours that contribute positively to a robust ethical culture as well as some key opportunities on which the Bank can build to create a stable ethics platform. Many expansive initiatives have been implemented to date in response to this appraisal and to further enhance the organisation's ethics environment.

Board changes and succession planning

Leadership is of utmost importance to us and we rely on the Board's collective skills, experience and diversity for responsible oversight of the Bank's conduct in its efforts towards creating an ethical and resilient institution that creates value in both the financial and developmental context.

We bade farewell to board members Professor ASM Karaan in August 2017 and post year-end to Ms N Zwane in June 2018. We thank them for their valuable contributions to the Board and wish them well in their future endeavours. Several directors were re-appointed post-year-end specifically Ms S Lund, chairperson of the Risk and Governance Committee and Ms D Hlatshwayo who has also been appointed as Deputy Chairperson, and myself as Chairperson. We welcomed two new, independent non-executive directors to the Board, who were appointed post-year-end: Mr M Makgoba and Dr ST Cornelius. Their extensive experience in development, veterinary sciences and agriculture respectively are respected additions to the Board.

Outlook

Our people are at the heart of our business and our future as a sustainable SOE that delivers its development objectives. They stand apart because they care about their clients, their co-workers and society, and they find meaning and purpose in their work at Land Bank. The Bank's future depends on expanding and reinforcing this culture along with the capabilities of our people. One of the biggest challenge this institution faces is ensuring that we have the human capital that is equipped with excellent technical ability to lead the organisation and ultimately the agricultural sector into a prosperous future.

The fast pace of technological change and its effects on the financial and agricultural sectors creates the opportunity to deploy creative solutions related to risk management, market access and technical support for our clients. These changes require advanced technical skills from our employees and thus targeted interventions by our Human Capital division to recruit and provide ongoing training to improve our employee and institutional capabilities. Our ability to embrace and utilise digital innovation in our unique environment and in providing support to our clients are critical to both the Bank's future and its potential impact on the sector. Land Bank acknowledges that it has not been at the forefront of this change and has identified digital innovation as a critical area of current and future development.

Building institutional capacity for the future

- For FY2019 we have set ourselves ambitious targets for transformation;
- We are initiating a number of strong collaborations with the private sector towards an inclusive agricultural sector;
- We will apply our collective mind to embrace the fourth industrial revolution and the benefits that technology can bring to the financial and agricultural sectors; and
- We intend to maintain our position of financial sustainability.

Appreciation

We rely on the support of our multiple stakeholders to deliver on our financial and development commitments. I would like to thank my fellow Board members for their commitment and contributions to the company over the past year. Furthermore, I wish to express my sincere gratitude to the Bank's CEO, Mr TP Nchocho, his executive team and our employees for their commitment to building an ethically sound financial institution that is fit for the future and a driver of transformation in the sector.

Mr MA Moloto
Independent non-executive chairman

1. INTRODUCTION

Corporate citizenship statement

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

Table 3: Corporate citizenship commitment

Section 195(1) of the Constitution	Land Bank progress during FY2018
(a) A high standard of professional ethics must be promoted and maintained	- Approved the Board of Directors Code of Ethics and Business Conduct in addition to the existing organisational Code of Ethics that applies to the organisation as a whole - Completed the Ethics Opportunity and Risk Assessment - Appointed two ethics officers and provided ethics training to 114 employees including 21 new Ethics Ambassadors
(b) Efficient, economic and effective use of resources must be promoted	- R242.7 million profit from banking operations (FY2017: R316.3 million) - 17.3% Capital Adequacy ratio (FY2017: 17.7%)
(c) Public administration must be development orientated	- R5.5 billion of gross loan book classified as transformational (FY2017: R4.9 billion) - Approximately R74 million in Interest rate subsidies provided to effect transformation in the sector
(d) Services must be provided impartially, fairly, equitably and without bias	- 3 658 shareholders of entities screened in terms of our anti-money laundering and politically-exposed persons policy - Introduced employees' attestations to support the existing requirement to declare all external interests - Board members complete annual conflict of interest attestations as well as at all meetings - All credit decisions are taken by committee where a two thirds majority is required to approve a loan, dissenting votes are recorded
(e) People's needs must be responded to, and the public must be encouraged to participate in policy-making	- 84 customer complaints were received and responded to within the prescribed timelines - Client events were hosted in each province

Section 195(1) of the Constitution		Land Bank progress during FY2018
(f)	Public administration must be accountable	- 2018/19 Corporate Plan was tabled in Parliament - Land Bank representatives appeared twice in Parliament - The Board has endorsed the principles of King IV and has approved the annual King IV disclosures
(g)	Transparency must be fostered by providing the public with timely, accessible and accurate information	- The Integrated Annual Report was published and is available publicly via the Bank's website - Regular investor roadshows held, and the information distributed publicly via the Bank's website - Stock Exchange News Service (SENS) announcements regarding changes in executive management, Board members and Board Committees, as well as Financial and Interim Financial results - Research seminars were held to communicate information on water issues to stakeholders
(h)	Good human-resource management and career development practices, to maximise human potential, must be cultivated	- The Land Bank Learning Academy was piloted to improve skills and knowledge of employees - Employees attended an average of 22.0 hours of training per employee
(i)	Public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness and the need to redress the imbalances of the past to achieve broad representation	- 68% of employees are Black, Asian or Coloured (FY2017: 67%) - Level 4 BBBEE status (FY2017: Level 7) - Provide opportunities for 27 Black learners (FY2017: 23) and 10 Black external bursary holders (FY2017: 10)

2

ORGANISATIONAL OVERVIEW

Land Bank has been instrumental in providing Masimong Holdings with an innovative solution combining a mix of debt and equity funding to acquire an 18% stake in one of South Africa's largest citrus producers, Mouton Citrus, with an option to extend this to 35%.

Althea Discala, CEO of Masimong Holdings Group (Client)

ABOUT LAND BANK

Land Bank has pioneered agricultural development finance in South Africa for more than a century. We operate as a wholly government owned DFI and promote agricultural and rural development to create a more inclusive sector, improve food security and support economic growth as our primary objectives. Using a range of financial products and services, along with the skills of our people, we provide agricultural financing to approximately 29% of the market.

Our wholly owned insurance subsidiaries, Land Bank Insurance Company SOC Ltd (LBIC) and Land Bank Life Insurance Company SOC Ltd (LBLIC) complement our other financial services by providing insurance and risk management solutions to the agricultural community. These subsidiaries mitigate some of the risk inherent in the agricultural sector and assist the Bank to offset potential debt impairments and write-offs.

Our Purpose

Guided by the Land and Agricultural Development Bank Act, No. 15 of 2002, (Land Bank Act) our purpose is to develop the sector by expanding access to agricultural land by historically disadvantaged persons and increase the productive capacity of new generation farmers and established farmers, as well as agribusinesses by providing financing facilities on a sustainable basis.

LBIC and LBLIC exist to fulfil the objectives of the Land Bank Act by providing insurance and risk management solutions in support of the agricultural sector.

Our Vision

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

Our Mission

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

Our Values

Meaningful contribution
Empowerment
Organisational synergy
Accountability
Pro-activity

The Land Bank Group has headquarters in Centurion with operations across South Africa. We service our clients through nine provincial and 16 satellite offices.

Land Bank Business Operational Map

Our locations

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

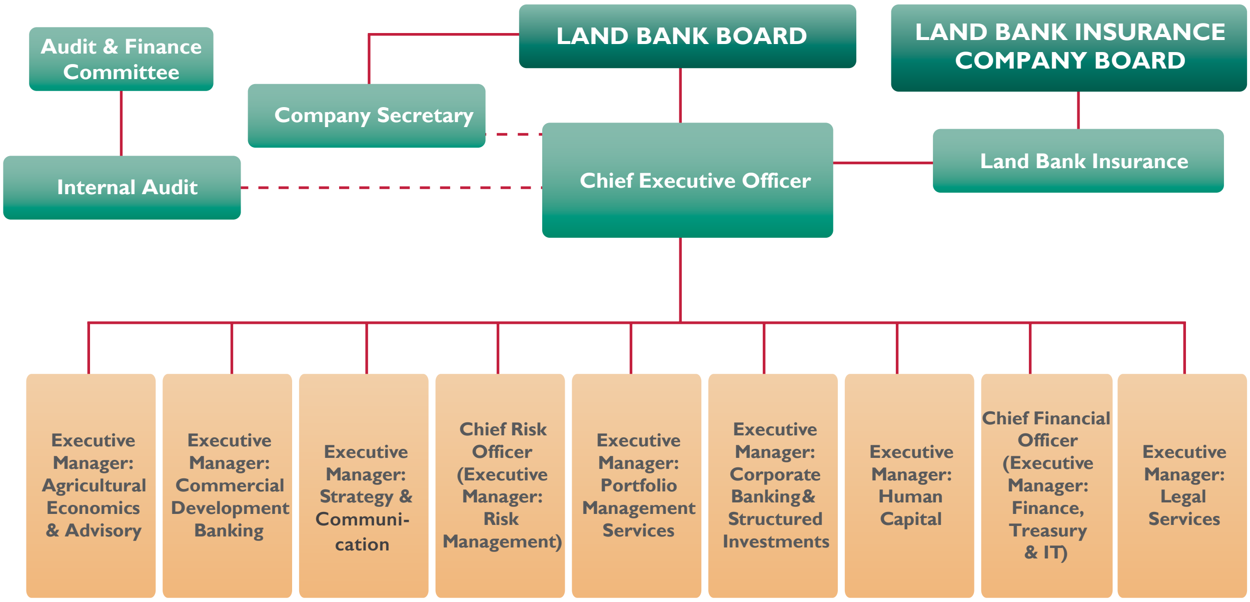
Wholesale Financing Facility Intermediaries: The Bank provides wholesale funding to intermediaries who on-lend to smallholder farmers. All lending activities are governed by sound credit policies approved by the Bank. These intermediaries also provide technical assistance to new-generation farmers to ensure farming skills development.

SLA Partners: From time to time Land Bank acquires loans from the balance sheet of SLA partners. As part of the SLA, Land Bank appoints these partners to originate loans on its behalf. All lending activities are governed by sound credit policies approved by the Bank. SLA partners assist the Bank with the end-to-end credit process from loan disbursement, monitoring, collection and legal recoveries. These partners are paid a management fee for services rendered, whilst risk and profit sharing arrangements ensure quality assets are originated.

Since the publication of the previous report, we have introduced the Agricultural Economics and Advisory Services division to expand our technical knowledge of the sector and provide technical agricultural-specific advisory services to the two frontline business units and Portfolio Management Services. The operational structure of the organisation is represented in Figure 2. For more information on our divisions and their priority areas, please refer to the sections on divisional performance and value creation.

2. ORGANISATIONAL OVERVIEW

Figure 2: Functional structure of Land Bank



OUR CLIENTS

According to the Community Survey 2016, approximately 2.3 million households indicated that they were engaged in agricultural activities, which equates to 13.8% of total households. The effect of the drought was evident in large portions of the country as the number of agricultural households had declined from 2.9 million during the previous survey conducted in 2011. Most of these households engage in agriculture to provide food for the household, and 83.8% of households indicated that the main place for these activities was their backyard.

The Department of Agriculture, Forestry and Fisheries (DAFF) estimated the total value of agricultural debt to be R158.3 billion as at December 2017, of which Land Bank finances approximately 29% and commercial banks another 61%. The Land Bank Act provides the Bank with a mandate to support both new-generation and established farmers across the agricultural value-chain. Of the 2.3 million households, 10% indicated that agricultural activities formed either the main (5.7%) or extra (4.7%) source of income. These households that produce food for economic purposes form the base of the Bank's potential client base and contributed to the R266 billion in gross value of agricultural production in 2016/17.

During FY2018 we reviewed our client segmentation to align it more closely with criteria set out by DAFF and the Amended AgriBEE code. We also considered our transformation ambitions with regards to each client segment as we believe that transformation occurs at all levels in the value chain and that our financial solutions should support new generation farmers across the segments. We are unable to support subsistence farmers as their production is aimed at ensuring household food security and they cannot sustain bank loans. Subsistence farmers rely on grants provided through a variety of mechanisms and government institutions.

Our client segmentation in the primary agricultural sector is set out in Table 4.

Table 4: Client segmentation for primary agriculture

Primary agriculture client segment and	Estimated market size Community Survey 2016	Definition	Land Bank offering	Land Bank transformational focus	Delivery channel
Mega/Large farmers	Approximately 5000 farmers	- Well-established agriculture enterprise with high-end production and processing capabilities, and distribution networks. Majority of revenue from value-adding activities - Turnover more than R20 million	- Mortgage and other term loans - Revolving credit facilities - Equity investments - Off-balance sheet facilities - Inventory and trade finance - Working capital and guarantees	Facilitate the entry of a generation of Black agri-entrepreneurs in the sector through the creation of appropriate equity investment structures and opportunities	CB&SI Intermediaries (SLA partners)
Medium farmers	Approximately 35 000 farmers	- Established primary agriculture farming enterprises - Sound agricultural skill set and firm market access - Growth phase business life cycle. - Turnover between R5 and R20 million	- Mortgage and medium-term loans to acquire land, livestock and equipment, establish perennial crops and physical infrastructure - Production loans	Enable existing farmers to undertake transformational projects and grow their enterprises to support inclusive growth in the sector	CDBB Intermediaries (SLA partners)
Market-oriented smallholder farmers	Approximately 200 000 farmers	- Practising primary agriculture on a viable piece of land, use technology, possess some skills and have adequate access to market to service a loan - Turnover less than R5 million	- Mortgage and medium-term loans to acquire land, livestock and equipment, establish perennial crops and physical infrastructure - Production loans	Support smallholder farmers to graduate to commercial status and thus grow the size of the agricultural sector overall, contributing to the creation of employment and reduction in poverty	CDBB Intermediaries (WFF partners)
Subsistence farmers	Approximately 2 million households	- Agricultural activities mainly undertaken to meet household food security needs, often located in a back yard, any surplus sold/bartered within community - Little profit and no ability to service a loan	- Not part of the Bank's client market as these households require grants which Land Bank cannot provide. Grants available through various government departments	Limited support to food garden projects through our Corporate Social Responsibility (CSI) programme as described on px	None

* Note: The turnover values used in the above definitions are aligned to the Draft Policy on Comprehensive Producer Development Support of the Department of Agriculture, Forestry and Fisheries (DAFF).

Our client segmentation in the secondary agricultural sector is as follows:

Table 5: Client Segmentation: Secondary Agriculture

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

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

OUR INVESTORS

Land Bank largely depends on funding sourced from the capital and debt markets as it receives insignificant government grants to sustain its operations and therefore depends on commercial investors to fund its commercial and development loan activities. Land Bank raises various types of funds either through bonds raised pursuant to our listed DMTN programme, short-term commercial paper instruments or bilateral funding agreements to match the Bank's requirements. The Bank has also entered into funding arrangements with multi-lateral investors. More information on the nature of our investor profile and relative size of investments may be found in the section on Financial Capital.

Table 6: Investor profile and expectations

Investor Profile	Sovereign Support Required	Investor Expectations	Funding Tenors
Commercial Investors			

Includes:
- Commercial banks
- Foreign banks
- Institutional Investors such as:
  - Asset managers
  - Brokerages
  - Medical Aid/ Pension funds
  - Security houses
- Agri-companies
	Commercial investors typically do not require sovereign support in the form of funding guarantees. However, these investors might from time to time require such guarantees
	
	As of 31 March 2018, Land Bank had one R2.7 billion guaranteed syndicated loan of which approximately R1.1 billion was voluntarily prepaid subsequent to year end.
		Includes:
		- Strong corporate governance
		- Profitability and financial Sustainability
		- Financial covenants (only on bi-lateral basis)
		- Market-related returns commensurate with risk undertaken by investor
		- Responsible business including strengthened focus on environmental and social governance and sustainability matters
			Commercial Paper
			- Call
			- 0 – 1 years
			
			Bonds
			- 1 – 10 years
			
			Loans
			- Overnight facilities
			- 1 – 5 years
			- Guaranteed syndicated loans up to 7 years

Government entities			
Includes: - Corporation for Public Deposits (CPD) - Public Investment Corporation (PIC) - Development Bank of South Africa (DBSA) - Industrial Development Corporation (IDC) - Other	No support required	Includes: - Strong corporate governance - Profitability and financial sustainability - Market-related returns commensurate with risk undertaken by investor - Responsible business including strengthened focus on environmental and social governance and sustainability matters	Shorter dated investments - Call - 0 – 1 years Specific purpose funds such as disaster relief funds could have tenors in excess of 1 year.
Multi-lateral Investors			
Includes: - African Development Bank (AfDB) - EIB - KfW - World Bank	- Sovereign to sovereign guarantee - Unguaranteed - Unguaranteed - Sovereign to sovereign guarantee	Includes: - Strong focus on responsible business including strengthened focus on environmental and social governance and sustainability matters - Strong corporate governance - Lessor return expectations, as impact of funds is more important - Profitability and financial sustainability	- Longer dated funds often accompanied by capital payment holidays - 10 – 25 years

OUR MATERIAL MATTERS

The material matters prioritised by Land Bank were derived through an extensive engagement process with internal and external stakeholders and reflects our desire to take account of their legitimate needs and expectations. Table 7 describes how these matters are relevant to the Bank and its stakeholders, how they relate to risks and what actions we have taken to improve sustainable outcomes for the business.

Table 7: Our material matters

Relevance to Land Bank	Identified stakeholder concerns	Key Associated Risks (numbers equate to the strategic risk register on page 73)	Actions we have taken
Corporate Governance			
Sound governance enhances confidence that Land Bank is applying funds in a transparent, prudent and accountable manner, in accordance with the law and documented controls	Governance is top of mind for investors who are concerned with how we address political interference, ethical behaviour, ethical business conduct as well as anti-money laundering and corruption	- Non-compliance to regulatory requirements, policies and procedures (6) - Theft, fraud and corruption (18) - Reputational Risk (14)	- Completed an ethics assessment and began to implement the recommendations as well as the revisions to our ethics policies and practices - Separated the Board Social & Ethics Committee from the Human Resources & Remuneration Committee for greater focus on ethics and responsible business and corporate citizenship - Aligning our governance arrangements to the King IV principles and recommended practices (as applicable) - Disclosure undertakings to Investors - Additional redemption events in our DMTN Programme
Development Impact			
Land Bank has a specific mandate to address historical injustices with regards to land ownership and participation in the agricultural sector	Development impact is a concern for many of our stakeholders and perception exists that the Bank is not contributing sufficiently to transformation in the sector	- Coordination challenges between stakeholder groups may affect development effectiveness (5) - Existing composition of loan book may constrain our development impact (2) - Availability of concessionary funding and grants to support new generation farmers may limit our ability to support projects (4)	- Engaged with government stakeholders to improve alignment on strategy, plans and resourcing - Have set specific developmental impact targets - Identified a pipeline of lending opportunities to increase developmental effectiveness in existing operations and new ventures - Invested equity in strong agricultural companies with the intent to enable transfer shareholding to Black investors on an appropriate basis
Financial Sustainability			
Land Bank operates on a financially sound basis to sustainably support the sector and provide adequate rates of return to investors	Potential poor strategic and financial management may result in an inability to repay funders and put pressure on the fiscus	- Limited shareholder capital available to expand operations and increase development impact (4)	- Prudent management of Land Bank finances - We are constantly sourcing funding through investor road shows and have reduced our reliance on short-term funding - We are exploring various options to access alternative sources of capital that will allow us to fund developmental projects - Embarked on interest rate hedging strategy

Relevance to Land Bank	Identified stakeholder concerns	Key Associated Risks (numbers equate to the strategic risk register on page 73)	Actions we have taken
Employee development			
In the difficult economic and agricultural context that the Bank faces, it remains more important that we have the right people and conditions for a high-performance culture	Employee capability to execute the strategy effectively is key in enabling the Bank to deliver transformation deals and operate efficiently	- Ability to attract and retain employees with the appropriate combination of financial and agricultural skills (15)	- Significantly increased our training and development investment to up-skill current employees - Developed and expanded our Learning Academy and other capacity building programmes - Conducted a culture survey, the results of which, will be addressed in FY2019 - Enhanced our employee value proposition
Environmental sustainability			
Land Bank's long-term sustainability depends on the continued existence of a climate and socially resilient agricultural sector	Climate risk poses a major challenge to the Bank and to its clients and stakeholders accordingly need to understand the Bank's approach to management and oversight of this risk category	- Effects of climate change is resulting in more frequent extreme risk events (9) - Access to restricted water resources and reduced soil quality and competition with other sectors (1) - Increased carbon emissions contribute to effects of climate change (9) - Non-compliance to legislation and funders requirements (8)	- Reviewed and developed appropriate Environmental and Social Sustainability tools - Started the process of incorporating environmental risk assessments in our credit processes - Research is in process to understand our clients' farming practices and to design lending instruments for the adoption of climate resilient practices - Participating in various forums to align our practices and disclosures on these risks to global standards - Enhancement of environmental and social governance through our investment activities, including through our outsourced asset management contracts
Stakeholder Management			
The agricultural sector is pre-disposed to co-dependence, so Land Bank will perform best when integrating stakeholder concerns into the business in a holistic manner	Effective delivery of mandate requires complementary stakeholder strategies to align support for the sector	- As our shareholder, National Treasury, is concerned not only with its own relationship with the Bank, but how the Bank engages with its other key stakeholders (5) - Limited focus on agricultural sector stakeholders due to investor and shareholder focus (5)	- Improved relationship with National Treasury - Formalised a strategic, integrated stakeholder engagement approach across business units - Regular engagements and information sharing with investors, including semi-annual investor roadshows
Risk Management			
The volatility in our operational context and specifically in the agricultural sector means that our risk management and maturity is of utmost importance in ensuring the sustainability of the Bank	The Bank's role as a DFI, financier and exposure to the agricultural sector is perceived to create a unique risk environment that requires a specialised approach to manage the complexity thereof	- The Bank's financial sustainability is dependent on its ability to identify and effectively respond to key risks. A robust risk management process and culture that is ingrained throughout the organisation is a key concern	- We made significant progress towards our Risk Maturity goals including revising and implementing policies, risk management framework and risk appetite framework - Enhanced Enterprise and Credit Risk Management practices - Conducted ethics training and appointed ethics officers

3

CEO'S STATEMENT

"Mine is an emotional story. As an African farmer there were so many challenges to deal with! The farm had been lying fallow for five years. I had no living wage, I had bills to pay, an inherited workforce to deal with and redundant infrastructure to fix. The commercial banks asking you for security, FICA and other things an emerging farmer would not have. I had to make do with whatever I got from government and build upon that. Fortunately, Land Bank has lent an ear to my challenges and has helped me to stretch production of lucerne, also helping me to optimise irrigation and electricity usage on the farm."

Steve Batyi, Lume Enterprises (new-generation farmer)

CEO'S STATEMENT

Mr TP Nchocho
Chief Executive Officer

During FY2018, Land Bank continued to demonstrate creation of value for its stakeholders and to deliver on its strategy through the strong commitment of our executive management team and employees. Despite a challenging external environment, we persisted in our endeavours to contribute to the long-term transformation and resilience of the sector. Our strategy is aligned to national and global priorities, we are making steady progress in terms of delivering on our development mandate and we continue to develop the skills of our employees to improve divisional performance.

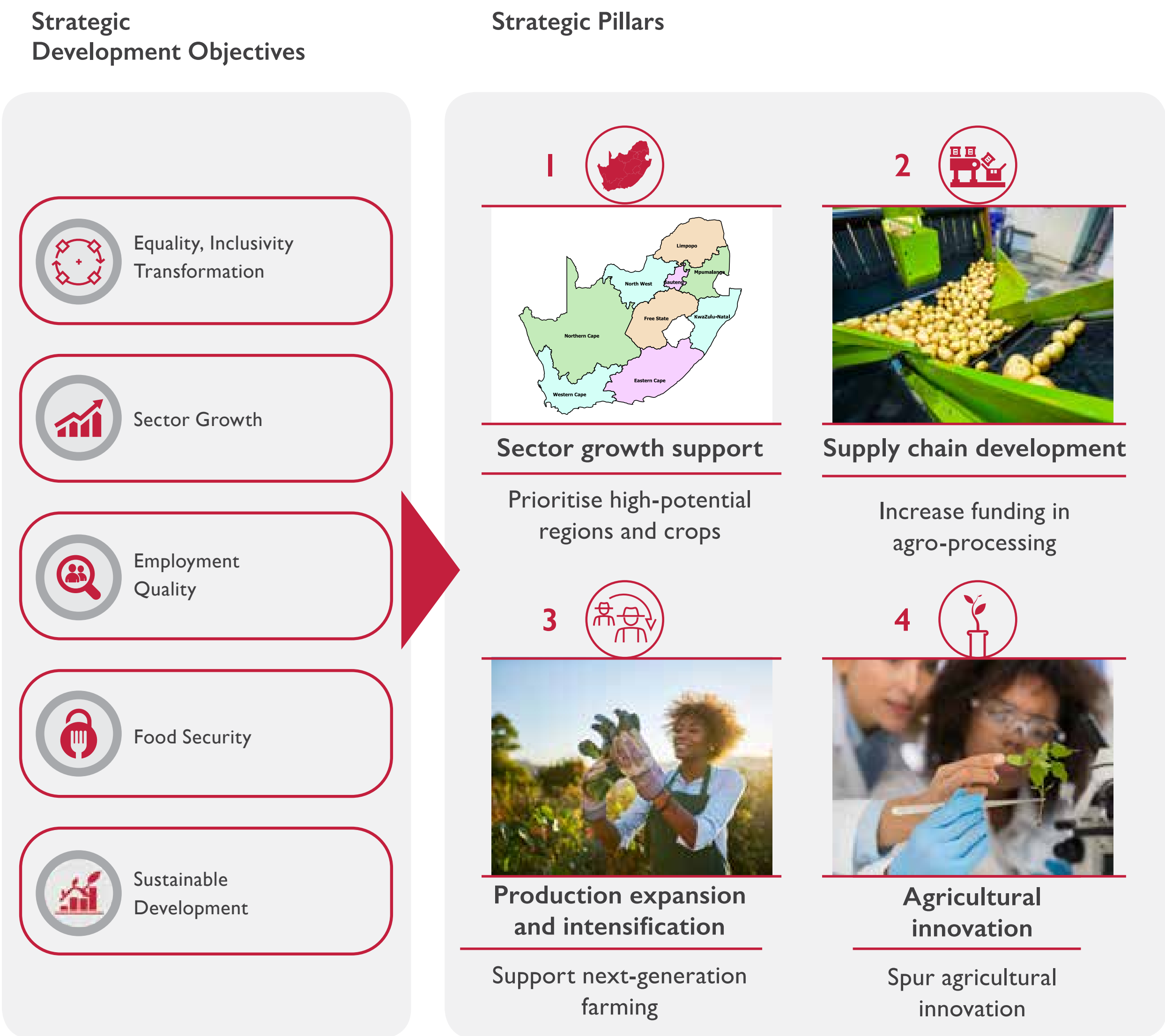
OUR STRATEGY

In 2015 Land Bank articulated a corporate strategy (Vision 2020) as a catalyst for growth and transformation in the agricultural sector. The Land Bank Act bestows on Land Bank a wide mandate to support and transform the agricultural sector across commodities and farmer segments. We have aligned our mandate to five development objectives which correspond to our approach that sustainable development is a multi-faceted approach. These objectives are to:

- Create a transformed and inclusive sector by increasing participation of historically disadvantaged individuals including women, youth and marginalised groups such as farm workers in agriculture;
- Grow the agricultural sector;
- Increase quality employment opportunities;
- Ensure food security by raising the agricultural productivity of key commodities; and
- Support environmentally and socially sustainable development.

In pursuit of the development objectives we identified four strategic pillars, each with the ability to contribute in achieving multiple[s] of the development objectives. The pillars are focused on supporting key initiatives identified in the NDP and Operation Phakisa. The strategic objectives and pillars allow Land Bank to clearly deliver outcomes aligned to its mandate, national, regional and global priorities.

Figure 3: Vision 2020



The four pillars are strongly connected to the NDP that identified the expansion of commercial agriculture as a key requirement to create more jobs in the sector. This requires a focus on agricultural sub-sectors where expansion in production and value-adding processes are suitable over the long-term based on increased productivity and supported by foreign and local demand. These critical sub-sectors were identified by the Bureau for Food and Agricultural Policy (BFAP) in the NDP and the Bank is pursuing a strategy to diversify its loan book according to the matrix updated in 2016.

The matrix is divided into four quadrants based on the relative growth potential of each commodity given the recent historical and projected information and its associated labour demands. Quadrant 1 includes commodities with a high-growth potential, but relatively low labour intensity which will grow the sector, but not necessarily contribute many new employment opportunities. Quadrant 2 also includes commodities with a high-growth potential, but these have more potential to create employment opportunities, especially if agro-processing potential is considered. Quadrant 3 and 4 have shown limited growth potential, although quadrant 3 commodities still have opportunity support employment.

During FY2018, the Bank invested equity in four transactions to transform the sector, all of which fell within quadrant 1 and 2. In addition, the Bank continues to develop solutions that support the commercialisation of smallholder farmers to grow the sector. Table 9 includes more information on the various quadrants in which Land Bank undertook transformational transactions during the year under review.

Figure 4: NDP Priority Commodities as updated by BFAP in 2016

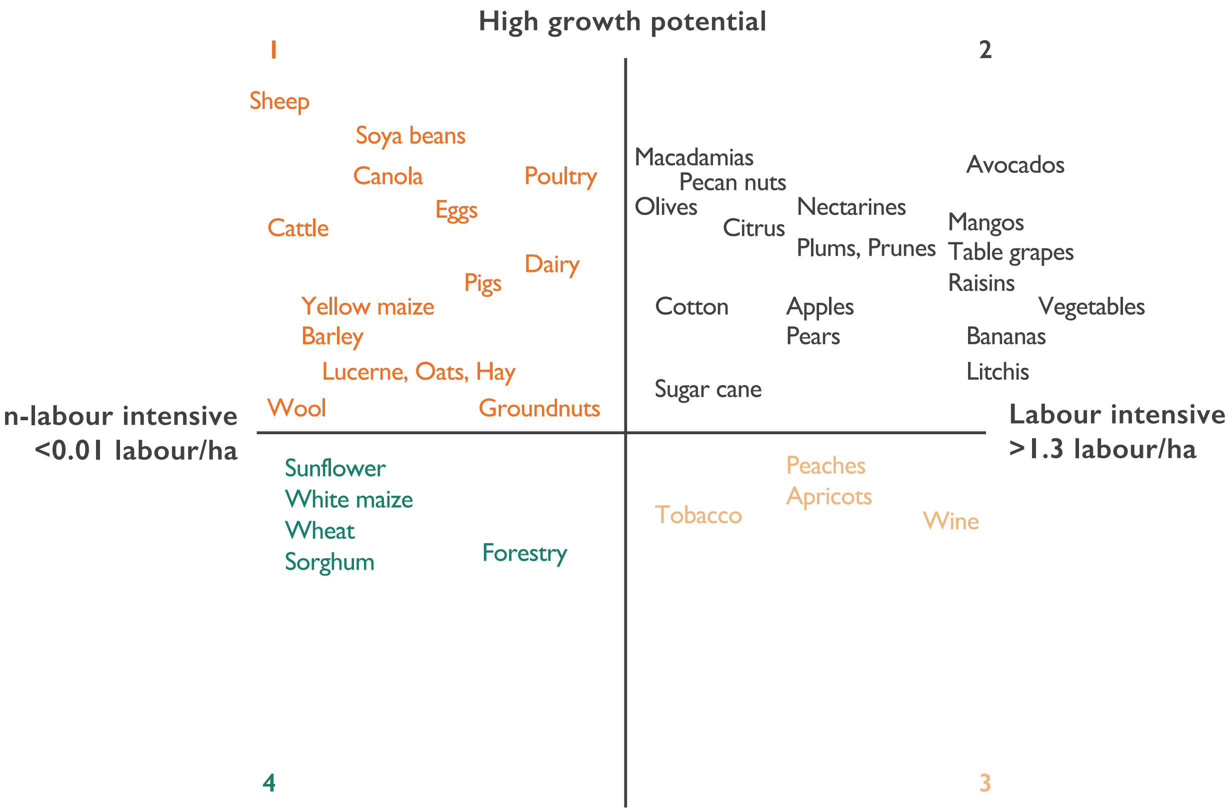


Table 8: Development objectives aligned to national priorities

Land Bank Act (mandate as set out in section 3 thereof)	Agricultural Policy Action Plan policy levers	Outcome 7 of the MTSF: Vibrant, equitable, sustainable rural communities contributing to food security for all	National Development Plan	Activities undertaken and key metrics
Transformation, equality and inclusivity				
- Equitable ownership of agricultural land, particularly increasing the ownership of agricultural land by historically disadvantaged persons - Agrarian reform, land redistribution or development programmes aimed at historically disadvantaged persons - Removing the legacy of racial, gender and generational discrimination in agriculture	- Equity and transformation	2. Sustainable land reform 4. Smallholder farmer development and support (technical, financial, infrastructure) for agrarian transformation	- Making land reform work to unlock the potential for a dynamic, growing and employment creating agricultural sector	- Approximately 1500 Black farmers are supported through direct network - 248 female farmers are supported through direct network with an average loan balance of R327 000 - 131 farmers under the age of 35 are financed through the direct network - R74 million in interest rate subsidies provided by the Bank - Provided crop insurance to 239 smallholder farmers with an insured value of R500 million
Employment				
- Rural development and job creation - Agricultural entrepreneurship	- Equitable growth and competitiveness	6. Growth of sustainable rural enterprises and industries characterised by strong rural-urban linkages, increased investment in agri-processing, trade development and access to markets and financial services resulting in rural job creation	- Support job creation in the upstream and downstream industries - Develop strategies that give new entrants access to product value chains and Support from better resourced players	- Increased loan book by R2.3 billion from R43.3 billion in FY2017 to R45.6 billion in FY2018. It is estimated that every R1.0 billion of the Bank's capital employed will result in another R2.0 billion of indirect capital being leveraged in the sector and thus the overall impact of the R2.3 billion will enable the utilisation of another 4.6 billion

Land Bank Act (mandate as set out in section 3 thereof)	Agricultural Policy Action Plan policy levers	Outcome 7 of the MTSF: Vibrant, equitable, sustainable rural communities contributing to food security for all	National Development Plan	Activities undertaken and key metrics
Sector growth				
- Commercial agriculture - Land access for agricultural purposes - Growth of the agricultural sector and better use of land	- Equitable growth and competitiveness		- Commercialise some under used land in communal areas and land reform projects - Pick and support commercial agriculture sector and regions that have the highest potential for growth and employment	- Loan book grew by 5.3% and support to commercial agriculture by R1.7 billion - Insured crops to the value of R13.0 billion
Food security				
- Food security - Enhancing productivity, profitability, investment and innovation	- Governance	3. Improved food security	- Everyone should have access to sufficient, nutritious and safe food at all times	- R334 million in drought relief loans approved of which R240 million disbursed. R104 million awaiting fulfilment of loan conditions before disbursements occur. - R513 million crop insurance claims paid
Environmental sustainability				
- Environmental sustainability of land and related natural resources	- Ecological sustainability	Sustainable management of natural resources	- Expand irrigated agriculture; find creative partnerships between opportunities	- Environmental tools developed - EUR 50 million in EIB funding available for projects related to climate adaption

OUR DEVELOPMENT IMPACT

Land Bank receives its mandate from the Constitution and the Land Bank Act which bestow a dual responsibility on the organisation. Although we remain committed to support the total sector, our current focus is on harnessing our resources built over the past century, as represented by the six capitals, to transform agriculture. We are proud to participate in the creation of a transformed sector with increased participation of historically disadvantaged individuals including women, youth and marginalised groups such as farm workers. We are constantly collaborating with the sector to seek better solutions, increase the impact of our funding and embrace new partnerships to deliver on this objective.

Our approach

We have identified specific types of transactions in our client segments that allow the Bank to respond clearly to its mandate and role as a DFI:

- Issuing long-term loans to assist previously disadvantaged individuals and communities to purchase agricultural land and thus contribute to the transformation of the sector;
- Collaborating with other government departments and the private sector to reduce the number of hectares of under-utilised agricultural land and thus grow the sector and contribute to employment creation in these areas;
- Supporting smallholder farmers to expand their operations and thus grow the size of the agricultural sector overall, contributing to the creation of employment and reduction in poverty;
- Facilitating the entry of a generation of Black agri-entrepreneurs in the sector through the creation of appropriate equity investment structures and opportunities;
- Enabling established medium and large farmers to undertake transformational projects and grow their enterprises to support inclusive growth in the sector;
- Assisting all farmers and agri-businesses to adopt technology that will enable their operations to become more climate resilient; and
- Providing syndicated loans to large commercial businesses co-funded with commercial banks where they may not have the appetite to take on large single obligor risks.

While we are committed to increasing our support to new-generation farmers and delivering on our mandate, we take cognisance of specific challenges that our clients have to contend with. Transactions that support transformational and inclusive growth are normally constrained by three factors that limit the Bank to lend to such participants within good credit and risk management principles, namely a lack of participant's own equity, lack of suitable collateral and affordability of finance.

Lack of participant's own equity results in an unsustainably high gearing ratio on the balance sheets of these entities within the volatile agricultural sector. It is therefore critical to find mechanisms to reduce the gearing ratio on such transactions.

New entrant farmers of any size often lack suitable collateral to support the transaction. Traditionally, banks prefer to hold land as security on agricultural loans, especially long-term loans. However, many transactions are being envisaged on leased, communal or land reform land where the participants have no form of tenure to offer the land as security. Even where land is available as security, its value has failed to maintain pace with the increase in production costs, with consequent collateral shortfalls.

The affordability of finance affects the bankability of these transactions. New-generation farmers may pose a high risk to financiers as they often lack access to markets and skills and provide inadequate collateral, consequently interest rates are charged accordingly. We therefore introduced an interest rate subsidy policy in FY2018 that allows us to provide financing at concessionary rates to new generation farmers. We provide these loans at concessionary interest rates to support transformation in the sector and we carry the cost thereof on our income statement and balance sheet in lieu of tax or dividend payments to our shareholder. We rely on our commercial loan book to generate the necessary profits to provide these concessionary interest rates, effectively cross-subsidising the transformation portion of its balance sheet.

Over and above these financial challenges, new generation and smallholder farmers often lack access to markets, technical skills and modern farming technology. These constraints require an innovative approach to financing farmers. To this end we are exploring options such as credit guarantees, blended financing funds incorporating government grants and using structures like a mezzanine funding to address some of these issues. We must consider alternative sources to measure traditional credit metrics such as track records and also identify suitable mitigants that would allow the

Bank to lend prudently while achieving its mandate. In this regard, new agri-technology and data analytics that enable constant monitoring of crops through the use of sensors, drones and satellite tracking could play an instrumental role in creating a new approach to risk management in the sector.

Advances in technology has the potential to improve risk management, increase productivity and lower the barriers to entry in the sector. The Fourth Industrial Revolution affects the agricultural sector and that entails the fusion of physical and digital technologies will require additional skills over and above traditional technical farming expertise. Biotechnology, data analytics, drones and sensors, and genetic engineering will affect future decisions to deploy capital and labour in the sector. Innovation has already allowed farmers in drought-stricken areas to mitigate some climate risks and significantly improve the effectiveness of irrigation practices, and it will continue to be a major factor in the development of a more climate-resilient sector. A major challenge will be to expose new-generation and smallholder farmers to these technological developments at reasonable cost and scale. In addition, the impact on future employment in the sector must be considered as it will change from a large employer of relatively low-skilled workers to a sector requiring highly skilled, technology astute employees.

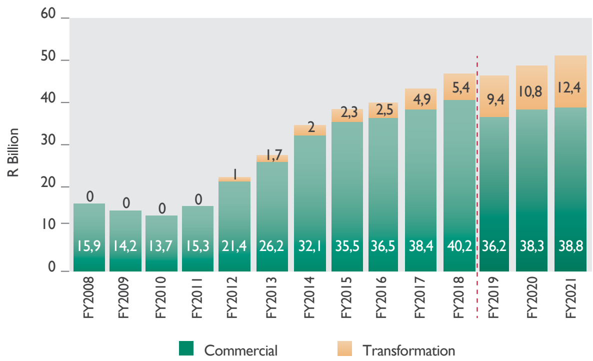
Our performance

We have developed specific responses to these challenges to accelerate our performance against our development mandate:

- We have started investing some of our own funds as equity into larger transactions to reduce the gearing ratio and increase the potential unsustainability of such transactions over the long-term. The long-term objective with these transactions is to transfer the Bank's equity portion to entities that are substantively transformed and inclusive, thus increasing the overall transformational impact of this funding. During the past year, we acquired equity in four entities with a market value of R408 million in the fruit and livestock industries.
- We have been experimenting with alternative forms of collateral and currently accept equipment and livestock in lieu of land on certain types of loans. In addition, we have approved a value-chain facility that allows it to use the expected income from an off-take agreement as collateral and the Bank is investigating various private sector partnerships to enable such financing.
- We have ring-fenced R100 million of our own funds to be applied to interest rate subsidies for qualifying transformational transactions with a specific focus on smallholder and medium-size farming operations. The Bank is a tax-exempt entity and this amount approximates the amount the Bank would have contributed to national taxes.
- We are exploring a several partnerships with the private and public sector, commodity and educational organisations to provide the necessary support to new-generation farmers. This should enable these farmers to reach commercial scale at a faster pace and reduce the overall financing risk of projects.

The transformation component of the gross loan book has increased by 450% from a very low base in FY2012 compared to a 104% increase in the total loan book over the same period. The overall loan book grew at a similar rate than total agricultural debt which increased by 98% (from R80 billion in 2011 to R158.38 billion at the end of 2017). Land Bank currently has a 29% market share (FY2017 28%) of total agricultural debt.

Figure 5: Projected loan book composition



It is our intention to increase the share of transformational transactions to 30% of our total loan book by FY2021 to approximately R15 billion on a sustainable basis.

However, there is consistent tension between the Bank's ability to execute its strategy and its commitment to long-term sustainability. We are currently required to raise all our funding in the commercial, capital and debt markets where we are successful, based on our commitments to good governance, strong financial results and balance sheet, and transparent disclosure to the market. The cost of such funds is market-related and commercial investors have specific expectations in terms of returns, non-performing loan ratios, balance sheet ratios, etc. This limits our ability to respond to certain developmental and transformational aspects of our mandate. Therefore, due consideration of the Bank's current capital and funding structure should be given, noting that it is not possible to support land reform and large-scale smallholder farmer development on an affordable basis given the current situation. As part of our transformation, we have undertaken certain transactions that allow the Bank to progress within its priority transactions. Some examples are provided in Table 9.

Table 9: Transformational transactions undertaken during FY2018

Transformational transaction	Strategic pillar	NDP priority commodity quadrant (Figure 4)
Facilitating transformation, equality and inclusivity in the sector		
- Land Bank assisted a number of female farmers to expand their farming operations. Among these was a farmer (mixed-crop and livestock farming) to which a loan of R8.0 million was granted to double her existing operations by purchasing an additional 500 ha in Gauteng. - Another transaction will introduce a new female farmer to the sector through the purchase of a 38 ha farm in Limpopo for crop and goat production. - We also supported a 100% Black, majority female-owned entity company to purchase a 167 ha farm near Modimolle in Limpopo. At the time of purchase, there was no agricultural activity on the farm. The newly established livestock and lucerne will therefore contribute to economic growth and new employment opportunities in the area. The Bank provided a R5.5 million loan to purchase the farm, tractor, equipment and irrigation equipment.	Sector growth Production expansion and intensification	Quadrant 1
Contributing to sector growth		
- A 100% Black-owned entity has been supported with an operating/working capital facility to initiate the operation of an idle government-sponsored, fully equipped abattoir in a rural a rea of the Chris Hani District, 20 km outside of Queenstown in the Eastern Cape. The client was further assisted with an additional instalment sale finance facility to acquire a 12-ton truck for collection of livestock procured from communal farmers at competitive market prices, in different communal areas around the district, as well as a utility vehicle for operational purposes of the abattoir. In total, a loan of R6.4 million was approved and the project has since created 45 permanent jobs and has also secured a contract to deliver meat at Provincial Correctional Services Department at their various prison sites. - A 100% Black-owned company run by two male directors with strong business banking acumen is a good example of value-chain financing in conjunction with an existing commercial agricultural business. The company signed an annual custom feed agreement with a well-established and experienced commercial feedlot company in the Bronkhorstspruit area. It is a feedlot incubator project intending to grow 1 000 weaners per 3 annual cycles (115 days), with the commercial feedlot supporting the entire value chain while mentoring directors as new entrant farmers in the feedlot industry. Land Bank approved a facility of R10 million to support the business. - The Bank took an equity stake in one of the largest table grape producers in South Africa and will warehouse its shareholding until a suitable Black investor is identified. The capital raised will be partly used to support a programme to establish a worker-owned packing business to which the company will outsource its packing. In addition, 1 000 hectares of dates, table grapes, avocados and citrus will be developed resulting in a notable increase in permanent and seasonal job opportunities.	Sector growth Supply chain development Innovation	Quadrant 1 Quadrant 2

Transformational transaction	Strategic pillar	NDP priority commodity quadrant (Figure 4)
Increasing employment opportunities in rural areas		
- In KwaZulu-Natal, the Bank approved a R25.0 million loan for the purchase of a 1973.3 ha timber farm in the Vryheid district with 878.4 ha under timber in cycle. The farm was sold by an established farmer to the family-run, Black-owned operation that has been involved in the timber industry since 2012. This transaction allows the operation to add another component of the value-chain to their business and will add 105 jobs to the area over time. The established farmer has agreed to provide mentorship to the operation for 12 months to ensure skills transfer on plantation management. - The Bank supports smallholder farmers to expand operations through transactions. For example, in the Eastern Cape a legal entity with a sole director and shareholder, a Black individual, has been assisted with a loan of R4.2 million to purchase a farm in Kei Road. The client has been farming on communal land with cattle and sheep and is expanding his farming venture to be more sustainable. It has also resulted in the creation of five new job opportunities.	Sector growth Production expansion and intensification	Quadrants 1 and 4
Fostering food security in collaboration with other government departments		
- These include a cooperative located in the Eastern Cape near Umtata and that consists of 7 members who are involved in livestock and grain farming on communal land. The Provincial Department of Agriculture assisted the members to improve infrastructure on their land and Land Bank has approved R1.4 million to purchase tractors, a truck and production inputs to expand their operation. These improvements will allow them to increase the number of currently unproductive hectares of communal land that they can farm and improve incomes and employment opportunities in this rural community. Another example is a 100% Black-owned legal entity that farms on a PLAS property of the Department of Rural Development and Land Reform near Somerset-East. The Bank has approved R2.9 million to finance the installation of four centre pivots, the purchase of a truck and production inputs to increase lucerne output on the farms.	Sector growth Production expansion and intensification	Quadrant 1

Future focus

Our focus for FY2019 is to develop comprehensive client value propositions across our client segments that aligns to our development mandate and provides real solutions to the challenges faced by our clients.

OUR DIVISIONAL PERFORMANCE

The Land Bank Group's main client-related activities include origination and structuring of financing transactions, providing loan and equity funding for qualifying transactions and arranging access to risk management instruments such as crop insurance. These activities are enabled by extensive credit risk management and performance monitoring process within the Bank supported by detailed knowledge of prevailing agricultural conditions.

Our activities for the year are set out per division as follows:

Corporate Banking and Structured Investments (CB&SI)

Our approach

The CB&SI division provides debt, structured finance and equity solutions to the agri-corporate as well as mega- and large-farmer client segments. It services clients through two regional offices based in Centurion and Cape Town respectively. The division has 66 clients of which 24% has a BBBEE rating of 4 or higher.

Our objectives for FY2018

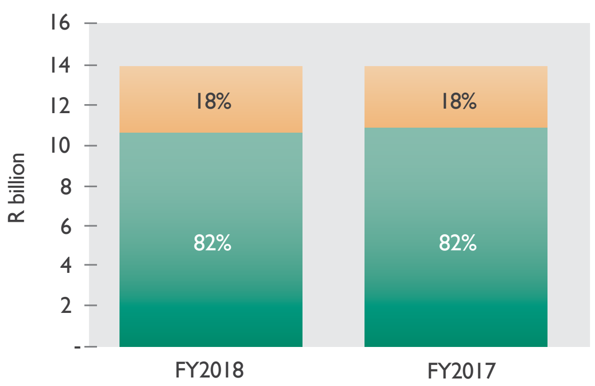
The Structured Investments division was created in FY2017 with the key objective of offering equity investments for transformational deals. During FY2018, we aimed to implement the first of these transactions.

Our performance

In terms of transformation, 18% of the CB&SI loan book consists of corporate clients that:

- are majority Black owned; or
- have a BBBEE rating of 4 and higher and at least 25% Black ownership.

Figure 6: Composition of CB&SI lending book



We approved R3.6 billion in loans for CB&SI clients (which excluded approvals for annual renewals of existing production credit facilities and other existing revolving loan facilities).

As at FY2018, we had acquired equity in four entities with a market value of R444 million (note this excludes work out and restructuring debt to equity conversions). Our investment horizon dictates that we will exit these transactions by transferring our shareholding to transformational equity partners either in the form of Black agri-entrepreneurs or broad-based entities. Note 8.2 of the financial statements contain more details of these transactions.

The non-performing share of the loan book has been steadily declining since FY2016 due to ongoing performance monitoring. During FY2018, Portfolio Management Services fully implemented the Corporate Banking Monitoring Tool for clients with 12 months financial information. A 100% of instalments were received on the up to date book.

CB&SI	FY2018	FY2017	FY2016
Non-Performing Loan %	2.0%	2.8%	4.3%

Future focus

- Approve the Equity Investment Policy;
- Execute approved Jobs Fund project to create blended financing instrument for deciduous fruit industry;
- Create mezzanine fund to support transactions requiring additional, affordable funding;
- Conclude and execute equity transactions to the value of R500 million; and
- Increase percentage of loan book allocated to transformational transactions; Increase focus on promoting sound economic, social and environmental governance through our equity investment activities.

Commercial Development and Business Banking (CDBB)

Our approach

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

Our objectives for FY2018

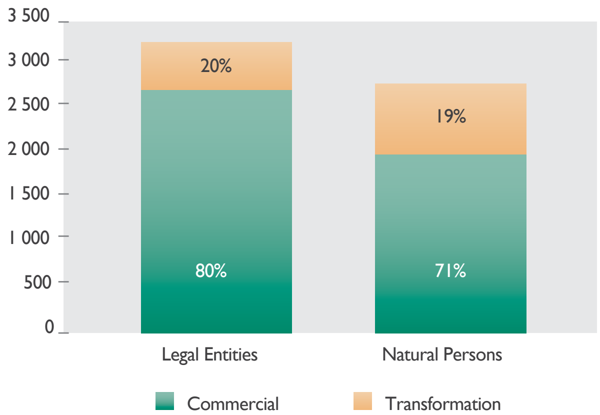
- Establish the Business Banking division to provide specialist structuring skills to the provincial network for larger transactions.

- Focus on increasing the transaction size of loans and increasing the proportion of the loan book devoted to transformational transactions.
- Support land reform projects and women and youth owned projects.

Our performance

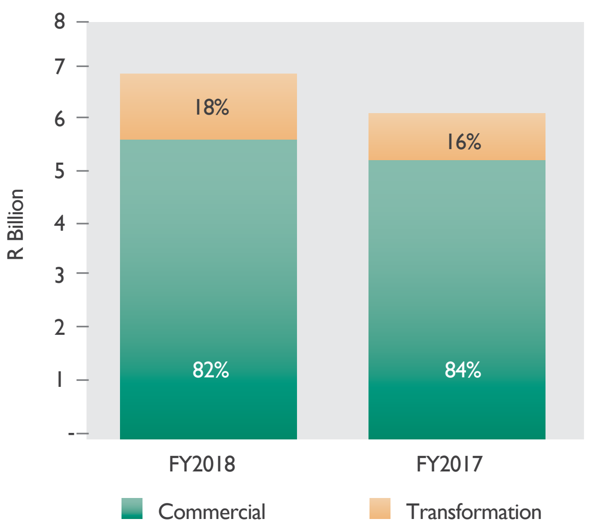
CDBB has approximately 6 100 clients of whom 54% are legal entities. Black individuals and legal entities that are majority Black owned are classified as transformational.

Figure 7: CDBB Client Composition



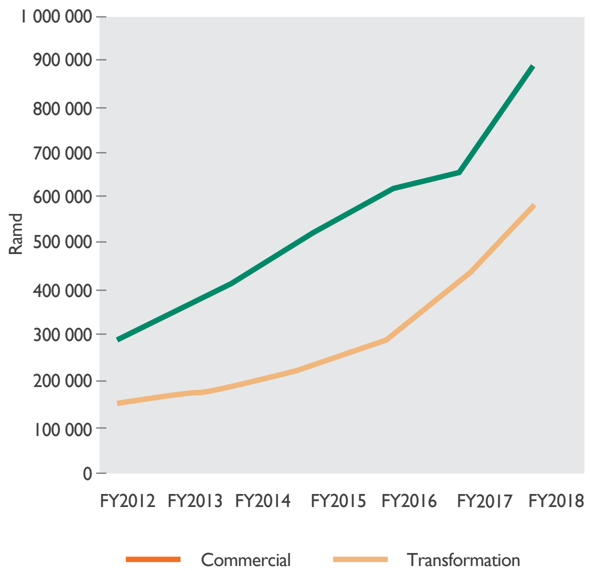
During FY2018, R2.1 billion in loans were approved to CDBB clients excluding approvals for annual renewals of existing production credit facilities and other existing revolving loan facilities. As a result, the CDBB gross loan book increased by R800 million during the past year. The commercial portion of the loan book increased by 8%, while the transformation book increased by 31%.

Figure 8: CDBB direct lending gross loan book



Over the past few years, CDBB has increased the average loan value to commercial and transformational clients in line with the increase in overall agricultural debt over the period.

Figure 9: CDBB average loan balance



Non-performing loans remain a point of focus, but the effect of stricter loan performance monitoring is evident. In FY2018 Performance Monitoring Services visited 660 distressed farms visits by 12 agricultural economists, compared to 238 in FY2017. This, as well as the introduction of an early warning system, resulted in more than R2.0 billion in arrears being settled during the year. In addition, an instalment conversion rate of 98% was achieved on the up to date loan book which resulted in a 22% improvement in overall collections of R867 million compared to R673 million in FY2017.

CDBB Direct	FY2018	FY2017	FY2016
Non-Performing Loan %	15.6%	16.1%	17.0%

Future focus

- Achieve loan book growth;
- Explore provincial specific opportunities;
- Invest in high-value, labour-intensive commodities;
- Conclude institutional arrangements to access grants and other support mechanisms;
- Optimise delivery and improve customer experience; and
- Increase our focus on promoting sound economic, social and environmental governance through our lending activities.

Service Level Agreement Partners

Our approach

Products and services are offered through the operational footprint and infrastructure of SLA partners. Seven SLA partners currently originate loans on behalf of Land Bank. All lending activities are governed by sound credit policies which are approved by the Bank. The SLA partners assist the Bank with the end-to-end lending process from loan origination, disbursement, monitoring, collection and legal recoveries. These partners are paid a management fee for their services while risk and profit-sharing arrangements ensure that quality assets are originated.

Our objectives for FY2018

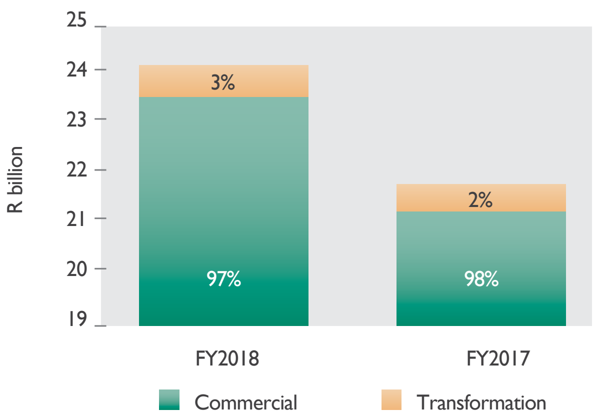
- Maintain the commercial loan book while engaging the intermediaries to increase the transformation impact of the partners; and
- Conduct a review of all intermediary loan books to manage the risks of the intermediary relationships appropriately.

Our performance

We increased capacity to service the intermediaries significantly by firstly establishing a dedicated four-person team in CDBB, and secondly by transferring certain monitoring processes to Portfolio Management Services. This ensured appropriate segregation of duties and greatly improved control processes for both the SLA and WFF loan books.

During FY2018 existing facilities were reviewed, but no new partners or facilities were approved. There are ongoing negotiations with the SLA partners to increase the focus on transformation transactions. Some SLA partners currently have separate transformation facilities with Land Bank that are reported under the WFF loan book below.

Figure 10: SLA gross loan book



During FY2018, Internal Audit reviewed the loan origination, credit and legal practices of all SLA partners. This resulted in some proposed improvements in the overall engagement with the intermediaries which are being incorporated in agreements up for review. Portfolio Management Services implemented a comprehensive SLA monitoring framework during the year to ensure that all information is received and verified monthly.

The Bank continues to engage with SLA partners in the implementation of IFRS9 to ensure consistent reporting on non-performing loans in accordance with the Bank's accounting practices. The lag effect of the 2015/16 drought is still visible in the SLA non-performing loan book.

During FY2018 Internal Audit reviewed the loan origination, credit and legal practices of all SLA partners. This resulted in some proposed improvements in the overall engagement with the intermediaries which are being incorporated in agreements up for review. Portfolio Management Services implemented a comprehensive SLA monitoring framework during the year to ensure that all information is received and verified monthly.

The Bank continues to engage with SLA partners in the implementation of IFRS9 to ensure consistent reporting on non-performing loans in accordance with the Bank's accounting practices. The lag effect of the 2015/16 drought is still visible in the SLA non-performing loan book.

SLA	FY2018	FY2017	FY2016
Non-performing loan %	6.7%	7.4%	10.3%

Future focus

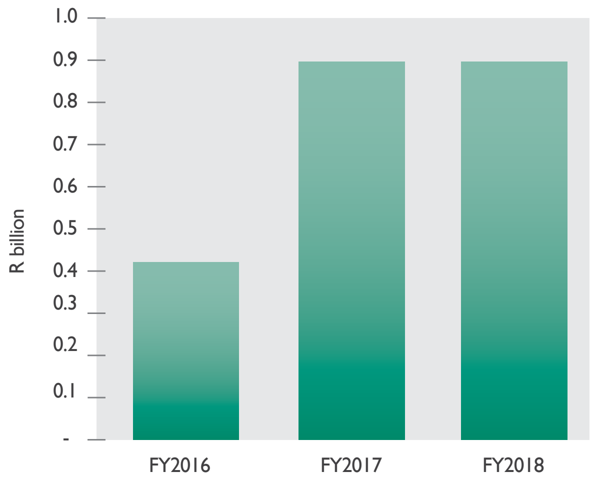
- Continue engaging with the SLA partners to increase the transformational impact of Land Bank funding;
- Increase visibility of the underlying debtors book and details;
- Identify and support new Black intermediaries; and
- Increase focus on promoting sound economic, social and environmental governance through our loan portfolio.

Wholesale Financing Facility (WFF)

Our approach

Land Bank provides wholesale funding to 10 intermediaries who on-lend to smallholder farmers and provide technical and market access to assist these farmers to increase the commercial scale of their operations.

Figure 11: WFF intermediary gross loan book



Our performance

These loans are provided at subsidised rates to the smallholder farmers. We currently receive no government support to provide these subsidies and the amount of R74.0 million is a direct contribution by the Bank to smallholder farmer development. This is a direct investment by the Bank to promote agricultural and new generation farmer development. The lack of affordable funding to provide this service has severely curtailed our ability to expand the programme. If the Bank receives an annual allocation of R100 million from a central government department, an additional investment of R1 billion per annum can be supported. The experienced intermediaries and the lessons learned during the last five years have positioned this product as a successful extension of the Bank's new generation farmer support initiatives.

The high quality of intermediaries and intensive monitoring of participating farmers have resulted in minimal non-performing loans in this portfolio. The private public partnership between Land Bank, private agricultural enterprises and new generation farmers has proven to be successful and can easily be scaled and grown with increased government support.

WFF	FY2018	FY2017	FY2016
Non-Performing Loan %	0.0%	3.0%	0.0%

Future focus

- Engage Government departments with the objective of securing an annual grant that can be utilised to support and grow the WFF product;
- Find alternative sources of funding that will allow the Bank to expand its offering while limiting the direct impact on its income statement; and
- Review the existing product offering completely in the light of the challenges faced by smallholder farmers.

Land Bank Insurance Company (LBIC)

Our approach

LBIC's approach to offering insurance and risk management solutions to the agricultural sector is aligned to the Land Bank Group's priorities as envisaged in the Land Bank Act. The company is a registered insurance with the Financial Sector Conduct Authority (FSCA) and is the second largest insurer of crop that provides cover to farmers for hail, fire and yield losses due to excessive rain or drought in the country. South Africa is one of the few countries amongst major agricultural competitors where crop insurance is not provided on a subsidised basis to farmers. The high systemic nature climatic risk has resulted in claims consistently exceeding premium revenue, especially over the past decade, with consequent premium increases to reflect the high risk, thus becoming unaffordable to the majority of established and new generation farmers. This limits insurance access to most farmers, but especially smallholder and new generation farmers.

As a result of the exposure to the highly volatile crop insurance industry, LBIC has embarked on an initiative to diversify its insurance product offering by also entering the asset insurance space. In order to diversify its income base, and enhance our ability to achieve our mandates LBIC offers agri-asset insurance via intermediaries. LBIC is committed to contributing to transformation of the agri-insurance sector through the introduction of Black Brokers and Black Assessors programmes to the industry, and has engaged in proactive measures to execute these objectives.

Our objectives for FY2018

- Prepare for implementation of Twin Peaks;
- Complete the development and introduction of an asset insurance product;

- Expand our Black Broker Programme through training and certification of additional Black Brokers;
- Explore the option to introduce a Black Assessor programme; and
- Manage and grow our crop insurance book.

Our performance

During FY2018, LBIC increased its market share of the crop insurance market from 35% to 38%. Although weather conditions in the inland grain-producing areas were favourable compared to the previous season, the increased moisture resulted in a large number of hail claims that had a negative effect on the results. Severe hail events were experienced during this season compared to the previous seasons.

As a result, LBIC paid out claims to the value of R513.0 million (FY2017: R384.8 million) as at the end of FY2018 resulting in a net loss of R35.6 million (FY2017: R 2.7 million loss). From a Land Bank Group perspective, these claims covered losses sustained by some of Land Bank's clients thus reducing the overall impact of these events on the Bank's loan book and contributing to managing climate risk for the Group.

LBIC provides crop insurance to new generation farmers linked to a number of supplier development projects and of this crop insurance 10% (FY2017: 1%) is provided to Black smallholder farmers. LBIC therefore plays a key role in the crop insurance market as a significant player that provides substantial capacity and is the insurer focused on finding solutions for smallholder farmers.

Figure 12: LBIC crop insurance programme in FY2018

	Transformation	Commercial	Total
Number of farmers	239	2,227	2,466
Number of farming units	652	11,058	11,710
Hectares insured	37,998	821,582	859,580
Insured value Rmillion	504	12,918	13,422

LBIC introduced the first Black Broker programme in the crop insurance sector in 2016/17 and in its second season of operation, the programme continues to deliver results. Sixteen agencies consisting of 28 Black brokers participated during the recent season compared to 18 brokers in the previous season.

In terms of its intention to launch a Black assessors programme, LBIC is in a process of concluding a partnership agreement with Walter Sisulu University to assist in the academic training and certification of the assessors, whilst LBIC, through its partners, will provide practical training at the insurance company and farm level.

The product development phase of the new asset insurance product has been completed and this product is in the process of being offered in the market. This will further enhance the ability of LBIC to contribute towards the achieving the Land Bank Group mandate by offering enhanced solutions to the agricultural sector.

The Financial Sector Regulation Act 9 of 2017 (known as Twin Peaks) was signed in August 2017 and implemented 1 April 2018. These regulatory changes will have an effect on our insurance subsidiaries which are regulated by the relevant insurance legislation. The model creates two peak regulatory authorities, one for system stability and the other for protecting consumers of financial products. The strengthening of both prudential and market conduct supervision is a positive development for the financial sector. During FY2018, we therefore emphasised the preparation for and implementation of policy, product and technological changes required for us to manage the transition to the Twin Peaks regulatory environment.

Future focus

- Launch the asset insurance product to the market;
- Drive business growth through partnerships with intermediaries, co-operative clients and underwriting managers;
- Finalise the introduction of our Black Assessor programme;
- Investigate the potential to introduce a new product for smallholder farmers to address the affordability gap; and
- Contribute discussions on establishing a national crop insurance scheeme.

Land Bank Life Insurance Company (LBLIC)

Our approach

LBLIC is a licensed life assurance provider that has been providing individual and group credit life insurance products as well as disability cover to Land Bank clients and farmers since its inception in 1954. The profits earned from the credit life business over the years have enabled the company to accumulate a significant investment portfolio from which the majority of the net profits of the company is now derived.

Our objectives for FY2018

Our objectives are aimed at engaging with our Shareholder to expand our insurance offering and protecting our investment portfolio:

- Continue negotiations with National Treasury to expand the product offering to improve the financial sustainability of LBLIC;
- Manage the investment portfolio responsibly; and
- Drive business growth through partnerships with interediaries and other agricultural counter parties.

Our performance

Returns on the investment portfolio declined in line with general market movements experienced during the period to R55.8 million (FY2017: R62.8 million) which reduced the overall profitability of the company to R47.1 million (FY2017: R53.4 million). The appointed asset managers support responsible investment and are either signatories of the United Nations Principles for Responsible Investment (UNPRI), a framework for achieving better long-term investments and more sustainable markets or subscribe to the Code for Responsible Investing in South Africa (CRISA,) that guides institutional investors on conducting investment analyses and activities, as well as exercise rights to promote sound governance.

The number of credit life insurance policies continue to decrease as the loans reach end of term, thus affecting overall premium income negatively. A proposal was submitted to National Treasury in September 2017 to discuss the mandate expansion of LBLIC in conjunction with the FSB. These meetings are continuing as both parties have requested additional information from LBLIC.

Future focus

- Continue negotiations with National Treasury to expand the product offering to improve the financial sustainability of LBLIC;
- Manage the investment portfolio responsibly; and
- Drive business growth through partnehips with intermediaries and other agricultural couter parties.

HOW WE CREATE VALUE

Through partnerships like this one with Land Bank, the EIB is able to support various types of projects carried out by small- and medium-sized enterprises in the agricultural sector. In addition to having a positive impact on the climate, the facilities will also underpin job creation.

Tom Andersen, head of the EIB's Pretoria Office, February 2018

4. HOW WE CREATE VALUE

Land Bank's value-creation model is premised on the Bank's purpose that originates from the South African Constitution and the Land Bank Act. As an organ of state, the Bank's activities should support our constitutional ideal to heal the divisions of the past and improve the life of all citizens by creating a society grounded on the values of dignity, equality, and freedom. The Bank uses and transforms its available resources represented by the six capitals, i.e. financial, intellectual, social, manufactured, human, social, and natural to provide financial and risk management services to bring about a change in patterns of land ownership and increase participation of historically disadvantaged persons in the agricultural sector.Furthermore, to promote sustainable agrarian reform and development of agricultural resources.

We define sustainability as our ability to use these six forms of capital in a manner that will sustain our role as agricultural financier for current and future generations. These six forms of capital can be grouped into three sustainability elements.

Financial sustainability (profit): the ability of the Bank to generate enough profit to sustain agricultural finance and the Bank's internal operations by using our finacial intellectual and manufactured capitals

Social sustainability (people): the ability of the Bank to sustain the welfare of its employees and society byusing our human, social, intellectual and financial capitals

Environmental sustainability (planet): the ability of the Bank to preserve the planet that sustains agricultural production and the Bank's internal operations by using our natural, manufactured, social and intellectual capitals

Our financial sustainability depends on both social and environmental sustainability, therefore our future existence rests on our ability to sustain social and natural capitals. Our sustainable business strategy and model must therefore articulate how each of the three elements will be achieved. Financial sustainability and some elements of social sustainability are addressed in the deployment of our financial, human and social capitals respectively. However, societal welfare pertaining to farming and environmental sustainability relate to our impact on natural capital.

During FY2018, changes in the six capitals were affected as follows:

Table 10: The six capitals

How we use the capitals	Associated Sustainable Development Goal	Change during year due to activities
Financial – Land Bank deploys its financial capital to provide loan and equity financing solutions to deepen investment across the sector	1 No poverty 2 Zero hunger 8 Decent work and economic growth 10 Reduced inequalities 11 Sustainable cities and communities 13 Climate action	- Capital Adequacy Ratio: 17.3% (FY2017: 17.7%) - Net Stable Funding Ratio: 108.6% (FY2017: 86.7%) - Non-performing loan ratio: 6.7% (FY2017: 7.1%) - Gross loan book: R45.6 billion (FY2017: R43.3 billion)
Intellectual – knowledge that allows Land Bank to create an adaptive organisation that spurs innovation to create a transformed and resilient sector	9 Industry, innovation and infrastructure 11 Sustainable cities and communities 13 Climate action	- ERM reached a managed level - Updated risk appetite and risk tolerance - Updated impairment models and credit policies - Computer software: R20.3 million (FY2017: R27.3 million)
Human – Land Bank's employees, clients and other persons who contribute to growing and transforming the sector through the application of their skills and time	3 Good health 4 Quality education 5 Gender equality 8 Decent work and economic growth 10 Reduced inequalities 16 Peace and justice	- 474 employees (FY2017: 465) - Average training spend per employee: R12,201 (FY2017: R7,742) - Critical skills retention rate: 91.7% of critical roles filled (FY2017: 97.7%)
Social/Relationships –work with all stakeholders to build an adaptive agricultural sector that drives economic, environmental and social development and contributes to food security	1 No poverty 2 Zero hunger 4 Quality education 5 Gender equality 8 Decent work and economic growth 9 Industry, innovation and infrastructure 10 Reduced inequalities 13 Climate action 16 Peace and justice 17 Partnerships for the goals	- R1.55 billion in disbursements classified as transformational - Supplier development: R6.5 million spent on 9 suppliers (FY2017: 3 suppliers) - CSI expenditure: R5.1 million (FY2017 R5.0 million)

Natural – Land Bank uses relatively little natural capital, but climatic events pose a fundamental risk to the Bank's business as it affects clients' ability to repay their debt, and consequently affects our continued long-term viability. The impact of the Bank's financial capital on the environment is also considerable through its clients' farming enterprises and practices	6 Clean water and sanitation
	7 Affordable and clean energy
	12 Responsible consumption
	13 Climate action
	14 Life below water
	15 Life on land
		- R513.0 million paid in crop insurance claims (FY2017: R385.0 million)
		- Developed methodology aligned to GRI standards to report on material consumption and determined baseline values:
		  - Water (kl): 13 916.0
		  - Fossil fuels (L): 139 735.4
		  - Paper (kg): 4 806.4
		  - Electricity (kwh): 1.96 million
		  - 10 loans screened on a pilot basis for environmental risks

Manufactured – Tangible assets represent a small portion of the capital deployed by the Bank and is limited to its offices, systems and equipment that enables it to conduct its business	1 No poverty 9 Industry, innovation and infrastructure	- Land and buildings: R24.5 million (FY2017: R25.2 million) - Furniture and equipment: R2.9 million (FY2017: R3.4 million) - IT systems and hardware: R8.9 million (FY2017: R13.7 million) - Seven provincial and 12 satellite offices are in provinces that had an annual income per capita of less than R70 000 per year in 2016

CFO'S STATEMENT

Mr BJ van Rooy
Chief Financial Officer

FINANCIAL CAPITAL

Our approach

We are responsible to raise sufficient funding in support of the entire agricultural sector to promote both inclusive growth and increased resilience against challenges brought about from climate change. Our aim is to ensure that the Bank remains a financially sustainable DFI while crowding-in funds from various areas in support of the sector. We manage our balance sheet to secure the sustainability of the Bank and focus on obtaining funding to support inclusive and transformational sector growth. We currently apply a portion of our profits to inject equity into our balance sheet and to provide subsidised loans to new generation farmers. We must remain profitable as we fundamentally support our ability to continue operations and fulfil our responsibilities towards the sector. The challenge is to manage the trade-offs between enhancing financial sustainability through risk-related interest rates while meeting our development objectives, which often means sacrificing profit to support new generation farmers.

We acknowledge that, given the current fiscal constraints and escalating Government debt (including SOE debt), it is unlikely that we will continue to grow our asset base by historical growth rates. This is primarily attributed to fiscal constraints and ensuing lack of available Government funds to inject additional capital into the Bank. To continue playing our role as catalyst in the agricultural sector, we will have to find alternative balance sheet structures to secure funding and advance the funds to continue to support the agricultural sector. The exact nature of these structures and arrangements will be investigated during FY2019.

We are delighted to report on a continuation of the trend of strong financial results, notwithstanding a turbulent FY2018. During FY2018 South Africa experienced heightened political uncertainty, continuous credit ratings action and further volatile weather conditions affecting the agricultural sector. It is against this background that we focused on achieving two main objectives, namely improved financial sustainability and increased development effectiveness.

Our objectives for FY2018

- Communicate to investors, and to our other internal and stakeholders, our commitment to the highest standards of corporate governance and ethical behaviour including meeting investor demands for increased transparency in our disclosure of economic, social and environmental performance information and our future outlook in each of these areas
- Manage balance sheet strength through the net stable funding and liquidity cover ratios;
- Manage the capital adequacy ratio;
- Raise funding and reduce dependency on short-term investments;
- Reduce reliance on a small number of funders by raising funds from a wider spectrum of investors;
- Raise longer term multi-lateral development funding
- Maintain credit rating; and
- Reduce reliance on short-term funding.

Our performance

Table 11: Financial highlights

Highlight	Key consideration
Investor response	- At the end of FY2017 we revised the conditions contained in our DMTN programme memorandum and included a number of governance related information undertakings as well as prepayment events, which has since become the yardstick for investors in the SOE environment – these are available on our website under Investor Relations. - We committed to disclosing specific information to investors via SENS announcements and made a number of announcements in FY2018 related to ratings agency actions; interim financial results and changes to the Board, Board sub-committees and executive management.
Strong balance sheet position	The following ratios provide a clear indication of balance sheet strength: - Capital adequacy ratio of 17.3% (FY2017: 17.7%) - Liquidity coverage ratio of 214.3% [1] (FY2017: 85.0%) - Net stable funding ratio of 108.6% (FY2017: 86.7%) - Non-performing loan ratio of 6.7% (FY2017: 7.1%) [1] Excl. Available committed facilities. LCR = 409.3% incl. Available committed facilities (R2.15 billion)
Improved market acceptance and recognition by domestic and multi-lateral funders	The Bank's previous two listed bond auctions were well supported by a broad base of investors: - September 2017: The Bank raised R1 billion over 1-, 3- and 5-year tenors at improved yields, with the auction oversubscribed by 5.1 times - During October 2017, the Bank issued an unguaranteed 7-Year Fixed Rate bond. This was the first bond issuance by the Bank with a tenor in excess of 5 years since 1990. - March 2018: The Bank raised R2.0 billion over 1-, 3- and 5-year tenors at lower yields, with the auction oversubscribed by 1.5 times - Subsequent to year-end, during May 2018, Land Bank issued an unguaranteed 10-year Fixed Rate bond, thereby significantly extending its yield curve. The Bank was subject to the intensive due diligence processes of multi-lateral funders to secure funding from the EIB and KfW. We passed these assessments to such an extent that we were granted funding for up to 12 years without providing guarantees.
Maintained national scale credit rating of Aa1.za	Despite a downgrade of the Bank's global scale rating from Baa2. za to Baa3.za in line with that of the sovereign, Moody's Investor Services upheld the national scale rating of the Bank at Aa1.za, confirming our belief that our risk profile has improved. Furthermore, the our rating's outlook is stable.
Interest margin maintained at 3.0%	Improved investor confidence and enhanced ability to appropriately price for risk has contributed to contain interest cost and improve asset yields.
Improved investor confidence resulting in a lower Land Bank yield curve across the maturity curve	The improved investor confidence resulted a reduction of listed bond yields by between 30 and 70 basis points across 1-, 3- and 5-year tenors during the year and has managed to establish a 7-year price point, as well as a 10-year price point subsequent to year end.
Increase pool of funders	Reduced our reliance on a limited number of funders, primarily the PIC over this period and received funding from a wide spectrum of investors. This includes new asset managers with at least 5 new managers being attracted to the Bank as well as multi-lateral funders such as KfW and the EIB. These funders are further analysed on page 64.
Reduce reliance on short-term funding	Our reliance on short-term funding has been reduced significantly from 69.4% (excl. drawn facilities) in FY2015 to 43.2% (excl. drawn facilities) as of 31 March 2018, resulting in achieving its medium-term (31 March 2018) of short-term funding below 50% well ahead of target.

We are pleased to report on a successful FY2018. Notwithstanding the challenging external environment, the Bank achieved satisfying financial results, enhanced its reputation and funder perception, further improved its transparency, and positioned itself as a credible investment destination for debt investors.

We have also made significant strides in concluding a number of ground-breaking development transactions, which contributed to the disbursement of approximately R1.55 billion to qualifying development assets during FY2018. More details of these transactions are included in the CEO's statement of this Integrated Annual Report.

The Bank strengthened its sources of development funding during FY2018 by concluding a number of multi-lateral transactions with specific development objectives:

- US Dollar 93 million* 25-year Government Guaranteed World Bank facility;
- US Dollar 300 million Multi-lateral Investment Guarantee Agency (MIGA) backed facility;
- EUR55 million* unguaranteed 10-year KfW loan; and
- EUR50 million* unguaranteed 12-year EIB Climate Adaption facility.

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

These facilities were only approved following comprehensive due diligence investigations conducted by the multi-lateral organisations. They indicate the level of comfort in the high levels of corporate governance, strong financial position and our ability to achieve our mandate and the objectives set out in the facility agreements.

Group performance

The Group's financial performance should be evaluated against the volatile external environment that had a material impact on the Bank. This includes but is not limited to the unpredictable weather conditions, equity and investment markets and the ability of farmers across the agricultural sector to increase investments in capital items.

The financial results are summarised in Table 12 and the detailed results can be found in the FY2018 Annual Financial Statements at the end of this report:

Table 12: Summary of Group results

	FY2018 R million	FY2017 R million	Variance (%)
Statement of profit and loss and other comprehensive income			
Gross interest income	4,846.7	4,256.6	13.9%
Net interest income	1,278.4	1,213.3	5.4%
Credit impairments	(55.5)	(81.5)	(31.9%)
Operating expenses	(654.5)	(587.6)	11.4%
Profit from banking activities	278.7	268.8	3.7%
Profit from insurance activities	11.5	50.6	(77.3%)
Profit for the year from continuing operations	290.2	319.5	(9.2%)
Statement of financial position			
Cash and cash equivalents	2,421.1	1,520.3	59.3%
Capital and reserves	6,648.7	6,454.8	3.0%

The results of the Insurance operations were negatively affected by the increased claims ratio to 107% (FY2017: 87%). This was mainly as a result of multi-peril and hail-related claims.

Banking operations

Table 13: Analysis of banking results

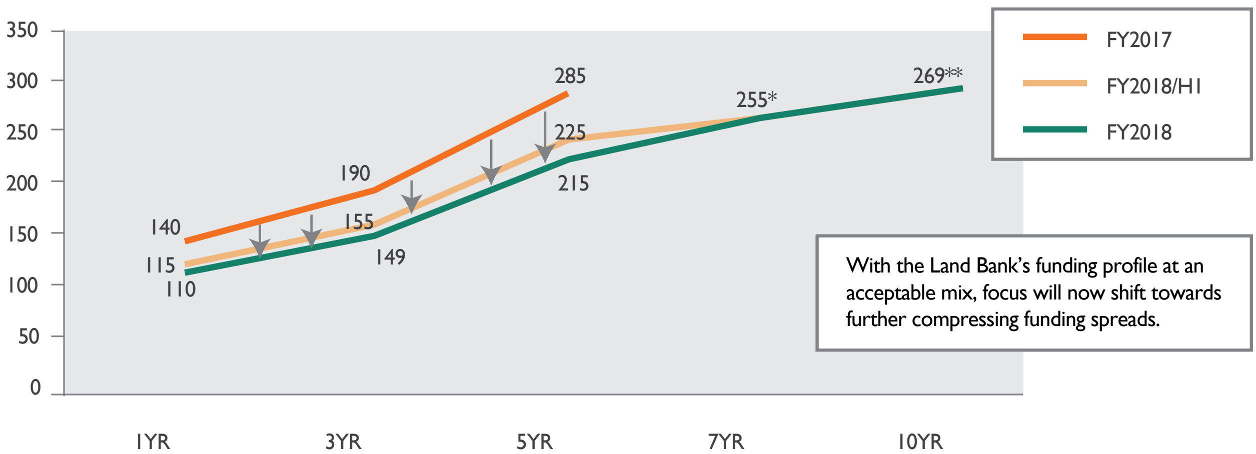
	FY2018 R million	FY2017* R million	Variance (%)
Gross interest income	4,827.0	4,234.8	14.0%
Net interest income	1,261.4	1,196.5	5.4%
Investment income	16.6	11.5	44.3%
Net impairment charges	(55.5)	(81.5)	(31.9%)
Non-interest expense	(308.0)	(269.1)	14.5%
Non-interest income	85.7	60.6	41.4%
Operating expenses	(628.7)	(562.3)	11.8%
Indirect taxation	(68.9)	(68.9)	0.0%
Profit for the year from continuing operations	278.7	268.8	3.7%
Cash and cash equivalents	2,362.1	1,211.3	95.0%
Capital and reserves	5,546.9	5,364.6	3.4%
Net loans and advances	43,418.5	40,975.6	6.0%

Net interest income

Net interest income amounted to R1.3 billion (FY2017: R1.2 billion) and gross interest income increased to R4.8 billion, up from R4.2 billion reported during FY2017. The improved performance was on the back of increased loans and advances which grew by R2.2 billion to R45.6 billion, coupled with enhanced risk-based asset pricing.

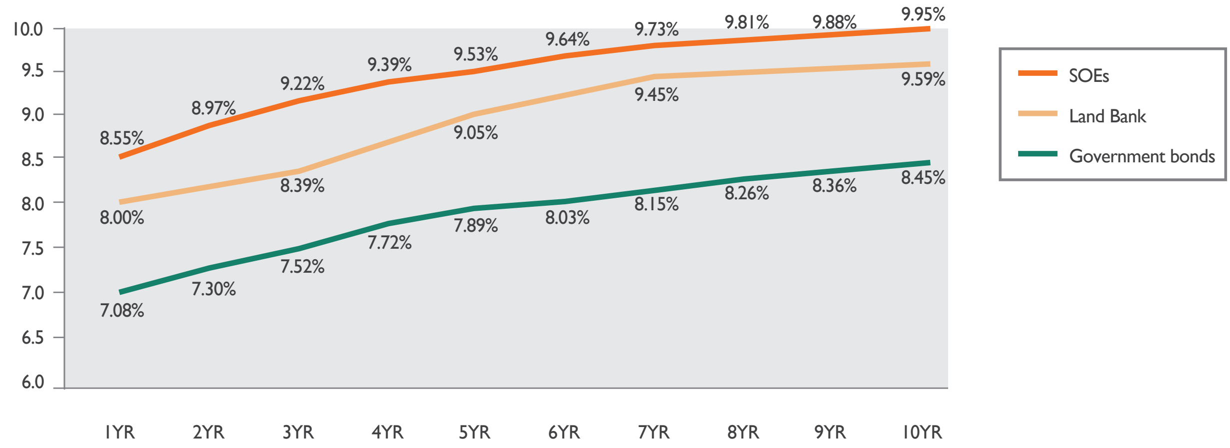
Interest expense increased to R3.6 billion from R3.0 billion reported for FY2017 due to increased funding liabilities which have increased by approximately R3.9 billion from FY2017, as well as an increase in cost of funding on the back of our ongoing initiatives to actively lengthen our funding profile. The general SOE yield expectations by investors have also increased during the year, resulting in increased funding cost. Notwithstanding the yield expectations, we have achieved a satisfying improvement in its listed bond yields, which is detailed below:

Figure 13: Listed Bond Yield Curve Bps over 3m JIBAR



- Following the Bank's public auctions on 30 Aug 2017 and 19 Mar 2018 respectively, the Bank's listed bond yield curve has significantly improved which has contributed to improved Cost of Funding for the Bank
- The 7YR price point (*) translated from LBK24 (Fixed Rate Note Issued in FY2018/Q3) - point in time spread
- The 10YR price point (**) translated from LBK28 (Fixed Rate Note Issued in FY2019/Q1) - point in time spread

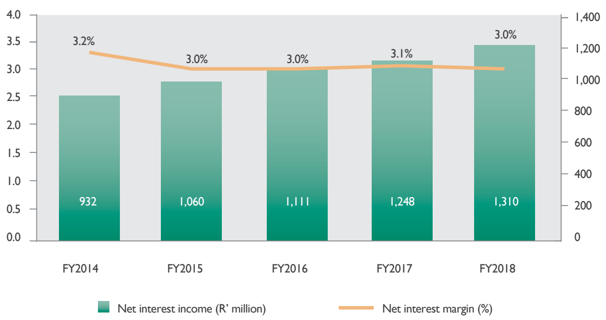
Figure 14: Land Bank, Government Bonds and SOE Bond Yield Curves



- It should be noted that the SOE Yield Curve includes all debt, unguaranteed and otherwise
- Assumed 3m Jibar = 6.90% (as of 14 May 2018)
- Land Bank as an Issuer of unguaranteed debt prices favourably to the SOE Curve, with pricing points as follows:
  1YR = 8.0%; 3YR = 8.39%; 5YR = 9.05%; 7YR = 9.45%**; and 10YR = 9.59%**
  ** Derived from Fixed Rates - points in time at issuance (see graph above)

The net interest margin has decreased from 3.0% during FY2017 to 2.9% for FY2018. The slight decrease in the net interest margin against the background of the difficult funding environment is a pleasing result. As a result of the reclassification of the LDFU portfolio referred to in note 48, the FY2017 margin reduced from 3.1% to 3.0%. If the interest cost was included in the FY2018 Statement of Other Comprehensive Income as part of Discontinued Operations, the margin would have been 3.0% (FY2017: 3.1%).

Figure 15: Net interest margins



Impairments

We early adopted the requirements of IFRS9 during FY2016. These models that have now been in place for three consecutive reporting periods and impairment charges have stabilised somewhat during the year with results being more predictable, will continue to mature.

Impairments or expected credit losses is calculated as a multiplication of probability of default (PD) loss given default (LGD) and exposure at default (EAD). Impairment charges/ releases is the result of the movement in expected credit losses year on year. The components of expected credit losses are mainly impacted by the movement in the rand US$ exchange rate, Prime lending rate and production over the production cycle (more or less 18 months). Figure 16 below shows the movement in these variables over the last two years.

Figure 16: Macro economic environment

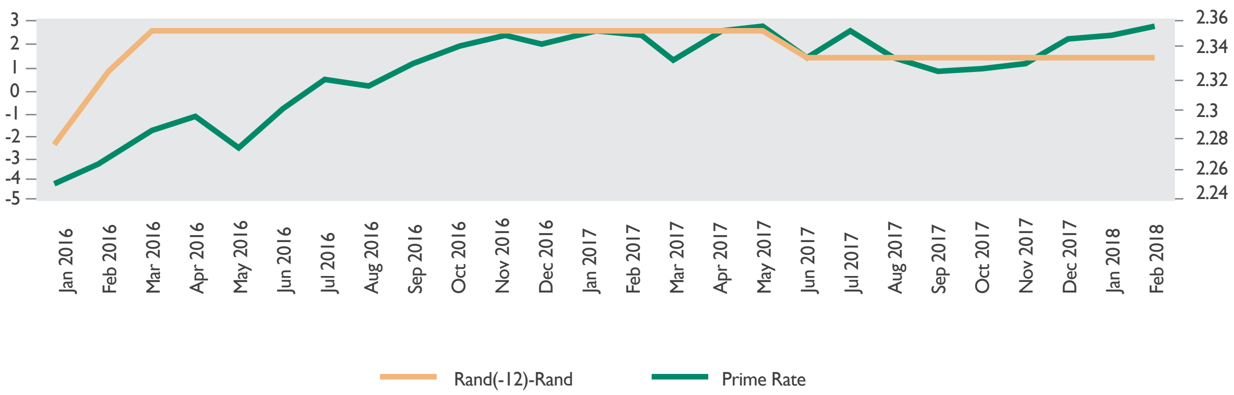
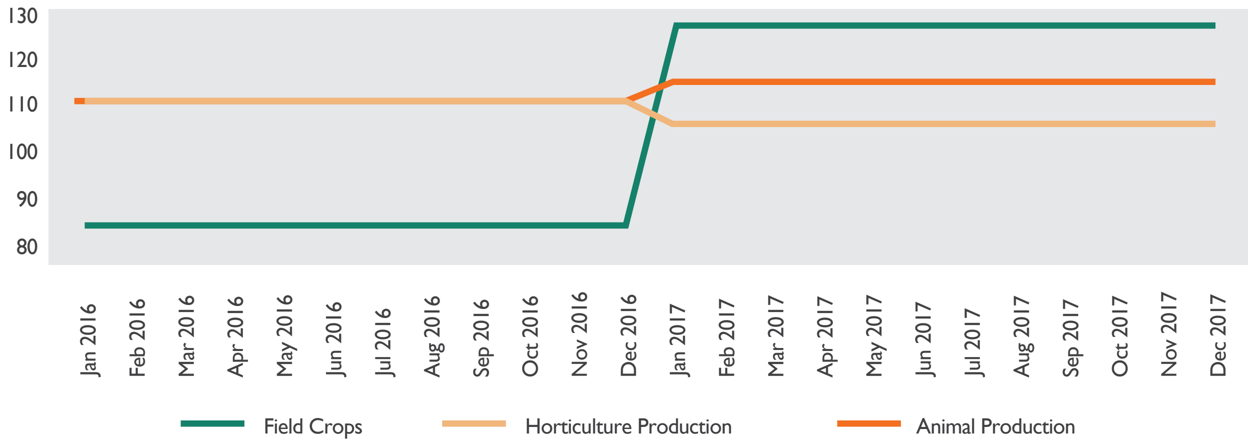


Figure 17: Production



The movement in the exchange rate (calculated as the current rate minus the rate 12 months ago), when positive shows an increase in farm income, while the reduction in the prime rate reduces the cost of capital. This together with the increase in production (especially field crops) resulted in an improvement in the financial position of farmers, all leading to a reduction in expected credit losses.

Figure 18 shows the movements in default rates, loss given default and exposure at default. Exposure at default is mainly impacted by the current volume of debt and the usage of credit lines measured by credit conversion factors (CCF).

Figure 18: PD, LGD and EAD

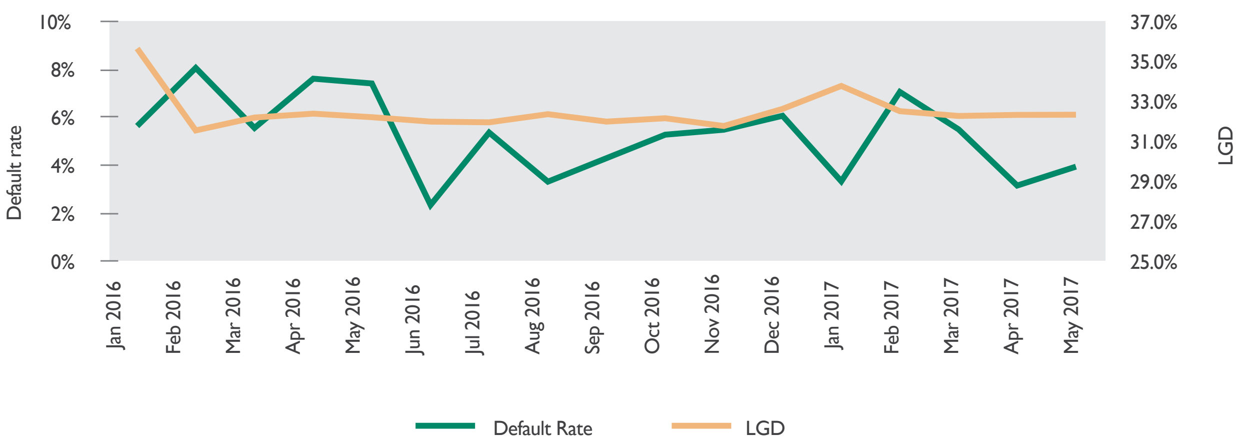


Figure 19: Growth in disbursement

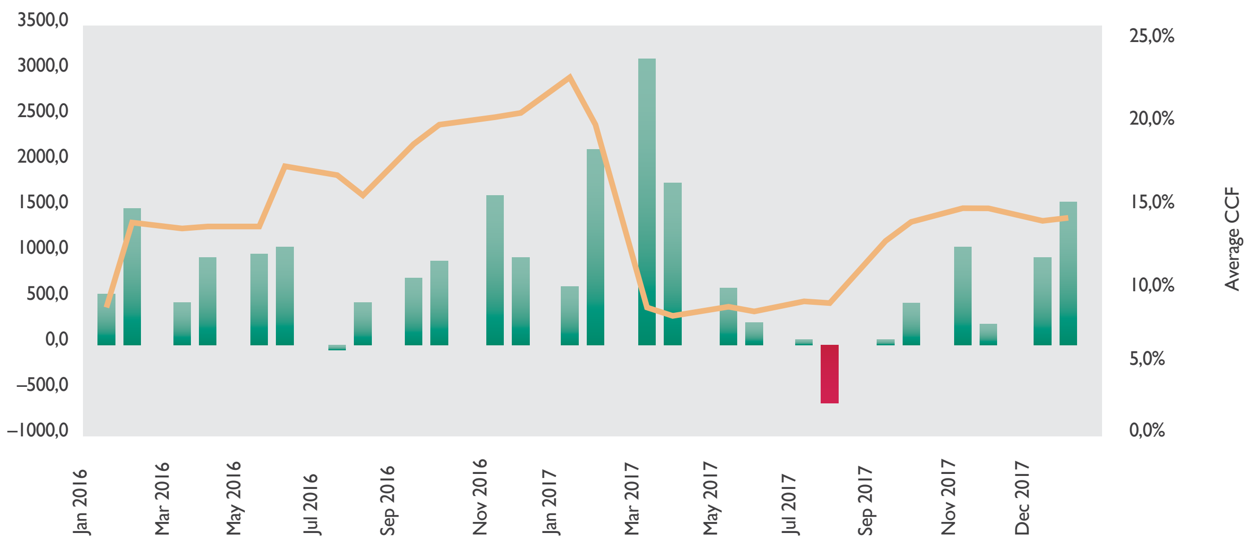


Figure 19 shows that given the improved financial position of farmers, relative to the FY2017 financial years both default and LGD reduced in FY2018. This resulted in an increase in credit usage in the latter part of FY2018, however credit usage was lower relative to FY2017 where the demand for credit higher as a result of the drought in 2016. The above developments are detailed in Table 14 below:

Table 14: Movement in Expected Credit Loss (ECL) parameters

	FY2017	FY2018
	Clients	
Stage 1	4,966	5,082
Stage 2	328	83
Stage 3	1,700	1,081
Total	**6,994**	**6,246**
	PD	
Stage 1	4.31%	6.38%
Stage 2	31.49%	8.86%
Stage 3	100%	100%
	LGD	
Stage 1	25.58%	13.03%
Stage 2	31.91%	21.68%
Stage 3	58.46%	32.94%

A further reason for the decline in the average LGDs, was a model recalibration for long- and medium -term loans in the retail portfolio.

For FY2018, the combination of lower PD, LGD and EAD resulted in net impairment charges amounted to R55.5 million (FY2017: R81.5 million).

Table 15: Impairments year-on-year

	FY2018 R million	FY2017 R million	Variance (%)
Total impairment	(55.5)	(81.5)	(31.9%)

Non-interest income/ (expense)

Non-interest expenses incurred for FY2018 was R222.3 million (net), compared to R208.5 million for FY2017. Non-interest expenses mainly consist of SLA administration fee expenses of R308.0 million. The fees increased by 14.5% year-on-year due to a higher average loan balance on the SLA loan portfolio (FY2018: R24.4 billion versus FY2017: R21.8 billion), as a result of additional loan acquisitions under the SLA agreements during the period under review. The interest received on this portfolio of R2.4 billion (FY2017: R 2.1 billion) is included in net interest income.

This increase was partly offset by administration fees, rental and sundry income of R85.7 million (FY2017: R60.6 million). This increase is mainly as a result of additional fees earned on structured investment transactions that the Bank concluded during FY2018.

Table 16: Non-interest income/ (expense)

	FY2018 R million	FY2017 R million	Variance (%)
Non-interest income	85.7	60.6	41.4%
Account admin fee and commission income	52.2	36.2	44.2%
Investment property rentals and income from properties in possession	14.9	15.1	(1.3%)
Sundry income	18.6	9.3	+100.0%
Non-interest expense	(308.0)	(269.1)	14.5%
Account admin fee expenses	(308.0)	(269.1)	14.5%

Investment income and fair value gains

Investment income increased by R5.1 million to R16.6 million (FY2017: R11.5 million) and the fair value gains increased to R7.2 million (FY2017: R5.9 million). This was mainly as a result of additional dividend income of R5.4 million (FY2017: Rnil) earned on structured investment transactions that the Bank concluded during FY2018.

Table 17: Investment income and fair value gains

	FY2018 R million	FY2017 R million	Variance (%)
Interest	6.0	5.4	11.1%
Dividends	13.3	8.0	66.3%
Investment management fees	(2.7)	(1.9)	42.1%
Total investment income and fees	**16.6**	**11.5**	**44.3%**
Realised gains	34.9	18.6	87.6%
Unrealised fair value gains	(26.5)	(12.0)	+100%
Held-for-trading fair value losses	(1.2)	(0.7)	71.4%
Total fair value gains	**7.2**	**5.9**	**22.0%**

Operating expenses

Operating expenses incurred during FY2018 amounted to R628.7 million, having increased from R562.3 million.

We recorded a cost-to-income ratio of 60.5% (FY2017: 54.4%). The increase in this ratio was mainly as a result of additional investment in technical skills on order to enable the Bank to achieve its development effectiveness objectives. Cost containment and managing the cost-to-income ratio to the long-term target of 50% remains a priority.

Discontinued operations

Losses from the discontinued operations amounted to R36.0 million (FY2017: R47.5 million). The annual losses primarily relate to an impairment charge of R36.0 million. This charge is a direct result of the decrease in forced sale value of the underlying security. Subsequent to year end, the Bank entered into two transactions to dispose of its interests in Amber Mountain and Emerald Sky. The Bank received cash of approximately R111.0 million and an unconditional guarantee of R39.5 million. As a result of these transactions, the unit no longer met the criteria of a disposal group and was correctly reclassified as a discontinued operation. The unit was discontinued in FY2009 as the loans then granted fell outside the Bank's operating mandate. We continue to explore commercially sound disposal options for the remaining assets. Given these two transactions, the portfolio will reduce significantly during FY2019, to less than R10.0 million. Only one significant asset, Guilder Investments, has at the date of this report not been finalised.

Other comprehensive income

Table 18: Other comprehensive income

	FY2018 R million	FY2017 R million	Variance (%)
Actuarial losses on post-retirement medical aid liability	(23.9)	(13.0)	83.8%
Revaluation of land and buildings	0.3	2.0	(85.0%)
(Losses)/gains on financial assets at fair value through other comprehensive income	(44.9)	0.4	+100%
Gains on cash flow hedging instruments	8.1	-	+100%
Total	**(60.4)**	**(10.6)**	**+100%**

Post-retirement medical aid liabilities

We provide a post-retirement medical aid benefit to employees who qualified for life-long medical aid subsidies as at 1 December 2005. This fund functions primarily as a defined benefit scheme.

The fund, which is subject to an annual actuarial valuation, reported an actuarial loss of R23.8 million (FY2017: R13.0 million) in the period under review, due to increased medical aid inflation.

A corresponding stand-alone investment is in place to mitigate the risk that we are exposed to, which amounted to R345.2 million (FY2017: R359.9 million). Furthermore, we have engaged with various service providers to determine an optimal solution of moving the post-retirement medical aid liability off-balance sheet.

(Losses)/ gains on financial assets at fair value through other comprehensive income

We elected to designate the equity investments at fair value through other comprehensive income. The movement in the value of these equity investments are therefore processed through other comprehensive income. Our unlisted equity investments are valued based on the Discounted Cash Flow method (DCF) or Net Asset Value (NAV) of the company. The R44.9 million loss relates mainly to the decline in Rhodes Food Group Holdings Limited's (listed investment) share price from R23.86 (March 2017) to R18.85 in March 2018.

Property and equipment

Net carrying values of property and equipment declined to R38.0 million (FY2017: R45.1 million). Disposals and additions amounted to R6.7 million (FY2017: R9.0 million) and R1.7 million (FY2017: R17.3 million) respectively. Disposals in the year mainly comprised of computer equipment of R4.2 million (FY2017: R4.3 million). The new additions can be contributed mainly to computer equipment, amounting to R0.8 million (FY2017: R14 million).

Cash and cash equivalents

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

Liquidity Coverage Ratio

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

Deviation from the banking regulations

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

- Our previous liquidity ratio required us to invest surplus cash with counterparties with rating A and above. Due to operational requirements, investing surplus funds in government bonds will cause excessive trading in bonds which increases the market risk and potential capital losses on cash. Therefore, we deviate from the Banks Act 94 of 1990 in terms of classifying cash deposits and available committed facilities as high quality liquid assets.
- In the past we have enjoyed a 100% roll-over rate from PIC and CPD debt investments and this behaviour is expected to continue. For this reason, the Bank excludes contractual maturities from these institutions from the 30-day maturity profile.
- We acknowledge a deviation from the regulation in terms of assumptions made regarding roll-over rates with investors to assess the likelihood of roll-over. We will always apply the minimum roll-over rate (between historic roll-overs and investor discussions) to the calculations of the LCR.

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

For FY2018 the Bank achieved an LCR of 214.3% (excl. available committed facilities of R2.15bn) against a target of 70% (FY2017: 85% - target of 60%), while total cash and cash equivalents amounted to R2.4 billion (FY2017: R1.2 billion). To further strengthen its emergency liquidity position, the Bank has access to R2.65 billion in facilities of which R2.15 billion is committed and R0.5 billion is uncommitted.

Figure 20: Cash and liquidity

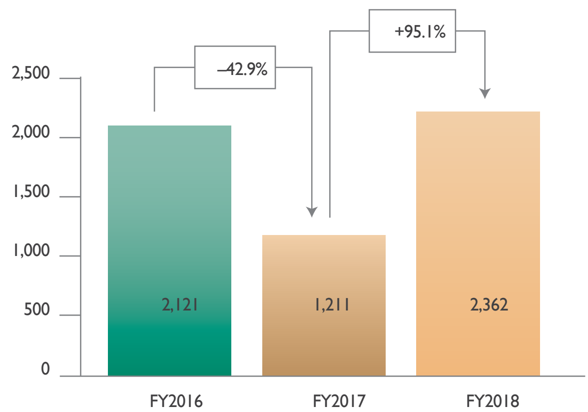
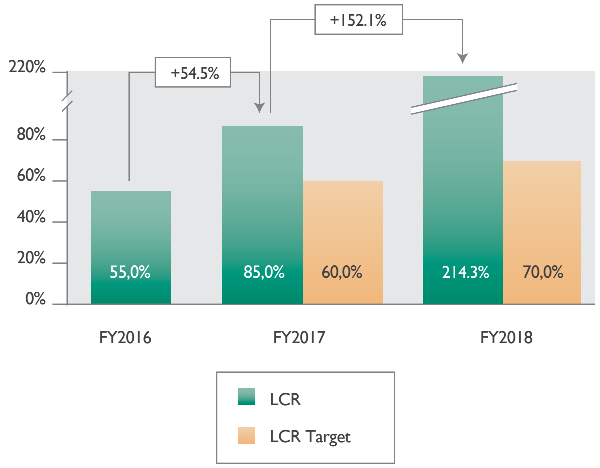


Figure 21: Liquidity Cover Ratio



Investments

At FY2018, our investment portfolio amounted to R1.4 billion consisting of investments in subsidiaries and other entities. During FY2018, we acquired equity investments in Mouton Holdings (Pty) Ltd, Southern Cross Investment Holdings (Pty) Ltd, Cavalier Group of Companies (Pty) Ltd and Ideafruit (Pty) Ltd as part of the Bank's structured investments initiatives. The Bank had existing investments in Rhodes Food Group and Acorn Agri.

The balance relates to an investment portfolio of R345.2 million which was set up to hedge against the Bank's post-retirement medical aid liability, which amounted to R369.2 million as at FY2018.

Loans and advances

At FY2018, the net loans and advances increased by R2.4 billion to R 43.4 billion from FY2017. For the same period the gross loans amounted to R45.6 billion compared to R43.3 billion reported for FY2017. Our NPL ratio at 6.7% for FY2018 has shown an improvement from 7.1% reported at 31 March 2017. The impairment coverage has decreased to 70.2% from the 77.1% in FY2017.

Figure 22: Loan book profile based on the IFRS 9 stage classifications

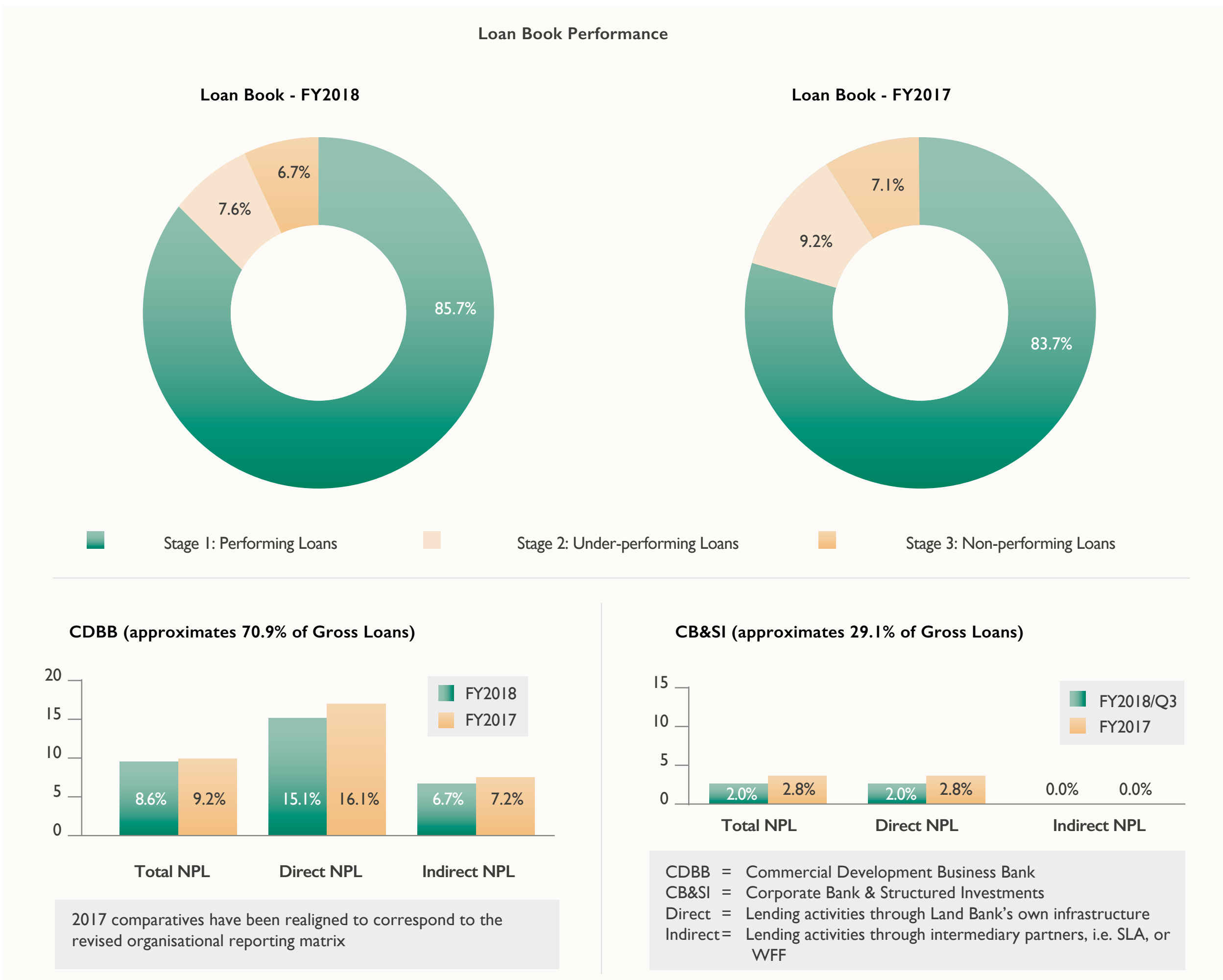


Figure 23: Loan book and impairment ratio

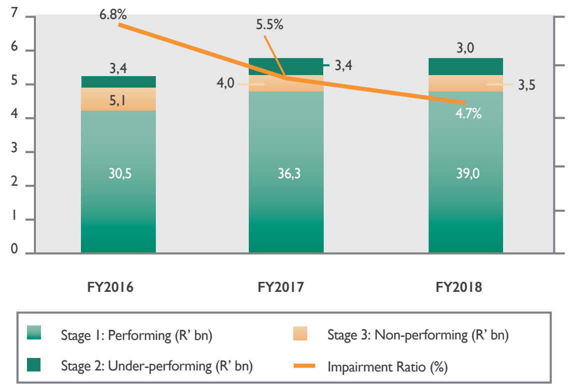
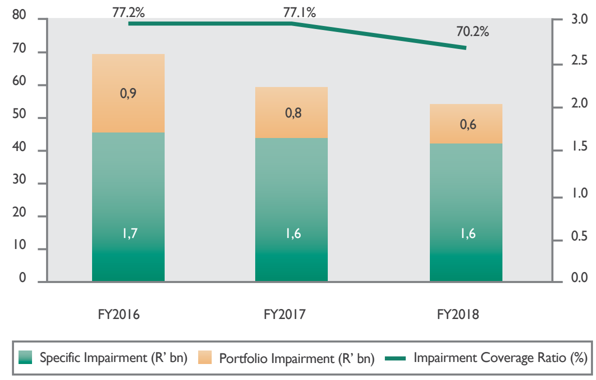


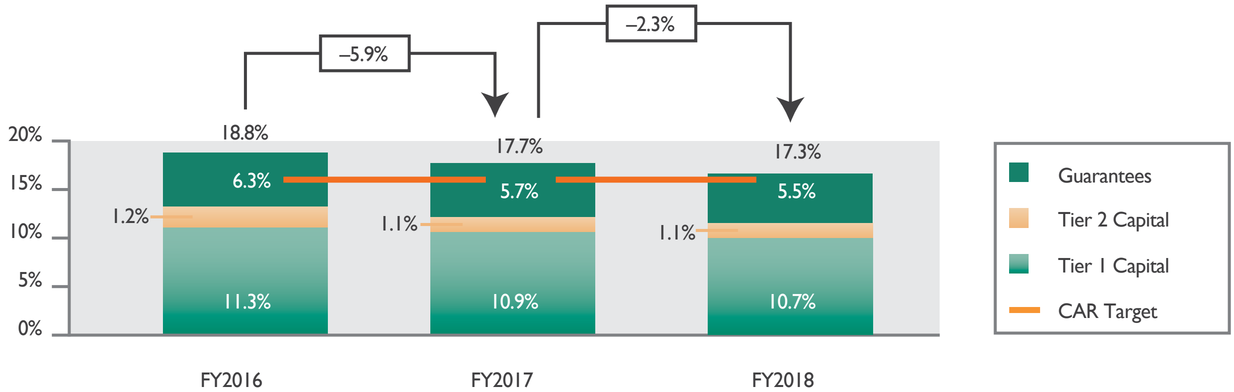
Figure 24: Impairment coverage ratio



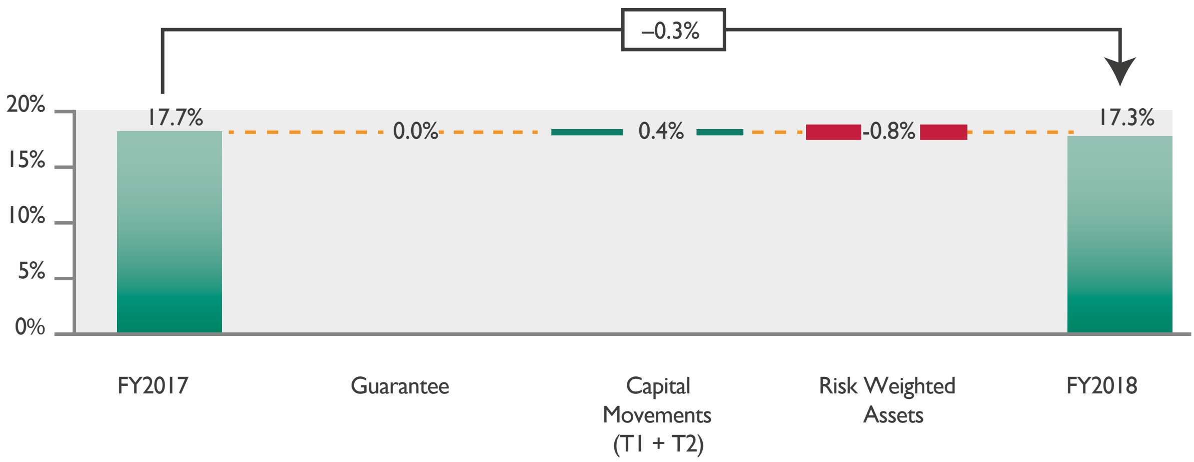
Capital and reserves

At 31 March 2018, equity and reserves had increased to R5.5 billion from the R5.4 billion reported at 31 March 2017. The Bank's capital adequacy position remains healthy with a Basel-like Total CAR of 17.3% (FY2017: 17.7%).

Figure 25: Total Capital Adequacy Ratio



Capital Adequacy Ratio - Waterfall



Funding liabilities

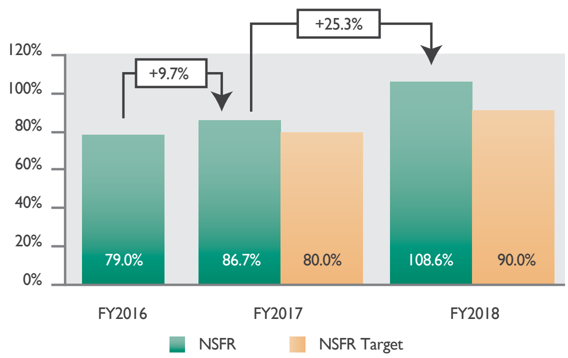
Funding liabilities are a function of loan book growth as well as pre-funding requirements in anticipation of maturing debt and expected increased seasonal loan draw downs.

Net Stable Funding Ratio (NSFR)

The NSFR's objective is 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 therefore aims 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.

For FY2018, we achieved a NSFR of 108.6% against a target of 90% (FY2017: 86.7% against a target of 80%), while total funding liabilities amounted to R41.6 billion (FY2017: R37.8 billion). This ratio excludes the access to unutilised overdraft facilities of R2.65 billion.

Figure 26: Net Stable Funding Ratio



We managed to raise approximately R13.9 billion new funding of which R10.7 billion was long-dated funding (3 year: R1.3 billion; 5 year: R4.6 billion; 7 year: R0.8 billion; 10 year: R4.0 billion). Some of the proceeds were utilised to redeem maturing debt, as well as prepayments of existing, more expensive debt with clear cost benefits. We continue to reduce our reliance on short-term funding, thereby reducing refinancing risk and improving our general liquidity levels.

The table below notes the Bank's progress toward meeting its medium-term funding mix target set for 31 March 2018:

Table 19: Medium Term funding mix

Tenor	MT Target	FY2018		FY2017		FY2016		FY2015	
		R'm	%	R'm	%	R'm	%	R'm	%
Drawn facilities		-	-	2,922	7.7%	1 501	4.4%	1 322	4.2%
< 1 year	50%	17 941	43.2%	21 353	56.4%	18 656	54.8%	21 966	69.4%
1 - 3 years	30%	7 181	17.3%	8 230	21.8%	9 238	27.4%	7 796	25.3%
3 - 5 years	10%	10 642	25.6%	3 279	8.7%				
5 - 7 years	5%	842	2.0%	1 006	2.7	4 539	13.3%	588	1.9%
> 7 years	5%	4 971	12.0%	1 044	2.8%				
Total		41 576	100%	37 835	100%	34 024	100%	31 672	100%

We continued to enjoy good standing in the local debt and capital markets having had two successful public bond auctions during FY2018, both which were well-supported from a diverse investor base, oversubscribed, and significant margin compression across tenors offered.

The extension of the maturity profile has been done in a well-co-ordinated, responsible and cost-effective manner, protecting our net interest margins. During the year, we successfully compressed funding spreads in the 1-, 3- and 5-year tenors by between 30-70 basis points, albeit from a relatively high base.

Furthermore, following extensive due diligence processes, we finalised the following multi-lateral funding lines during FY2018:

- World Bank — USD 93 million *
- KfW — EUR55 million *
- European Investment Bank — EUR50 million *

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

These facilities will assist us in delivering on our mandate and will only be utilised during FY2019, which will reduce our need for debt and capital market funding and allow us to strategically approach the market to further reign in funding costs. We take immense pride in the confidence expressed in us by these international multi-lateral agencies.

The different objectives and utilisation conditions of these facilities and conditions are summarised below:

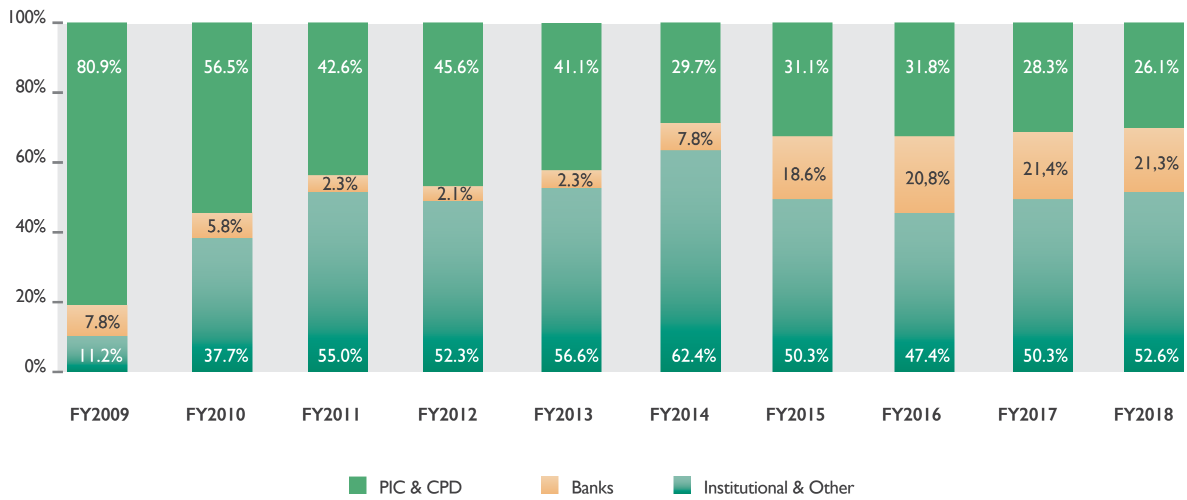
Table 20: Objectives and utilisation conditions of international multi-lateral agencies

Institution	Term Years	Purpose
World Bank	25	Development facility earmarked to give financial aid to participating financial intermediaries and direct beneficiaries.
KfW	10	General purpose facility earmarked to finance small- and medium-sized agricultural enterprises.
EIB	12	This is a general-purpose funding facility which aims to promote climate change projects within the agricultural sector.

Diversification of investor base

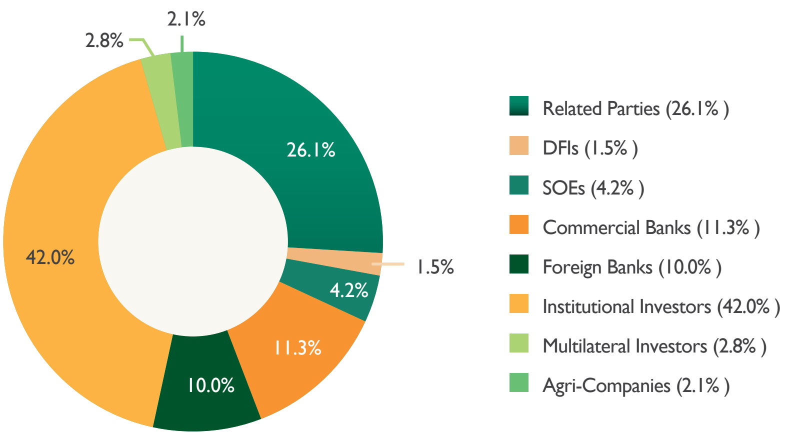
Our investor relations strategy is bearing fruit with the Bank significantly reducing single- counterparty reliance over the last couple of years with banks (both local and foreign), as well as institutional investors playing a definitive role in our funding programme. For more information on our investors refer to Table 6 on page 25.

Figure 27: Land Bank investor base profile



As noted from the graph below, our investor base is well diversified across a multitude of sectors both locally and internationally.

Figure 28 Funding Sector Analysis – FY2018



LAND BANK INSURANCE COMPANIES

Table 21: Land Bank Life Insurance Company performance

	FY2018 R million	FY2017 R million	Variance (%)
Gross premiums	10.2	11.3	(9.7%)
Net premium income	4.6	4.9	(6.1%)
Operating expenses	(6.6)	(8.0)	(17.5%)
Underwriting loss	(9.9)	(12.7)	(22.0%)
Investment income	55.8	62.5	(10.7%)
Net profit	47.1	53.3	(11.6%)
Excess assets over liabilities	1,169.5	1,122.4	4.2%
Investments	1,271.2	1,226.9	(3.6%)
Capital Adequacy Requirement	116.9	112.2	4.2%

Net profit for LBLIC declined by 11.6% to R47.1 million (FY2017: R53.3 million). LBLIC's overall performance was affected by the weak performance of the investment portfolio that saw investment income decline 10.7% to R55.8 million (FY2016: R62.5 million).

LBLIC launched their group life schemes for cooperatives in July 2016, which more than doubled the premiums in the FY2017 reporting period. Notwithstanding the 9.7% decrease in gross premiums for FY2018, the company is actively looking to grow this line of business with similar transactions. Operating expenses decreased by 17.5% to R6.6 million (FY2017: R8.0 million), mainly driven by a decrease in professional fees. Total excess assets over liabilities increased to R1.17 billion (FY2016: R1.12 billion), as a direct result of the Investment increase of R44.2 million. LBLIC had a CAR 116.9 times at the end of the period under review (FY2017: 112.2). The appointed asset managers for the entity's investment portfolio, support responsible investment and are either signatories of the United Nations Principles for Responsible Investments, a framework for achieving better long-term investment returns and more sustainable markets, or subscribe to CRISA, that guides the institutional investor on conducting investment analyses and activities, as well as exercise rights to promote sound governance.

KfW signing

Table 22: Land Bank Insurance Company performance

	FY2018 R million	FY2017 R million	Variance (%)
Gross premiums	543.3	536.9	1.2%
Net premium income	138.4	130.5	6.0%
Operating expenses	(20.3)	(18.4)	10.3%
Underwriting loss	(68.1)	(18.5)	+100%
Net loss	(35.6)	(2.7)	+100%
Combined operating ratio	149%	114%	30.7%

The short-term insurance company, LBIC, reported a net combined operating ratio of 149% in the current reporting period (FY2017: 114%) reflecting a net loss of R35.6 million (FY2017: R2.7 million loss). As the El Niño-related drought dissipated in the current season, more crops were planted with the anticipation of good rains for season. As a result, gross premium increased by 1.2% to R543.3 million (FY2017: R536.9 million). With the return of higher rainfalls, hail claims increased from the prior season, which was the major contributor to the increase of the underwriting loss reported, by R54.4 million to R68.1 million (FY2017: R18.5 million loss). Net premium and claims reserves released from the prior accounting period were predominantly utilised to settle drought claims to harvest in the first half of the reporting period. LBIC plays an important role in absorbing some of the inherent volatility characteristic of the agricultural sector.

Total assets increased to R883.5 million (FY2017: R866.7 million) while the CAR increased to 3.9 times (FY2017: 5 times).

Future focus

Our objectives in terms of Group Finance and Treasury activities for the next fiscal year include the following:

- Enhance capital structure to improve the gearing ratio;
- Consider the structural separation into a commercial and development Bank, given the different funding and capital requirements of the two balance sheets;
- Investigate access to funding at a lower cost to provide blended funding solutions;
- Actively manage the cost of funding; and
- Maintain credit rating.

INTELLECTUAL CAPITAL

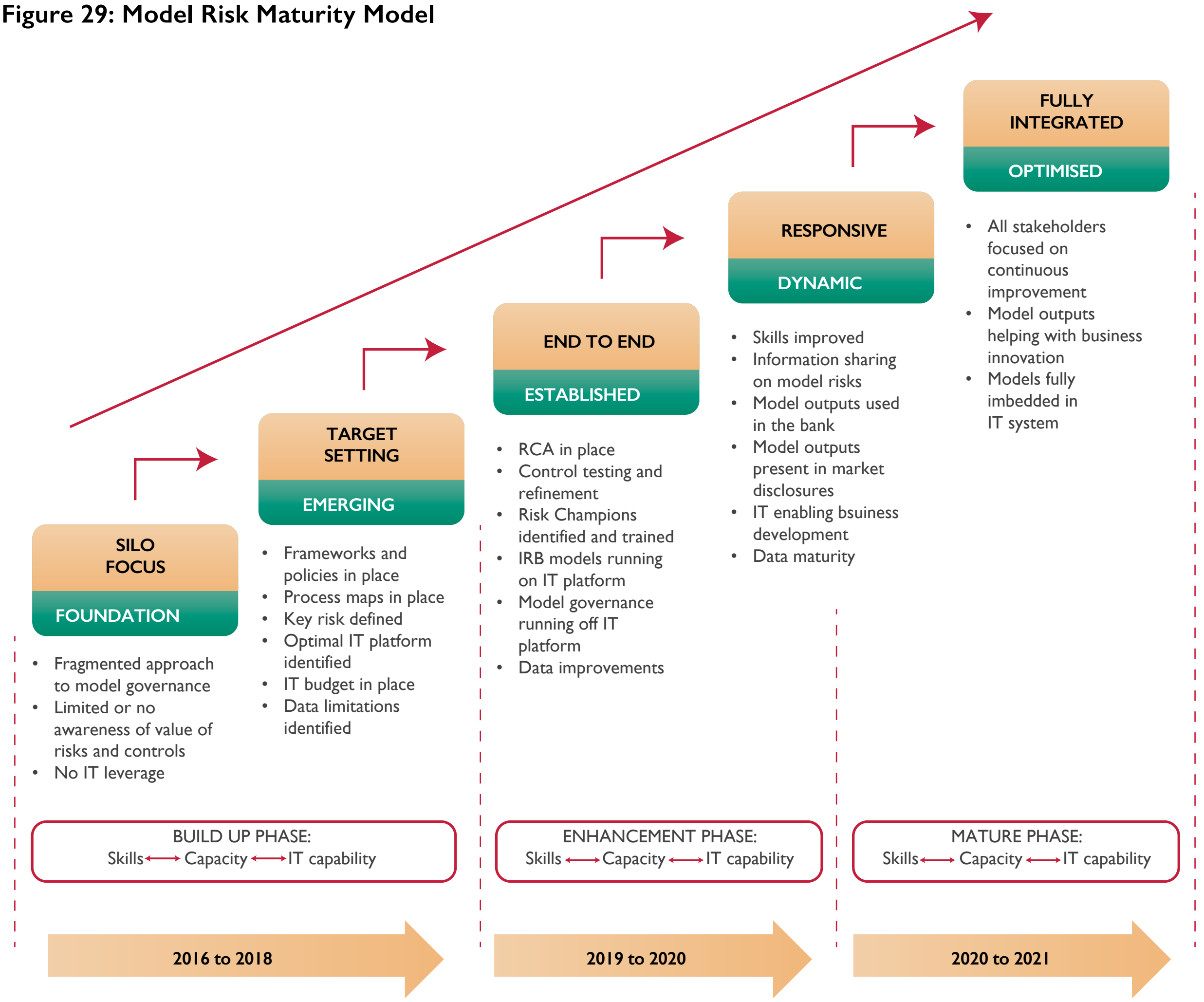
FINANCIAL MODELS AND GOVERNANCE

Our approach

Land Bank has accumulated extensive experience in the South African agricultural sector over 106 years of lending through various climatic cycles and across a wide range of commodities which comprise the core of our intellectual capital and corporate memory. The Bank therefore faces a significant challenge to preserve these insights and allow all employees in the organisation to benefit from this knowledge base. Since FY2016, we have allocated substantial resources to convert our intellectual capital into models that enhance our understanding of the data and improve our risk management capabilities. These include our financing, pricing, risk and credit models and which have been included in the relevant policies and processes to ensure consistent application of the models.

Our focus areas were derived to a large extent from the level of development that we have achieved during the previous years and the expected progress to deepen our model capability. The Bank considers itself to be in the emerging phase of this process as models are still being transitioned to IT platforms.

Figure 29: Model Risk Maturity Model



Our objectives for FY2018

- Improve the model governance framework;
- Improve the availability of reliable data to inform our models;
- Continue to improve our modelling capability and quality across the organisation.

Our performance

Our models were used extensively to stress-test the potential impact of Expropriation without Compensation on the organisation under various scenarios as discussed in the Chairman's statement of this report.

For information on the performance of our IFRS9 models, please refer to the section on Impairments under our Financial Capital section on page 52.

In terms of model governance, we have implemented the following frameworks and policies in the 2017-2018 (FY2018) year:

- Model Governance Framework;
- Model Validation policy;
- Model Validation methodology for IRB Credit assessments document;
- Model Validation methodology for IFRS 9 & related tools document;
- Structured Investments Valuation methodology (in progress);
- Model Changes Management – Policy;
- Model Changes Management – standard processes and procedures;
- Developed a risk and control matrix.

Five models were validated in their totality and model changes were validated on two additional models.

Future focus

- Conduct model IT implementation validation for credit models;
- Enhance model governance environment by identifying area with gaps to mitigate model risk; and
- Continue to improve data quality and availability for modelling purposes.

MANAGING RISK

Our approach

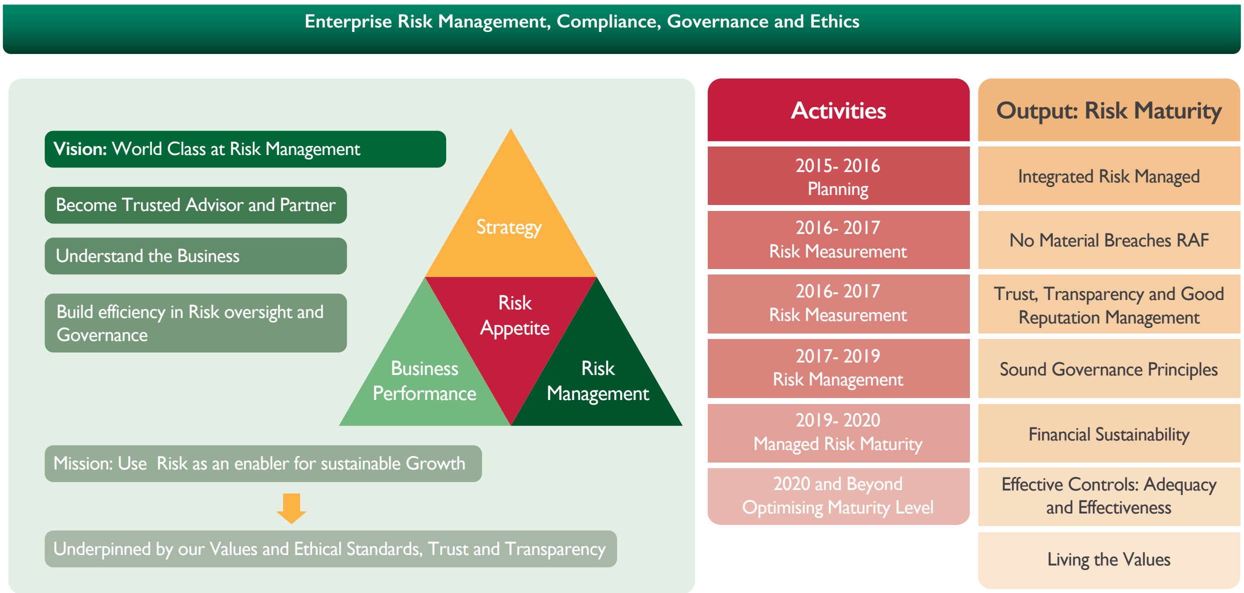
Our unique context as a DFI operating in the agricultural financing sector requires specific intellectual capital in the form of risk management, financial and credit models, ethics policies, organisational procedures and culture. We made significant progress during the year against our ambition of being world-class at ERM and ethics, and we consider this to be a meaningful share of our intellectual capital.

The volatile climate in which we currently operate requires effective risk management practices. This sets the tone for the emergence of a strong risk compliance, governance and ethics culture. The challenge for the Bank's management and Board is to determine how much uncertainty to accept as they strive to create value while increasing sustainable development impact. We use a risk management framework to effectively deal with the uncertainty, risk and opportunities to build value. Value is maximised when management sets strategy and objectives to strike an optimal balance between growth, returns and related risk, and effectively and efficiently deploying resources to achieve the objectives.

Our ERM framework sets out the Bank's risk management framework and takes into account the requirements of various relevant pieces of legislation and government regulations. It also aims to ensure clear governance roles and responsibilities to maintain a robust assurance function. The Framework was developed considering best practices such as ISO31000, Committee of Sponsoring Organisations Internal Control Framework, the King IV report, and selected Capital and Funding Risk Management principles substantially aligned to the Basel Accord.

ERM is an integrated risk management framework that emphasises risk as a focal point in an organisation. ERM must be consistent with the Bank's culture and be responsive to regulatory guidelines for implementation to succeed. Enhancing our risk culture across the organisation has been a focus area for FY2018, yet it requires still more effort.

Figure 30: Enterprise Risk Management, Compliance, Governance and Ethics

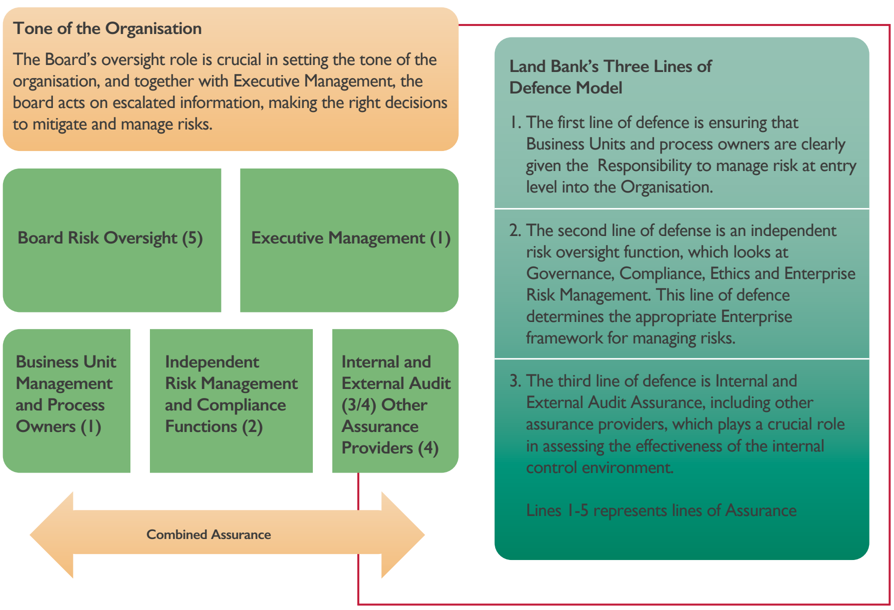


The framework is independently overseen by the Board and senior management. We report our risks to the Board through the various Board Committees, while executive management control is maintained through management committees that focus on specific risks. To ensure that the governance framework is sound, the Bank has standard charters for the committees and sub-committees. The ERM framework is supported by policies and procedures, clear reporting lines and aligned allocation of responsibilities and authority. Risk champions have been appointed for each of our business units as the key point of contact between the business unit and the Risk Management Division.

Three Lines of Defence Model

Risk Management roles and responsibilities have been allocated to the various parties across the Bank in line with our Three Lines of Defence Model. The model is the foundation for our risk management practices. Please refer to the section on Internal Audit on page 132 for more information on our approach to Combined Assurance.

Figure 31: Three Lines of Defence Model



Our objectives for FY2018

We consider risk management to be an enabler for sustainable growth. In 2016 we started our course towards integrated risk management by focusing on risk measurement. During FY2018 we progressed from risk measurement to the risk management phase and we expect to continue to carry out this phase throughout FY2019.

- Institutionalise good governance principles;
- Improvise risk monitoring and reporting and continually enhance the risk culture and maturity within the Bank by using various assessments tools;
- Ensure continuous improvements in the credit assessment and monitoring process;
- Mature the use of the new Risk Appetite Framework (RAF) and to ensure all metrics have reportable measures;
- Maintain and monitor adherence to new loan covenants with funders;
- Implement tracking of DMTN Programme issuances;
- Increase training and awareness of Enterprise Risk, Compliance, Governance and Ethics;
- Encourage the reporting of incidents through the incident management process;
- Strengthen model governance after the introduction of quantitative credit risk models in 2016.

Our performance

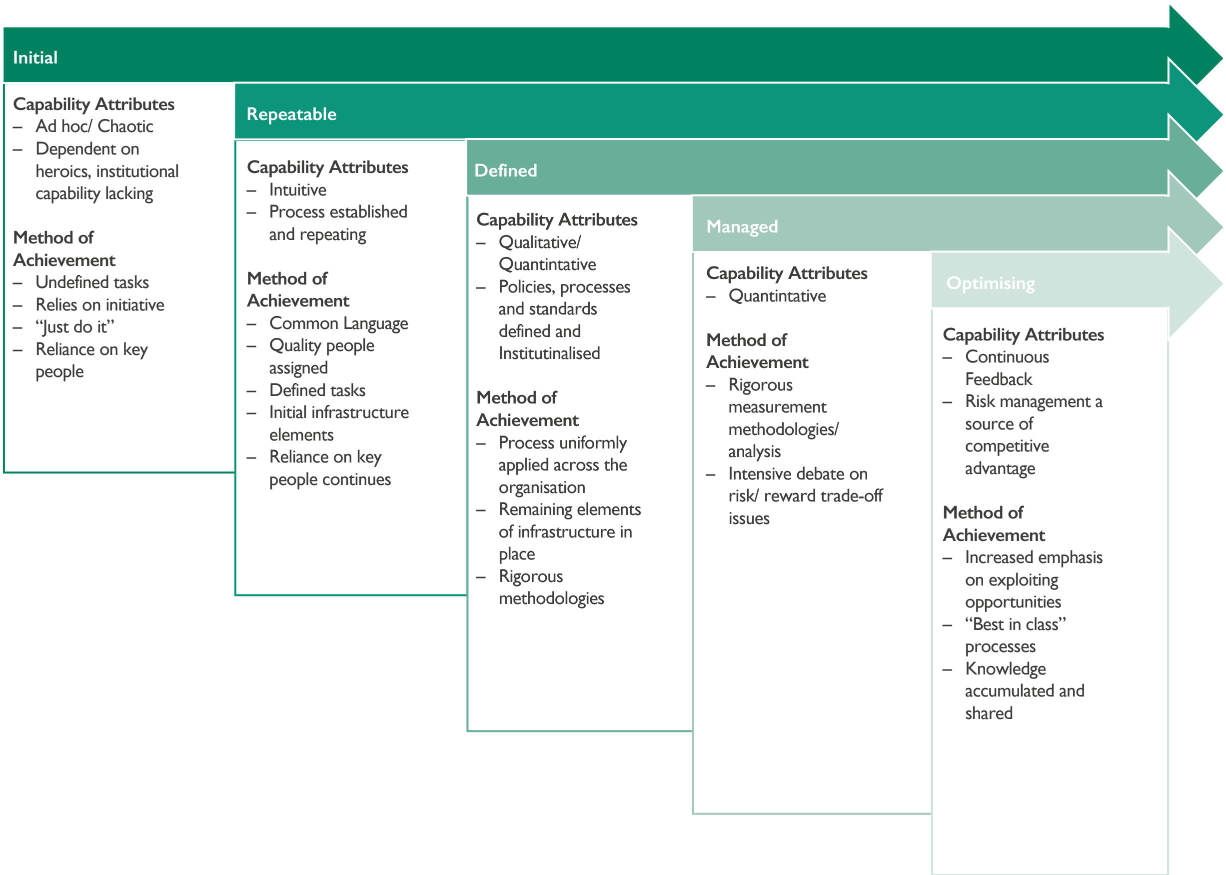
We registered a significant number of achievements against the focus areas, which substantially improved the Bank's risk management processes and outcomes. The table below summarises these achievements across our key functions.

Table 23: Key risk management actions for FY2018

GOVERNANCE
- Reviewed the Enterprise Risk Governance Architecture and Framework including King IV review, governance output, attestation process - Reviewed the Risk Appetite Framework Indicators and alignment of Key Risk Indicators to the Corporate Plan - Reviewed Delegation of Powers in accordance with regulatory, structural and governance prescripts - Revised and aligned Management Committee Charters - Reviewed the effectiveness of the Committee Attestations and Risk Escalation procedures
CREDIT RISK MANAGEMENT
- Reviewed Portfolio Management Services policy, processes and standard operating procedures (SOPs), subject to amendments and alignment to business and credit processes - Assessed credit processes, followed by necessary enhancements to the processes resulting in improved integration of risk into proposals, turnaround times and quality of applications - Matured our implementation of IFRS 9 through model enhancements underpinned by improved data, enabling the Bank to assess impairments pro-actively (see page 56 for detailed discussion on the outcomes of these assessments) - Reviewed credit policies, credit governance frameworks and credit committee mandates and charters
ENTERPRISE RISK MANAGEMENT
ERM framework review and update
- Reviewed enterprise and operational risk analysis policies, processes and reporting - Tracked and monitored, RAF including loan covenants tracking - Developed the stress testing framework and tool for scenario analysis - Developed compliance risk management plans - Conducted reputational risk reviews for high risk matters - Revised the Information Governance Strategy - Updated our risk assessment tools
Risk culture strengthened throughout organisation
- Deepening the role and responsibilities of risk champions in each business unit - Ensuring that business units undertake risk and control self-assessments - Ensuring that risk management is routinely represented on MANCO and other sub-committees - Ensured continuous training and awareness in respect of risk matters - Utilised various communication forums to promote ethics, risk, governance and compliance - Enhanced the Combined Assurance Framework, and alignment of fraud risk (2nd line) to ERMF
Technology enabled
- Developed and automated tools, registers, analytics

We are pleased with our progress and measure it against the ERMF maturity model defined below**.** In our view, we have achieved 100% at defined level, and are venturing onto the managed level (20% - 40%). Our emphasis for FY2019 will be on improving analysis methodologies and risk / reward trade-off discussions.

Figure 32: ERM Maturity Map



Risk appetite

The Bank's risk appetite is defined alongside the Corporate Plan, and defines the nature and amount of risk we are willing to take in meeting our strategic objectives. During FY2018, the Bank developed a new Risk Appetite Framework (RAF) that consists of a risk appetite policy, risk appetite framework and risk appetite metrics. The RAF policy of the Bank was approved by the Board in consultation with EXCO, Risk Function and business units to recognise a range of possible outcomes. Each year, our risk appetite parameters are identified at the start of our strategic planning cycle and determined for the individual risk dimensions.

Our principal risks

Our risks are determined firstly through a process of profiling the business context and a risk assessment to identify the potential sources of risk associated with each element. Secondly a risk analysis is conducted to calculate the probability of risk events, their potential impact and their ranking in order of priority. During the risk evaluation step we calculate the residual risk and develop the control requirements. During the period under review, our overall risk rating reflected amber. The diagrams below show the principle risks identified through this process and our top 12 risks including mitigation actions. We developed enhanced processes for monitoring, reporting and escalating our risks and risk mitigation controls during the years.

Figure 33: Principal Risks

LIKELIHOOD		< R8m	>R8m to R50m	>R50m to R100m	> R100m to R200m	> R200m
5 – Very Likely >100%						Land Reform and Land Expropriation without Compensation →
4 – Likely 75 – 100%				Critical skills retention and development/ People capability →	Credit default ↗ ESS risks: Water access/Social discontent → Economic and fiscal risks → Loan book slow growth → Data optimisation/ Information / records management → Business efficiency/ IT governance/ system capability gap →	Capital adequacy and Gearing ratio → Legal and regulatory non-compliance, including ethics ↑
3 – Moderate 50 – 75%					Theft, fraud and corruption → Shareholder and Stakeholder relation management and support ↓	
2 – Unlikely 25 – 50%						
1 – Rare 0 - 25%						
		IMPACT				

As a development finance institution, we have to contend with a unique and challenging risk universe. The major risks for the Bank include operational, strategic, credit and investment and financial risk while our risk profile is weighted towards financial and strategic risk. These are discussed in more detail in Table 24.

Table 24: Top strategic risks of Land Bank

Risk description	Mitigating actions	Material matter
1. Land reform and impact of Expropriation bill - Expropriation without Compensation		
The support of Expropriation without Compensation by Parliament, which could impact national food security, sustainable farming, the economy and threaten the sustainability of the Bank.	- Develop Land Bank position on expropriation, which supports long-term sustainable solution to process. - Quantify the impact on credit impairments of the Bank under a number of scenarios - Engagement with various stakeholders, sector partners and policy makers to provide data analytics and thought leadership, manage expectations and communicate options. - Joint Constitutional Review Committee/ play advisory role and participate. - Conduct realistic valuations when farms are re-mortgaged, to ensure portfolio recoverability and avoid overvalued farms.	Financial Sustainability Development Impact
2. Development ineffectiveness and Sector non-transformation through the direct lending book		
Slow growth of the development book relative to the portfolio size and Land Bank's effective contribution towards sector transformation resulting in poor stakeholder perception in Land Bank's inability to contribute to the development mandate.	- Establishment of blended finance facility in collaboration with Land Bank and DAFF - Develop specific instruments which will allow Land Bank to take greater risks/ de-risking mechanisms for development transactions - Develop an integrated New Generation Farmer Support Programme - Conceptualise an agricultural sector technology structure for the future. - Embedded a deliberate focus on transformation, incorporated in performance contracts and reporting - Agree the appropriate capital and funding structure to increase development impact with the Shareholder	Development Impact Stakeholder management
3. Slow pace of transformation through SLA partners		
Failure to incentivise SLA partners to allocate funds to support transformational transactions at sufficient scale	- Negotiate development impact targets with SLA partners - Increased monitoring and review of SLA contracts and performance - Increase the proportion of new money that is provided to new generation farmers: - Relationship with WFF requires agreement on approach, due diligence, monitoring and the establishment of black intermediaries	Development Impact Stakeholder management
4. Capital Inadequacy and Gearing ratio condition/ Inadequate equity capital		
Failure to raise sufficient capital (profit level) to fund/ support business growth (10 % Balance Sheet growth).	- Adopted the requirements of the foundation IRB approach Basel II by FY2022 - Secure sufficient sources of capital available to support the current Balance Sheet - Investigating possible sale of assets in the SLA book in FY2019 to meet National Treasury's gearing conditions. - Investigating alternative sources of capital or restructuring of balance sheet to address capital adequacy - Engagement with the Minister of Finance to find a long term sustainable funding structure	Financial Sustainability Stakeholder Management

Risk description	Mitigating actions	Material matter
5. Ineffective shareholder and stakeholder relationship management and support		
Failure to entrench focused relationships with key stakeholders (including regulatory stakeholders), shareholder, investors, and the media	- Stakeholder Relationship Management Strategy has been approved and is being executed - A detailed and focused Stakeholder engagement plan for National Treasury was developed and approved by EXCO	Stakeholder Management
6. Business inefficiency		
Persisting business processes and people capacity limitations to deliver world-class client service due sub-optimal operational performance	- Process optimisation to improve turnaround times, process and system efficiencies and to embed a more comprehensive due diligence process - Commenced the implementation of the project management governance framework aimed at improving the effective execution of projects and initiatives	Financial Sustainability Employee Development
7. Strategy execution capability gap		
The lack of clear end-to-end coherent enterprise technology strategy and introduction of new technologies to deliver business efficiency for long-term vision (single view of clients)	- Skills gaps being prioritised through Learning Academy, training and recruitment strategies - Formalise partnerships and alliances to improve delivery of complex transformation projects	Financial Sustainability Employee Development
8. Legal and regulatory non-compliance		
Breach of legislation regulations, policies and procedures, including Regulatory Stakeholders	- Formal Monitoring Plan inclusive of a Training Plan has been developed as per High Risk regulations. Compliance Department has adopted the ERM Framework Risk Rating Methodology - Bank-wide formal communication of Politically Exposed People (PEPs) /Sanctioned client screening process - Developed a detailed Financial Intelligence Centre Inspection Report Action Plan	Corporate Governance Risk Management
9. Impact of environmental and social risks on the Bank strategy and philosophy		
Inability to adequately identify, assess, monitor and report on environmental and social risks	- Creating a baseline to understand the Bank's client portfolio impact to environmental and social risks - Introduced Environmental and Social Sustainability into due diligence processes - AML and PEP screening of all suppliers	Environmental Sustainability Corporate Governance Risk Management
10. Rising social discontent and racial polarities		
Rising incidents of discontent in sector including poor labour practices, crime and insecurity, wage disputes and lack of community cohesion	- Focused CSI policy on rural communities	Development Impact Stakeholder Management
11. Access to water resources (licenses issue delays and shortage due to drought)		
Unavailability and inconsistency of water supply to famers due to licenses issue delays and drought	- Engagement and MOUs developed with appropriate government departments - Provided concessionary loans to drought-affected clients, subject to available funding - Conducting research to establish water management practices amongst clients and to identify opportunities for support	Environmental Sustainability Development Impact

Risk description	Mitigating actions	Material matter
12. Data management optimisation		
Insufficient data optimisation and management resulting in the unavailability or lack of internal quality (standardised/ incomplete/ credible) customer/ and product data, which should be used for modelling	- Established IT steering committee and several projects to complete data standardisation and automation	Risk management
13. Information (records) management		
Failure to maintain accurate and consistent information over its entire life cycle (processing, storage and retrieval) in compliance with POPIA and in alignment with Land Bank information and records requirements	- Established legislative and regulatory requirements for information management and developing information privacy policy - Management structures established for improved information management	Risk management
14. Credit default risk		
Failure to originate quality loans/assets or investments within the approved risk appetite & KRI resulting in high non-performing loans (NPLs)	- Updated policy and procedures regarding credit analysis of existing and potential clients - Continue to enhance credit origination tools and models - Implement foundation IRB approach by FY2022 - Implemented end-to-end credit processes to ensure minimal credit risk at origination	Financial sustainability Risk management
15. Critical skills retention and development		
Inability to retain and develop critical skills in a market where skills shortage of ACI female is experienced which can result in ability to deliver on strategy and objectives	- Identified and filled 89% of critical positions - Implemented Talent Management Framework - Embedded constant review of pay scales and remuneration policies to ensure retention of key employees	Employee development
16. Cost containment		
Cost-to-income ratio exceeding long-term Land Bank targets (risk appetite and corporate plan target is 55% and 65% target loan covenant level)	- Regular business review (monthly) meetings are held to discuss business performance - Analysis of the appropriateness of the current business-operating model to achieve the 50% long-term cost-to-income target	Financial sustainability
17. Insufficient Funding and Liquidity		
Inability to grow the loan book due to adverse economic and fiscal conditions	- Land Bank continues to grow loan book within limited capacity to ensure investments continue in sector - Ensure availability of sufficient available cash funds to manage potential liquidity constraints in event of downgrade - Investigating alternative sources of capital or restructuring of balance sheet to limit required shareholder support - Improve utilisation of multi-lateral funding lines e.g. EIB, KfW	Financial Sustainability
18. Theft, fraud and corruption		
Unauthorised use and manipulation of information with the intent to commit fraud, misappropriate property, circumvent regulation, the law, or company policy by an employee and/or a 3rd party	- Internal Audit will continue monitoring the reports made through the whistle blowing amd ethics hotline. - Implementation of recommendations in forensic reports. - Risk assessments have been finalised with most departments - Fraud Risk Assessments and Fraud Risk Analytics to be undertaken - Expand and improve ethics training to all employees - Review ethics strategy and incorporate recommendations from the Ethics Institute	Risk Management Corporate Governance

Future focus

Planned Risk Management initiatives:

- Review credit policies, charters and frameworks annually;
- Credit committees to evaluate their effectiveness through self-assessments;
- Conduct model IT implementation validation for loan origination models;
- Enhance model governance environment by identifying area with gaps to mitigate model risk; and
- Deepen understanding of credit risks associated with transformational transactions and
- enabling of such transactions.

COMPLIANCE

Our approach

The Land Bank Group recognises its accountability to all its stakeholders under the legal and regulatory requirements applicable to its business and is committed to high standards of integrity and fair dealing in the conduct of its business. We are committed to comply with the spirit and letter of relevant requirements to always act with due skill, care and diligence. Non-compliance with legislation, statutory regulations and rules, policies and duties will be detrimental to the organisation's business model, strategic objectives and reputation and may damage its financial sustainability and is therefore unacceptable to the Board and management.

The Bank's Risk and Governance Committee governs compliance and delegates the management of the compliance function to Executive Management according to the King IV principles. The Bank's Compliance Function acts as an independent operational unit to identify, assess, advice, monitor and report on regulatory compliance risk in the Bank.

Our objectives for FY2018

- Enhance our anti-money laundering, sanctions screening and political exposed persons identification processes;
- Establish the Policy and Process Change Committee to take responsibility for reviewing new and existing policies;
- Review our legislative landscape to identify high risk legislation; and
- Support the organisation's implementation of King IV principles.

Our performance

During FY2018 the Policy and Process Change Committee was established within the Executive Management structure to review new and existing policies and processes. It reviewed 35 policies, 19 process maps and/or SOPs, and 25 risk assessments related to policy risks. The Compliance function is the custodian of the policy repository and monitors that policies are reviewed and references applicable regulatory requirements.

We introduced an annual Compliance Programme to identify and assess compliance risk; manage and monitor compliance with prioritised areas and to report thereon to the Chief Risk Officer and ultimately to the Risk and Governance Committee. Furthermore, monitoring is conducted on the top 10 high-risk pieces of legislation as identified in the Regulatory Risk Universe. In addition to the Compliance Risk Management Plans that were developed, Compliance uses a checklist which enables it to monitor controls, assess where business has complied with regulatory requirements, and identify areas of non-compliance that should be reported.

The Bank has an unwavering responsibility to enforce anti-money laundering and related legislation. We approved a Politically Related Persons (PEP) policy in 2016 to give effect to the requirements of the Financial Centre Intelligence Act as amended. During FY2018, 3 658 entities related to new loan applications and procurement transactions were screened using the Dow Jones Risk Management screening tool. The extension of the screening process to include suppliers to the Bank was a main enhancement in FY2018. Training was provided to all affected employees during FY2018, with particular emphasis on credit origination and supply chain management staff.

If the screening process identifies a PEP, an Enhanced Due Diligence process is followed which includes further investigation by the Anti-Money Laundering Compliance Officer, adverse media searches, consideration of the span of control and ultimate beneficial ownership. This Enhanced Due Diligence process may result in a PEP being classified as High Risk, which then requires EXCO approval if it is deemed an acceptable risk in line with our risk appetite on conclusion of the full process. The list of newly identified High Risk PEPs is submitted to the SEC committee on a quarterly basis for notification.

We regard retrospective screening of our existing loan book as a priority and are investigating options to conclude the process.

Table 25: Beneficial owners and shareholders and directors screened

Total number of entities screened	3 658
Number of clients screened	2 826
Number of suppliers screened	832
Total number of PEPs	89
Number of client PEPs	49
Number of supplier PEPs	40
Total number of High Risk PEPs	13
Number of client High Risk PEPs	10
Number of supplier High Risk PEPs	3
Number of client High Risk PEPs where business has been concluded	7
Number of supplier High Risk PEPs where business has been concluded	1

Under FICA regulations the Bank is obliged to report all cash transactions above the threshold of R24 999.99 to the Financial Intelligence Centre within 48 hours of becoming aware of the transaction via the goAML portal. As at 31 March 2018, a total of 123 cash threshold transactions were reported.

Apart for a late payment of PAYE of R31 180 related to the timing of resignations and subsequent payment of bonuses to those qualifying employees, we did not incur any regulatory fines or penalties in FY2018. We have updated controls to cater for these circumstances in future.

Human Rights

We updated our Promotion of Access to Information Act 2 of 2000 (PAIA) manual and improved the internal request management and reporting process. In this regard, we adhered to the reporting requirements of the South African Human Right Council and Department of Justice and reported that no requests were received during FY2018.

Future focus

Compliance is committed to ensure the adherence to regulation and laws. The focus areas for compliance for FY2019 include:

- Strengthen compliance monitoring;
- Revise the regulatory risk universe, which includes establishing a methodology for identifying the most relevant legislation. The aim is to examine the identified legislation in accordance with the ERM framework risk rating matrix to determine the likelihood of non-compliance and the impact of the legislation on the Bank;
- Utilise communication platforms for effective compliance to cultivate a culture of proactive compliance;
- Review the Anti-Money Laundering Framework, policy and manual to ensure regulatory alignment and include best practices; and
- In instances where clients and suppliers are deemed High Risk PEPs but it is considered appropriate to continue with a transaction, introduce quarterly monitoring to manage any potential risks.

HUMAN CAPITAL

Our approach

The skills, experience, diversity and productivity of our people enable us to conduct our value-adding activities and to meet our development impact objectives. Our Human Capital division is a strategic partner that enables the Bank to achieve its vision to be a world-class agricultural development bank. We work in a challenging macro-economic environment and sector, resulting in a difficult context in which to source and develop the capacity to achieve this vision.

Human Capital by nature is an environment that is highly regulated by legislation, policies and procedures, and in which it is ensured that fairness in the working environment is adhered to. The Division adopted and aligned to the enterprise risk framework outlined for the Bank. During the period under review, the Division reviewed the operational risk register and identified 11 risks of which no risk has been rated at moderate. Furthermore, it completed the controls for the relevant compliance risk register. Our Human Capital risks and mitigation actions have been incorporated into our strategy and plans.

During FY2016 we developed a three-year Human Capital strategy to address the challenges we face in our unique context more effectively. The strategy informs the key focus areas for the Division to ensure that the Bank has the right people, the right skills and a view towards building continuous sound people management practices. The first year of implementation, FY2017, concentrated on building the human capital foundation and emphasised developing the policies, processes and frameworks, to lay the foundation for the employee development needs of the Bank. The Human Capital strategy entered its second year of implementation during FY2018.

Our objectives for FY2018

Talent management

- Implement talent management, including an assessment of our talent pipeline and actions to build capabilities and a succession plan. Our focus was to build and deepen the skills foundation through a number of initiatives.

Diversity

- Ensure that diversity objectives are included in our human capital initiatives

High-performance culture

- Conduct a detailed corporate culture survey during FY2018.

Remuneration and rewards

- Explore non-financial rewards and recognition to enrich our remuneration packages through benchmarking employee value propositions.

Human capital employee value proposition

- Review key Human Capital policies to incorporate and enhance the employee value proposition.

Our performance

Talent management

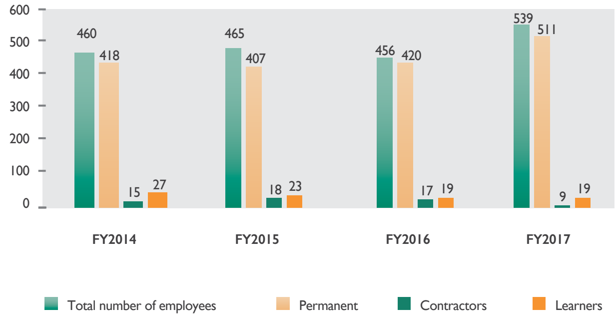
The Bank is strongly focused on leadership development. Our enhanced focus on our role as a DFI requires skills and attributes that allows the organisation to realign its strategic focus, identify innovative solutions for the challenges faced by new generation farmers and develop customised funding structures. We have reviewed our organisational structure over the past three years and embarked on a programme to provide the ideal employee value proposition to attract suitably skilled professional employees. We also aspire to provide an organisational culture that subscribes to ethical values and imbues its actions with integrity which will entice similarly minded individuals to contribute constructively to achieve our mandate.

In entrenching and driving a high-performance culture, the Bank launched new values and a leadership charter. The senior management team participated in 360-degree assessments and feedback was given on how their team perceive them to be living the Land Bank values. There will be continuous monitoring and assessment on how these values are lived by all employees.

Employee headcount

The management of headcount informs the acquisition of new talent, the setting of transformation and employment equity targets and the focus on internal development of capability. During the organisational review in FY2016, a new structure was approved and implemented, and reviewed during May 2017. The Bank reduced the permanent headcount over the past three years. Although the number of contractors increased marginally, eight of these contractors are committed to a short-term project and some were contracted to stand in for employees on maternity leave. Contractors do not receive medical aid and retirement benefits which are provided to permanent employees.

Figure 34: Employee segmentation



Retention and attrition

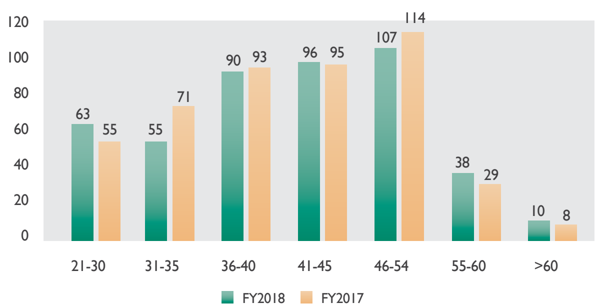
The attrition rate for Land Bank was 7.89% during FY2018, which is within the market norm of 12%. Two Executive Managers resigned from the Bank during the year, namely the Executive Manager: Legal Services and the Executive Manager: Agriculture Economics and Advisory. These positions have subsequently been filled; one with an internal appointment and the second by an ex-employee.

As of 31 March 2018, we have filled 134 of 143 positions identified as critical roles, or 94% fill rate. Forty-one vacancies remain to be filled of which nine are classified as scarce skills.

Age profile

We also manage the workforce age profile to ensure that we have a continuous supply of human resources and to limit the effects of a potentially aging workforce. The average age of our employees is 42 years.

Figure 35: Employee age profile

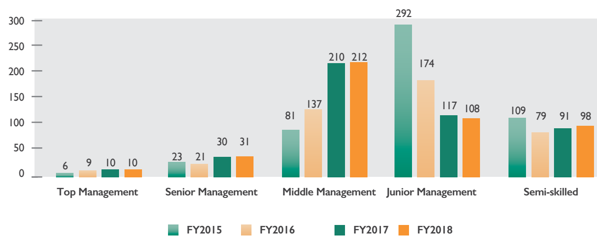


Employee composition by grade

Land Bank's employee composition by grade informs succession planning, skills requirements and employee development needs. The number of employees employed in the different job grade levels has changed over the past three years. There has been an increase in the executive, senior and middle management level, which is attributed to the change in the organisational strategy requiring additional leadership roles to drive the strategy, different skills and competency sets. The use of indirect delivery channels in the form of SLA partners means that certain job categories especially junior management roles are executed outside the formal organisational structure.

The job profile grading validation that was completed during the year also resulted in some movement in levels. The changes to the employees' profile by grade has put pressure on our talent management. We are cognisant of the increasing importance of continually reviewing the talent management strategy and implementation to ensure that we are developing the appropriate capacity for a sustainable future.

Figure 36: Land Bank profile by grade



Talent management implementation

The single biggest challenge we face is building the institutional capacity to lead the Bank into a sustainable future. We require the skills and capabilities to deliver value, but more importantly, capability forms the foundation for the institutional eco-system required to support the agricultural sector. Farmers need access to the new technology available to the sector, but exposure and affordability remains a challenge. Employees must have the skills to provide innovative options to the sector that allows access to this new technology on an affordable basis. This would enable the Bank to use this technology to provide new solutions and to manage risk and create sustainable long-term value. Our progress against our objectives demonstrates our commitment to building the required capability.

We are pleased to report that we increased our total training investment by 41% during the year compared last year FY2018: R5.1 million; FY2017: R3.6 million. Our efforts towards diversity formed a part of our capacity-building plan and 86% of the training budget was spent on the development of Black employees.

During the year we achieved our objectives towards implementing the Talent Management Framework that was developed in FY2017. We started the process of identifying and developing our internal talent. We also reviewed job descriptions bench marked the annual salaries and changed job titles in line with strategies.

Our capability-building plan directly connects learning and development to our strategic direction, business model and business-planning processes. This ensures that performance is aligned to our capability to successfully meet current and emerging needs and requirements. The purpose of the capability building plan is to:

- Develop capable people to ensure achievement of the bank's strategic objectives;
- Align investment in learning and development with the Bank's business needs;
- Promote organisational and individual performance excellence;
- Provide a framework against which learning and development options can be evaluated and prioritised;
- Continue to develop the Bank's managers and leaders;
- Support development of a positive workplace culture that values learning and continuous improvement;
- Integrate learning with the Bank's business frameworks; and
- Provide career development opportunities for all employees.

We have partnered with a specialised training provider to develop and deliver a customised Land Bank Learning Academy to enhance capability development of our employees in line with the Bank's new operating model. The Learning Academy is aimed towards optimising competence in alignment to the requirements of the Bank's roles and in support of our strategic goals. During the FY208 the Learning Academy was piloted in two divisions. The implementation of the academy will be on the forefront of the Learning and Development deliverables. Next year we will expand these modules to the remaining divisions.

Supporting both internal and external capability building, we expanded our Bursary Scheme and Learnership Programme to increase the number of learners. The bursary scheme for university students is an ongoing initiative implemented by the Bank to develop its future pipeline of talent. Ten students were sponsored by the Bank for the 2017 academic year, through various undergraduate study programmes, primarily the Bachelor of Science in Agricultural Economics qualification to alleviate the scarcity of agricultural skills. We believe that by increasing our uptake of learners we will improve the return on investment with regards to skills and expertise needed to support the Bank and the sector. We appointed three learners as permanent employees during the year, and increasing the uptake will be a focus for the upcoming years as our learners complete their qualifications. Eight of our other learners found permanent opportunities elsewhere in the financial and agricultural sector which demonstrates the contribution Land Bank has made towards the National Skills Development Plan.

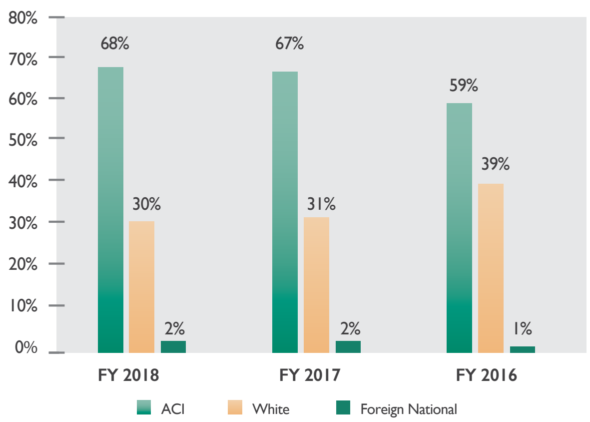
We acknowledge that we could further improve our capacity building initiatives towards building skills for the integration of technology into the Bank and sector innovation. This objective will be reviewed along with the Human Capital Strategy over the next financial year.

Diversity

The Human Capital division achieved several milestones and made progress towards establishing a diverse employee complement. We made solid progress against our ACI representation since FY2016, increasing the component of Black, Asian and Coloured (ACI) employees by nearly 10% over the period.

In order to accelerate transformation and inclusivity, we established an Employment Equity and Skills Development Committee during the year to oversee our plans and initiatives towards a more diverse workforce. This committee provides both an internal and external focus, ensuring that we not only contribute to the Bank's employment equity, but also towards national skills development. We expanded our Human Capital monitoring to track investment in training for ACI specifically and monitoring female representation at a more granular level.

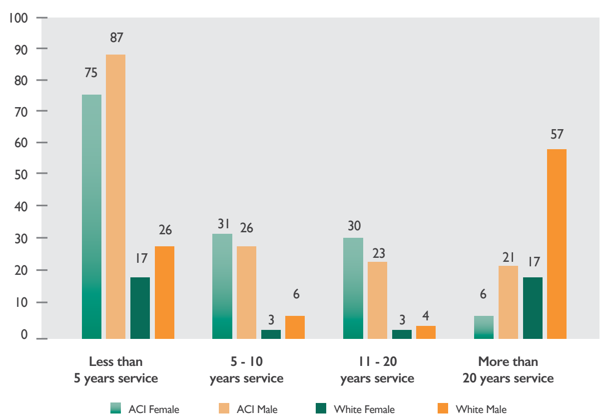
Figure 37: Transformational composition



Gender representation remains a key focus and a challenge for us. We require a combination of banking and agricultural skills that are rarely found in female candidates and it therefore requires dedicated effort to attract these potential employees. Over the past 10 years (2008 to 2018), Land Bank has successfully reduced the gender pay gap between males and females by 6%.

Our commitment to improving the diversity and inclusivity of our employee profile is evident when analysing our recruitment practices over time. Over the past five years employee recruitment focused on redressing the transformation profile of the Bank's employees complement with the majority of new recruits being ACI candidates and a significant improvement in gender representation.

Figure 38: Employee composition by years of service

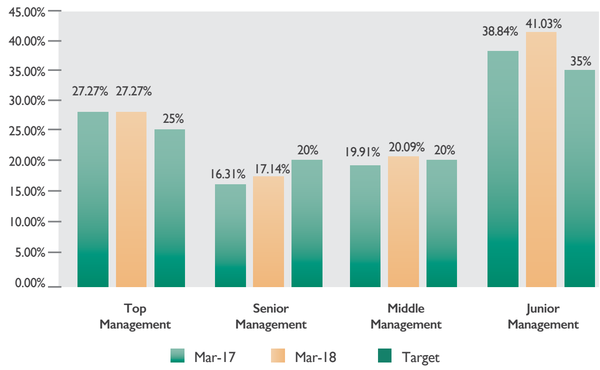


Our targets regarding transformation for next year have increased in line with our objective of enhancing diversity. We set the following targets for Black women representation for this financial year:

- Executive management: 25%;
- Senior management: 20%;
- Professionally qualified and middle management: 20%; and
- Skilled and junior management: 35%.

Over the past 12 months, the proportion of Black women in top management has remained unchanged, while the proportion of Black women in senior, middle and junior management levels have improved marginally.

Figure 39: Black women in management: FY2017 – FY2018



High-performance culture

The Bank is continuously striving towards becoming known in the industry as a world-class organisation. To achieve such ambition, it was important to establish the baseline of the organisation culture and engagement levels. A climate and culture survey was conducted during February 2018. The overall response rate was 70%, a rate we are proud of in comparison to the lower employee response rates to surveys that are typical in South Africa. We are also extremely pleased to report that 92% of our employees find meaning in their work. Forty-four percent of organisations surveyed scored lower than the Bank on this measure. The detailed results will be shared with all employees during the new financial year. Thereafter an implementation plan will be developed to outline and commit to implementation of key initiatives.

Our performance management follows a cascading process starting with the Corporate Plan. The Bank's performance measures from the plan are incorporated into the CEO and executives' performance scorecards, which are then cascaded to all levels of employment. During FY2018, we automated our performance management system for more efficient management of the process and tracking of KPIs.

Enhanced employee value proposition

The Bank operates in an environment which is regulated against the State-owned Enterprise Remuneration guidelines, National Treasury Cost containment and various other legislative and non-legislative requirements. While we ensure that annual remuneration benchmarking is completed and that the pay-scales are aligned to the market and affordability, it is becoming increasing difficult for the Bank to attract skills at a certain level and to compete against the market. For this reason, the Human Capital Division embarked on a benchmarking process to review the Bank's offerings against similar industry organisations. The intention of this exercise was to determine whether we are able to offer employees any other monetary or non-monetary benefits to increase the value proposition to prospective as well as current employees. In response, we reviewed three policies and made the following changes:

- Instated a December closing period that effectively gives all employees ex gratia five leave days during close period;
- Increased number of study days depending on degree the individual is pursuing; and
- Introduced an employee dependents tertiary level study grants whereby higher levels of grant funding is provided to the children of lower level employees.

We plan to review and revise accordingly the remaining policies in the next financial year.

Future focus

Human Capital is committed to providing a value-adding strategic partner relationship to the Bank and its employees. We will deliver on the human capital strategy and deliverables for FY2019 as follows:

- Continue the implementation of our Learning Academy initiatives, moving from building our skills foundation to enhancing it; will also expand it to the core functions where it has not yet been rolled out in CB&SI and Portfolio Mangement Services;
- Continue the rollout of our talent management programme;
- Increase diversity – common theme across all of our initiatives;
- Continue to evaluate our pay structures and ensure competitive rewards;
- Focus on implementing high-performance initiatives and programmes based on the outcome of the culture survey conducted in FY2018;
- Add knowledge management to the third year of our strategy and include the development of communities of practice and alumni programmes to share and manage our critical areas of knowledge and expertise;
- Capability development interventions to include training on Corporate governance and Leadership development programmes;
- Expand employee relations from a training focus to monitoring and discipline management and
- Assess the strategic direction against the Bank's strategy to revise and enhance it for the future as the third and final year of the strategy comes to a close during FY2019.

SOCIAL AND RELATIONSHIP CAPITAL

STAKEHOLDER ENGAGEMENT

Our approach

We consider our various stakeholders as key partners in the Bank's activities. Agriculture as a sector is predisposed to co-dependence and delivers best when stakeholder needs are recognised in the business. To strengthen and maintain its positive co-dependent relationships, the Group formalised its stakeholder engagement strategy and reporting during FY2017. To ensure a holistic and coordinated stakeholder engagement approach stakeholders are segmented and classified according to their interests, and in consideration of our intended objectives to add relationship value to both parties (see Figure 40 below). Business units use a combination of one-on-one meetings, presentations, media and closed discussions as a form of engagement. Our stakeholder manager ensures that the approach is consistent across business units and stakeholders. Issues that have to be prioritised and escalated may be highlighted via media monitoring. The outcomes are managed to maintain relationships and a positive perception of the Group.

Figure 40: Land Bank primary stakeholders

Our objectives for FY2018

The long-term objectives of the Group's stakeholder strategy have not changed:

- Strengthen and maintain relationships with stakeholders;
- Identify opportunities and threats arising from stakeholders' material concerns;
- Assist with strategic sustainable decision making;
- Develop and promoting a sound understanding of stakeholders' needs, interests and expectations;
- Reinforce our commitment to all stakeholders;
- Set a framework for engagement internally and externally; and
- Integrate our reputational responsibility into stakeholder management.

To achieve our longer-term objectives, we set out some specific objectives for FY2018.

- Solidifying and improving the relationship with National Treasury and apply the approach as a foundational methodology for stakeholder engagement across other stakeholder groups;
- Formalising a more integrated approach across business units and stakeholder engagement managers;

Our performance

During FY2018, the challenges of balancing our financial sustainability with our development mandate emphasised our relationships with stakeholders that affect our funding structure, namely our shareholder and investors. Due to our dual mandate as a DFI and capital structure, we have focused on defining the way forward with these key stakeholders. However, in the latter half of the year, the changing political environment demanded our full attention resulting in diminished engagement with agricultural stakeholders.

Going forward we intend to extend our purposeful approach with National Treasury and investors to other stakeholders. Understanding our multiple stakeholders, their concerns and the appropriate responses are critical for us to sufficiently emphasise our development mandate without compromising our financial sustainability.

- We achieved our objective of finalising, improving on and implementing our engagement approach with National Treasury which addressed our key engagement areas. We had greater exposure to our shareholder and improved our shared understanding of the Bank's business model, our unique challenges and shareholder expectations which require improvements to our future funding structure.
- We enhanced our understanding of multiple stakeholder concerns by implementing stakeholder feedback sessions to ensure that we responded appropriately in addressing both Land Bank and stakeholder concerns.

Future focus

Our principle areas of focus for the next financial year will be to extend the purposeful engagement plan we implemented for our shareholder and investors. The key stakeholders that have been identified are Department of Agriculture, Forestry and Fisheries, Department of Rural Development and Land Reform, Department of Water and Sanitation, farmer associations and commodity groups, amongst others. The approach is expected to be similar as the approach taken with National Treasury, which entails a specific and targeted engagement plan with responsible managers driving specific engagement areas.

We aim to set an agreed engagement plan with each stakeholder group, including methods of engagement, principles, responsibilities, and defining and measuring success. We aspire to shared thinking and partnership agreements, relationships and a shared concrete outcome. In order to achieve this we have to enhance monitoring and reporting of stakeholder engagements held, actions and outcomes and implement measurable deliverables for each stakeholder group.

LBIC/LBLIC will have quarterly engagements with National Treasury to keep them informed of all insurance initiatives and developments. The strategy is to ensure that National Treasury is at all times aware of any challenges or positive developments pertaining to insurance on a more real-time basis.

The key role players in the agricultural sector requires renewed attention and we will focus on strengthening our partnerships with organised agriculture and commodity associations in FY2019.

Table 26: Stakeholder engagements, concerns and responses

Stakeholder	Our objective	How we engaged	How often	Their concerns	How we responded	Outcome
National Treasury	- Maintain transparent relationships and ensure compliance with all legal and regulatory requirements - Retain our various operating licences and minimise our operational risk	Various forums such as trilateral meetings with the Board and management, one-on-one discussions with executive officials	- Daily (30 day rolling cash flow forecast) - Weekly (12 months rolling cash flow forecast) - Quarterly as required by legislative or regulatory prescriptions - Ad hoc requests	- Financial sustainability - Development impact - Generating financial returns in an inclusive manner	- Updated Corporate Plan and Borrowing Programme to propose strategies to improve the gearing ratio of the Bank - Agreed on a structured process to develop proposals on the ideal capital and funding structure for the Bank	- NT approved Land Bank's application for an extension of the Bank's R1.5bn sustainability guarantee in May 2017

Investment community	- Be transparent and provide current and future stakeholders with relevant and timeous information, ensuring Land Bank is appropriately valued
	- Enhance and deepen the trust placed in us and our brand
	- Ensure alignment of policies and methodologies with our shareholder, the effective capturing of synergies and leveraging of opportunities
		- Local debt and capital market roadshows
		- Ad hoc communication;
		- Annual general meeting and other investor meetings
		- Conferences and presentations;
		- SENS announcements and media releases; Investment analyst briefings
		- Feedback via broker reports and the corporate website
		- Detailed information on all published documents Regular engagement with our shareholder
			- Formal investor roadshows, twice a year typically FYQ2 post the release of annual results and again in FYQ4
			- Ad hoc basis as requested by analysts and investors during non-closed periods
			- Two (or more) broker-hosted conferences every year
			- Land Bank-initiated investor days (once or twice a year)
			- Quarterly summary reports to investors
				- Political interference; Governance and board independence; Integration of Ethics into Management; Lending to and procurement from PEPS	- Land Bank revised its DMTN Programme in March 2017 and included:
					- **Investor transparency/**
					  - Information undertakings Documents incorporated by reference enhanced to include Ethics, Fraud and PEPs policies and plans
					  - Notice to investors of Changes in Board Members/ Board Committees / Executive Management
					- **Investor protection mechanisms**
					- Qualifying redemption events such as legal breaches or 'Change in Control'. The inclusion of these 'redemption' events shows the Bank's commitment to good governance and effectively translates to ca. R41 billion price tag as this is what is potentially at stake
						- The Bank's commitment to good governance and its revised DMTN Programme Memorandum has found favour with investors as noted by the results of the Bank's two most recent public bond auctions that were both oversubscribed and raised R1.0 billion and R2.015 billion respectively
						- The Bank also placed R1.6 billion by way of private placements

Stakeholder	Our objective	How we engaged	How often	Their concerns	How we responded	Outcome
Media	- Leverage media channels to share our business and citizenship story with stakeholders - Communicate developments regarding the Bank's business to protect and manage our reputation	- Quarterly media breakfasts - Launches of Land Bank products and services. - Interviews with key business media on relevant reporting dates - Daily interaction regarding media enquiries	- Daily, in response to media queries - Quarterly breakfasts and results presentations	- Awareness of how the Bank achieves its mandate - Thought leadership (stakeholders want to hear from agri-economics – the Bank's position on the environment, youth access to financing, women participation, economic transformation)	- Media plan in place to provide thought leadership and raise awareness - Disseminating content through various media platforms	- The media remains positively disposed towards Land Bank, always willing to engage and provides balanced reporting - Overall, Land Bank received positive coverage during the year
Clients	- Better understand client aspirations, businesses and financial service needs; - Provide appropriate advice, proactive financial solutions and value-adding services - Ensure that we maintain the high service levels	- Interactions through branch outlets, relationship managers and call centres, complaint lines, client seminars, social media, surveys and marketing and advertising activities	Dependent on client needs and identified sales, service or guidance opportunities	- Constraints concerning the Bank's ability to meet development mandates - the Bank's ability to invest in sufficient equity for growth within Treasury's 19% limit - The cost of finance - Tailor-made product offering for client needs - Water rights ownership issues	- Client experience assessments - Service Charter developed - Treating Customer Fairly Framework in place - Product surveys	- The provision of sustainable financing models that encourage growth and inclusivity - Value chain projects and partnerships in place to ensure new generation farmer participation
Ratings Agencies	- Keep Land Bank's external credit rating agency (Moody's) informed of developments at the Bank with the primary objective of ensuring that Land Bank's credit profile is appropriately assessed.	- Various bilateral discussions and face-to-face meetings	- Semi-annual or ad hoc when deemed necessary by either party	- Challenging operating environment which could lead to elevated credit risks - Reliance on short-term funding, remains relatively high, albeit on a declining trend - Finding new funding sources for anticipated growth and funding maturities in an environment where the capital debt markets remain volatile - Capital buffers could be strengthened to enhance risk-bearing capacity and absorb unexpected losses	- Land Bank continues to originate and manage loans and advances on sound credit basis - Effective post-implementation through the Bank's Portfolio Management Services division - Well diversified funder/ investor base - Reduced reliance on short-term funding with maturities less than 1 year at 43.2%, down from ca. 69% in FY2015 - Access to R2.65 billion liquidity facilities of which R2.15bn committed and R0.5bn uncommitted	- As of 28 March 2018, Land Bank's ratings were affirmed as: **Global Scale Issuer Rating:** Baa3.za (linked to the Sovereign Rating) **National Scale Issuer Rating:** Aa1.za Outlook: Stable The Bank's rating is largely dependent on the sovereign rating

Stakeholder	Our objective	How we engaged	How often	Their concerns	How we responded	Outcome
Government departments	- Build and strengthen relationships with government, as a partner and as a key client - Provide input into legislative processes that will affect the economy and our activities and operations - Reaffirm our commitment to development financing for the agricultural sector - Participate in the transformation of SA and the agricultural sector	- Land Bank sought inter-organisational synergies with NT, Department of Rural Development and Land Reform (DRDLR) & DAFF to address the needs of new generation farmers and investigate blended financing opportunities - Political engagements take place where there is a business-related invitation - Participation in MINMEC Forums - Parliamentary Portfolio presentations	- Monthly or as deemed necessary by either party	- Lack of support to Black farmers - Department of Environmental Affairs (DEA) and DAFF are supportive but concerned about ability to execute 'green' financial products	- Planned application for Global Climate Fund accreditation for financial support Planned engagements to share development finance solutions and the Bank's transformation agenda	- Visible participation and partnerships with government Phakisa/CAPS and other black smallholding farmer support programmes - The Bank has contributed to government capacity building and job creation targets
Employees	- Ensure that Land Bank increases the level of engagement of the workforce - Understand and respond to the needs and concerns of employees - Provide employees with strategic direction and keep them informed about group activities	- Roadshows, email and magazine - Business partner interaction, management meetings, change management programme - Employee feedback to change agents with concerns and suggestions - Climate and culture survey that included engagement level	- Monthly formal communication, ongoing business partner interaction, ad hoc surveys	- Career growth (concerned that there is not enough opportunities) - Remuneration (salaries might be the same but the 'extras' that the other banks can offer – results in a struggle to compete on variable pay/benefits like-low home loan interest rates, long-term incentives, etc.)	- Conducted culture climate survey. Once the outcomes are available, we have committed to implementing 50% of the recommendations in FY2019	- Participation rate in the culture survey was high (71%) which in itself is positive, indicating that employees want to be heard; - 92% of employees who responded indicated that they find meaning in their role; - Appreciation and embracing of a high-performance culture and better understanding of performance management

Stakeholder	Our objective	How we engaged	How often	Their concerns	How we responded	Outcome
Industry bodies and agricultural colleges We are active members of the: - Association of African Development Finance Institutions - AgBiz - UNEP Finance Initiative and the IFC's sustainable banking network - Southern African Development Community Development Finance Resource Centre	- Learn through interaction with the industry and cross-sectorial organisations - Leverage and build strategic business partnerships for the maximum benefit of all our stakeholders - Use business associations as a forum to promote our viewpoints on key industry issues	- Regular meetings with various industry bodies as and when necessary	- As required or dictated by association or partnership membership agreements	- Wish to see further collaboration with other DFIs in research and knowledge-sharing, particularly around environmental due diligence and impact	- Project in progress to conduct research, for example, to measure environmental impacts	- SADC Development research and case study implementation by SADC Financers Resource Centre (DFRC) - Agriculture Working Group in Innovative Farming Models - FADA (Angolan Delegation) visit enabled sharing of best practice - Partnerships with IDC and DBSA identified research areas for possible joint funding - Research Symposium with ARC and NAMC is finalising operational activities for a new programme
Trade Unions	- Promote fair and equitable employee relations practices, good governance and working relationships	- Consultation on any changes in working conditions, restructuring and performance management issues - Consultations on the resolution of alleged unfair labour practices	- Regular meetings are held with the Union representatives	- Fair labour practices and equitable treatment of employees	- Engagement with the Union on various employee-related matters	- The Union accepted the salary adjustments for pay scale parity and wage settlement - Professional working relationship has been maintained with the Union

Stakeholder	Our objective	How we engaged	How often	Their concerns	How we responded	Outcome
Communities	- Better understand their aspirations, businesses and agricultural development needs - Provide appropriate advice, proactive financial solutions and value-adding services - Obtain input from environmental experts, communities and non-governmental organisations (NGOs) - Create awareness of our sustainability commitment	- CSI initiatives; Various forums, from community engagement forums to one-on-one meetings	Ongoing, as partnerships dictate, or stakeholder needs require	- Lack of funding (infrastructure and skills development for community projects) - Visibility and understanding of available financial solutions for community development projects	- Attended community forums and initiated joint projects partnerships to support small/subsistence farmers	- Participated in Productivity SA seminars on agriculture attended by community groups to share the Bank's strategic objectives and community support initiatives - Development of a CSI mailbox for funding applications - Established partnerships with IDC and NAMC to deliver training to subsistence farmers (especially women)
Multi-lateral investors and agencies	- Be transparent and provide current and future stakeholders with relevant and timeous information, ensuring Land Bank is appropriately valued - Enhance and deepen the trust placed in us and our brand - Ensure alignment of policies and methodologies with our shareholder, - Capturing synergies and leverage opportunities effectively	- Multi-lateral investor specific due diligence missions Multi-lateral investor specific implementation missions	- Multi-lateral investor due diligence missions are typically undertaken on a once-off basis at the start of the project - Follow up missions on an ad hoc basis - Multi-lateral investor implementation missions typically occur on a quarterly basis until such time that the project is off the ground, after which missions typically reduce to semi-annual missions	- Environmental impact - Social impact (jobs created, jobs sustained, participation by women and youths) - Developmental/ Transformational impact (particularly new entrants to the sector)	- Revised Environmental and Social Management System ESMS) Policy and implemented ESMS screening and reporting tools	- Finalisation of a $93 million (ZAR 1.3 billion equivalent) facility with the World Bank - Secured a EUR55 million (R899m equivalent) facility with KfW earmarked for lending to Agricultural SMEs in FY2019 - Secured a EUR50 million Climate Adaption facility with the EIB to be deployed in FY2019

Stakeholder	Our objective	How we engaged	How often	Their concerns	How we responded	Outcome
Suppliers	- To maintain a quality and timeous supply of goods and services for our operations - To encourage responsible practices in our supply chain - To gain expertise and advice before specifications are developed for products or services - To promote inclusivity by utilising smaller companies	- Ongoing interaction with suppliers and contractors for procurement purposes - Supplier education workshop, indabas, fairs - Quarterly newsletter on sustainability matters - One-on-one negotiations and meetings	Ongoing as required	- Meeting supplier development mandates	- Initiated supplier development strategic plan during FY2018 - Initiated engagements with associations (such as Disabled People Association) to identify opportunities for procurement within designated sectors (e.g. BBBEE act)	- Implemented supplier development initiatives, with an investment of R6.5 million almost double that of FY2017 (R3.3 million)
Civil Society Organisations	- A new group of stakeholders who are sensitised to Environmental and Social Sustainability issues. Understand their objectives and ensure that we incorporate all the necessary checks and balances so that we comply with EU standards	- Ad hoc engagements at this stage. Direct interaction to understand concerns	- Ad hoc	- Ethical treatment of animals and livestock	- We are investigating how to incorporate their concerns into our policies and procedures	- Growing awareness around agricultural production and humane treatment of animals

CORPORATE SOCIAL INVESTMENT

Our approach

Our development mandate and its objectives form the bulk of our impact on society and the environment. As a responsible corporate citizen, we engage in social investment initiatives to complement the development impact that we have through our business activities. Our CSI programme focuses primarily on the subsistence and community-based farming sector with emphasis on supporting women and youth in agricultural sector. The programme complements the Bank's mandate to build an adaptive and competitive agricultural sector that drives environmental, social and economic development, thus contributing to food security through investing in improving the quality of life of disadvantaged communities.

Our CSI initiatives take into consideration the Corporate Plan, Environmental and Social Sustainability strategy and the Broad Based Black Economic Empowerment (BBBEE) strategy in support of the Strategic Development Objectives of the Bank. We actively pursue project partnerships and co-funding opportunities for our projects, as well as potential initiatives for the Bank's lending and investment business and those that position the Bank as a good corporate citizen. These initiatives also strive to increase awareness and interest in the agri-sector among disadvantaged sectors of the community, while providing agri-skills to enhance employment quality and facilitate the development of new generation and subsistence farmers. Our interventions are seeking to grow the sector and to contribute towards its transformation and inclusivity.

We believe in the idea of creating social value and therefore our CSI programmes take a developmental and a long-term approach towards sustainable development impact with selected projects. Our CSI offerings support the operational strategy of Land Bank on agriculture and rural development, and focus on relief measures for the subsistence farming segment in both urban and rural areas. We facilitate partnerships with reputable institutions that are involved with rural, social and agricultural development.

The CSI portfolio has become an integral part of our business and invests various resources (money and volunteering time) in a variety of community initiatives throughout South Africa with the aim of stimulating and supporting social and economic upliftment.

Our broad CSI focus areas have not changed over the long term:

- **Food security:** up-skilling and providing resources to households to improve food security and reduce vulnerability to hunger.
- **Education and training:** Building capacity for small-scale farmers to up-skill them to pursue sustainable agricultural practices and employment opportunities.
- **Nutrition and social upliftment:** Building the agricultural sector skills pipeline by focusing on youth development and women business development, as well as improving the living conditions of people living and working on farms.

More specifically, we currently contribute value in the following types of projects:

- Literacy and numeracy (farm schools);
- Nutrition/HIV education (informal settlements);
- Agricultural training programmes including the breeding and skills training for communal wool growers; and
- Youth Agri-Awareness programme.

Our objectives for FY2018

Our objective for the FY2018 was to exceed the planned investment of 1% of Net Profit After Tax (NPAT) for CSI programmes. We also set out to strengthen the impact around the development objectives of our CSI programmes, raise additional funding and extend our reach by developing external partnerships.

Key focus areas

Increase CSI expenditures from the current level of R5 million to enable Land Bank to support a wide range of community agri-programmes and maximise their potential for a wider reach and greater development impact;

- Partner with other DFIs and our intermediaries to co-fund programmes, enhance our funding and expand our reach in communities; and
- Partner with an organisation with resources and expertise to teach sustainable agricultural practices to subsistence farmers.

Our performance

- We successfully invested R5.1 million into multiple CSI programmes, which are described below.
- The delivery of CSI projects has commenced in partnership with project delivery partners such as IDC, Gauteng Department of Agriculture, Afgri,

DAFF and DRDLR. Further collaborations with other relevant organisations are being explored.

- Our partnership with the IDC to support the development of new generation farmers through the Buhle Farmers Academy remains strong and active.

In line with our material matter of governance, the CSI team placed a greater emphasis on governance, monitoring and project reporting obligations. The projects in which we invest remain aligned to our core business objectives and values, and we ensure an efficient implementation structure, credible project partners, and robust project joint monitoring and evaluation.

Table 27: CSI Governance

Project Steering Committee	A small committee (comprised of key project stakeholders) is established for each project to provide project oversight, support and monitoring.
Projects Agreements (SLAs)	SLAs are signed by project partners outlining the Terms of Reference of project partners (including costs implications, project implementation plans and project timelines).
Project Meetings & Reporting	Project meetings are scheduled with project report submission obligations (to EXCO and Board).
Project Site Visits	All project partners are expected to participate in project activities.
Marketing and Communication)	All project milestones will be profiled for marketing and communication purposes.
Budget Management	The project committees will ensure that allocated budgets are spent on assigned projects as approved .

Land Bank invested R5.1 million in CSI initiatives during FY2018, achieving our target of increasing the available funds to at least 2% of Net Profit After Tax.

Table 28: CSI expenditure

Description (R'million)	FY2018	FY2017
FY Budget	R5.00	R0.70
Total Investment	R5.06	R0.68

Buhle Farmers Academy (in partnership with IDC)

Our flagship project entails a partnership with IDC and Buhle Farmers Academy. The project which kicked off in FY2017 continues to provide skills training and mentoring for aspiring, previously disadvantaged farmers. To date, the partnership reached a total of 272 beneficiaries:

- Winter graduation: 93 students graduated
- Summer graduation: 89 students graduated
- Farmer Support Programme: 90 farmers were supported and mentored in technical and business development.

The farmer support projects are also being assessed and developed in the areas of farm profitability, financial support and skills development. The new programme for the second semester intake is currently underway with an emphasis on youth (73.3% of this intake).

The focus of the project for the next financial year will be to raise the status of selected subsistence farmers to small scale commercial farmers with the objective to increase support to individual agricultural entrepreneurs and reduce the training programme intake. The project aims to develop 10 - 15 selected farmers to be investment ready, providing them with a solid business foundation. In this way Land Bank and IDC will be able to display excellence and job creation in the agri-sector, while soliciting adequate financial support for CSI project beneficiaries. Support will also be provided to agri-businesses outside of the Buhle Farmers Academy programme.

School sustainable food gardens project (in partnership with Afgri)

The project aims to establish sustainable school vegetable gardens in 15 selected schools. The project provides micro-farmer training, garden inputs and implements as well as mentorship. Business management support will be provided to ensure the sustainability and profitability of the food gardens. The initiative has the potential to develop school gardens to become bankable community agri-businesses that can attract agri-financing. Project agreements have been signed with participating schools and the identification of community project workers will be finalised in July 2018 to commence implementation in August 2018.

Skills training for communal wool producers (in partnership with the National Wool Growers' Association of South Africa)

The project aims to improve production and sales for selected communal wool farmers in the Eastern Cape through a farmer training programme with learning modules on Governance, Basic Flock Health, Basic Flock Nutrition, Basic Breeding and Reproduction Management, Basic Financial Management and Shearing Shed Management. The first part of the programme has been delivered, and 1 500 farmers in four regions received training on Basic Flock Nutrition and Basic Flock Health. The Bank held feedback sessions on this training which confirmed that the NWGA training is addressing a major need for communal producers. The communal farmers are able to evaluate the health status of their herd and to recognise clinical signs of common diseases. They can also assess the herd or flock's general health on a regular basis. Consequently, the farmers are able to vaccinate their herd/flock against specific common diseases. The second part of the programme (on Basic Breeding and Reproduction Management) will be delivered from 18 June to 29 September 2018. The training course will also include Basic Organisational Administration and Governance and bookkeeping systems.

Farm schools – Whole School Development programme

This Foundation Phase programme is a literacy and numeracy improvement initiative for farm schools geared towards improving the functioning of farm school education outcomes and the provision of social services for people living on farms. The programme provides learner/educator training and ECD learning materials, end-to-end irrigated food garden systems and much-needed health-related supplies for farm school learners. In Gauteng, smart farm projects have started in six farming community centres in partnership with the Gauteng Department of Agriculture and Rural Development. The Free State programme will commence in September 2018 pending confirmation of participating farm schools by the Department of Education.

The Agri-teen symposium

This is an inter-generational gathering of stakeholders in the agricultural sector, aimed at transferring passion, skills and knowledge to youth from disadvantaged Gauteng communities. In March 2018, a youth-focused event was held for 250 teenagers from Soweto to share with them various business and career opportunities within the agricultural sector. This initiative aims to create sector awareness among the youth and to provide support and mentorship to those engaged in the agri-sector. Overall, the Bank intends to establish an ongoing platform that exposes young people to various agricultural opportunities to form a network of young people engaged in agricultural activities.

Future focus

- Improve the impact and outcomes of the projects supported by the Bank, and to display our projects to relevant stakeholders. This will entail a continued focus on governance and project monitoring over the next financial year;
- Develop viable businesses for new generation farmers by identifying well-performing farmers in our programmes and providing support to commercialise their farming enterprises;
- Track project progress by obtaining real-time project updates and attending to all matters arising;
- Improve collaboration by sharing project information including goals, priorities and schedules with key stakeholders; and
- Maintaining conversations and feedback with all clients, partners and project communities.

SUPPLY CHAIN MANAGEMENT

Our approach

Our procurement activities are guided by the requirements of the PFMA, National Treasury Supply Chain Regulations and Instructions and the Bank's Supply Chain Management Policy. The function reports to the CFO and all decisions are based on a Delegation of Powers (DOP). The Bank's Procurement Committee is the independent committee responsible for procurement decisions and recommendations for approval to the CEO, based on the DOP. The Procurement Committee, which is chaired by the Executive Manager: Strategy and Communications, consists of Members of the Executive Committee with continuous oversight from Internal Audit. The Procurement Committee operates independently from the Board and submits regular reports to the Risk and Governance Committee for noting.

As a financial institution, we have a limited chain of suppliers who provide inputs to our business. Our approach is therefore to ensure that from a governance and compliance perspective we are doing what is required by law and according to appropriate guidelines. This requires that we remain updated with constant changes in procurement legislation and National Treasury regulations applicable to the financial sector. As a DFI, cost containment and value for money underpin our procurement approach, and form part of our obligations with our shareholder. We track and monitor our expenditure on procurement transactions through contract management and supplier performance management initiatives to ensure that the suppliers are compliant with their contracts. We further monitor aspects of those suppliers that are of paramount importance to the Bank, such as tax compliance, CSD Registration, and supplier screening in terms of our politically exposed persons policy.

Our Supplier Development Initiative (SDI) forms a significant portion of Supply Chain Management's role in relation to economic empowerment and small business development, which was formalised during FY2018. The initiative aims to play a role in Governments plans for small business development. This initiative will not only benefit Black-owned SMEs but will also benefit the Bank in terms of value-for-money acquisitions, innovation, BBBEE rating, service offerings, and improvement in delivery times.

The objectives of our Supplier Development Programme are aligned with the NDP and include amongst others:

- Increasing the impact of economic empowerment of Black-owned entities through supply chain processes;
- Developing local Black-owned entities to supply the market with high quality competitive goods and services.
- Increasing economic growth, creation of jobs and skills transfer;
- Obtaining more goods and services from local suppliers to improve quality, efficiency and cost-effectiveness of services provided to the Bank;
- Ensuring environmental sustainability for the suppliers and sustainable and environmental procurement in general; and
- Expanding suppliers' capacity to provide goods and services to a wider target market.

Our objectives for FY2018

In line with our company-wide objectives of enhancing our governance and risk maturity, the strategy for our supply chain management function during FY2018 was to improve performance and procurement controls. Previous audits found some irregular expenditures and process deficiencies that required more stringent controls.

Supply chain management objectives:

- Enhance our supply chain management policies and processes;
- Improve employee-wide understanding of the potential for irregular expenditures and fruitless and wasteful expenditures in the procurement process;
- Increase awareness of and compliance with the updated procurement processes; and
- Commence the on-going development and presentation of annual procurement plans with National Treasury.

Supplier Development programme objectives:

- Implement the formal supplier development programme; and
- Increase the number of companies that the Bank supports through the programme.

We also set a specific target of 80% for BBBEE expenditures as a percentage of our total procurement expenditure in line with the criteria of the BBBEE Codes of Good Practice. Budgets are set by division and embedded in business unit KPIs.

Our performance

Procurement

During FY2018 we made progress against our supply chain management control objectives and implemented the following activities:

- Amended Land Bank's supply chain management policy to reflect updated changes in legislation;
- Began updating the process documents in response to the policy changes and will finalise them in FY2019;
- Established a contracts and supplier performance division within the department to improve spending and performance controls in line with costs, deliverables and time-frames;
- Expanded the structure to include a compliance specialist and will expand by one more position in the next financial year;
- Conducted bank-wide awareness sessions regarding procurement processes;
- Included a slot for procurement awareness and training during the employee induction process; and
- Achieved almost 94% of procurement spend to service providers with a BBBEE rating of level 4 or better.

In the last quarter of FY2018, it was highlighted through our Ethics assessments that the Bank requires a cogent set of measurable standards of ethical conduct to be used as evaluation criteria for vendors that tender for work with the Bank. These are still under consideration by the supply chain management team, however, we have already included enhancements such as full FICA checks and PEP screenings to our processes.

All of Land Bank's procurement expenditure is spent on South African suppliers. Furthermore, the Bank ensure that the suppliers we use in pertinent sectors comply with the minimum threshold for local content, as designated by the Department of Trade and Industry *(the dti)*. These sectors are furniture and corporate clothing for which the minimum threshold for local content is 85% and 100% respectively.

BBBEE procurement

Our procurement spend is outlined in the table below. We set a target of BBBEE spend of 80% with level 1-4 companies and achieved almost 94%. The Bank's expenditures on Black-owned companies as a percentage of total expenditure decreased versus 2017 as total expenditure declined in line with cost containment measures.

Table 29: Procurement expenditure

R millions	2018	2017
Total procurement spend (including Leases)	R117.1	R152.2
Total procurement spend (excluding Leases)	R81.4	R146.3
Total expenditure on suppliers with BEE level 1-4 (93.89%)	R76.4	
Total expenditure on supplier with BEE Level 5 onward (6.11%)	R5.0	
Total BEE compliant procurement spend	R92.6	
Total expenditure on EME Suppliers (17.42%)	R14.2	R6.3
Total expenditure on QSE Suppliers (2.17%)	R1.8	R4.3
Total expenditure on 51% and more Black-owned Suppliers	R2.4 (29.87%)	R60.3 (41.21%)
Total expenditure on 30% and more BWO suppliers (13.05%)	R10.6 (13.02%)	R50.3 (34.38%)

Supplier development

We take pride in assisting small suppliers through our SDI and simultaneously advancing investor confidence by improving our BBBEE scorecard. In this way we demonstrate our commitment to transformation and economic development. This was the first year of our formal supplier development programme which included earmarking qualifying suppliers, completion of a gap analysis and expenditure of R6.5 million. We increased the number of companies that were supported from three in FY2017 to nine in FY2018 and as a result of our support, one of our suppliers managed to hire three new employees.

As part of the supplier development strategy, we enhanced our process to show our commitment to stakeholder engagement. Furthermore, we developed information gathering tools to determine specifically what our small suppliers require in terms of support. The Bank was able to assist every business that requested support via the information gathering tools. To support our control processes, we entered into donation agreements, which set out the type of assistance, and how it will be applied. The donation agreements also make provision for the Bank to request, if and when required, an update report to note specific supplier improvements.

Future focus

In the next financial year, we will improve supply chain management controls as follows:

- Improve governance and compliance;
- Create awareness of compliance and processes;
- Expand compliance and monitoring to external suppliers;
- Finalise process revisions that commenced in FY2018 to meet the revised supply chain management policy;
- Include enhanced processes in the Procurement Process Manual; and
- Improve contract management/supplier performance management.

Our SDI below will improve year-on-year and will contribute positively to the Bank and to South Africa's initiative for small business development.

- Budget R7.0 million specifically for supplier development (targets remain the same in terms of % BBBEE spend, namely 80%);
- Target designated suppliers including those with majority female, youth and disabled shareholders; and
- Implement a 'supplier day', a joint session with other DFIs to expose suppliers to a broader potential customer base.

NATURAL CAPITAL

Our approach

Our Environmental and Social Sustainability strategy is directed by stakeholder expectations of the role of this strategy in driving the Bank's sustainability. Their concerns can be grouped into five material areas:

- Climate change and water scarcity;
- Environmental and social risk assessment and management;
- Compliance with environmental and social laws and governance;
- Change in consumer tastes; and
- National, regional and the global environmental agenda.

Agricultural irrigation consumes over 61% of South Africa's already scarce water resources and climate change is expected to compound water scarcity. The negative effects of climate change on water availability for the agricultural sector poses an enormous threat to the Bank's existence. This calls for the establishment of urgent measures to enhance the sector's resilience against climate change and changing the funding structure to respond to shifts in land usage and crops.

The consequences of the country's difficult water conditions are quality issues and a lack of stability of irrigation water for farmers. Not only do scarce water conditions present difficulties in themselves, but they also present a risk of regulatory changes to address water location and usage across sectors, industries and the general public. Access to water is a constant challenge for smallholder farmers in as far as this relates to water rights. The process of transferring water rights between owners upon sale of land is cumbersome and ineffective, often imposing an additional burden on new generation farmers.

Social issues continue to plague the sector as reports dealing with instances of gender discrimination and child labour, farm worker evictions, lack of compliance to basic labour regulations and mistreatment of workers continue to surface in the media. The ongoing drought conditions have exacerbated these issues in some areas as farm incomes have declined with concomitant hardships for all affected rural communities. A lack of security in rural areas affects all farm dwellers as violence and property losses remain a matter of grave concern in the sector.

The Group's destiny is inextricably to linked environmental and social conditions facing the sector.If the sector cannot adapt to the effects of the climate change and social standards demanded by consumers, the Group's future will be in jeopardy. The Bank's management as the custodians of the organisation's long-term sustainability has a duty to ensure that its lending and other activities are conducted in a responsible manner.

If projects financed by the Bank fail to adhere to environmental and social standards set by our multi-lateral funders, investors and civil society stakeholders, we could be exposed to reputational risk, risks to client cash flow if clients face closures due to non-compliance, or risks to the guarantees of financial institutions. Similarly, the Bank itself must comply with national and international protocols, and risks potential funding losses if it fails to comply. Consumer tastes are shifting towards food produced under sustainable farming practices, and therefore we need to be proactive in building sustainable farming practices among our clients. Finally, it is expected that the Bank contributes to the regional, national and global environmental agenda including the Sustainable Development Goals.

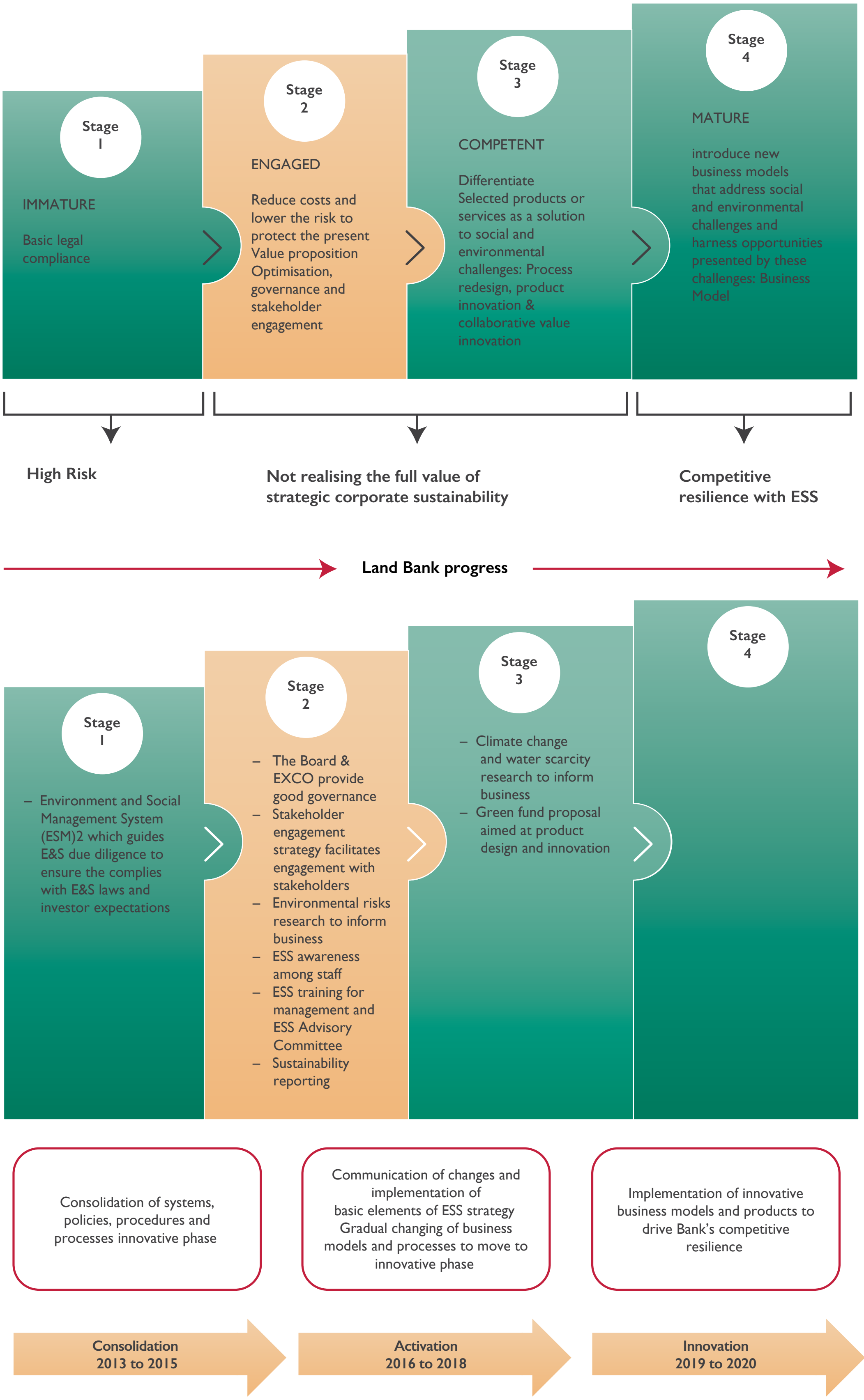
With these material matters on the forefront, we have strived towards Environmental and Social Sustainability maturity from as early as 2013 with a goal of reaching a stage of competitive resilience with respect to Environmental and Social Sustainability over the long term. The ultimate goal is to be in a stage of implementing innovative business models and products to drive the Bank's competitive resilience from FY2019 onwards. Referring to figure 41, we are currently in an activation phase, which reflects the implementation of the basic elements of Environmental and Social Sustainability strategy.

Our objectives for FY2018

In FY2018 we focused on implementing various policies and procedured developed during prior years. These included:

- Implement environmental and social due dilligence procedure;
- Build capacity to implement the ESMS tools;
- Conduct research to assess the envronmental risks associated with our clients' farming practices;
- Mobilise funding for climate-related ledning; and
- Establish a protocol and baseline to determine our material consumtion.

Figure 41: Basic elements of the Environmental and Social Sustainable strategy



Our performance

Implement environmental and social due diligence procedures

During FY2017, Land Bank developed the Environmental and Social Mangement System (ESMS), which was approved by the Board. This was the first step and guides Environmental and Social Sustainability due (ESS) diligence. A key objective for FY2018 was therefore to follow up the first step by incorporating ESS screening into our due diligence processes for loan application. This not only plays a vital role in ensuring that risks are properly managed but also that potential value-adding opportunities are identified at a time when there is the highest likelihood of influencing change.

As part of the ESMS implementation process bank-wide training was conducted to create awareness of the importance of ESS and understanding the process and tools. The World Bank developed the training programme which was completed in September 2017. A critical outcome of the training was a marked increase in awareness and commitment to ESS across functions and levels.

ESMS process review

The World Bank and KfW assessments, as well as the implementation of the training exercise also highlighted some critical deficiencies in the system tools that were used to support the screening process. These gaps had an impact on the effective implementation of the due diligence processes, and therefore, required an unplanned review. As part of the review, the ESS screening, due diligence and monitoring and reporting processes were amended to be fit for purpose and support the Bank in managing risks and capitalising on opportunities.

The reviewing process entailed gaining a clearer understanding of the frontline processes, including the types of information obtained during the application process. Further, it showed how this information can be used to assess and manage risks/impacts as well as identify opportunities, which will add real value to the business and the Bank's investment. The amendments included the screening and application process, such as the due diligence questions posed to clients about environmental and social risks, and tools for classifying risk. It included steps to improve the monitoring and reporting process, which is primarily allocated to our Portfolio Management Services division.

During FY2018, we started screening high impact transactions based on the revised tools. Ten transactions in the cattle, poultry, vegetable, nut, oil seed processing and fertiliser industry were screened. The Bank's single largest obligor was screened as part of its annual review.

Broad implementation and capacity building for ESMS tools

Capacity building concerning ESS is an ongoing activity for the Bank. A second capacity building initiative for ESMS implementation was piloted towards the end of FY2018 and will be rolled out in FY2019. The training will delve deeper into managing ESS risks in line with international performance standards as well as specific expectations of employees. It will familiarise employees with the ESS risk management procedures, roles and responsibilities, and the practical implications in terms of conducting the enhanced transaction appraisal and monitoring process. To update and revise the ESMS, we will conduct additional reviews periodically to share practical experience obtained through its implementation and empower employees to identify new environmental business opportunities.

Complete research study to assess environmental risks

To ensure that we finance agricultural activities that are aligned to best practice environmental sustainability and to influence change where necessary, we commissioned a review of the environmental impact of our clients' farming practices. The primary goal was to better comprehend how clients are currently managing environmental risks. The research process entailed three phases: a pilot, a survey of the Bank's intermediaries and a survey of direct clients.

During the year the pilot and the survey of intermediaries were completed via an extensive site-visit and interviewing process to determine the intermediary process, environmental risks and procedures used to mitigate risks and manage the environment. The selection of survey participants included farmers from a broad range of commodities, size and geographic location. Due to the extensive coverage across large geographical areas, the survey of intermediaries was completed, but the results were not released until after the end of FY2018.

The third phase will be completed in FY2019 and the results will inform the Bank's processes and procedures.

Finalise development of Climate Resilient Agricultural Fund and mobilise grant and loan funds for implementation

The Bank is committed to create a financing mechanism to support farmers who are investing in climate adaptation and mitigation practices. During the year, it investigated various options to crowd-in additional grant or concessionary loan funding to achieve this objective. We successfully secured a EUR50 million Climate Action Facility from the EIB in February 2018 to help farmers adapt to and mitigate against risks associated with climate change, reduce carbon emissions and improve their overall efficiency in resource consumption and environmental impacts. The 12-year funding facility will be channelled to longer- term climate action projects that focus on improving natural resource management, contribute to a reduction in water and energy usage in food production and processing, and capital investment aimed at climate adaptation and mitigation in the sector.

Achieve accreditation with the GCF

We are committed to fund the promotion of sustainability and climate-smart practices for the agricultural sector in South Africa. To support this ambition, we applied to become an accredited entity with the GCF. We are pleased that the Bank has completed the first phase of the process and has been nominated by the government (DEA) and endorsed to be accredited. The GCF is in the process of completing the due diligence that will allow the Bank to become the main conduit of these international funds to the agricultural sector in South Africa.

These funds will be used to support farmers to adopt farming practices to reduce agricultural contribution to climate change, enhance agricultural sector resilience to climate risks, and intensify agricultural productivity. Interventions will focus on improving the environmental sustainability of energy, water and land-use in agriculture.

Material consumption and carbon emissions

We regard environmental sustainability as a company imperative that contributes to long-term business success and a healthy environment. Our approach to environmental management is a precautionary, self-regulating one, based on sound assessments of potential risks and their effects. During FY2018 we began to systematically collate information to report on the environmental impacts of our operational activities to minimise or mitigate where applicable. This is our first year of reporting on consumption and emissions and therefore it provides a baseline from which future reports will be measured.

While our material impact is via our value chain, we have chosen to report on the carbon emissions related to water, energy and fossil fuel consumption of our owned and leased properties for the Bank's operations as well as the use of its fleet.

Material consumption

South Africa is considered a water scarce country. Water is the base natural resource needed for sustenance of life and is an important contributor to all other resources consumed by the Bank's operational activities, such as electricity, paper and fossil fuels. As such, we have to monitor and manage our consumption of resources accordingly. Table 30 details the material consumed by the Bank for FY2018.

Table 30: Material consumption

Total consumption	
Electricity (kwh)	1 964 891.60
Water (kl)	13 916.03
Fossil Fuels – Petrol and Diesel (L)	139 735.44
Paper (kg)	4 806.41

Carbon emissions

Using the World Business Council for Sustainable Development (WBCSD)/World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol, we provide data on scope 1 and 2 for the Bank's operations. Published emissions factors were applied to direct energy measurement taken. We used conversion factors from United Kingdom, Department for Environment, Food, Rural Affairs, (DEFRA) and the 2017 published Eskom factor for electricity. The table below depicts consumption and associated carbon emissions for Fossil fuels (scope 1 from petrol and diesel) and Electricity (scope2) for the period ending 31 March 2018. This is our first year collecting and verifying carbon data and we therefore, experienced some challenges in obtaining the relevant data, which will be addressed during FY2019 for improved reporting in our next report.

Table 31: Carbon emissions

Carbon emissions: CO_2e/tonne	
Scope 1	307.19
Scope 2	1 925.59
Total	2 232.78

Future focus

Our priorities for the FY2019 concern both completing the consolidation phase and entering the activation phase to progress towards our Environmental and Social Sustainability maturity. The work that was completed during FY2018 on environmental due diligence processes, training and assessment will be extended to ensure that we expand social sustainability objectives as well as innovative products, funding, and partnerships. We plan to further develop partnerships to promote sustainable agricultural practices and to expand the green funding programmes.

The following are specific priorities for FY2019:

- Achieve full operationalisation of our environmental and social risk management processes for all new and existing clients, including strengthening our assessment of social risks and engaging clients to manage these risks as well as addressing any further gaps identified within the Environmental and Social Sustainability due diligence process or ESMS;
- Complete the research study to include the survey of direct clients and expand the research beyond environmental concerns to include any social concerns;
- Continue the application process to become a member of the Global Climate Fund;
- Continue to develop its Climate Resilient Agriculture Fund based on interest from various international funders to engage with the product;
- Work with Department of Water Affairs and Sanitation (DWS) to assist and support better water management, access and water licence applications for farmers that we fund; and
- Develop a framework for the creation and implementation of funding mechanisms for the development of new and rehabilitation of existing irrigation infrastructure in the agricultural sector in collaboration with the private sector, IDC and DBSA.

EIB Signing

5

GOVERNING OUR BUSINESS

It has been a pleasure to assist Land Bank in its pursuit to actively manage ethics and build a strong ethical culture over time.

The Ethics Institute, 10 July 2018

GOVERNANCE OF ETHICS AND ETHICAL CONDUCT

Our approach

Land Bank is committed to conducting its business with the highest standard of integrity and ethical behaviour. This commitment, which is actively endorsed by the Board of Directors, is based on a fundamental belief that business should be conducted honestly, fairly and legally. The Board expects that all employees share its commitment to high moral, legal and ethical standards, and holds management accountable to ensure this commitment manifests throughout the organisation. Since the Bank is obligated to the public as a whole, it requires from all its employees a high standard of ethical behaviour that promotes and maintains public confidence and trust.

The Bank's Code of Ethics and of Business Conduct (the Code) is a statement of the values and ethics that we pursue in our interactions with internal and external stakeholders. The Board approved a revised Code of Ethics and Business Conduct in November 2016 and a separate Board of Directors Code of Ethics and Business Conduct in November 2017. Both codes are available on our website. Management is responsible for embedding the ethical conduct outlined in the Code which is overseen by the Social and Ethics Committee.

The Board of Directors' Code of Ethics and Business Conduct (the Code) establishes and clarifies the rules that govern the business and ethical conduct of members of the Board. The Board approved its own Code of Ethics and Business Conduct during the year with the purpose of aligning with the King IV Principles, specifically to promote the application of board practices associated with ethical and effective leadership.

The Code reflects our Board's commitment to the Bank's core values of accountability, integrity and respect, and provides a framework to guide directors' conduct in a way that upholds the integrity and reputation of the Bank. The Code also ensures that the Board represents the interests of the shareholder in optimising long-term value by overseeing management performance. The Board's responsibilities in performing this oversight function include a duty of care and loyalty. In this regard, directors are required to exercise appropriate diligence in taking decisions and in overseeing the management of the Bank. This pertains to Board and board committee meeting behaviours, declaring conflicts of interest and disclosure of all business interests and gifts, and respecting confidentiality.

Our objectives for FY2018

- Conduct an Ethics Climate and Culture Assessment;
- Complete an Ethics Management Maturity Assessment; and
- Ethics training and awareness.

Our performance

To demonstrate our commitment to ethics, the Bank has undertaken to include any confirmed breaches by the Directors or Executive of the Bank's anti-corruption and corporate governance policies as potential redemption events in its DMTN Programme and certain bilateral funding agreements. Such events could therefore result in some R41 billion of liabilities becoming immediately redeemable, with serious financial implications for the Bank.

Before an ethics culture can be managed, the current state needs to be measured. In 2017, Land Bank approached The Ethics Institute to facilitate ethics assessments to help the Bank identify its current ethics status. The Ethics Management Maturity Assessment (EMMA) was concluded in August 2017, followed by completion of an ethics climate and culture assessment in February 2018, facilitated by Human Capital.

We completed a further ethics assessment, the Ethics Opportunity and Risk Assessment, in March 2018. The aim of this assessment was to determine the perceptions of the Bank's internal and external stakeholders of the Bank's ethics, as well as their expectations on ethical treatment.

From these assessments, we have identified a number of key initiatives to further enhance the Bank's ethical culture and ethics programmes, and are currently developing and implementing plans to address various ethics risk categories.

Table 32: Key ethics risk categories

Risk	Response
Leadership commitment	- Published statements by the Board and by the CEO - Redemptive conditions contained within the DMTN Programme agreements will be triggered in the event of acts of unethical behaviour by the Board or by the Executive
Governance structures	- Established a separate Human Resources Committee and Social and Ethics Committee, with improved monitoring of and reporting on ethics management to the Social and Ethics Committee - Incorporated ethics training into induction - Certified two Ethics Officers and established an Ethics Office - Included ethics as an identified risk type within the ERM
Code and policies	- Revised policies and their communication - Enhanced KPIs for executive and senior management that measure achieved performance against clear ethical responsibilities
Corporate Citizenship strategy	- Formalised alignment to the relevant King IV Principles in the FY2019 Corporate Plan - The Bank's corporate citizenship strategy and policies are currently being reviewed
Institutionalisation	- Formalised and increased communication of ethical policies and hotlines - Formalised procedures for disclosing conflicts of interest
Ethics management strategy	- FY2019 Corporate Plan includes operational plans for ethics
Reporting	- Enhanced King IV disclosures; established Internal Audit coverage both for ethics and for implementation of King IV - Combined assurance coverage includes monitoring and reporting on adherence to the Bank's ethics standards

The results of the completed external assessments highlighted some immediate actions we can take to enhance our ethics culture. Specifically, we will need to firstly convert the ethics risk profile to an ethics vision and strategy and, secondly, formulate an ethics management plan. These initiatives are being advanced in FY2019.

Ethics training enables employees to identify and deal with ethical challenges and it is an integral part of our value system. As a first step, two senior employees embarked on the Ethics Officer Certification Programme facilitated by The Ethics Institute and became certified Ethics Officers for the Bank. They will provide regular ethics training for employees and will also help to build and maintain a sustainable ethics culture. We also incorporated ethics training into our induction training during the year, to ensure that new employees establish an ethical mind-set aligned to the Bank's values from the start of their tenure. During the year, 114 persons including the Board, EXCO, risk champions and provincial managers as well as new employees received ethics training. We are especially proud of our first group of 21 Ethics Ambassadors who were trained in March 2018. In addition, ethics as a specific topic is covered in the new curriculum for our employees developed through the Land Bank Learning Academy.

Hotlines

The Bank currently operates one tipoff hotline for fraud and ethics matters. As approved during the year by the Social and Ethics and the Risk and Governance Board Committees, the Bank is working towards establishing a separate ethics hotline where employees can report such matters anonymously. This separation will be crucial to ensure that ethics matters are reported, and are subsequently handled with diligence, transparency and fairness. During FY2018, three such matters were reported to the Whistleblowing hotline. One case is being investigated, one has been referred to the Board and one has been concluded with appropriate disciplinary proceedings being instituted against the employee.

Labour relations matters

The Human Capital Division reported 20 disciplinary matters during FY2018, all of which were appropriately handled and resolved. We plan to improve our approach to tracking and reporting of such matters in FY2019 through our incident management system to enable root cause analysis and improve control environments. Three matters were reported to the CCMA and one to the Labour Court, of which three are still pending or in progress and one has been concluded. The Bank entrenched its position as an employer that treats disciplinary matters with the utmost respect and fairness.

Declaration of business and conflict of interest

Section 21 of the Land Bank Act sets out specific conditions with regard to the declaration of conflict of interest of both Board members and employees and forms the basis of the Bank's approach to this matter. Non-compliance by Board members in terms of certain subsections may result in their removal from the Board by the Minister. Specific to declaring conflicts of interests, attendees of all Board and Committee meetings (including any invited attendees) are required to declare any conflict of interest in relation to any of the meeting agenda items. The Committee Secretary circulates the register of attendance, including noting any declarations of interest and the confidentiality of deliberations and materials prior to the opening of each Board meeting and Committee meeting, and ensures that all attendees sign the register.

Land Bank directors and employees have freedom of affiliation to external associations, including social, cultural and political formations. The Bank's Employee Policy on Conflict of Interest and Outside Involvement provides an ethical decision framework to guide employees in all capacities in making ethical decisions as they conduct the business of the Bank or enter into business relationships. This policy sets out what outside business interests are considered acceptable for Bank employees. During FY2018 a special communication was sent to all employees to create awareness of this policy and to launch an automated process of declaring any business interest or conflict of interest. As at the end of FY2018 95% of employees had completed the declaration. The declarations will be verified to facilitate provision of a complete view of all employee interests and to enable appropriate management thereof.

Gift registers

We are pleased to report that during the year we introduced an electronic version of the gift register. Along with an awareness campaign to clarify and communicate the Bank's policy for acceptance of gifts, the register enables any employee to declare all gifts accepted or received and promotes a culture of declaration of gifts.

The Bank has made significant progress this year in further enhancing its ethics management policies and programmes. We believe, however, that further work is needed to advance the maturity of the Bank's ethics culture to achieve our objective of attaining world-class status. In this context, ongoing ethics training and awareness programmes continue to be our main priority, and we are committed to building and maintaining an ethical corporate culture to achieve the aspiration to be known for "always doing the right thing, even whilst no one is watching".

Future focus

- Conduct ethics training and awareness programmes;
- Complete the Ethics Management Maturity Assessment (EMMA) facilitated by The Ethics Institute, and finalise the project;
- Re-design the ethics strategy and formalise feedback;
- Separate the Whistleblowing hotline from the Ethics hotline; and
- Further develop the reporting on ethics in accordance with the core level GRI Standards.

Ethics Officers

GOVERNANCE STRUCTURE

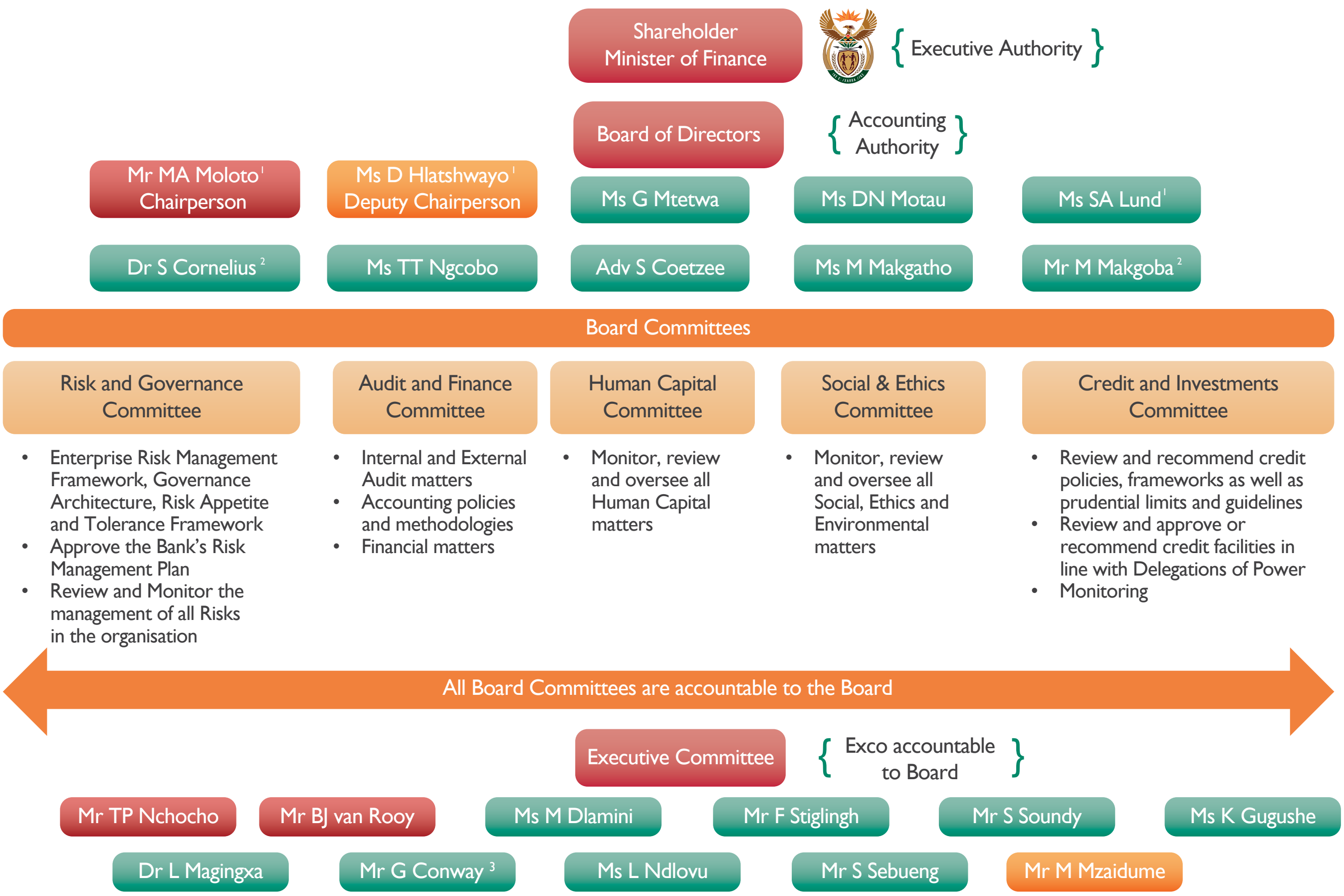
The Bank is controlled by an independent Board of Directors appointed by the Minister of Finance, as required by the Land Bank Act. The Board is responsible for the strategic direction and control of the Bank, including providing governance oversight of the implementation of the Bank's policies in accordance with its responsibilities and functions set out in the Act. The experience, leadership and independent judgement that the Board demonstrates in its conduct and decision-making establishes a leadership environment that facilitates holistic value creation for the Bank's stakeholders.

As a DFI we are subject to and have implemented appropriate controls within a system of internal assurance that enables the Executive to provide reasonable assurance that the Bank complies with all relevant requirements of the Land Bank Act and the PFMA.

We have also adopted the principles of King IV, and provide our disclosures explaining how we have applied those principles within the Bank's governance framework page 140.

During FY2018, the Board approved a change to its governance structure as part of demonstrating its commitment to oversight of the Bank's ethics culture and its ethics policies and programmes. Effective from April 2018, there will be separate board committees for governance oversight of Human Resources and Social and Ethics matters. This change has been made to ensure that adequate governance oversight is applied to the range of social and ethics matters that arise in connection with the business of the Bank, including monitoring and management of the Bank's environmental and social impact. For the purpose of this report human resources and social and ethics matters are reported on in context of the erstwhile combined committee's mandate and objectives.

Figure 42: Land Bank governance strcuture



1 Reappointed for 3 years with effect 1 June 2018

2 Newly appointed for 3 years with effect 1 June 2018

3 Resigned July 2018

The Bank operates through an approved DOP as the overall framework that gives effect to the governance structure. An external legal services provider was engaged in FY2018 to perform a legal assessment, which is still in progress, of the Bank's DOP to ensure alignment with King IV, the Companies Act and the PFMA.

Application of King IV

The Board is satisfied, based on its oversight of the Bank's implementation of King IV during the year, that the King IV Principles are being achieved. The Bank's governance arrangements, including its governance structures and oversight functions and its governance practices established within its policies and procedures implemented by management, embody its current governance framework. The Board is fully committed to continuing to strengthen the Bank's further alignment with the 17 King IV Principles to further enhance its achievement of the King IV governance outcomes: ethical culture, good performance, adequate control and legitimacy.

The Board is satisfied that every effort was made during 2017 to apply the King IV Principles, and also to adequately explain how the Bank has applied the Principles through the King IV disclosures that are contained in this Report. The Audit and Finance Committee has reviewed the process applied to ensure the integrity of those disclosures as explained, to ensure that they are an appropriate reflection of the Bank's progress to date in implementing King IV. The detailed disclosures can be viewed on page 140.

BOARD OF DIRECTORS

The Board membership comprises an independent non-executive chairperson, nine independent non-executive members considered sufficiently independent to provide independent oversight of the Bank and its activities, and two executive directors. The independent directors have no relationship with the Bank either as employees, clients or suppliers.

We have a diverse Board with a membership that reflects a strong collective skill set well aligned to the business of the Bank. The board members have a mix of skills and qualifications including business, banking, agriculture, development, audit, risk, finance, corporate governance and legal expertise. Eight of our board members are female and three are male; eight members are of an historically disadvantaged background. The Minister reviewed and re-appointed three Board members in May 2018, Mr. MA Moloto, Ms SA Lund and Ms D Hlatshwayo. Ms Hlatshwayo was also appointed as Deputy Chairperson subsequent to year-end. The Board has not appointed a lead independent director and is currently reflecting on how to position the role and functions of such an appointment vis-à-vis the deputy chairperson role.

The average director tenure is 3.76 years, with Ms Lund as the longest-serving member at 6.5 years. The average age of directors is 52.3 years, with half of the Board members currently younger than 55 years.

Figure 43: Board composition by designation

- 17% Executive
- 83% Non-executive, independent

Figure 44: Board composition by race

- 25% White
- 75% Black, Coloured and Indian

Figure 45: Board composition by gender

67% Female

33% Male

The Board is satisfied that its current composition regarding the mix of skills, knowledge and experience that members contribute, and its diversity concerning the attributes of age, race and gender, is appropriate to enable effective performance of the Board's role and functions.

We regularly review and benchmark the group's governance structures and processes to enable promotion of effective and ethical leadership, good corporate citizenship and sustainable development, and that those structure and processes are applied to serve the best interests of the Bank taking account of the reasonable needs of its key stakeholders. In this regard, we are satisfied that the Bank has fulfilled all its duties and obligations in FY2018.

Evaluation of Board performance

Land Bank is committed to high standards of performance, and views evaluation of the performance and effectiveness of the Board, its committees and its individual members as a key measure of performance. During FY2018 the Board completed an external self-evaluation facilitated by an independent party, to afford board members the opportunity to reflect on whether the Board is effective in performing its role and functions, and in alignment with corporate governance best practice as contained in the relevant rules and guidelines applicable to SOEs. The results of the board self-evaluation will be presented to the Board and its committees during FY2019.

The Board also reviews the appropriateness of the Committee Charters at least annually, and also the performance and composition of each committee at least once per year. During FY2018 all board and committee charters were reviewed and updated to promote alignment with King IV Principles and Recommended Practices (and as applicable to the legal governance environment of Land Bank).

Company Secretary

The Board has appointed Mr M Mzaidume as Company Secretary, whom the Board has evaluated as being appropriately qualified in terms of having appropriate skills and experience for the position. He has also confirmed his independence for performing the company secretary role.

Board changes

Professor Karaan resigned in August 2017, in consideration of his numerous professional commitments and relationships in the sector which created increased potential for conflict of interest. Professor Karaan accordingly felt it best to avoid such conflict situations. Post year-end, Ms N Zwane's term expired on 31 May 2018 and has not been renewed by the Minister.

The Minister appointed two new board members to replace these vacancies on the Board from 1 June 2018, namely Dr ST Cornelius and Mr M Makgoba. They are welcomed to the Board, along with their respective extensive experience in development, veterinary sciences and agriculture.

Independent Non-Executive Directors

Mr MA Moloto, 50 (Chairperson)
Master of Science (Finance and Financial Law); Postgraduate Diploma in Economic Principles; BA (Hons) Development Studies; BA Education
Re-appointed 01 June 2018 – 31 May 2021
01 January 2015 – present (3 years, 3 months)
Omricon Capital; SA Real Estates; Seboka Resources, Development Bank of South Africa
Mr Moloto has extensive experience in infrastructure development, financial regulation, pension fund governance, energy regulation and legislative work. He has served on the boards of Pan African Infrastructure Development Fund and Government Employees Pension Fund. He has served as Member of Parliament and is currently Political and Economic Advisor to the Speaker of the National Assembly.
Human Resources & Social and Ethics, Credit and Investment

Prof ASM Karaan, 50
Doctor of Philosophy (Agriculture); Master of Science (Agriculture in Economics); Bachelor of Science (Hons) (Agriculture), Bachelor of Science (Agriculture)
Resigned August 2017
I January 2010 – 31 August 2017 (7 years, 8 months)
Pioneer Foods, Southern Oil Ltd, TerraSan Holdings, Fruitways Group, Quantum Foods, Zeder Investments.
Prof Karaan is an agricultural economist and Dean of the Faculty of AgriSciences at the University of Stellenbosch. He was President of the Agricultural Economics Association of South Africa (2008/9) and Chair of the National Agricultural Marketing Council. He serves as a Commissioner on the National Planning Commission of South Africa.
Credit and Investment (Chairperson – resigned)

Ms D Motau, 55
Bachelor of Commerce; Certificate in Business Project Management; Diploma in Advanced Banking
Re-appointed I March 2017 – 29 February 2020
I October 2013 – present (4 years, 6 months)
Aphiwa Risk Consultants; Delta Property Fund; Bristler (Pty) Ltd; LBIC; LBLIC
Ms Motau has wide experience gained from different environments and institutions, spanning the banking, regulatory and supervisory environment, credit risk rating and government policy formulation. Having started her career in banking, focusing on financial analysis and development finance through the Development Bank of Southern Africa, she moved to the South African Reserve Bank to gain an understanding of the environment within which banks operate. She has developed expertise in risk management, having managed the credit exposures of Government at National Treasury. In 2011 she launched a financial risk management consultancy, Aphiwa Risk Consultants (Pty) Ltd, focusing on the financial inclusion of the small micro enterprises into the formal sector through access to finance. Her projects include advising on strategy formulation for penetrating the informal market.
Credit and Investment (Chairperson)

Ms SA Lund, 56

Master of Arts (Rural Development Planning); Bachelor of Arts (Hons), B. Journ, Senior Executive Programme (Harvard & Wits Business Schools)

Re-appointed 01 June 2018 – 31 May 2021

5 September 2011 – present (6 years, 7 months)

None

Ms Lund is General Manager for growth and diversification in corporate business development at Transnet SOC Ltd which she joined in 2006 as General Manager for public policy and in 2011 established its corporate sustainability portfolio. From 2000-2005 Ms Lund was head of business development and senior transaction advisor in the Public-Private Partnerships Unit, National Treasury; and from 1995 - 2000 was Deputy Director-General in the Department Land Affairs. Ms Lund is a member of the Institute of Directors Southern Africa and its Sustainable Development Forum.

Risk and Governance (Chairperson), Audit and Finance

Ms N Zwane, 58

Master of Science (Agricultural Science); Bachelor of Science (Chemistry and Botany)

Appointed 06 January 2015 – 31 May 2018

06 January 2015 - 31 May 2018 (3 years, 5 months)

Africa Growth Institute; PPP4 Rural Development (Pty) Ltd; Africa Agribusiness Incubator Network South Africa, LBIC, LBLIC

Ms Zwane served in various capacities between 1996 and 2009 at Department of Agriculture, Forestry and Fisheries culminating with her appointment as Director-General of the department. She is the founder and Executive Director of PPP4Rural Development (Pty) Ltd which is accredited with the AgriSETA.

She has strong technical, policy analysis and development, strategic planning and business development skills with a wide network of partnerships and alliances in the private, public, non-governmental and international development spheres. She also adds her agricultural knowledge as well as experience in agribusiness incubator development and small-scale farming outgrower programmes.

Human Resources & Social and Ethics, Audit and Finance

Ms D Hlatshwayo, 54 (Deputy Chairperson)

Bachelor of Social Science (Hons); MBA with specialisation in Advanced Corporate Finance, Senior Executive Leadership Development Programmes Harvard and Wits

Reappointed 01 June 2018 – 31 May 2021

Appointed 06 January 2015 - present (3 years, 3 months)

Public Investment Corporation, Pareto, Airports Company South Africa; LBIC; LBLIC

Ms Hlatshwayo has a solid business management background that spans over 20 years, having been a Partner at Ernst & Young, worked as a Director in the Corporate Finance Division of Andisa Capital, a subsidiary of Standard Bank, worked for ABSA Bank as a Product Manager, worked for Transnet as a Group Executive driving the restructuring and Mergers and Acquisitions Portfolio of Transnet, and being employed as a Product Manager at Telkom SA.

Ms Hlatshwayo has skills in Corporate Finance, Business Process Re-engineering, Organisational Design, Corporate Strategy Development and Business Planning, Change Management and Programme and Project Management.

Human Resources & Social and Ethics, Credit and Investment

5. GOVERNING OUR BUSINESS

Ms TT Ngcobo, 69

Bachelor of Arts A (Social Science); Management Development Programme (Harvard Business School, Boston, USA); Post Graduate Diploma in Management

Re-appointed 01 March 2017 – 29 February 2020

1 October 2013 – present (4 years, 6 months)

Thelma Ngcobo and Associates; Omanyuswa Spearheading Investments; Manyusa Petroleum (Pty) Ltd; LBIC; LBLIC

Ms. Ngcobo is a BA (Social Science) Graduate, and holds a Post Graduate Diploma Graduate Diploma in Management (HR) from Wits Business School. Ms. Ngcobo participated in the Harvard Business School executive education programme (PMD) 1995, and completed diplomatic training in Zimbabwe pre-1994 for the South African Government. She has also completed various short courses from INSEAD in France, as well as in the UK.
Ms Ngcobo is a management consultant with in-depth experience of human resources, advocacy work, transformation and marketing research gained in large corporations over three decades as a senior executive. She has worked at a variety of companies and was the first black female General Manager at the South African Reserve Bank in 72 years. She serves on board committees at a number of institutions, including Human Resources and Remuneration, Social and Ethics, and Risk.

Human Resources & Social and Ethics (Chairperson), Risk and Governance

Advocate S Coetzee, 56

Bachelor of Legum Civilum; Bachelor of Laws (Postgraduate)

Appointed 03 August 2015 – 02 August 2018

3 August 2015 – present (2 years, 7 months)

Blue Crane Aviation; LBIC; LBLIC

Advocate Coetzee is an admitted advocate of the High Court of South Africa. She has extensive experience in leadership positions in both the private and public sector. She has played key roles in policy and strategy formulation, regional integration, structuring companies in the Public Enterprises arena, M&A transactions, high-value long-range infrastructure and other asset transactions, as well as regulatory reform. She is well versed in the transport, logistics and energy sectors from a policy, strategy, legal and regulatory perspective.

In the corporate arena Advocate Coetzee has led governance, risk management and compliance reform, flexible and cost contained procurement and contracting reform, structured negotiations, effective reduction in litigation liabilities and legal costs, as well as performance monitoring and evaluation. As a senior executive she is also well versed in consumer laws and competition law, having successfully resolved 3 material competition law matters in South Africa, the USA and European Union.

Human Resources & Social and Ethics, Risk and Governance

Ms M Makgatho, 47

Master of Commerce (Development Finance); Bachelor of Commerce (Hons) (Economics); Global Executive Development Program

Appointed 03 August 2015 – 02 August 2018

3 August 2015 – present (2 years, 7 months)

Kubumba Investments; Studio Five Graphic Design; Matla Capital

Ms Makgatho the Executive Director of Matla Capital, a Corporate and Project Finance company. She is the former Transnet Group Treasurer responsible for driving Transnet's funding strategy as well as managing rating agencies, investor and lender relationships. This role included raising a third of the required funding for Transnet's R300 billion investment programme from debt capital markets. She led all aspects of the company's comprehensive funding strategy applying various funding sources including commercial paper, domestic bonds, Development Funding Institutions and bank loans. She joined Transnet in 2007 as Head: Structured Finance and in that role was responsible for origination and structuring of debt capital market transactions (loans and bonds). In an earlier role Ms Makgatho worked as a consultant responsible for Treasury and Economic advisory, including with the National Treasury and the National Institute of Economic Policy (NIEP).

Audit and Finance, Credit and Investment

Ms G Mtetwa, 39	
CA (SA); Bachelor of Commerce (Accounting); Post Graduate Diploma in Accounting; Executive Leadership Development Programme; Personal Mastery Programme(GIBS); Partner Development Programme (GIBS); Advance Risk Management Programme	
Appointed 01 March 2017 – 29 February 2020	
01 March 2017 – present (1 year)	
Development Bank of Southern Africa; Santam; Italtile, Sasfin Holdings, Equites Properties	
Ms Mtetwa is a senior executive with more than 15 years' experience in the financial services and telecommunications industries, with specific expertise in short- and long-term Insurance, investment management, real estate and technology. She qualified as a Chartered Accountant in 2004 and was admitted as a partner with PwC in 2008, where her clients included ABSA Investment Management (AIMS), Sasria, and Liberty Properties. In 2012 she became a member of PwC Southern Africa's Management Committee heading up Transformation and Diversity. In 2014 she joined Vodacom as Managing Executive in Finance. Ms Mtwetwa was nominated for the Top 35 CAs under 35 years in South Africa by SAICA in September 2014.	
Audit and Finance (Chairperson), Risk and Governance	

New Independent Non-Executive Directors joining in FY2019

Mr M Makgoba, 44
Bachelor of Agriculture (University of Limpopo); Bachelor of Agriculture (Hons) (University of Limpopo); Master of Development Studies (University of Free State); Masters in Town and Regional Planning (University of Free State)
Appointed 01 June 2018 – 31 May 2021
Date of commencement of board membership is post year-end
None
Mr Makgoba is a development specialist with a background in town and regional planning.
None

Dr ST Cornelius, 61
Bachelor of Science (Hons) (Wits); BVMCh (Medunsa); BVSc (Hons) (University of Pretoria); SEP (Harvard / Wits); MRSB (London); and MInstDir(SA)
Appointed 01 June 2018 – 31 May 2021
Date of commencement of board membership is post year-end
Onderstepoort Veterinary Pharmaceuticals
Dr Cornelius is a veterinarian with extensive management experience in the agricultural and biological fields. He is currently a senior lecturer in veterinary physiology at the University of Pretoria.
None

Executive Directors

The Executive Directors are not members of any board committees. They are standard invitees to all committee meetings.

Mr TP Nchocho, 50
Bachelor of Commmerce (University of Limpopo); Master of Business Leadership (UNISA); Master of Science (Development Finance and Economics) (University of London); AMP (Advanced Management Programme), Harvard University
Appointed 01 February 2015
LBIC; LBLIC
Mr Nchocho is experienced in development finance, banking and public administration. He worked at the then Qua-Qua Development Corporation which became the Free State Development Corporation as an investment officer and went on to head up the Small and Medium Enterprises division. He spent a brief period as Chief Director at the National Department of Public Works before joining the Development Bank of South Africa in 2002. He was closely involved in the development and establishment of the Private Power Producers capability in South Africa and went on to become the Group Executive: South Africa Division at the DFI. Prior to joining Land Bank, he served on the board of advisers of various private equity firms across diverse industries. His passion for socio-economic development has motivated him to serve as board member for several community-based organisations where he is able to offer his business skills to support new entrepreneurs.

Mr BJ van Rooy, 43
CA (SA); Bachelor of Commerce (Accounting); BCom (Hons), Certificate in the Theory and Practice of Auditing
03 August 2015
LBIC; LBLIC
Mr van Rooy is a qualified chartered accountant with diverse financial, executive management and entrepreneurial skills. He completed his internship at PricewaterhouseCoopers in 2000, where he specialised primarily in service delivery in the IT, construction and engineering industries. He further obtained experience in mergers and acquisitions as well as a variety of risk and financial management disciplines at Barclays Africa Group (Absa Bank) during a 6-year career. He then joined the JD Group (a JSE listed diversified retail and consumer finance business) where he went on to become the Group Financial Director as well as the CEO of JD Consumer Finance, a division of the Group. He has a strong track record in restructuring bank and corporate balance sheets, successfully implementing ERP systems, product development (debt and consumer finance assets and insurance products), mergers and acquisitions, implementing innovative funding and debt structures and the implementation of the various Basel capital management and funding principles.

Executive structure

Land Bank's Executive Committee comprises nine executives that report to the CEO. Their average tenure is 2.2 years, and their average age is 47. Three are female and 7 are from an historically disadvantaged background. The Board is confident that the diversity and collective skills, qualifications and experience of the Executive Committee is sufficient to successfully manage the operations of Land Bank. The profiles of the Executive Committee members are provided below.

Mr GJM Conway, 51 (resigned)

Executive Manager: Corporate Banking and Structured Investments

1 September 2015 – 13 July 2018

Master of Business Administration; Post-Graduate Diploma in Utility Management; Bachelor of Social Science

Witzenburg PALS, Mouton Citrus

Ms ETM Dlamini, 58

Executive Manager: Human Capital

15 August 2013

Bachelor of Arts (Social Science) Degree; Masters Diploma in Human Resources; Programme in Advanced Marketing Management; Advanced Diploma in Business Management; International Executive Development Programme; Leadership Development Programme for Senior Managers

ETM Moja Investments CC; Sustainable Aluminium Packaging

Ms K Gugushe, 42

Chief Risk Officer

15 September 2015

Bachelor of Commerce (Accounting and Commercial Law); Post-Graduate Diploma in Accounting; Certificate in the Theory and Practice of Auditing; CA (SA)

Grayston Preparatory School (NPC), University of Johannesburg Council

Dr LL Magingxa, 44

Executive Manager: Agricultural Economics and Advisory

1 March 2018

Bachelor of Science in Agriculture (Economics); Master of Science (MAKS); Doctor of Philosophy in Agriculture(Economics); Leadership Development Programme for Senior Managers; International Executive Development Programme

QCS Envirotek (Pty) Ltd

Ms L Ndlovu, 47
Executive Manager: Commercial Development and Business Banking
1 August 2015
Bachelor of Science (Industrial Information Technology); Post-Graduate Management Development Programme; Master in Business Administration
Belvoir Farm; Conservation South Africa; Women's Infrastructure Empire; Finningley Development

Mr SN Sebueng, 38
Executive Manager: Legal Services
1 January 2018
Bachelor of Laws; Advanced Company Law Certificate; Admitted Attorney of the High Court of South Africa
None

Mr SCE Soundy, 53
Executive Manager: Strategy and Communication
17 August 2015
Bachelor of Administration; Bachelor of Administration (Hons), Industrial Psychology; Graduate Diploma in Marketing; MBA; Global Executive Development Programme
None

Mr F Stiglingh,47
Executive Manager: Portfolio Management Services
01 June 2016
Management Development Programme; Financial Accounting; Senior Management Retail Development; Senior Management Corporate Governance Programme; Senior Management Banking Programme; Executive Development Banking Programme
Inprofit Solutions Pty Ltd; One Source Pty; Precision Collect; JMVS Holdings; Surenet Direct; Take Note Trading; Isphere Technologies

The CEO of Land Bank is appointed by the Minister of Finance in consultation with the Board and is an executive director of the Board. The CEO was appointed under a five-year contract that will expire in January 2020.

In accordance with the provisions of the Land Bank Act, the Minister may, after consultation with the Board, terminate the employment of the CEO in accordance with applicable employment law. The Bank may terminate the employment agreement prior to its expiry for reasons relating to misconduct or incapacity of the Executive, or the operational requirements of the Bank as stipulated by the Labour Relations Act. In the event that the contract is terminated by either party, a notice period of three months is required to be served. The Board will consider the matter of succession of the CEO in the next year with a view to provide inputs to the eventual Ministerial selection process.

To ensure independence, the Head of Internal Audit reports functionally to the chairperson of the Audit and Finance Committee and administratively to the CEO. The Head of Internal Audit is not a member of the Executive Committee.

BOARD AND COMMITTEE REPORTS

Board report

Attendance

The Board held 10 regular meetings during FY2018 and 3 Board strategy sessions with an average attendance of 10.75/13 meetings.

Table 33: Attendance: Board and Committee meetings FY2018

Land Bank Board and Committee Meeting Attendance for FY2018						
Board and Committees						
Directors	Land Bank Board	Human Resources	Social and Ethics Committee	Credit Investment Committee	Audit and Finance Committee	Risk and Governance Committee
Number of meetings for FY2018	13	9	1	15	7	4
Mr A Moloto	13	9	1	15		
Prof M Karaan (Resigned on 31 July 2017)	4			6		
Ms D Motau	9			15		
Ms S Lund	13				7	4
Ms N Zwane	13	8	1		6	
Ms D Hlatshwayo	11	9	1	13		
Ms T Ngcobo	13	9	1			4
Adv. S Coetzee	11	9	1			4
Ms M Makgatho	11			12	5	
Ms G Mtetwa	10				7	3
Mr TP Nchocho	10	6	1	12	6	3
Mr BJ van Rooy	11	5	1	14	7	4
The number of 13 Board meetings includes 3 Board Strategy Sessions						

Mandate

The Board is Land Bank's central governance forum, responsible for determining the Bank's strategic direction and exercising prudent control over the Bank and its affairs. Its responsibilities are determined by the Land Bank Act, by common law, and as duly delegated by the Finance Minister under the approved DOP. The Board actively engages with the Executive Committee for setting, approving and overseeing the Bank's strategy and related approved strategic plans/Corporate Plans for implementation of the approved strategy. The Board monitors management's implementation of policies and procedures to exercise appropriate risk management and control, including to ensure that the Bank's assets are safeguarded and that it complies with all applicable law and regulation.

Our objectives for FY2018

- Set the tone and lead the group ethically and effectively;
- Act with independence, inclusivity, competence, diligence and courage, and with the necessary insight and information;
- Provide leadership and vision to the Bank to ensure sustainable growth and appropriate corporate citizenship for the benefit of all stakeholders of the group;
- Focus on the improvement of the framework of prudent and effective controls to enable risk and opportunity to be assessed and managed effectively;
- Focus on accountability for the performance of the Bank to support the Group in setting its purpose and achieving its strategic objectives; and
- Ensure responsible corporate governance of the Bank.

Responsibilities	Activities during FY2018
Ethical leadership Direction and control (operations and business of the Bank) Governance policies and codes of good practice (in accordance with Land Bank Act) Develop strategies Ensure that assets are safeguarded, verified, maintained and accounted for Compliance and communication (communicates with its shareholder and stakeholders openly and promptly)	- Approved revised Company Secretary and Internal Auditor reporting lines, to align with Delegation of Power review and King IV, ensuring Internal Audit reports functionally to the Board and administratively to the CEO - Provided direction to board members and executives regarding the Bank's position on Land Reform - Approved revised Board Committee Charters aligned with King IV - Approved the separation of the Huma Resources and Social and Ethics Committee to ensure adequate focus on both responsibilities - Engaged with the Minister of Finance on the need to balance strategic and development mandates, good governance, the need for better engagement with the Ministry, better coordination of SOEs involved in agricultural funding - Advised regarding engagement with National Treasury in terms of inconsistent communication from different individuals/departments at National Treasury, regulation constraining the Bank's ability to deliver development impact and the department's understanding of the industry - Deliberated on the limitations prescribed to the Bank regarding the Bank's Gearing Ratio and potential interventions required to maintain it - Provided input on and approved the Corporate Plan - Approved the CEO's performance scorecard, ensuring alignment with the Corporate Plan and measurable KPIs - Approved the Development Impact submission and recommended its implementation as a strategy rather than a policy - Gave direction on and approved various reports from Board committees - Provided input into and approved the Governance and Risk Management Framework, Risk Appetite - Approved the Credit and Risk Management Framework - Approved the Interest Rate Risk Strategy to align with the Risk Appetite Framework and in response to the Bank's mismatched interest rates. - Approved new policies such as the Fraud and Corruption Policy, and advised on revised policies in response to legislative changes or other contextual changes - Provided direction to management regarding the treatment of PEPs and reporting on them - Recommended payment of FY2017 Executive bonuses - Approved an increase of the DMTN Programme from R20 billion to R30 billion - Approved amendment to the Land Bank Insurance Services SOC Ltd Memorandum of Incorporation

The Board is satisfied that it has fulfilled its responsibilities in accordance with its Charter and delegated responsibilities for the reporting period. The Board recognises that there are areas for further improvement, specifically regarding the organisation's development impact and risk maturity.

Future focus

The Board will continue to:

- Improve its governance structure and practices;
- Promote an ethical culture in the Group;
- Enhance the internal control and compliance environments;
- Achieve its mandate by supporting the entire agricultural sector, with specific focus finding innovative solutions for emerging farmers;
- Promote a culture of financial performance and continue on the journey to enhance our return on capital;
- Strengthen the relationship with the shareholder;
- Focus on strengthening the capital structure of the Bank and develop a structure that is appropriate for the nature of the both the commercial and development initiatives of the Bank;
- Provide direction and guidance to the Executive team to manage the Bank's development impact and risk capabilities.

AUDIT AND FINANCE COMMITTEE REPORT

Members
Ms G Mtetwa (Chairperson)
Ms S Lund
Ms N Zwane
Ms M Makgatho
Invitees
Mr TP Nchocho
Mr BJ van Rooy

Mandate

The Audit and Finance Committee's activities are guided by the Land Bank Act, PFMA, and Companies Act as well as various accounting and financial frameworks. The committee's approach is strongly influenced by its commitment to the principles of good governance contained in the King IV code.

The Audit and Finance Committee assists the Board with all activities relating to safeguarding of Land Bank's assets, maintaining and reporting adequate and accurate accounting records and management information, developing and maintaining sound systems of internal control and information security, evaluating the design and operating effectiveness of the Bank's implementation of combined assurance, ensuring the integrity of the Bank's external reports (including the King IV disclosures), managing the relationship with the Bank's appointed external auditor and assessing the quality of the external audit functions performed for the Bank, and ensuring compliance with applicable laws and regulations. The Committee is also responsible for identification of the financial risks to which the Bank is exposed and for ensuring that the risk management culture, practices, policies, resources and systems to manage and monitor financial risks are in place and functioning effectively.

Our objectives for FY2018

- Review the Audit and Finance committee charter to establish closer alignment with the King IV principles;
- Consider, analyse, and review information, key judgements and significant matters raised by management, internal audit and the external auditors to ensure the appropriateness of the year-end results;
- Review information from management, Internal Audit and external auditors and considered the effectiveness of the internal controls of the group in all material respects throughout the year under review;
- Review the audited AFS and related disclosures with the Chief Financial Officer, Chief Executive, Chief Risk Officer, internal audit and the external auditor, and recommend the AFS to the board for approval;
- Review and approve the external auditor's annual plan and related scope of work and consider the key audit matters reported in the external audit annual report;
- Ensure that Internal Audit performs an independent assurance function and monitor the effectiveness of the Internal Audit function in terms of its scope, execution of its plan, coverage, independence, skills, staffing, overall performance and position within the organisation;
- Review the results of the IFRS9 impairment calculations, IFRS9 stage classification and valuation of the Structured Investments Portfolio; and
- Monitor the progress made with the improvement. of IFRS 9 Financial Instruments credit risk models.

Responsibilities	Activities during FY2018
- Ensures that the Bank maintains adequate and accurate accounting records and management information, including recommendation for approval to the Board, among others, the annual budget and financial statements - 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 - Ensures the integrity and reliability of the published financial and statutory reporting of Land Bank, and oversees integrated reporting. - Ensures transparency, accountability and good corporate governance as required by the Land Bank Act (Act 15 of 2002) - Ensures that requisite risk management culture, practices, policies, resources and systems are in place and functioning effectively - Oversees the internal audit function, monitoring that it is effective and independent	- Reviewed the Auditor General of South Africa (AGSA) Audit Strategy and reviewed management's proposal to permit the Bank to be audited by a private sector audit firm - Advised the appropriateness of the AGSA's response to a misrepresentation of the Bank's financial strength included in an AGSA report tabled in Parliament. - Reviewed progress made to implement actions to improve the quality of the IFRS9, Internal-Ratings Based and Basel-like models - Governed processes concerning the approval of the Corporate Plan by the Board, its committees and National Treasury - Reviewed and approved several revised policies - Reviewed a completely revised Fraud Prevention Strategy to align with industry best practices, legislative changes and Land Bank policies - Provided input to the CFO's report and budget stating several concerns and specifically regarding the Gearing Ratio, which was higher than the requirement; advised on the proposal for a Hybrid Capital instrument to address the issue - Recommended for approval the proposed new pricing strategy in response to potential SOE ratings downgrades - Recommended to the board an increase to the DMTN Programme - Recommended to the board the issuance of Bonds to replace maturing debt - Deliberated regarding the appointment of Internal Audit service providers - Provided input to the Combined Assurance report and process concerning Stakeholder Management and Development Effectiveness - Approved the Internal Audit Plan - Set the direction and ensured that the external reports issued by Land Bank were appropriately assured. - Recommended the Integrated Annual Report for approval to the Board

The Audit and Finance Committee is satisfied that it has fulfilled its responsibilities in accordance with its Charter and delegated responsibilities for the reporting period.

The Committee notes that there were no instances brought to its attention suggesting that control breakdown occurred in the functioning of the Group's systems that have not been disclosed in the Annual Financial Statements, procedures and controls that could lead to losses, contingencies or uncertainties that require disclosure in the financial statements. Control deficiencies identified by the internal and external auditors were brought to the attention of the Audit and Finance Committee and management has taken corrective action to address those deficiencies. Specific instances were identified that resulted in disclosure of Irregular and Fruitless and Wasteful expenditure in the Annual Financial Statements for the current reporting period.

Future focus

- Continued focus on ensuring that the Bank's financial systems, processes are operating effectively, meet our complexity requirements and are responsive to changes in the environment and industry;
- Continued focus on improving the internal control environment;
- Continued focus on progress with the enhancement of IFRS9 credit risk models;
- Review of internal audit and forensic services reports;
- Review the internal audit and forensic services organisational structure.
- Manage the relationship with external auditors, determine criteria to assess the effectiveness and quality of external assurance provided.

CREDIT AND INVESTMENT COMMITTEE REPORT

Members
Ms D Motau (Chairperson)
Ms D Hlatshwayo
Ms M Makgatho
Mr A Moloto
Prof M Karaan (resigned 31 July 2017)
Invitees
Mr TP Nchocho
Mr BJ van Rooy

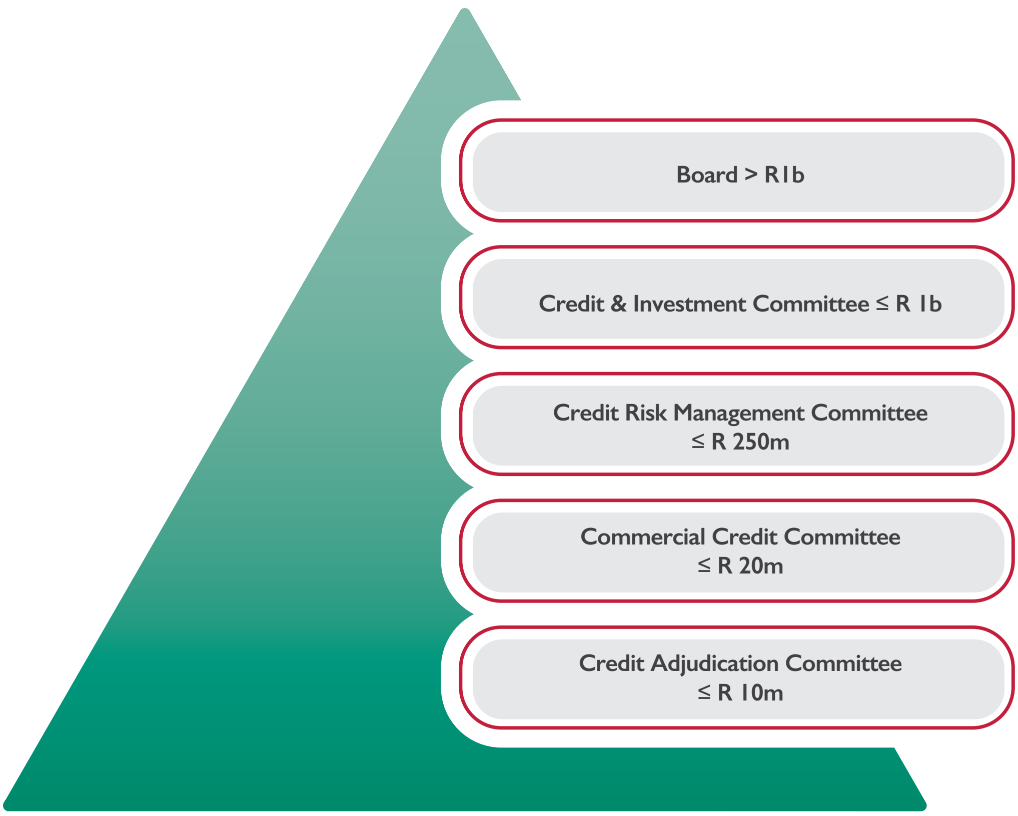
Mandate

Credit risk management is guided by the Land Bank Act, PFMA, National Credit Act (NCA) of 2005, Financial Intelligence Centre Act (FICA) of 2001 and Basel Accords. Land Bank as a DFI is mandated to promote, facilitate and support development by mobilising funds and on-lending. The Bank therefore has the key responsibility to balance its credit risk management practices with its development mandate to extend more loans to development transactions.

The Credit and Investment Committee assists the Board to meet its governance oversight responsibility to ensure that Land Bank's credit risk is managed adequately and effectively. The Board oversees the credit granting and credit risk management functions of Land Bank, including reviewing credit policies, investment policy and strategies together with the risk management process and credit risk management policies. This includes setting the Bank's credit risk appetite and risk tolerances and maintaining oversight of the level of profitability the Board expects to achieve from assuming various credit risks. The Committee is responsible for assisting the Board in fulfilling these duties.

Figure 46 reflects the delegation of powers for each credit committee. 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.

Figure 46: Credit committee mandates



Our objectives for FY2018

The Credit and Investment Committee is satisfied that it has fulfilled its responsibilities in accordance with its Charter and its objectives for FY2018. Key objectives during the current year were:

- Ensure that credit model risks were identified and planning and control measures in place to address the risks;
- Confirm that management conducted a model risk assessment;
- Confirmthat management assigned a risk rating for all credit applications;
- Oversee control optimisation, ensuring that Model Governance and Validation Frameworks are entrenched into organisational processes and the effectiveness of controls is assessed; and
- Ensure that a monitoring plan and testing schedule were implemented for Model Risk and that corrective actions have been taken as part of remediation planning.

Responsibilities	Activities during FY2018
- Review and approve credit facilities and investment proposals from the respective management committees including write-offs and restructuring in line with the approval framework - Review and recommend credit and pricing policies and frameworks - Review and recommend credit and investment risk limits to establish credit and investment risk appetite for the Bank - Review, recommend and monitor credit model methodologies and authority levels - Ensure adequate controls, risk management, monitoring and disclosure of credit risk - Ensure that the asset quality of the Bank is within the approved credit risk profile	- Approved R3.6 billion for CB&SI clients excluding approvals for annual renewals of existing production credit facilities and other existing revolving loan facilities - Reviewed and recommended to the Board for approval the revised Pricing Policy, Structured Investment Pricing Model and Risk Rating Policy, Credit Risk Management Framework and Agricultural Disaster Risk Management Framework. - Reviewed and approved Credit Policies for CDBB and CB&SI divisions - Reviewed and recommended to Board the validation reports with remedial actions and timelines - Provided input and approved credit risk appetite thresholds - Provided input to the investment strategy for structured investments - Reviewed and recommended to Board a new Model Change Policy and Standard Operating Procedure - Considered quarterly portfolio monitoring reports and remedial action by management

Future focus

- Perform an annual review of credit policies, charters and frameworks;
- Evaluate the effectiveness of all the Bank's credit committees through self-assessments;
- Provide input to IT implementation validation for loan origination models;
- Provide input to model governance environment; and
- Place greater focus on enabling transformational transactions supported by a deeper understanding of credit risks associated with such transactions.

HUMAN RESOURCES & SOCIAL AND ETHICS COMMITTEE REPORT

Members
Ms T Ngcobo (Chairperson)
Mr A Moloto
Ms N Zwane
Ms D Hlatshwayo
Adv. S Coetzee
Invitees
Mr TP Nchocho
Mr BJ van Rooy

Mandate

The Human Resources & Social and Ethics Committee assists the Board with all activities relating to the Human Capital of the organisation and its Board, and the social and ethical responsibilities and conduct of the organisation and its Board. To this end the Committee is responsible for ensuring that Human Resources and Remuneration policies align with the Bank's long-term interests. The Committee also oversees the development and administration of social, ethics and environmental policies.

During FY2018, the Board decided to separate the Human Resources & Social and Ethics Committee into two committees that will operate under separate committee charters: a Human Resources Committee and a Social and Ethics Committee. This separation will ensure closer alignment with the principles and recommended practices of both King IV, and with the Companies Act and Companies Regulations in relation to the statutory role of the social and ethics committee. This change has been initiated to demonstrate the Board's ongoing commitment to good corporate governance. The separation will enable thorough board committee engagement in relation to human resources matters, and similarly a stronger board committee level of focus on ethics issues. The following disclosures are for the combined committee that was in place up until the end of FY2018. The role and functions of the separated committees will be reported on separately in the FY2019 Integrated Annual Report.

Our objectives for FY2018

- Review committee charter, annual work plan and objectives to ensure alignment with principles of King IV;
- Initiate a review of the DOP to ensure a closer alignment to King IV in the allocation of responsibilities across the organisation;
- Review the employee value proposition to ensure the Bank provides a competitive and attractive offering to its employees;
- Focus on leadership development aligned to King IV precepts and establish succession planning in organisation;
- Provide input and oversight on deepening and building the skills foundation;
- Review frequent reports on Politically Exposed Persons identified in the credit granting processes of the Bank;
- Ensure that the organisational culture is assessed; and
- Provide specific guidance and oversight on review of ethics culture and practices at Board and organisational level.

For FY2018, the Human Resources & Social and Ethics Committee is satisfied that it has fulfilled its responsibilities in accordance with its Charter and delegated responsibilities for the reporting period.

Responsibilities	Activities during FY2018
- Assist the Board in discharging its responsibility to promote independence and objectivity amongst the directors, management, auditors and compliances officers - Assist the Board in its responsibility for overseeing that recruiting, developing and retaining critical skills are aligned with the Bank's strategy - Assist the Board in its responsibility for setting and administering remuneration policies and reviewing remuneration strategy - Oversee annual review of salaries (executives and all employees) including scrutinising benefits according to the policy - Recommend for approval the remuneration and performance bonus of the CEO in line with the Land and Agricultural Development Bank Act, 2002 - Assist the Board to ensure a formal process of Nomination that ensures the appropriate balance of knowledge, skills, experience, diversity and independence - Ensure compliance with applicable legislation - Oversee the development and administration of social, ethics and environmental policies according to the ethical values and principles - Ensure the management and implementation of social, ethics and environmental policies, and that they are adhered to - Ensure an ethical and socially and environmentally responsible corporate culture	- Resolved to approve revised Company Secretary and Internal Auditor reporting lines, to align with Delegation of Power review - Provided direction on Human Resources matters that have surfaced in realm of social media, which could have a negative impact on the Bank's reputation - Provided input and recommendation for approval to the Board of employee value proposition policy revisions (e.g. changes to annual and other types of leave) - Deliberated on and approved the actions taken regarding delays in the payment of executive bonuses due, as a consequence of the delay in approval by the Shareholder. Approved payment of performance bonuses - Approved FY2019 pay scales considering the economic environment and the challenges in attracting and retaining skills - Revised and approved several policies during the year to ensure compliance with relevant legislation, with the Disciplinary Code and Procedures as a key policy deliberation - Resolved to separate the HR and SEC committees for both the Group and Insurance subsidiaries - Reviewed and provided input to the quarterly ethics report - Approved the appointment of an internal candidate to fill the vacancy of Head of Legal Services and an external appointment for the Executive Manager: Agricultural Economics and Advisory Services - Commissioned a review of the DOP to ensure alignment with King IV, the Companies Act and PFMA

Future focus

Human Resources Committee

- Revise the Human Resources Committee Charter to address the stand-alone status of the committee at the commencement of FY2019;
- Consider outcomes of DOP, advise Board on proposed actions and monitor implementation thereof as related to Human Resources matters;
- Provide oversight of review of remuneration policy to ensure alignment with King IV;
- Consider and approve remuneration related matters including annual salary increases and bonus allocations.

Social and Ethics Committee

- Develop the Social and Ethics Committee Charter to address the stand-alone status of the committee at the commencement of FY2019;
- Monitor implementation of identified actions emanating from the ethics assessment and implementation of ethics strategy;
- Approve revised Land Bank Code of Ethics and Business Conduct;
- Provide guidance on stakeholder engagement plan and consider quarterly reports;
- Review implementation of environmental and social sustainability tools and incorporation thereof in credit processes;
- Continue focus on the review the Politically Exposed Persons identified as part of the credit granting and supplier on-boarding processes of the Bank;
- Consider marketing and communications plan and provide inputs to the organisation on brand positioning matters.

RISK AND GOVERNANCE COMMITTEE REPORT

Members
Ms S Lund (Chairperson)
Ms T Ngcobo
Adv. S Coetzee
Ms G Mtetwa
Invitees
Mr TP Nchocho
Mr BJ van Rooy

Mandate

The Risk and Governance Committee assists the Board with all matters relating to risk and risk management, including ensuring that appropriate risk management culture, practices, policies and systems are in place and functioning effectively. The Committee also assists the Board to ensure transparency, accountability and good corporate governance as required by the Land Bank Act and other relevant law and regulations, standards and protocols that apply to the Bank's activities or that the Bank has voluntarily adopted.

Our objectives for FY2018

The Risk and Governance Committee's objectives for FY2018 were to ensure that the Risk Management governance and function in the organisation continue to mature. This entailed overseeing the following initiatives:

- Set the tone and buy-in from the top;
- Entrench a strong risk and ethics culture;
- Position risks as a strategic driver;
- Attract skilled resources; and
- Foster transparency and accountability.

The Risk and Governance Committee provided the guidance and approvals to the Risk Management function for these initiatives that coincided with the key objective of enhancing the maturity of Risk Management. This entailed reviewing, providing recommendations and approving a number of revised risk policies, procedures and frameworks, the risk appetite framework, and the applicable risk governance principles that guide the Committee's thinking. The Committee is satisfied that it has fulfilled its responsibilities in accordance with its Charter and delegated responsibilities for the reporting period.

Responsibilities	Activities during FY2018
- Assist the Board in discharging its responsibilities for ensuring transparency, accountability and good corporate governance - Recommend for approval by the Board risk frameworks, appetite and policies - Approve the Bank's risks management plan, standards and methodologies and an annual work plan - Review and monitor the Bank's risk profile, process of identification and management of risks, effectiveness of risk management processes, actual risks and responses and their disclosure - Set the tone and develop a culture of enterprise-wide risk management including links to other functions	- Recommended and initiated a review of the Delegation of Power (DoP) by an external independent party; reviewer was of the opinion that the majority of the Board's Delegations did not breach any applicable laws - Discussed drafts of the ERM/Governance Framework and upon fulfilling specific points, recommended the framework for approval to the Board - Provided input on the Combined Assurance plans and progress and approved the revised framework - Reviewed and recommended for Board approval the Risk Appetite Framework including the addition of a dashboard for monitoring and reporting - Reviewed and recommended for Board approval the quarterly risk register and mitigation actions - Commented on the implementation of new Stress Testing model, and provided recommendations to management for its incorporation into risk management procedures - Made recommendations regarding Directors' and Officers' Liability Cover - Deliberated regarding the risks regarding the Gearing Ratio Optimisation initiatives - Conducted a review and recommendation of the interest rate risk policy. - Assessed the suitability of the Internal Audit service providers based on ethical norms - Provided input to the Compliance Report - Provided input into the revised PEPs Policy and recommended improvements to internal processes in response to the risk pertaining to PEPs screening and non-conformance to supply chain management policy - Provided direction to management regarding the proactive handling of Reputational Risks posed by media - Reviewed ERM, governance and compliance reports, IT governance and business continuity report on a quarterly basis - Conducted an annual RGC self-evaluation to review effectiveness of the committee

Future focus

- Strengthen data analytics capability to enhance risk management;
- Deepen ERM capability from defined to managed state;
- Establish consistent risk management practices across the Group by integrating LBIC/LBLIC better within existing risk management oversight;
- Monitor King IV action plan to deepen alignment;
- Review the effectiveness of the interest rate hedging strategy of the Bank;
- Identify any emerging risks emanating from the supply chain management environment of the Bank;
- Review RGC charter to ensure close alignment with legislation and governance principles; and
- Focus on IT governance progress.

GOVERNING OUR SUBSIDIARIES

LBIC/LBLIC Board membership

Land Bank Insurance has four board committees:

- Audit and Risk Committee;
- Investment and Actuarial Committee;
- Human Resources Committee;
- Social and Ethics Committee.

The responsibilities of the Audit and Risk, Human Resources and Social and Ethics Committees are similar to that of the Bank. The Investment and Actuarial Committee monitors the investment portfolios of the two companies, actuarial matters and asset and liability management.

The Land Bank Insurance Board has adopted all Land Bank policies as far they are applicable, including all human resource policies. In addition, these include:

- Employee's Policy on Conflict of Interest and Outside Involvement;
- Code of Ethics and Business Conduct;
- Occupational Health and Safety Policy;
- Whistleblowing Policy; and
- IT Backup Policy.

The majority of the Board members of the Land Bank Insurance companies are members of the Land Bank Board as prescribed by the Land Bank Act. The Board membership is further strengthened by the appointment of three independent non-executive directors. One independent director's term came to an end during FY2018, Mr Bergman, and Ms Zwane's term expired at the end of May 2018. Two new non-executive, independent board members joined the Board in April 2018. The brief profiles of the board members not covered in the Board's profiles included above are provided below.

Additional LBIC Independent Non-Executive Directors

Name and age	Mr K Sukdev, 48
Qualifications	Bachelor of Business Science; Master of Business Administration
Period of service	Appointed 01 May 2016 - 30 April 2019
Directorships	LBIC; LBLIC; Independent Actuaries and Consultants (IAC)
Board committees	Actuarial and Investment Committee (chair), Audit and Risk Committee
Name and age	**Mr D Bergman, 67 - Term ended on 30 November 2017**
Qualifications	CA(SA); Certificate in the Theory of Accountancy; PAAB; Higher Diploma in Taxation Law; Advanced Management Programme; Leadership in Organisations Programme
Period of service	01 December 2014 – 30 November 2017
Directorships	LBIC; LBLIC; HDI Global SA Limited (formerly Gerling General Insurance Co. of SA Ltd); Brescia House Ursuline Convent; Girls and Boys Town
Board committees	Chairman of LBIC/LBLIC Audit and Risk Committee, Investment and Actuarial Committee
Name and age	**Mr S Masuku, 52**
Qualifications	CA (SA), Bachelor of Commerce, Honours Bachelor of Accounting Science
Period of service	01 April 2018 – 31 April 2021
Directorships	LBIC, LBLIC, GC Medical Science Africa, Aerotropolis Properties, Latex Products Africa, Mjisa Capital, Mjisa Investments No 2, M & T Petroleum Products Storage Tank Farm, Seriti Institute NPC, Solar Academy of Sub-Saharan Africa
Board committees	Audit and Risk Committee (Chair)
Name and age	**Mr MA Scharneck, 57**
Qualifications	CA (SA), Bachelor of Commerce, Bachelor of Accountancy
Period of service	01 April 2018 – 31 April 2021
Directorships	LBIC, LBLIC, Abacus Insurance Ltd, Abacus Life Ltd, Mercia Scharneck Ministries (NPC), Unitrans Insurance Ltd, New Leader Foundation (NPC), Mobility Insurance Underwriting Managers
Board committees	Investment and Actuarial Committee, Audit & Risk Committee.
Name and age	**Mr M Rakgalakane MD: LBIC (Executive Member), 50**
Qualifications	Higher Certificate in Insurance Studies; Key Individual
Period of service	10 August 2016 – 9 August 2021
Directorships	Kefelesi Holdings (Pty) Ltd, Kefelesi Trading (Pty) Ltd

LBIC and LBLIC Board members

Name and age	Status	Chairperson	Board Meetings	Audit and Risk	Investment and Actuarial	HR &SEC
			9	6	5	4
Ms D Hlatshwayo, 54	Non-executive, non-independent	Board	9			4
Ms M Makgatho, 47	Non-executive, non-independent	Acting Audit and Risk		5	5	
Ms D Motau, 55	Non-executive, non-independent		7	5	5	
Ms TT Ngcobo, 69	Non-executive, non-independent	HR &SEC	8			4
Adv S Coetzee, 56	Non-executive, non-independent		6			3
Ms N Zwane, 58	Non-executive, non-independent		6			3
Mr TP Nchocho, 50	Executive, non-independent		4			3
Mr BJ van Rooy, 43	Executive, non-independent		6	5	4	3
Mr K Sukdev, 48	Non-executive, independent	Investment and Actuarial	4	3	4	
Mr S Masuku, 52	Non-executive, independent	Audit and Risk from April 2018				
Mr M Scharneck, 57	Non-executive, independent					
Mr DJ Bergman, 67	Non-executive, independent	Audit and Risk	7	5	4	
Mr M Rakgalakane, 50	Executive, non-independent		9	6	5	4

GOVERNING TECHNOLOGY AND INFORMATION

Our approach

Through our IT governance policy and strategy, our aim is to achieve an organisational environment in which we collect and use information in a responsible, secure and fair manner. When handling data and information, we aim to:

- Routinely meet our legal obligations in the way we respond to people exercising their rights;
- Have a high level of awareness of all our wider obligations under information rights law with those obligations routinely met in practice; and
- Ensure that good information rights practices are firmly entrenched in the Bank, and also into emerging technologies and systems.

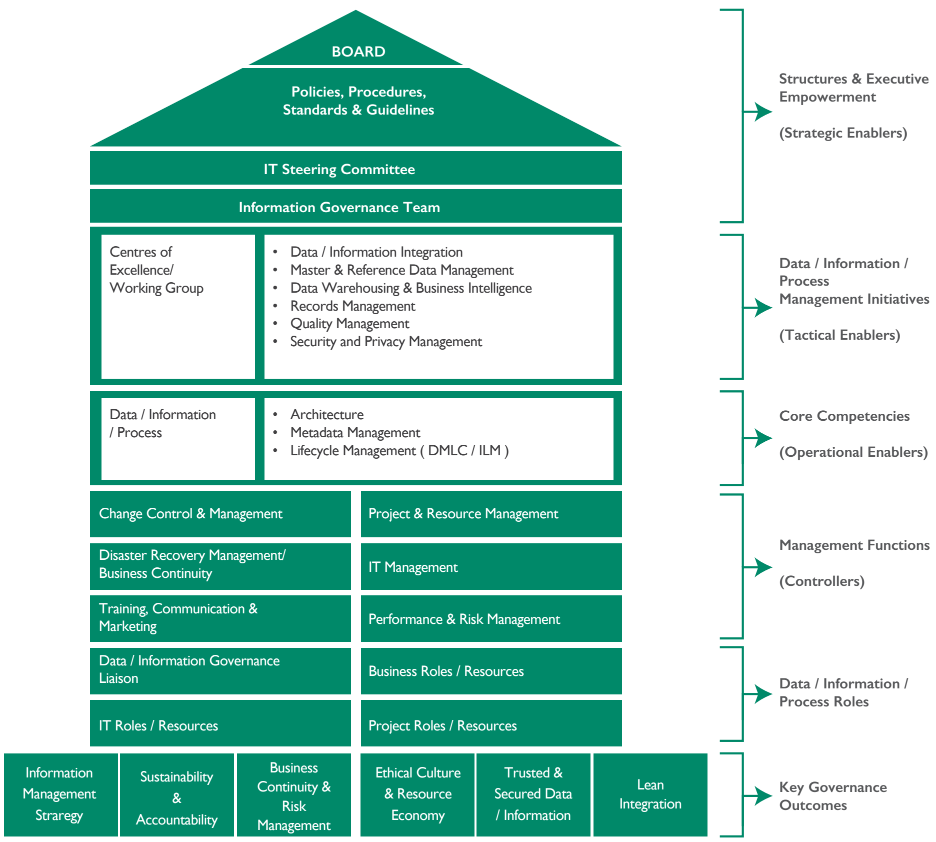
Our data and information governance strategy is a clear statement of the Bank's commitment to compliance with information rights legislation and to demonstrating good practice. The strategy describes our commitment to ensuring that effective information governance is a means to enable our business, to ensure we can make the best use of our information and to provide a solid foundation to enable us to be open and transparent about what we do. Simultaneously, it takes account of and supports the Bank's operational objectives and ensures that a balance is struck between operational and compliance objectives.

Our IT Governance is now at a stage where we monitor IT operations management in support of consistent and repeatable IT services. Information governance, which comprises both information privacy and information security, forms part of IT Governance within Risk Management.

Information Governance Framework

The high-level Information Governance Framework was developed and tabled for the Executive's review and approval in August 2017 (see figure 47). Subsequently, a detailed Information Governance Framework was developed to expand the roles and responsibilities of the relevant stakeholders, and to note all areas affected by information processes across the Bank. This Framework is subject to Executive review and approval and, if approved, will be rolled out in FY2019.

Figure 47: Information Governance Framework



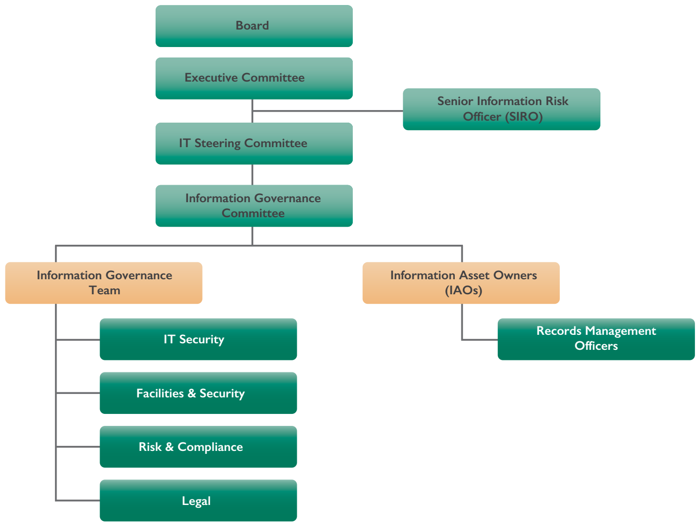
IT Governance roles and responsibilities

The roles and responsibilities set out in the IT Governance Charter are focused on enabling effective governance of technology and information through appropriate governance structures. One such structure is the existing IT Steering Committee which has the following responsibilities:

- Review and recommend the IT strategy to EXCO;
- Review and recommend key technology and information policies to EXCO for approval;
- Review and recommend major technology and information projects and investments to the Executive Committee for approval;
- Authorise and endorse deviations in technology and information governance practices; and
- Monitor and report on the following to the Executive Committee and the Board:
- Management of technology and information-related risk;
- Compliance with technology and information-related regulations and standards;
- Effectiveness of technology and information governance activities;
- Information Security Management Systems (ISMS) activities;
- Implementation of technology and information governance plans; and
- Technology and information projects and investments.

Land Bank's Senior Information Risk Officer (SIRO) is a joint accountability between the Executive Manager: Portfolio Management Services and the Executive Manager: Legal Services, who are both members of the Bank's Executive Committee. The SIRO has the responsibility to implement and monitor the results of implementation of a sound and effective information governance policy.

Figure 48: IT Governance structure



Our objectives for FY2018

- Implement an information governance framework that sets out the foundation for formulating and implementing decisions required to manage, control and monitor information governance within the business;
- Implement and update information governance policies that are compliant with relevant legislation, standards and codes of practice;
- Ensure a high level of employees and supplier awareness of information governance policy and processes, and foster a culture of personal responsibility, ownership and commitment to high standards in information handling to support and enable our business processes;
- Monitor and assuring policy implementation and the effectiveness of the control environment;
- Manage records and information to ensure that effective processes are in place to manage records and information. From creation or receipt through to disposal, further to ensure that their obligations are met under PAIA and the Protection of Personal Information Act 4 of 2013;
- Implement information security policies which take account of legislative requirements, information security standards and best practice we are subject to, but which are appropriate, proportionate, measured and part of business as usual; and
- Ensure that personal information is managed and used responsibly, securely and fairly.

Our performance

As part of the Risk Management Strategy for FY2018, we accomplished several initiatives that enhance our governance and management of information.

- The Information Governance Strategy was developed, approved and revised;
- The Information Governance Framework was developed and approved; and
- Rollout of the above strategy commenced during FY2018.

Developed information maturity and IT gap assessment tools

The Protection of Personal Information Act 4 of 2013 (POPIA) gap assessment tool and the Control Objectives for Information and related Technologies (COBIT) Gap Assessment tool were developed and approved, with plans for rollout in FY2019. The POPIA assessment aims to assess the maturity level of the Bank's information processes in respect of the entire information lifecycle. This will assist business units with developing action plans to close or mitigate any gaps identified. The Governance of ICT Framework developed by the Department of Public Services and Administration (DPSA) indicates that the IT Governance Framework ought to be informed by COBIT 5 processes. The IT maturity assessment aims to assess the maturity level of Land Bank's IT management and governance processes. The gaps or areas of improvement identified during the assessment will serve as the basis for the development of the new IT Improvement Plan.

Monitored Developments on Key Risk Indicators

Data and information risks have been added to the respective business unit risk registers. This will assist in monitoring information-related risks per business unit and holistically Bank-wide.

Updated and Developed policies focusing on IT/Data & Information Security Governance

The ERM team reviewed policies pertaining to information management and information privacy, and recommendations for inclusions to align to the relevant Information Laws that impact on information privacy and security. We updated the relevant policies, which are currently awaiting approval. The revised policies will be published on the Bank's website.

Future focus

The following deliverables form part of the IT Governance Operational Plan for FY2019:

- Develop Information Governance Framework (detailed version);
- Implement the IT and Information Governance maturity tools;
- Develop, approve and implement an Information Privacy Policy;
- Develop a monitoring process for assessing implementation of the PAIA manual;
- Monitor and analyse the annual effectiveness survey for the IT Steering Committee;
- Complete monthly, quarterly and annual reports on IT Governance; and
- Monitor and provide guidance on Business Continuity Management and IT Disaster Recovery (deliverables, tests, workshops, training, etc.).

INTERNAL AUDIT

Our approach

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

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

Our IA Department is governed by the PFMA, Treasury Regulations, King IV Code of Corporate Governance, the Standards for the Professional Practice of Internal Auditing (IIA Standards) and the Protocol on Corporate Governance in the Public Sector. Internal Audit reports functionally to the Chair of the Audit and Finance Committee and administratively to the CEO. The independence of the IA is maintained through its functional relationship and reporting status with the Committee and established governance structures. The Board approves an annual audit plan to which the IA department adheres in conducting its activities. Internal audits are conducted in accordance with the Code of Ethics and Standards of the Professional Practice of Internal Auditing.

The Audit and Finance Committee evaluates the performance of the IA Function annually and subjects it to an external quality review at least once every five years. To deliver a high-quality service, IA uses a combination of in-house resources and co-sourced service providers to ensure adequate assurance on technical areas such as Information Technology and Credit Risk Modelling.

Our performance

During FY2016 we introduced credit risk models to aid management with the identification, assessment, quantification, aggregation and management of risks in the Bank's credit portfolio. In line with the evolution of the Bank's business strategies and the assessed significant risks, the FY2018 Audit Plan introduced new audits on new business processes and also to processes that had received very little assurance attention in prior years. In particular, the FY2018 Audit Plan further included review of the Credit Risk Management practices of the indirect lending book as operated through the intermediary channels, commonly known as SLA partners.

Our seven SLA partners comprise over 50% of the total Land Bank Loan Book. Adequacy and adherence to the credit risk management policies was assessed for all seven, along with a review of the concentration risk, early warning mechanisms, collateral perfection processes, related party management and transactions, information technology systems, legal risk, long term contracts and age analysis. The Audit Plan also included audits on the Credit Risk Models (Internal Ratings Based Models) as well as the IFRS9 compliant Impairment Model.

The Information Technology Audits were revised during FY2018 to focus on value-adding reviews. This enabled IT Management to define their own controls to prevent emerging risks such as security risks, and specifically cyber-attacks. Management studied Business Continuity reviews to consider detailed risk assessments for technology related risks to ensure a more robust business continuity plan with the intentional inclusion of technology risks posed to the organisation. The FY2019 Audit Plan places more focus on management preparedness to deal with cyber security and data risks.

Forensics

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

During FY2018, one case of fraud was investigated which was found to be an external fraud related matter. A loan of R1.1 million was disbursed to a client as production loan, however, the client had submitted fraudulent documentation in support of the loan application and subsequently utilised the loaned funds for another non-agricultural business. This matter has been reported to the SAPS for further investigation.

We reviewed all the Bank's fraud risk management policies and processes in FY2018 and benchmarked them to industry best practice. This entailed:

- Updating the Fraud and Corruption Policy, the Whistleblowing policy and the Fraud Prevention Strategy; (see ethics management page 104 for further information)
- Conducting fraud risk assessments; and
- Changing the Whistleblowing hotline service provider.

Fraud risk assessment is a vital tool for assessing the adequacy of internal controls and their susceptibility to fraud. Such assessments have been completed for 80% of the organisation and the remainder of the assessments will be completed in FY2019. Business unit fraud risk registers have been compiled as part of the fraud risk assessment process, and this activity will be incorporated into our IA and Risk Management activities.

Tip-offs Anonymous has been appointed as our new independent Whistleblowing hotline service provider. We envisage that employees will be encouraged to utilise Tip-offs as the channel is widely utilised and respected in the financial services industry. Three reports were received in FY2018, all of which were investigated and closed.

Combined Assurance

The Bank's implementation of combined assurance is currently being reviewed to achieve better alignment with the King IV recommended practices on combined assurance. This framework encompasses co-ordination of all assurance functions and activities, including from both internal assurance functions and external assurance service provider, to establish an effective control environment to regulate the quality of information applied to internal decision-making and external reporting. Land Bank applies a three lines of defence framework as illustrated in Figure 31 on page 69.

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

All strategic risks reflected on the strategic risk register were assessed and reported on in FY2018. Where necessary, IA has provided an assessment of the level of assurance provided in respect of those risks and has provided recommendations for improvement. Operational risks were assessed and will be formally reported on in FY2019.

Future focus

The Audit and Finance Committee has approved the 2019 Audit Plan.

- The focus is to continue ensuring that the Group's financial systems, processes and controls are adequately designed and operating effectively, and that they meet the Bank's complexity requirements and are responsive to changes in the environment and industry.
- Through the understanding of the credit lending control environment, IA will assess the monitoring of the portfolio of the loan book, to assess and interrogate the root causes of non-performing loans, provide assurance on the return on investment to maintain profitability and analyse the effect on impairments.
- The Bank is cognisant of risk associated with increasing reliance on technology within its operations and functions, including the concomitant security threats.

REMUNERATION

Our approach

During the past two years, the Bank have made some substantial changes to our remuneration policy and practices. The Bank's intention to align its remuneration policy to the King IV Code of Corporate Governance including its Principles relevant to governance of remuneration and reward has played a leading role in influencing review of the policy and related practices in the current reporting period. In this year's Integrated Annual Report, we provide improved transparency in the disclosure of our remuneration policies and practices and the implementation thereof.

We acknowledge the inevitable deviations from the King IV recommended practices on remuneration in some areas due to regulated nature of the Bank and the requirements relating to board and executive remuneration applicable to Land Bank as explained below.

In accordance with the Land Bank Act, the Minister of Finance determines the remuneration, allowances and associated benefits of the CEO. Every year, the Board approves a mandate for management to implement the staff-related annual salary increases. The salary increases of staff are based on the individual performance of employees informed by the performance management process of the Bank. All employees enter into performance agreements at the start of the financial year which are reviewed twice thereafter. Under the current DOP, the CEO evaluates the performance and recommends the salary increases of the Executives included in the Board approved mandate to the Human Resources Committee. The Executives evaluates the performance and determine the salary increases of the non-bargaining unit employees, while the union negotiates salary increase for the bargaining unit employees (70% of Land Bank employees are covered by collective bargaining agreements). As a further influencing factor, the Minister reserves the right to approve bonuses of the CEO, CFO and Executive Management, as a guarantee condition (included in the guarantee issued in March 2015). The Board approves a bonus pool and the distribution model for management to determine employee bonuses. The distribution model considers relative individual performance. The remuneration for executives and employees is determined through market benchmarking and best practice, under the guidance of the Human Resources Committee.

During FY2015, the Minister of Finance provided a funding guarantee with the associated condition that the Minister would have the right to approve the performance bonus amounts of the CEO, Executive and Senior Management. This condition has remained in place for the FY2018, however its existence reflects an area of misalignment with King IV which recommends that responsibility to approve CEO and Executive remuneration should reside with the Board of an organisation. The Land Bank Board continues to engage with the Minister to find an appropriate resolution that will ensure that the interests of all relevant parties that have a role in approving remuneration are considered. This includes complying with the regulatory requirements on determination of CEO remuneration, addressing the objectives associated with providing the Bank's loan guarantee and giving effect to the intention and spirit of the King IV Code, Principles and recommended practices in relation to remuneration policy and implementation thereof.

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

Our performance

- During FY2018 the Minister considered the Board's recommended bonus allocation and implemented a downward adjustment to the Board approved executive management bonuses.
- The Board approved and implemented the bonus allocation for employees below General Manager level.
- The Bank benchmarked its Employee Value Proposition (EVP) and the Board approved new offerings to enhance the EVP for talent attraction and retention.
- The DOP authorised the Board to approve the remuneration policy including the short-term incentive element thereof.
- The Board approved new pay scales for critical and non-critical skills.

Overview of remuneration policy

Our remuneration philosophy aims to set the annual guaranteed package at a competitive level, and to provide incentives that are designed to drive performance and contributes towards staff retention. The policy strives to establish appropriately positioned remuneration practices thereby contributing to a performance-centred culture that will serve to motivate sustainable business performance. Ultimately, we want to reward engaged employees for value created, contribution and performance while recognising the concept of equal pay for work of equal value. The remuneration strategy and structure for the Bank aligns itself to the Corporate Plan, its values and the successful execution of the plan.

The remuneration mix reflects the relative proportions of pay represented by the annual guaranteed package and short-term incentives, meaningfully linked to the job level and the nature of expected outcomes or contribution. The following are the major considerations that influence the Bank's remuneration:

- The annual guaranteed remuneration is benchmarked at the market median (50th percentile). A premium is available to increase the guaranteed remuneration for roles identified as Land Bank critical or scarce skills.
- The short-term incentive comprises a cash incentive pay-out linked to the achievement of agreed annual performance targets. The performance period is based on one financial year.
- Remuneration is reviewed annually to maintain appropriate remuneration competitiveness against the labour markets. Remuneration reviews include annual cost of living increases and performance-based adjustment to the annual guaranteed package.

We adopt, where appropriate, suitable levels of variable pay so that value-based achievement enhancements are positively encouraged, rewarded and aligned to general market practice. The elements below apply to all permanent employees of the Bank and its subsidiaries. As shown by the diagram below, each reward element has a strategic intent.

Figure 49: Land Bank's remuneration framework

Element	Strategic Intent	
Annual guaranteed package (Including contributions to benefit funds and allowances)	1. Attraction 2. Skills & Knowledge 3. Accountability & Decisions 4. Impact of the job 5. Competency 6. Individual Performance	→ Annual Guaranteed Package
Short-term Incentive (STI)	1. Performance related 2. Organisation/ Division/ Individual 3. Significant performance differentiation 4. Shorter-term view (1 year)	→ Variable Pay/ Performance Reward
Work-life balance	1. Addresses the unique individual/ intrinsic needs of the employee 2. Less tangible than remuneration Examples include caring for dependants, supporting health and wellness, workplace flexibilty, financial support, culture change and community involvement initiatives	
Recognition	1. Reinforce desired behavious and delivery at all levels and culture of belonging, performance and affinity 2. Recognition acknowledges employee actions, efforts, behaviour and performances	
Development and career opportunities	1. Includes learning experiences designed to enhance knowledge, skills and competencies of employees 2. Leadership development including coaching and mentoring 3. Employee PDP (Personal Development Plan) to pursue career goals e.g. advancement into a different or more responsible position	

FY2018 implementation report

Land Bank and its subsidiaries measure performance and progress based on a set of key indicators that represent the priority objectives and allow the Bank to continue its focus on financial sustainability, risk management and development impact (refer to Performance Overview page x). This set of indicators is agreed with the Shareholder on an annual basis, included in the Corporate Plan and Shareholder Compact, and accordingly were considered to be the foundation of FY2018 remuneration decisions. Decision-making concerning the distribution of bonus pool is based on these measurable scorecards.

Short-term incentives

The Board made provision for a short-term incentive (performance bonus) pool allocation for the CEO, Executive Managers and the Managing Director of LBIC based on a 6.15% of the Bank's budgeted profit for FY2018, which amounted to approximately R12 million or 4% of total personnel expenditure. The performance bonus pool is subject to achieving 100% of the sustainability and development targets outlined in the Corporate Plan.

As this target was met (refer to the Annual Performance Report contained on p88 to 91 in the FY2017 Annual Integrated Report for details on the performance against these targets) and based on the National Treasury SOE Remuneration Guidelines, a formal request was submitted to the Minister of Finance to approve allocation and payment of the performance bonus of the CEO, Executive Managers and the Managing Director of both the parent entity and the subsidiary public entity of the Land Bank Group. As alluded to above, we note that in respect of the current reporting period, the Minister has however applied his discretion and has made a downward adjustment to the Board's recommended bonus allocation for the CEO and the Executives.

Pay scales

Our pay scales are reviewed annually for each financial year. The review process takes into account market data and movements aligned to the Bank's remuneration framework and policies. Pay scales provide a guideline to enable the business to attract and retain required talent for the organisation and manage labour costs as salaries are distributed around the midpoint of the scale. Pay scales assist us in managing internal equity and pay decisions across the organisation aligned to business requirements.

Our methodology for FY2018 was based on the following considerations:

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

Future focus

The move to separate the Board's oversight functions in respect of human resources matters and social and ethics matters will enable a more thorough engagement on remuneration-related matters within the new committee structure. The Human Resources Committee holds the responsibility to regularly review and recommend to the Board for approval the remuneration policy for executives other than the CEO and senior management, including fixed and variable remuneration components, performance measures and targets for incentives. This Committee will ensure that the outcome of the annual performance review of the executives is considered in the determination of remuneration awarded and payment thereof. It will also ensure that agreed performance measures and performance targets for executives are aligned with the Bank's Corporate Plan and with its strategic objectives.

In addition, the Board is preparing to introduce of a long-term incentive for management, in line with other South African Development DFIs.

See details of directors and executive management remuneration in Annexure A.

6

KING IV DISCLOSURES

Land Bank is mandated to play a pivotal role in both the growth and inclusive transformation of the agricultural sector. We are happy to note that Land Bank continues to deliver boldly on its mandate, and that it continues to grow stronger in both financial and institutional governance aspects.

Mr NM Nene, Minister of Finance, May 2018

INTRODUCTORY STATEMENT

The Land Bank Group (Land Bank)'s governance philosophy and its existing governance framework are fully aligned with its corporate vision **to be a world-class agricultural development bank that stimulates growth, drives solid performance and spurs innovation.**

The Land Bank's Board and Chief Executive Officer and management team are committed to maintaining a governance framework that not only achieves full compliance with law and regulation applicable to Land Bank and its business activities, but also resonates with and inspires stakeholder and investor confidence in Land Bank's ability to execute its approved strategy and achieve its strategic objectives over the short- medium- and long term.

The exercise of adopting **the King IV Code of Corporate Governance (King IV)** provided opportunity for Land Bank to consider how it might further strengthen Land Bank's alignment with the King IV Principles including consideration of its current governance structures, practices, policies and processes that, taken together, enable achievement of the King IV governance outcomes:

- Ø Ethical culture
- Ø Good performance
- Ø Effective control
- Ø Legitimacy.

Land Bank is committed to applying all of the 17 King IV Principles in its governance of Land Bank's corporate activities, including applying the King IV foundational philosophies of stakeholder inclusivity, responsible corporate citizenship, conducting itself as an integral part of society and adopting integrated thinking and integrated reporting.

The Board has reviewed Land Bank's current level of application of the King IV Principles conducted during 2017/18, and has approved these disclosures which explain how each of the 17 Principles is currently applied by Land Bank. The Board believes that these disclosures together with the further information provided elsewhere within the Integrated Report are adequate to enable a reasonably informed third party to assess the quality of Land Bank's corporate governance with reference to the King IV governance outcomes.

Leadership, ethics and corporate citizenship

Leadership	
Principle 1 *The Board should lead ethically and effectively.*	The Land Bank's board of directors (the Board) exercises effective leadership of Land Bank in pursuance of its corporate purpose reflected in the Land Bank Act. The Board performs its leadership role and functions including striving to adhere to all applicable law and regulation. The Board also actively contributes to the establishment of an ethical culture in performing the functions of the Board and also in relation to the Board's interactions with the executive management team and the wider organisation. In its ongoing endeavours the Board Continually strives to align its conduct and that of executive management with Land Bank's values: Be Pro-active; Be Accountable; Build Organisational Synergy; Empower; Contribute Meaningfully. Board members are individually and collectively accountable to the responsible Minister and are required to conduct themselves in accordance with Land Bank's *Board Code of Ethics and Business Conduct*, which is reviewed on an annual basis. The Code reflects the board's commitment to Land Bank's core values of accountability, integrity and respect, and provides a framework for ethical leadership and guidance in a way that upholds the integrity and reputation of Land Bank. Board members are also responsible for their adherence to the Board Charter's provisions in relation to any conflict of interest situation, and for compliance with the Conflict of Interest provisions contained in the Land Bank Act. Each director is required to complete an individual Conflict of Interest Declaration on an annual basis, and receives adequate training on Land Bank's Conflict of Interest Policy and Procedures. The Board exercises governance oversight through Land Bank's governance framework governance structures, policies, procedures and processes. These include detailed reporting to the Board and its committees, Board reserved decision-making authority and a system of assurances on the effectiveness of internal controls that the management team applies to manage identified risks that threaten achievement of Land Bank's mandate and strategic objectives. *For more information on conduct and ethics refer to the Integrated Report.*

Organisational Ethics	
Principle 2 ***The Board should govern the ethics of Land Bank in a way that supports the establishment of an ethical culture.***	Land Bank is committed to a policy of fair dealing and integrity in the conduct of its business. The Board determines and sets the tone of Land Bank's values, including principles of ethical business practice, human rights considerations and the requirements of being a responsible corporate citizen. It performs the oversight in relation to the Land Bank executive's ongoing efforts to ensure that Land Bank's ethical values reflect within its corporate purpose, its statutory mandate and its strategy and corporate plans. The Board approves Land Bank's Code of Ethics and Conduct (Code). The Code sets out the rights and obligations of Land Bank, its management and its employees, and regulates relationships between parties within Land Bank and also between Land Bank personnel and its suppliers. Adherence to the Code is monitored, and the Code explains Land Bank's expected response to instances when breaches of the Code occur. The Code is published on the website and incorporated by reference in supplier and employee contracts. Application of the Code guides interactions with all stakeholders including employees, and addresses the key ethical risks of the Company. Management is responsible for ensuring that all employees are made aware of and receive the appropriate training and education relating to the Code. New employees receive the Code as part of their sign-on documentation, and all Land Bank employees are required to sign an annual declaration that they have read, are familiar with, understand and will conform to the Code of Ethics. The ethics programme, including the whistle-blowing mechanisms and management of the independent ethics reporting line to detect breaches of ethical standards, as well as the dedicated effort to create awareness, detect and resolve ethical violations and provide training on anti-corruption and anti-competitive behaviour, all contribute to a strong ethical foundation. In addition, the Land Bank Group has implemented a policy on Fraud and Corruption Prevention aimed at encouraging a culture where employees continuously behave ethically. This policy is reviewed and approved annually by the Board. For more information refer to the relevant sections of the Integrated Report. The Code of Ethics and Fraud Corruption Prevention Policy, including the Whistle-blowing *Policy, are available on the Land Bank website, www.landbank.co.za*

Responsible corporate citizenship	
Principle 3 ***The Board should ensure that Land Bank is and is seen to be a responsible corporate citizen.***	The Board approves the strategy and priorities of Land Bank in context of its corporate purpose and statutory mandate and related activities as a government-owned development finance institution. In broad terms that mandate relates to providing financial products and services (including insurance) as relate to agricultural development to achieve food security, and to drive economic growth and transformation of the agricultural sector in South Africa. Land Bank's specific sustainable development objects related to this mandate are described in detail in its FY2019 Corporate Plan (FY2019– 2021) Recognizing the importance of Land Bank's legitimacy as a priority issue for delivering on its strategic objectives, the Board has emphasised the need to embed a culture of ethics and good governance within Land Bank. This prioritisation of corporate governance culture and good practice is critical for continuing to improve shareholder, investor and customer confidence in Land Bank. The Board strives to ensure that Land Bank is, and is perceived to be a responsible corporate citizen as part of performing the activities that contribute to achieving its strategic objectives. This includes the prioritisation of environmental and social sustainability in the financial services sector aligning with the principles of the National Development Plan and other national and international priorities (incl. the United Nations Sustainable Development Goals and the Paris Climate Agreement). Land Bank's Environmental and Social Strategy (ESS) promotes environmental and social sustainability within its own business and operations, and also within the operations of its customers through strengthened procedures for conducting environmental and social due diligence. In relation to Land Bank's own corporate conduct and behaviours, the Board oversees its compliance with applicable law and regulation and the various non-binding rules, codes and standards that the Bank has adopted to ensure that it demonstrably conducts itself as an ethical business and a good corporate citizen. Oversight of Land Bank's performance and status as a responsible corporate citizen is the responsibility of the Social and Ethics Committee of the Board, established as a separate board committee subsequent to the year end. *For more information refer to the relevant section of the Integrated Report*

Strategy, performance and reporting

Strategy and performance	
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 Board informs and approves the Land Bank's strategy and Corporate Plans including the Bank's strategic development objectives reflected therein, and ensures alignment with Land Bank's corporate purpose, its statutory mandate and its mission and values. The Board considers Land Bank's strategic objectives and related planned outputs and outcomes, in context of the Land Bank Value Creation Model. This includes review of the value drivers within the business model (for the corporate banking, development finance and insurance activities) and the top risks it faces in delivering on Land Bank's development outputs and outcomes. The strategy includes identification of appropriate measures of sustainable development impact effectiveness, and adopts a stakeholder-inclusive approach. The Board's approach to informing and approving Land Bank's strategy is consistent with integrated thinking, which links how the Bank drives creation of long term value by strategically applying its resources in the form of different capitals towards achieving the identified development outputs to achieve the strategic outcomes targeted in the strategy. The Board oversees and monitors, with the support of its Committees, the CEO and management team's implementation and execution of Land Bank's Corporate Plans and communication of annual performance results through its approved reporting and disclosure activities, including the Integrated Report. *For more information see the relevant section of the Integrated Report*

Reporting

Principle 5

The Board should ensure that the reports issued by Land Bank enable stakeholders to make informed assessments of Land Bank's performance and its short, medium and long-term prospects.

Through its oversight of Land Bank's periodic reporting and other communications with the Shareholder, investors and its wide stakeholder groupings the Board ensures board and management accountability for Land Bank's financial and non-financial performance.

This includes quarterly reporting to the Shareholder on Land Bank's performance against the Corporate Plan KPI targets, and annual reporting through the Integrated Annual Report on performance achieved in relation to strategic priorities (material matters and management of its top risks) and on Land Bank's forward-looking actions related to those strategic priorities. Oversight is focused on ensuring the integrity of information applied to the Bank's external reporting to enable evaluation of its performance towards short-, medium- and long-term value creation.

The Board oversees the application of the International Integrated Reporting Framework [<IR> Framework] in the Integrated Report, and application of the 'core' level Global Reporting Initiative (GRI) Standards.

Furthermore, Land Bank's reporting is in accordance with the following legislation and regulation applicable to Land Bank: the Land and Agricultural Development Bank Act, 2002, the Companies Act, 2008 and the Public Finance Management Act, 1999; and the Long Term Insurance Act, 1998 and Short Term Insurance Act, 1998 in relation to the activities of the group subsidiaries.

Land Bank's suite of external reports is available in electronic form on the Bank's website, and includes the following reports:
- The Integrated Annual Report containing full financial statements
- The GRI Disclosure Index
- Investor presentations
- Corporate Governance presentations
- DMTN Programme presentations
- Investor Communications

The Board acknowledges its responsibility for the integrity of external reports issued,
Including for compliance with applicable statutory and regulatory reporting requirements, and adherence to reporting best practice for Land Bank's external reports. [Deleted by request of the RGC committee at its July meeting.]

Through the Audit Committee's oversight activities the Board ensures that the necessary controls are in place to safeguard the integrity of material information included in the Land Bank's external reports, including its periodic statutory reports and other disclosures. These include the Bank's quarterly reporting to National Treasury, the Integrated Annual Report and the annual financial statements. The Board, through the Audit Committee, ensures that Land Bank's external reporting addresses stakeholders' reasonable information needs and also required disclosures. This extends to approving management's selection of reporting frameworks and definition of materiality applied in Land Bank's external reporting.

Aligned to this, the Audit Committee maintains oversight of the adequacy and effectiveness of Land Bank's application of internal and external assurance (combined assurance) applied to ensure the integrity of Land Bank's material information applied for internal decision-making and for external reporting.

For more information about Land Bank's suite of external reports, see relevant section of the Integrated Report and www.landbank.co.za

Governing structures and delegation

Primary role and responsibilities of the Board	
Principle 6 *The Board should serve as the focal point and custodian of corporate governance in the Land Bank.*	Land Bank is a wholly-owned government entity under the direction and control of a board of directors appointed by the Minister of Finance, as required by the Land Bank Act, 2002. It that operates through an approved Delegation of Powers issued by the Executive Authority that represents the Shareholder. The Delegation of Powers is reviewed and amended as and when there is business imperative to do so. This arrangement represents the ownership framework that gives effect to Land Bank's governance structure. The constitution of the Board of Directors, its role, function and powers, and its members and committees are substantially determined by the Land Bank Act and the PFMA. The board has overall responsibility for ensuring transparency, accountability and good corporate governance as required by the Land Bank Act, the PFMA, the Treasury Regulations, King IV Report on Corporate Governance, and the Protocol on Corporate Governance in the Public Sector. The Board's primary function is to determine Land Bank's strategic direction and to exercise prudent control over Land Bank and its affairs. In carrying out its functions the Board acts in the best interests of and for the benefit of Land Bank, and has all the powers necessary to carry out its functions established in the Land Bank Act. The Board has an approved charter which it reviews annually. The charter sets out its governance responsibilities, including the role, responsibilities, membership requirements and procedural conduct. The Land Bank Board has taken significant steps to institutionalise a culture of good governance into the organisation. Any governance-related policies and frameworks are reviewed by the Risk and Governance Committee and recommended to the board for approval. *For more information refer to the relevant section of the Integrated Report*
Composition of the Board	
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.*	The responsible Minister appoints the Land Bank board of directors under the Land Bank Act which requires the board to comprise no fewer than seven and no more than 12 persons, and that the majority of the board should comprise independent non-executive directors. The Board has established the Human Resources Committee to exercise governance oversight for the composition of the Board and specifically to ensure that the Board has the appropriate balance of knowledge, skills, experience, diversity and independence for it to effectively discharge its governance role and responsibilities. The Land Bank Board currently has 12 board members. The Human Resources Committee oversees the performance and composition of the committees at least annually to ensure alignment with best-practice and governance codes. For Board members who are reaching retirement or whose terms have come to an end, the responsible Minister will appoint new board members for these board vacancies with guidance from the Land Bank Board to ensure the Board maintains an appropriate mix of skills and experience including the new appointments. Under these arrangements, two board members reached the end of their tenure in July 2018, and under the Minister's powers two new board members have been appointed to fill these board vacancies. *For more information on the board of directors refer to the relevant section of the Integrated Report*

Committees of the Board	
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 Board is assisted in discharging its governance functions by its board committees. The following committees have been established for that purpose: - Audit and Finance Committee - Credit and Investment Committee - Human Resources Committee - Risk and Governance Committee - Social and Ethics Committee – established as a stand-alone Board Committee subsequent to this reporting period. The Committees are appropriately constituted and members are appointed by the Board, with the exception of the Audit and Finance Committee whose members are nominated by the Board and appointed by the Shareholder/Executive Authority. Membership of each Board Committee comprises the requisite number of independent, non-executive directors and a Board Committee Chairman is appointed to oversee the functioning of the Committee under the relevant Board Committee Charter. The Committee charters are reviewed and approved annually by the Board. The Board considers the allocation of roles and associated responsibilities and the composition of membership across Committees holistically, so as to achieve a balanced distribution of power in respect or membership across Committees, so that no individual has the ability to dominate decision making, and no undue reliance is placed on any individual. The Board applies its collective mind to the information, opinions, recommendations, reports and statements presented by the Chairman of a Committee. The Committee Members serve on the respective committees is in line with their tenure of office as a Board Member. Each Committee is responsible for ensuring that it comprises the sufficient qualifications and experience to fulfil its assigned role and functions. *For more information on the board of directors refer to the relevant section of the Integrated Report*
	Audit and Finance Committee The Board has an Audit and Finance Committee comprising independent directors only. Its independence and effectiveness is reviewed on an annual basis. The Committee is constituted as a statutory committee of Land Bank in respect of the statutory duties of an audit committee contained in section 94(7) of the Companies Act and in the PFMA. It is established as a Committee of the Board in respect of all other duties assigned to it by the Board, per the Committee's Charter. Adequate processes and structures have been implemented to assist the Committee in providing oversight and ensuring the integrity of financial reporting, internal control and other governance matters relating to subsidiaries. The Committee provides independent oversight of, among others, the effectiveness of the Company's assurance services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function and the integrity of the annual financial statements and, to the extent delegated by the Board, other external reports issued by the Company. Under the PFMA/Treasury Regulations the audit committee reports to and make recommendations to the CEO as the accounting officer (the CEO retains responsibility for implementing such recommendations). The performance of the Audit Committee and significant issues dealt with during the year are set out in the Report of the Audit Committee included in the Integrated Report. *For more information on the composition of the board committees, refer to the relevant section of the Integrated Report*

Evaluations of the performance of the Board	
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 role and responsibilities of the Board, each of the Board Committees, the Board Chairman and the individual directors are outlined in Land Bank Act and also in the Board Charter and in the Board Committee Charter of each Board Committee, respectively. The Board Charter includes a requirement for an annual performance evaluation (self-assessment basis) of the Board, and notes that the Board is also assessed by the Shareholder each year under the Shareholders' Compact. In addition, the Charter of each Board Committee requires an annual evaluation of the Committee's performance to ensure the Committee complies with best practice and Land Bank's Enterprise Risk Management Framework. As specified in the Committee Charters these evaluations may be done through completion of a self-assessment questionnaire or as a Board-commissioned external evaluation. The results of such evaluations are to be presented to the Board. During the current reporting period an external service provider performed an externally facilitated evaluation of the individual Board Members (11 Board Members were included in the evaluation). The purpose of this evaluation was to assess whether the Board Members were performing their duties according to the relevant guidelines applicable to State Owned Entities. The results of these evaluations are currently under review by the Board and the relevant board committees.[Amended wording per the RGC committee meeting discussion in July] *For more information refer to the relevant section of the Integrated Report*

Appointment and delegation to management	
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.***	Under the applicable legislation, the Board may delegate performance of its functions to the Chief Executive Officer and the executive management team. A delegation by the Board of its responsibilities to a Committee will not by or of itself constitute a discharge of the Board's accountability. The CEO is appointed by the responsible Minister under a written contract to perform the functions of the CEO of Land Bank, and any other functions delegated to the CEO by the Board under its written Delegation of Authority. The Board has delegated certain powers and duties to the Chief Executive Officer under written Delegation of Authority, under which delegation the CEO is given the authority to manage the business and affairs of Land Bank for the purpose of executing Land Bank's corporate strategy approved by the Board. Such Delegation of Authority does not prevent the performance of a delegated or assigned function by the Board, where circumstances warrant. The Delegation of Authority Framework is reviewed annually to ensure that financial limits remain appropriate. The CEO is accountable to the Board for performance of the CEO's functions, and the Board holds the CEO accountable for Land Bank's performance achieved in delivering on the strategic objectives contained in the strategy as reflected in the Corporate Plan. Annual evaluation of the CEO's performance against agreed performance measures and targets is carried out by the Board chairman in consultation with the Board. The Land Bank's Company Secretary, duly appointed by the Board in accordance with the Companies Act, monitors effective implementation of the authority delegated to the CEO. The group secretary monitors effective implementation of the authority delegated to the group chief executive. The Board has given consideration to the competence, qualifications and experience of the Company Secretary, and as part of that process has appointed a new Company Secretary during the current reporting period. The Company Secretary is not a director of the Company. The role and responsibilities of the Company Secretary is set out in the Board Charter, and the Company Secretary has a direct channel of communication to the Board Chairman in respect of performance of her role and responsibilities, while maintaining an arm's-length relationship with the Board and the directors as far as reasonably possible. The Company Secretary assists new members of the Board with a thorough induction into the business, ensuring that they have opportunities to engage with executive management and functional experts. The Company Secretary is also available to guide the directors in the performance of their duties during their tenure as Board members. In addition, the Company Secretary also fulfils the duties of the function as set out in King IV. *For more information refer to the relevant section of the Integrated Report*

Governance functional areas

Risk governance	
Principle 11 *The Board should govern risk in a way that supports Land Bank in setting and achieving its strategic objectives.*	The Board is responsible for oversight of risk management within Land Bank under the Delegation of Powers and accordingly provides direction to executive management and oversight of management performance in this area through the Risk and Governance Committee. Under the direction and oversight of the Risk and Governance Committee, management has established Land Bank's Enterprise Risk Management (ERM) Framework to effectively deal with uncertainty, risk and opportunity aligned to Land Bank's strategy and Corporate Plans. The ERM addresses risk management priorities with reference to Land Bank's delivery of its mandate under the Land Bank Act, and the regulatory requirements of the PFMA and the Treasury Regulations. The Board further oversees the credit granting and credit risk management functions of Land Bank through the Credit and Investment Committee. A key governance oversight area is to ensure that management balances its credit risk management operations practices with the development mandate strategic objectives of extending more loans to development transactions in line with Land Bank's overall mandate. *For more information refer to the relevant sections of the Integrated Report*
Technology and Information governance	
Principle 12 *The Board should govern technology and information in a way that supports Land Bank setting and achieving its strategic objectives.*	The Board understands that having an updated and fit-for-purpose Technology and Information Governance Strategy aligned to the Land Bank's Strategy and Corporate Plan is critically important. The Board is currently overseeing implementation of a more strategic approach to ICT risk and opportunity management that will enhance the Land Bank's long term sustainability, with clear alignment to Land Bank's strategy, strategic objectives and the FY2019-2021 Corporate Plan In the current reporting period the Board has overseen effectiveness testing of Land Bank's current business continuity management and disaster recovery plans as part of its monitoring of effective implementation of the ERM Framework. Land Bank aims to ensure that good information rights practices are embedded in its culture and day to day processes related to maintaining appropriate information governance, including integration into the Bank's emerging technologies and systems. *For more information refer to the relevant section of the Integrated Report*

Compliance governance	
Principle 13 ***The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports Land Bank being ethical and a good corporate citizen.***	The Board recognises the importance of Land Bank's commitment to corporate governance, ethics and compliance as strategic enablers that will enable Land Bank to deliver on its strategic objectives and its targeted performance under its Corporate Plans. The Board has therefore provided direction on how compliance risk should be approached and addressed within Land Bank. The Board recognises that the governance environment within the Bank is built on proficient, embedded risk and compliance processes. The Board has delegated responsibility for implementation of an integrated compliance management system to Land Bank's management in a manner that ensures implementation and execution of effective compliance management as a distinct and critical sub-set of Land Bank's ERM Framework. This includes the development of a dedicated independent compliance function headed by a Governance, Ethics and Compliance Manager (Officer) designed to give effect to the Board's commitment to govern Land Bank in a manner that corresponds with ethical behaviour and being a good corporate citizen. The CEO has formally endorsed the importance of Land Bank's Compliance Function including with reference to Land Bank's accountability and responsibility to all its stakeholders for its compliance with the legal, regulatory and supervisory requirements and policies that apply to Land Bank's business. This executive communication also emphasized the primary responsibility of Land Bank employees for compliance with the applicable regulation or policy – notwithstanding that processes exist to monitor Land Bank's compliance performance occurs across the entire business. An annual Compliance Programme is in place which is designed to identify and assess compliance risk, manage and monitor compliance with the prioritised areas and to report thereon to the Chief Risk Officer and ultimately to the Risk and Governance Committee. Monitoring is conducted on the top 10 high-risk legislations as identified in the Regulatory Risk Universe. Current areas of focus are: - Supervisory requirements, including those pertaining to regulatory authorisations and permissions; - Regulatory requirements concerning market conduct; treating customers fairly; data protection and privacy; anti-corruption regulation and prevention of financial crime; identifying and dealing with politically exposed persons; and - Compliance with regulatory requirements that enable organisational effectiveness. (Also refer to the information provided at Principles 2 and 3 above on Land Bank's governance of ethics and considerations of being a responsible corporate citizen.) *For more information refer to the relevant section of the Integrated Report*

Remuneration governance	
Principle 14 *The Board should ensure that Land Bank remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.*	The Board oversees the setting and administering of remuneration at all levels in the Bank, through the Human Resources Committee. The Committee's oversight activities aim to ensure that Land Bank's remuneration strategy and structure are aligned with the Bank's long term value creation strategy, and achievement of the corporate performance scorecard aligned to the objectives contained in the Corporate Plan. The Land Bank's board approved remuneration policy includes Land Bank's values and emphasizes values-based leadership as key reference points. The policy is in line with relevant legislation, the State Owned Enterprise guidelines (SOEG) and the King IV Principle on fair responsible and transparent remuneration. Under the Land Bank Act the Minister of Finance determines the CEO's remuneration and other service benefits in consultation with the Board. Remuneration for the CEO and Non-Executive Directors shall be implemented in accordance with a remuneration structure as approved by the Minister from time to time. Remuneration for Executive Management is implemented in accordance with the remuneration structure approved by the Board. The Human Resources Committee reviews the disclosure of Land Bank's remuneration policy and implementation thereof within the remuneration report that forms part of the Integrated Report. The Board has undertaken a process of engagement with the Shareholder to ensure alignment of understanding and expectations regarding implementation of the Bank's remuneration policy in respect of payment of executive bonuses in the current reporting period relating to the prior year's reported performance against the Corporate Plan and achievement of the agreed performance goals in respect of that period. *For more information refer to relevant section of the Integrated Report*
Assurance	
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.*	Through the Risk Committee and the Audit and Finance Committee, the Board oversees that Land Bank maintains an effective control environment and that an adequate system of combined assurance is applied within Land Bank to address adequate control is applied to the Land Bank's significant risks and material matters, and to support the integrity of information included the information reported in Land Bank's external reports. The Audit and Finance Committee will oversee a review of Land Bank's approach to implementing combined assurance for appropriate enhancement during the next reporting period. Land Bank's Internal Audit function is set up to function independently of management, and the Audit and Finance Committee approves the appointment of the Head of Internal Audit/Chief Audit Executive. The Head of Internal Audit/CAE reports on all functional matters to Chairman of the Audit and Finance Committee, and in administrative respects to the CEO. The Audit and Finance Committee reviews and approves the annual internal audit charter, and oversees the Head of Internal Audit's compliance with the approved internal audit charter. The Committee oversees that the Head of Internal Audit/CAE has the necessary authority to be able to perform all of the internal audit functions effectively and also reviews the CAE's approach to developing the internal audit plan, In relation to the external audit functions, the Audit and Finance Committee oversees performance of those functions by the appointed auditor, being the Office of the Auditor General of South Africa, and also the quality of performance of those functions. Going forward, this assessment will include referencing use of appropriate audit quality indicators. *For more information refer to the relevant section of the Integrated Report*

Stakeholder Relationships	
Stakeholders	
Principle 16 ***In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of Land Bank over time.***	The Board recognises the importance of adopting a holistic and co-ordinated stakeholder engagement approach to assist Land Bank with strategic, sustainable decision-making, and to manage stakeholder expectations and maximise development impact. The Board maintains oversight of stakeholder relationships through the stakeholder relations strategy as articulated in the Corporate Plan FY2019-2021, and gives direction to executive management's strategic interactions with Land Bank's key stakeholders. Among Land Bank's key focus areas are strengthening stakeholder relationships by encouraging positive perceptions of their experiences of engagement with Land Bank, working to enhance private sector funders' confidence in the Bank's financial sustainability. It has also devoted effort to build key stakeholder understanding of the unique aspects and challenges of Land Bank's business and operating model. The Board and the management team have given priority to strengthening Land Bank's relationship with its Shareholder, including maintaining good communications as the basis for maintain a closer working relationship with the National Treasury and achieving closer alignment. The Land Bank Board will give priority to ensuring an effective group governance framework to address its governance relationships with its wholly-owned subsidiary entities. Priority areas are alignment of approach in the strategic focus area of financial sustainability and integration of Land Bank's Enterprise Risk Management Framework. *For more information refer to the relevant section of the Integrated Report.*
Responsible Investment	
Principle 17 ***The Board of an institutional investor organisation should ensure that responsible investment is practiced by Land Bank to promote the good governance and the creation of value by the companies in which it invests.***	Land Bank is committed to the principles of responsible investment in its investment activities, including driving appropriate environmental and social governance within its investment mandates. Land Bank's appointed asset managers support 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), that guides the institutional investor on conducting investment analyses and activities, as well as exercising voting rights to promote sound governance. *For more information refer to the relevant section of the Integrated Report*

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ANNUAL PERFORMANCE REVIEW

As KfW Development Bank, we are very excited about our growing partnership with Land Bank. We are convinced that this agreement will contribute significantly to broadening and deepening the financing offer for small- and medium-sized enterprises in the agricultural sector of South Africa.

Dr Thomas Duve, KfW Director for Sub-Saharan Africa, February 2018

Corporate Plan Scorecard for Land Bank

KPAs	Weighting	Target (FY2018)	Measures	Q4 performance	Status
1. Development impact	30%	Disbursements of R1.5bn transformation funding (including intermediary transactions and equity investments)	Disbursement of lending funds to support transformation through direct support of emerging farmers, support to emerging farmers via intermediary lenders, lending support to black-owned corporate agricultural businesses and direct investments in transformational businesses	R 1.55bn	Achieved
2. Interest Income generated	10%	Generate R1.33bn in net interest income	Gross interest income minus interest expense	R 1.26bn	Not Achieved
3. Financial Sustainability	30%	Net interest margin 3.0%	Net interest divided by average gross loan book.	3.0% before adjustment for LDFU reclassification	Achieved
		Cost-to-income ratio ≤ 50%	Operating cost divided by net income	60.5%	Not Achieved
		LCR ≥70%	Liquid assets on hand required to cover at least 70% of the net cash outflows in the next 30days	214.3% **Excl. Available committed facilities. LCR = 409.3% incl. Available facilities (R2.15bn)	Achieved
		NSFR ≥ 90%	Amount of available stable funding (ASF) relative to the amount of required stable funding (RSF) needs to be at least 90%	108.6%	Achieved
		Total CAR ≥15% (including Government Guarantees ring fenced as capital guarantees)	The capital required to be held over risk weighted assests is at least 15%	17.3%	Achieved
		Gearing Ratio ≤ 576% calculated as Interest-bearing Debt divided by Capital at a Land Bank Group level	Gearing Ratio ≤ 576% calculated as Interest-bearing Debt divided by Capital at a Land Bank Group level	625.8%. The Land Bank continues to engage its Shareholder to explore the apporpriate capital and funding structure for the Bank	Not Achieved
		NPL ≤10% (IFRS 9 definition)	Total non-performing loans as percentage of total gross loans	6.7%	Achieved

KPAs	Weighting	Target (FY2018)	Measures	Q4 performance	Status
4. Talent management	5%	% of Black women in management positions: Top Management: 25%	% of Black, Asian and Coloured women in management positions as defined by BBBEE codes	Top Management: 27.27%	Achieved
		Senior Management: 20%		Senior Management: 18.18%	Not Achieved
		Professional, qualified and Middle-Management: 20%		Professional, qualified and Middle-Management: 20.09%	Achieved
		Skilled and Junior Management: 35%		Skilled and Junior Management: 41.03%	Achieved
5. Training	5%	Implementation of the Learning Academy Phase 1: Credit Management in Agriculture module delivered to identified employees	Formal development and training of learning module on credit management in agriculture to targeted employees	Pilot Phase completed. Phase 1: Procurement completed, commenced with development of curiculum, assessment complete	Achieved
		At least 30% of training budget spent on Black staff	Aligned to BBBEE learning and development indicator to spend specific percentage of training on Black, Asian and Coloured staff	86.5%	Achieved

KPAs	Weighting	Target (FY2018)	Measures	Q4 performance	Status
6. Risk management	20%	No material breaches in terms of risk appetite framework	Risk Appetite Thresholds measured in the risk appetite report	One material breach. The gearing ratio was outside of the 576% prescribed ratio and is considered as a material breach. The Land Bank continues to engage with its Shareholder to explore the apporpriate capital and funding structure for the Bank.	Not Achieved
		Less than 0.1% of operating expenses to be termed unauthorised, fruitless or wasteful	Annual cumulative incidents relating to procurement, irregular, fruitless, wasteful and unauthorized expenditures limited to 1% of Operating Expenses to support good governance and risk management through cost containment	0.68%	Not Achieved
		No findings on unethical behaviour by a staff member	The term 'ethics' refers to standards of conduct that indicate how a person should behave, based on moral duties and virtues arising from the principle of right and wrong	Two findings for the year, cumulatively.	Not Achieved

Corporate Plan Scorecard for LBIC & LBLIC

KPAs	Weighting	Target (FY2018)	Measures	Q4 Performance	Status
LBIC					
Stakeholder Impact (Black Broker Development)	10%	Identify and train at least 5 start-up and established Black brokers in crop and asset protocols	Identify and train Black brokers in crop and asset insurance broking to support inclusivity and transformation and nurture commercially viable mutual business generators; educate and develop products that meet the insurance needs of the sector – affordability and relevance; and provide advisory services to the insurance sector and bank for a fee	10 Black brokers were trained	Achieved
Net COR %	10%	106%	Attain Net COR of 106% in order to attain financial stability through portfolio balance between volatile and stable insurance business and optimum mix of channels to support the partnership business model.	149%	Not Achieved
GWP - R million	20%	R510 million	Attain a GWP of R510 million to attain financial stability through portfolio balance between volatile and stable insurance business and optimum mix of channels to support the partnership business model	R543m	Achieved
Appointment of Binderholder	15%	1x Binderholder appointed	Appoint a Binderholder in order to reduce the dependency on one partner	Agreement was entered into in October and signed by the authorised personnel	Achieved
LBLIC					
Net COR %	15%	178%	Attain Net COR of 178% in order to attain financial stability	274%	Not Achieved
GWP - R million	25%	R15 million	Attain a GWP of R15 million to attain financial stability	R10.2m	Not Achieved
Appointment of Binderholder	15%	Sign 5 intermediaries	Sign 5 intermediaries in order to increase distribution channel to achieve top line growth and client service	5 intermediaries were signed	Achieved

KPAs	Weighting	Target (FY2018)	Measures	Q4 Performance	Status
LBIC & LBLIC					
Integrated IT, people & processes solution	25%	Procure and/or develop an integrated Data Management and repository system	Procure and/or develop an integrated Data Management and repository system in order to attain institutional capability through Integrated IT systems and Tools	Data management and repository system was implemented	Achieved
		Procure and/or develop an Actuarial pricing system	Procure an Actuarial pricing software in order to attain institutional capability through Integrated IT systems and Tools	Actuarial pricing system developed and now in place	Achieved

KPAs	Weighting	Target (FY2018)	Measures	Q4 Performance	Status
Foster and maintain prudent Risk, Governance and compliant insurance business	20%	Draft and implement a compliance monitoring plan.	Draft and implement a compliance monitoring plan to support good governance through ensuring statutory & subordinate legislation compliance & monitoring	A compliance monitoring plan has been drafted and approved by Board sub-committee	Achieved
		Draft and approve a Social & Ethics roll-out plan	Draft and approve a Social & Ethics roll-out plan to support good governance through establishing social and Ethics for LBIC	Social and Ethics plan was developed and approved by the HR & SEC committee before it was rolled out	Achieved
		Develop and approve risk management policies in accordance to Board Notice 158 of 2015	Develop and approve risk management policies in accordance to Board Notice 158 of 2015 to support risk and governance through Integrated Enterprise Risk Management	Risk mamagement policies approved	Achieved
		Limit annual cumulative incidents relating to procurement, irregular, fruitless, wasteful and unauthorised expenditures limited to 1% of Gross Written Premium	Annual cumulative incidents relating to procurement, irregular, fruitless, wasteful and unauthorized expenditures limited to 1% of Gross Written Premium to support good governance and risk management through cost containment	No fruitless, wasteful and unauthorised expenditure	Achieved

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ANNUAL FINANCIAL STATEMENTS

Land Bank was the first SOE to which we reopened lending. A key reason for this was their commitment to additional disclosures and reporting requirements…Land Bank agreed to entrench certain improvements to their bond loan documentation, the Domestic Medium Note Programme. A possible consequence of these improvements is that Land Bank has been able to issue longer-dated debt and at more competitive funding rates than before.

Futuregrowth Asset Management, SOE Governance Unmasked: a learning journey. February 2018

Consolidated and separate annual financial statements

for the year ended 31 March 2018

LAND BANK
We stand by you

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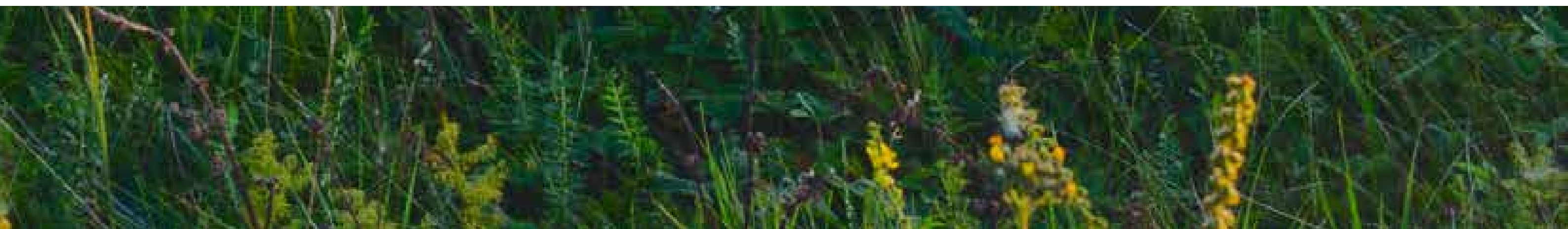
These audited Group annual financial statements were prepared by Land Bank Financial Reporting, under the direction and supervision of the CFO, Mr B van Rooy CA(SA).



GENERAL INFORMATION

LAND BANK

SHAREHOLDER
National Treasury

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

COUNTRY OF INCORPORATION
South Africa

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

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

POSTAL ADDRESS
P. O. Box 375
Tshwane
0001

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

AUDITOR
The Auditor-General of South Africa

COMPANY SECRETARY
Mashumi Mzaidumi (appointed 9 October 2017). During the financial year, Andile Yabo resigned on 28 June 2017, while Konehali Gugushe was appointed as Acting Company Secretary on 3 July 2017, and acted in this position until the appointment of Mashumi Mzaidume.

LAND BANK GROUP SUBSIDIARIES	**Company registration number**
Land Bank Life Insurance Company (SOC) Limited (LBLIC)	1954/003095/06
Land Bank Insurance Company (SOC) Limited (LBIC)	2012/115426/30
Land Bank Insurance Services (SOC) Limited (LBIS) [1]	2012/060770/30

All of the above entities are incorporated in South Africa

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

COUNTRY OF INCORPORATION
South Africa

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

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Centurion
0046

POSTAL ADDRESS
P. O. Box 375
Tshwane
0001

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

AUDITOR
The Auditor-General of South Africa

COMPANY SECRETARY
Mashumi Mzaidumi (appointed 9 October 2017). During the financial year, Andile Yabo resigned on 28 June 2017, while Konehali Gugushe was appointed as Acting Company Secretary on 3 July 2017, and acted in this position until the appointment of Mashumi Mzaidume.

PUBLIC OFFICER DESIGNATE
Jenny Ragavan (appointed 4 December 2017). During the financial year, Langa Mnyandu resigned on 31 October 2017, while Nthabiseng Ncholu acted as Public Officer designate from 1 November 2017 until 4 December 2017.

[1] Dormant entity

DIRECTORS' RESPONSIBILITIES AND APPROVAL

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 strong 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 in all reasonable circumstances is above reproach.

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

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on 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. The going-concern basis has been adopted in preparing the financial statements. Based on forecasts and available cash resources the directors have no reason to believe that the Group will not be a going concern in the foreseeable future. The financial statements support the viability of the Group.

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

The consolidated and separate annual financial statements as set out on pages 168 to 336 were approved by the Board on 30 July 2018 and were signed on their behalf by:

MA Moloto
Chairperson of the Board
30 July 2018

B van Rooy
Chief Financial Officer
30 July 2018

CERTIFICATE BY COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act 71 of 2008, as amended, I declare that to the best of my knowledge, for the year ended 31 March 2018, 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
Company Secretary
30 July 2018

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 (Land Bank) and its subsidiaries (the group) set out on pages 170 to 336, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows and segment reporting for the year then ended, as well as the 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 consolidated and separate financial position of the group as at 31 March 2018, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for 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 this auditor's report.

4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants (IESBA code) and the 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 that, in my professional judgement, were of most significance in my audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
Expected Credit Loss of loans and advances	
Loans and advances (note 11), 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. The estimation of credit losses is inherently uncertain and is subject to significant judgement. Furthermore, models used to determine credit impairments are complex, and certain inputs used are not fully observable.	My audit procedures included assessing the appropriateness and reasonableness of the amount of the expected credit loss (ECL) in terms of IFRS 9. I engaged an auditor's expert to assess the appropriateness and reasonableness of the model and assumptions used by management in determining the ECL. Before I placed reliance on the work of an auditors' expert, I assessed independency, objectivity and competency in line with the requirements of ISA 620 and I was satisfied with this. 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. In addition, my audit procedures included the following, amongst others: - Reviewing the probability of default (PD) model, which included the calibration of the PD model stage migration, model validation and forward-looking information.

Key audit matter	How the matter was addressed in the audit
Expected Credit Loss of loans and advances	
The assessment process requires detailed knowledge of the borrower and requires credit officers to use judgement to determine whether there is an expected loss and the amount of the resulting loss. Given the combination of the inherent subjectivity in the valuation, and the material nature of the balance, I considered the calculation of the expected credit loss to be a key audit matter in my audit of the financial statements..	- Reviewing the loss given default model, which included recovery rates computation, forward-looking information and model validation. - Reviewing the exposure at default (EAD) model, which included reviewing the computation of EAD factors, forward-looking information and model validation. - Verifying the mathematical accuracy of the expected credit loss (ECL) model. - Testing a sample of the source data that is significant to ECL to determine the relevance, completeness and accuracy of the source data. I also placed reliance on the work performed by internal audit, as internal audit used various management experts in the past to validate the assumptions of the entire model I assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements. I am satisfied that the ECL of loan and advances is reasonable and appropriate and is in compliance with the requirements of IFRS

7. I have determined that there are no other key audit matters to communicate in this auditor's report.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 48 to the financial statements, the corresponding figures for 31 March 2017 were restated as a result of an error and a reclassification in the financial statements of the Land Bank as at, and for the year ended, 31 March 2018.

Responsibilities of the board of directors, which constitutes the accounting authority, for the financial statements

10. 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.

11. 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 accounting authority 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

12. 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.

13. 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

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the Land Bank. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the Land Bank for the year ended 31 March 2018:

Land Bank

Objectives	Pages in the annual performance report
Development impact	156
Financial sustainability	156
Interest income generated	156

Land Bank Life Insurance Company SOC Limited

Objectives	Pages in the annual performance report
Net combined operating ratio %	159
Gross written premium – R million	159
Appointment of binder holder	159

Land Bank Insurance SOC Limited

Objectives	Pages in the annual performance report
Net combined operating ratio %	159
Gross written premium	159
Stakeholder impact (Black broker development)	159
Appointment of binder holder	159

17. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. The material findings in respect of the reliability of the selected objectives are as follows:

Land Bank

Disbursements of R1,5 bn transformation funding (including intermediary transactions and equity investments)

19. The reported achievement of R1,55 billion disbursements for a target of R1,5 billion transformation funding was not complete and therefore not reliable. This is due to inadequate performance management systems in place to account for the disbursements made on the indirect loan book. As a result, I was unable to confirm the completeness of the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of R1,55 billion as reported in the annual performance report.

20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Financial sustainability
- Interest income generated

Land Bank Life Insurance Company SOC Limited

21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Net combined operating ratio %
- Gross written premium – R million
- Appointment of binder holder

Land Bank Insurance SOC Limited

22. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Net combined operating ratio %
- Gross written premium
- Stakeholder impact (black broker development)
- Appointment of binder holder

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. Refer to the annual performance report on pages 154 to 161 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraph 21 of this report.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for the development impact and financial sustainability objectives of the Land Bank. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the Land Bank with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. I did not raise 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

28. The Land Bank group's accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the various reports from the minister, the chairman's report, the chief executive officer's review as well as the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

29. My opinion on the 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 thereon.

30. The other information I obtained prior to the date of this auditor's report is various reports from the minister, the chairman's report, as well as the chief executive officers review, the audit committee's report is expected to be made available to me after 30-07-2018. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

31. When I do receive the audit committee's report, 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 is corrected this will not be necessary.

Internal control deficiencies

32. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report included in this report.

Leadership

33. The accounting authority did not in all instances establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

34. The Land Bank did not in all instances prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

35. The Land Bank did not in all instances design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Other reports

36. I draw attention to the following engagements conducted by various parties that have, or could potentially have, an impact on the Land Bank's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Audit-related services and special audits

37. As requested by the Land Bank, a limited assurance engagement was conducted during the year under audit on compliance with the provisions of the Commercial Paper Notice (Government Notice 2172, Government Gazette 16167 of 14 December 1994) in relation to ZAR2billion senior unsecured fixed rate and/or floating notes and issued under the issuer's ZAR20 billion domestic medium-term note programme. This was issued on 19 March 2018.

38. As requested by the Land Bank Insurance SOC Limited, a reasonable assurance engagement was conducted regarding the audit of the schedule of collection and remission of premiums of the Land Bank Insurance Company SOC Limited for the 12-month period ended 31 March 2018. The report was to be submitted to the South African Special Risks Insurance Association and was issued on 31 May 2018.

Auditor General

Pretoria
31 July 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 Land Bank'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 Land Bank'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 use of the going concern basis of accounting by the board of directors, which constitutes the accounting authority, in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability 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 the 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 an entity to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.
5. From the matters communicated to those charged with governance, I determine those matters that were of the most significance in the audit of the consolidated and separate financial statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

The following statement is made to highlight the respective responsibilities of the Audit and Finance Committee of the Bank.

The Audit and Finance Committee is a statutory committee, consisting of independent non-executive directors that are elected by the shareholders and in terms of section 94(2) of the Companies Act, read with Chapter 3 of King III. In terms of Regulation 42 the Companies' Regulations, at least one-third of the members of the Company's Audit Committee at any particular time must have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

Having considered, analysed and reviewed the information provided by management, Internal Audit and External Audit, the Audit and Finance Committee confirms that:

- The internal controls of the Group were effective in material matters throughout the year under review and nothing material has come to the committee's attention;
- Appropriate policies, supported by reasonable and prudent judgements and estimates were applied;
- Proper accounting records were maintained;
- The adequacy and effectiveness of controls that are in place safeguarded the Group's assets;
- The financial statements comply, in most material respects, with the relevant provisions of the PFMA and International Financial Reporting Standards;
- Credit impairments determined based on the requirements of IFRS9 are appropriate;
- Valuation of investments recognised in the Statement of Financial Position is appropriate;
- Subsequent events are appropriately disclosed in the annual financial statements;.
- The, independence, audit plan and reporting of the external and internal auditors were acceptable

Going concern

The Audit and Finance Committee concurs that it is appropriate to prepare the Group financial statements on a going concern basis, and the Bank has no reason to doubt that it will continue to be a going concern in the year ahead.

External Audit

The Committee acknowledges the requirement in the Land Bank Act and the PFMA that the Auditor General of South Africa is the appointed external auditor of the Bank. Audit Partner rotation takes place from time-to-time.

Conclusion

The Committee is satisfied that the appropriate Internal and External assurance of the Integrated Annual Report has been applied to financial and non-financial information.

Having reviewed the audited consolidated and separate annual financial statements of the Group, particularly to ensure that disclosure was adequate and that fair presentation had been achieved, the committee recommended the approval of the consolidated and separate annual financial statements to the Board.

The Committee is satisfied that it has complied with all the statutory duties given to it by the Board under its terms of reference.

Mtetwa

Ms G Mtetwa
30 July 2018

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	Notes	Group 2018 R'000	Group 2017* R'000	Bank 2018 R'000	Bank 2017* R'000
Assets					
Cash and cash equivalents	4	**2 421 069**	1 520 331	**2 362 130**	1 211 305
Trade and other receivables	5	**320 171**	385 043	**131 302**	138 949
Short-term insurance assets	6	**282 382**	178 527	**-**	-
Repurchase agreements	7	**15 706**	15 149	**15 706**	15 149
Investments	8	**2 619 887**	1 860 074	**1 406 650**	983 184
Strategic trading assets	9	**-**	9 617	**-**	9 617
Hedging derivative assets	10	**8 106**	-	**8 106**	-
Loans and advances	11	**43 418 462**	40 975 554	**43 418 462**	40 975 554
Assets of discontinued operation classified as held-for-sale	12	**147 328**	197 139	**147 328**	197 139
Long term insurance asset	19.5	**10 753**	12 098	**-**	-
Non-current assets held-for-sale	13	**10 085**	47 993	**10 085**	47 993
Investment property	14	**174 590**	167 800	**174 590**	167 800
Property and equipment	15	**38 202**	45 236	**37 996**	45 053
Intangible assets	16	**20 279**	27 275	**20 279**	27 275
Total assets		**49 487 020**	**45 441 836**	**47 732 634**	**43 819 018**
Equity and liabilities					
Equity					
Distributable reserves	17	**6 547 725**	6 317 349	**5 445 930**	5 227 078
Other reserves	17	**100 978**	137 495	**100 978**	137 495
		6 648 703	6 454 844	**5 546 908**	5 364 573
Liabilities					
Trade and other payables	18	**355 404**	379 782	**160 715**	163 998
Strategic trading liabilities	9	**-**	5 533	**-**	5 533
Short-term insurance liabilities	6	**398 859**	260 264	**-**	-
Long-term policyholders' liabilities	19	**55 939**	54 762	**-**	-
Funding liabilities	20	**41 576 302**	37 839 610	**41 576 302**	37 839 610
Provisions	21	**82 632**	108 831	**79 528**	107 094
Post-retirement obligation	22	**369 181**	338 210	**369 181**	338 210
Total equity and liabilities		**49 487 020**	**45 441 836**	**47 732 634**	**43 819 018**

* Refer to note 48.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	Group 2018 R'000	Group 2017* R'000	Bank 2018 R'000	Bank 2017* R'000
Continuing operations					
Net interest income		**1 278 406**	1 213 347	**1 261 391**	1 196 541
Interest income	24	**4 846 716**	4 256 564	**4 826 977**	4 234 811
Interest expense	25	**(3 568 310)**	(3 043 217)	**(3 565 586)**	(3 038 270)
Net impairment charges, claims and recoveries	11.6	**(55 524)**	(81 543)	**(55 524)**	(81 543)
Total income from lending activities		**1 222 882**	1 131 804	**1 205 867**	1 114 998
Non-interest expense	26	**(313 627)**	(270 240)	**(308 015)**	(269 071)
Non-interest income	27	**89 855**	62 900	**85 727**	60 613
Operating income from banking activities		**999 110**	924 464	**983 579**	906 540
Net insurance premium income	28.1	**143 002**	135 720	**-**	-
Net insurance claims	28.3	**(153 008)**	(114 548)	**-**	-
Other costs from insurance activities	28.4	**(41 073)**	(25 675)	**-**	-
Investment income and fees	29	**62 639**	71 946	**16 584**	11 468
Interest in post-retirement obligation	22	**(29 757)**	(29 775)	**(29 757)**	(29 775)
Fair value gains	30	**34 027**	7 865	**7 219**	5 877
Operating income		**1 014 940**	969 997	**977 625**	894 110
Operating expenses	31	**(654 531)**	(587 551)	**(628 740)**	(562 339)
Net operating income		**360 409**	382 446	**348 885**	331 771
Non-trading and capital items	32	**(1 247)**	5 888	**(1 247)**	5 888
Net profit before indirect taxation		**359 162**	388 334	**347 638**	337 659
Indirect taxation	33	**(68 922)**	(68 863)	**(68 922)**	(68 863)
Net profit from continuing operations		**290 240**	319 471	**278 716**	268 796
Net (loss)/ profit from discontinued operations	23	**(36 023)**	47 519	**(36 023)**	47 519
Profit for the year		**254 217**	366 990	**242 693**	316 315
Other comprehensive income					
Items that will be reclassified into profit or loss					
Net losses on financial assets designated at fair value through other comprehensive income		**(44 892)**	440	**(44 892)**	440
Cash flow hedges: gains on cash flow hedging instruments		**8 106**	-	**8 106**	-
Items that will not be reclassified subsequently to profit or loss					
Actuarial loss on the post-retirement obligation		**(23 841)**	(12 981)	**(23 841)**	(12 981)
Revaluation of land and buildings		**269**	1 983	**269**	1 983
Total other comprehensive income		**(60 358)**	(10 558)	**(60 358)**	(10 558)
Total comprehensive income for the year		**193 859**	356 432	**182 335**	305 757

* Refer to note 48.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Capital fund R'000	Insurance reserve R'000	MTM reserve R'000	Revaluation reserve R'000	General reserve* R'000	Cash flow hedge reserve R'000	Total R'000
Group							
Balance at 1 April 2016	**4 397 655**	**1 389 625**	**848**	**134 224**	**176 060**	**-**	**6 098 412**
Profit for the year	-	50 675	-	-	316 315	-	366 990
Other comprehensive income for the year	-	-	440	1 983	(12 981)	-	(10 558)
Balance at 31 March 2017	**4 397 655**	**1 440 300**	**1 288**	**136 207**	**479 394**	**-**	**6 454 844**
Profit for the year	-	11 524	-	-	242 693	-	254 217
Total other comprehensive income for the year	-	-	(44 892)	269	(23 841)	8 106	(60 358)
Balance at 31 March 2018	**4 397 655**	**1 451 824**	**(43 604)**	**136 476**	**698 246**	**8 106**	**6 648 703**

*Refer to note 48.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Capital fund R'000	MTM reserve R'000	Revaluation reserve R'000	General reserve* R'000	Cash flow hedge reserve R'000	Total R'000
Bank						
Balance at 1 April 2016	**4 397 655**	**848**	**134 224**	**526 089**	**-**	**5 058 816**
Profit for the year	-	-	-	316 315	-	316 315
Total other comprehensive income for the year	-	440	1 983	(12 981)	-	(10 558)
Balance at 31 March 2017	**4 397 655**	**1 288**	**136 207**	**829 423**	**-**	**5 364 573**
Profit for the year	-	-	-	242 693	-	242 693
Total other comprehensive income for the year	-	(44 892)	269	(23 841)	8 106	(60 358)
Balance at 31 March 2018	**4 397 655**	**(43 604)**	**136 476**	**1 048 275**	**8 106**	**5 546 908**

* Refer to note 48.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

		Group		Bank	
		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
Net profit from continuing operations		**290 240**	319 471	**278 716**	268 796
Net loss from discontinued operations		**(36 023)**	47 519	**(36 023)**	47 519
		254 217	366 990	**242 693**	316 315
Adjustments to reconcile profit to net cash flows:					
		3 499 173	2 905 546	**3 564 093**	2 954 399
Interest expense	25	**3 568 310**	3 043 217	**3 565 586**	3 038 270
Interest in post-retirement obligation	22	**29 757**	29 775	**29 757**	29 775
Fair value movement (financial instruments)	30	**1 165**	678	**1 165**	678
Fair value movement (investments)	30	**(35 192)**	(8 543)	**(8 384)**	(6 555)
Dividend income	29	**(32 322)**	(29 658)	**(13 335)**	(8 023)
Interest income	29	**(38 848)**	(50 006)	**(5 955)**	(5 350)
Fund management fees	29	**5 825**	7 718	**-**	-
Depreciation and impairment of property and equipment	31	**8 411**	5 006	**8 349**	4 973
Amortisation and impairment of intangibles	31	**6 810**	6 598	**6 810**	6 598
Fair value adjustments (investment properties)	32	**(6 790)**	(8 879)	**(6 790)**	(8 879)
Fair value movement in policyholders' liabilities	19.2	**3 790**	7 086	**-**	-
Fair value adjustment on non-current assets held-for-sale	32	**(165)**	(190)	**(165)**	(190)
Movement in provisions	21	**(26 199)**	(98 086)	**(27 566)**	(97 728)
Movement in post-retirement medical aid liability	22	**7 130**	1 677	**7 130**	1 677
Loss on disposal of property and equipment	32	**227**	326	**227**	326
Loss on disposal/ write off of intangible asset	32	**185**	2 112	**185**	2 112
Loss on disposal of properties in possession	32	**9 080**	485	**9 080**	485
Gain on recognition of investment in subsidiary	32	**-**	393	**-**	393
Foreign exchange gain	32	**(1 089)**	(35)	**(1 089)**	(35)
Impairment relating to loan commitments and guarantees	11.5	**(711)**	(4 028)	**(711)**	(4 028)
Impairment of other assets	32	**(201)**	(100)	**(201)**	(100)
Working capital adjustments:		**73 881**	(223 363)	**4 364**	(100 444)
Decrease/ (increase) in trade and other receivables	5	**64 872**	(210 624)	**7 647**	(9 278)
Decrease in trade and other payables	18	**(24 378)**	(3 765)	**(3 283)**	(91 166)
Increase/(decrease) in short-term and long-term insurance liability	6	**135 897**	(25 926)	**-**	-
(Increase)/ decrease in short-term and long-term insurance assets	6	**(102 510)**	16 952	**-**	-
Cash flow from operating activities		**3 827 271**	3 049 173	**3 811 150**	3 170 270

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

		Group		Bank	
		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
Cash flows from operations		**(6 040 830)**	(7 968 206)	**(6 038 106)**	(7 963 259)
Interest paid	25	**(3 568 310)**	(3 043 217)	**(3 565 586)**	(3 038 270)
Interest in post-retirement obligation	22	**(29 757)**	(29 775)	**(29 757)**	(29 775)
Increase in funding to clients	11	**(2 442 763)**	(4 895 214)	**(2 442 763)**	(4 895 214)
Cash flow from investing activities		**(622 395)**	116 423	**(358 911)**	68 236
Proceeds from disposal of property and equipment	15	**143**	545	**143**	470
Purchase of property and equipment	15	**(1 685)**	(17 275)	**(1 685)**	(17 280)
Additions to intangible assets	16	**-**	(1 855)	**-**	(1 855)
Proceeds from sale of non-current assets held-for-sale	13	**33 091**	2 460	**33 091**	2 460
Proceeds from sale of financial instruments	7 & 8	**68 236**	184 558	**39 652**	15 114
Repayment of intercompany loan receivable	5	**-**	-	**-**	201 337
Investment in subsidiary	8.5	**-**	-	**-**	(80 000)
Purchase of financial instruments	7 & 8	**(722 180)**	(52 010)	**(430 112)**	(52 010)
Cash flow from financing activities		**3 736 692**	3 815 478	**3 736 692**	3 815 478
Funding raised	20.	**13 631 658**	7 819 040	**13 631 658**	7 819 040
Funding repaid	20.	**(9 894 966)**	(4 003 562)	**(9 894 966)**	(4 003 562)
Net increase /(decrease) in cash and cash equivalents		**900 738**	(987 132)	**1 150 825**	(909 275)
Cash and cash equivalents at beginning of year	4	**1 520 331**	2 507 463	**1 211 305**	2 120 580
Cash and cash equivalents at end of year	4	**2 421 069**	1 520 331	**2 362 130**	1 211 305

SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)

FOR THE YEAR ENDED 31 MARCH 2018

Group - 2018

Statement of profit or loss and other comprehensive income

	Interest income R'000	Interest expense R'000	Net interest income R'000	Impairment (charges)/ releases, claims and recoveries R'000	Non-interest income/ (expense) R'000	Operating loss from insurance activities R'000	Fair value gains, investment income and non-trading and capital items R'000	Operating expenses and indirect taxes excluding depreciation and amortisation R'000	Interest on post-retirement obligation R'000	Depreciation and amortisation R'000	Staff costs R'000	Net profit/ (loss) R'000	Other comprehensive income R'000	Total comprehensive income R'000
Northern region	3 893 159	(2 885 510)	1 007 649	(61 875)	(211 935)	-	21 832	(237 758)	(29 757)	(14 556)	(376 344)	97 256	(60 358)	36 898
Southern region	933 818	(680 076)	253 742	6 351	(10 353)	-	724	(12 525)	-	(603)	(55 876)	181 460	-	181 460
Insurance operations	19 739	(2 724)	17 015	-	(1 485)	(51 079)	72 863	(10 527)	-	(62)	(15 201)	11 524	-	11 524
Continuing operations	**4 846 716**	**(3 568 310)**	**1 278 406**	**(55 524)**	**(223 773)**	**(51 079)**	**95 419**	**(260 810)**	**(29 757)**	**(15 221)**	**(447 421)**	**290 240**	**(60 358)**	**229 882**
Discontinued operation - LDFU	-	-	-	(36 023)	-	-	-	-	-	-	-	(36 023)	-	(36 023)
	4 846 716	**(3 568 310)**	**1 278 406**	**(91 547)**	**(223 773)**	**(51 079)**	**95 419**	**(260 810)**	**(29 757)**	**(15 221)**	**(447 421)**	**254 217**	**(60 358)**	**193 859**

Statement of financial position

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

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

SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)

FOR THE YEAR ENDED 31 MARCH 2018

Group - 2017*

Statement of profit or loss and other comprehensive income

	Interest income R'000	Interest expense[1] R'000	Net interest income R'000	Impairment (charges)/ releases, claims and recoveries R'000	Non-interest income/ (expense) R'000	Operating loss from insurance activities R'000	Fair value gains, investment income and non-trading and capital items R'000	Operating expenses and indirect taxes excluding depreciation and amortisation[1] R'000	Interest on post-retirement obligation R'000	Depreciation and amortisation R'000	Staff costs R'000	Net profit/ (loss) R'000	Other comprehensive income R'000	Total comprehensive income R'000
Northern region	3 323 949	(2 271 345)	1 052 604	52 568	(193 839)	-	23 330	(276 004)	(29 775)	(10 775)	(284 017)	334 092	(10 558)	323 534
Southern region	910 862	(766 925)	143 937	(134 111)	(14 619)	-	(97)	(12 123)	-	(796)	(47 485)	(65 294)	-	(65 294)
Insurance operations	21 753	(4 947)	16 806	-	1 118	(4 503)	62 466	(11 472)	-	(33)	(13 709)	50 673	-	50 673
Continuing operations	**4 256 564**	**(3 043 217)**	**1 213 347**	**(81 543)**	**(207 340)**	**(4 503)**	**85 699**	**(299 599)**	**(29 775)**	**(11 604)**	**(345 210)**	**319 471**	**(10 558)**	**308 913**
Discontinued operation - LDFU[1]	-	-	-	47 519	-	-	-	-	-	-	-	47 519	-	47 519
	4 256 564	**(3 043 217)**	**1 213 347**	**(34 024)**	**(207 340)**	**(4 503)**	**85 699**	**(299 599)**	**(29 775)**	**(11 604)**	**(345 210)**	**366 990**	**(10 558)**	**356 432**

Statement of financial position[2]	Non-current assets held-for-sale, investments, intangible assets, investment properties and property and equipment R'000	Working Capital (incl. loans and advances) R'000	Other assets R'000	Total assets R'000
Assets				
Northern region	1 263 607	35 048 405	-	36 312 012
Southern region	7 698	7 302 169	-	7 309 867
Insurance operations	877 073	555 120	190 625	1 622 818
Continuing operations	**2 148 378**	**42 905 694**	**190 625**	**45 244 697**
Discontinued operation - LDFU	-	197 139	-	197 139
	2 148 378	**43 102 833**	**190 625**	**45 441 836**

Liabilities	Working Capital (incl. funding)[1] R'000	Other liabilities R'000	Total liabilities R'000
Northern region[1]	31 275 916	460 481	31 736 397
Southern region	6 733 225	(15 177)	6 718 048
Insurance operations	215 784	316 763	532 547
	38 224 925	**762 067**	**38 986 992**

* During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 numbers were restated.

[1] Subsequent to year end, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" but rather that of a "discontinued operation". The FY2017 disclosure have been amended to reclassify the interest expense, operating expenses and liabilities associated with the "Discontinued operation - LDFU" to the Northern region as these properties are all based in the Northern region. Refer to note 48.

[2] During FY2018, the Group restated it`s prior year comparative figures relating to the Northern and Southern region segment report. Assets and liabilities relating to the Southern region had been understated due to the effect of some inter-business unit balances included in the Southern region. The re-allocation of inter-business unit balances has resulted in a more accurate presentation of the assets and liabilities in the two regions for both FY2017 and FY2018. Below is a summary of the restatement:

	2017	
	Reported	Restated
Statement of financial position	R'000	R'000
Assets		
Northern region	43 568 151	36 312 012
Southern region	53 730	7 309
Liabilities		
Northern region	37 269 641	31 736 397
Southern region	263 953	6 718 048

The geographical segments consist of 9 provincial offices and 16 satellite offices within the boundaries of the respective provinces of the Republic of South Africa according to the client's location. Group Capital is included in the Northern segment, as the head office is situated in Pretoria. All revenue per geographical segment is attributable to the Republic of South Africa.

SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)

FOR THE YEAR ENDED 31 MARCH 2018

Group - 2018

Statement of profit or loss and other comprehensive income

	Commercial Development and Business Banking [2] R'000	Corporate Banking and Structured Investments [2] R'000	Group Capital and inter-segment eliminations [1] R'000	Total Bank (excluding LDFU) R'000	Insurance operations [3] R'000	Total Group (excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
	912 112	**349 279**	**-**	**1 261 391**	**17 015**	**1 278 406**	**-**	**1 278 406**
Interest income	3 405 057	1 421 920	-	4 826 977	19 739	4 846 716	-	4 846 716
Interest expense	(2 492 945)	(1 072 641)	-	(3 565 586)	(2 724)	(3 568 310)	-	(3 568 310)
Impairment releases/(charges) on loans and advances	203 500	(261 983)	2 959	(55 524)	-	(55 524)	(36 023)	(91 547)
Total income/(loss) from lending activities	**1 115 612**	**87 296**	**2 959**	**1 205 867**	**17 015**	**1 222 882**	**(36 023)**	**1 186 859**
Non-interest expense	(308 015)	-	-	(308 015)	(5 613)	(313 628)	-	(313 628)
Non-interest income	20 807	24 124	40 796	85 727	4 128	89 855	-	89 855
Operating income/(loss) from banking activities	**828 404**	**111 420**	**43 755**	**983 579**	**15 530**	**999 109**	**(36 023)**	**963 086**
Operating loss from insurance activities	-	-	-	-	(51 079)	(51 079)	-	(51 079)
Investment income	-	-	16 584	16 584	46 055	62 639	-	62 639
Interest on post-retirement obligation	-	-	(29 757)	(29 757)	-	(29 757)	-	(29 757)
Fair value gains	-	-	7 219	7 219	26 808	34 027	-	34 027
Operating income/(loss)	**828 404**	**111 420**	**37 804**	**977 625**	**37 314**	**1 014 939**	**(36 023)**	**978 916**
Operating expenses	(22 351)	(2 916)	(156 094)	(181 361)	(10 527)	(191 888)	-	(191 888)
Staff costs	(93 898)	(15 544)	(322 778)	(432 220)	(15 201)	(447 421)	-	(447 421)
Depreciation and amortisation	(1 438)	(73)	(13 648)	(15 159)	(62)	(15 221)	-	(15 221)
Net operating/income(loss)	**710 717**	**92 887**	**(454 719)**	**348 885**	**11 524**	**360 409**	**(36 023)**	**324 386**
Non-trading and capital items	718	(18)	(1 947)	(1 247)	-	(1 247)	-	(1 247)
Net profit/(loss) before indirect taxation	**711 435**	**92 869**	**(456 666)**	**347 638**	**11 524**	**359 162**	**(36 023)**	**323 139**
Indirect taxation	-	-	(68 922)	(68 922)	-	(68 922)	-	(68 922)
Net profit/(loss)	**711 435**	**92 869**	**(525 588)**	**278 716**	**11 524**	**290 240**	**(36 023)**	**254 217**

SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)

FOR THE YEAR ENDED 31 MARCH 2018

	Commercial Development and Business Banking [2] R'000	Corporate Banking and Structured Investments [2] R'000	Group Capital and inter-segment eliminations [1] R'000	Total Bank (excluding LDFU) R'000	Insurance operations [3] R'000	Total Group (excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
Other comprehensive income								
Actuarial losses on the post-retirement obligation	-	-	(23 841)	(23 841)	-	(23 841)	-	(23 841)
Revaluation of land and buildings	-	-	269	269	-	269	-	269
Cash flow hedges: gains on cash flow hedging instruments	-	-	8 106	8 106	-	8 106	-	8 106
Losses on financial assets at fair value through other comprehensive income	-	-	(44 892)	(44 892)	-	(44 892)	-	(44 892)
Total comprehensive income/(loss) for the year	**711 435**	**92 869**	**(585 946)**	**218 358**	**11 524**	**229 882**	**(36 023)**	**193 859**
Interest income								
External customers	3 405 057	1 421 920	-	4 826 977	19 739	4 846 716	-	4 846 716
Non-interest (expense)/income								
External customers	(287 208)	24 124	40 796	(222 288)	(1 485)	(223 773)	-	(223 773)

SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)

FOR THE YEAR ENDED 31 MARCH 2018

Statement of financial position

	Commercial Development and Business Banking [2] R'000	Corporate Banking and Structured Investments [2] R'000	Group Capital and inter-segment eliminations [1] R'000	Total Bank (excluding LDFU) R'000	Insurance operations [3] R'000	Total Group (excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
Assets								
Segment assets	**30 251 865**	**12 170 769**	**5 162 672**	**47 585 306**	**1 754 386**	**49 339 692**	**147 328**	**49 487 020**
Working capital (incl. net loans and advances)	30 220 343	11 459 492	4 255 871	45 935 706	247 808	46 183 514	147 328	46 330 842
Investments	-	711 228	695 422	1 406 650	1 213 237	2 619 887	-	2 619 887
Investment properties	31 244	-	143 346	174 590	-	174 590	-	174 590
Property and equipment	278	49	37 669	37 996	206	38 202	-	38 202
Non-current assets held-for-sale	-	-	10 085	10 085	-	10 085	-	10 085
Intangible assets	-	-	20 279	20 279	-	20 279	-	20 279
Insurance assets	-	-	-	-	293 135	293 135	-	293 135
Liabilities								
Segment liabilities	**30 795 642**	**12 811 083**	**(1 420 999)**	**42 185 726**	**652 591**	**42 838 317**	**-**	**42 838 317**
Working capital (incl. funding liabilities)	30 778 262	12 807 304	(1 848 549)	41 737 017	194 689	41 931 706	-	41 931 706
Provisions	17 380	3 779	58 369	79 528	3 104	82 632	-	82 632
Post-retirement obligation	-	-	369 181	369 181	-	369 181	-	369 181
Insurance liabilities	-	-	-	-	454 798	454 798	-	454 798

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

[2] During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 numbers were restated.

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

SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)

FOR THE YEAR ENDED 31 MARCH 2018

Group - 2017

Statement of profit or loss and other comprehensive income

	Commercial Development and Business Banking [2] R'000	Corporate Banking and Structured Investments [2] R'000	Group Capital and inter-segment eliminations [1] R'000	Total Bank (excluding LDFU) R'000	Insurance operations [3] R'000	Total Group (excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
	740 255	**456 286**	**-**	**1 196 541**	**16 806**	**1 213 347**	**-**	**1 213 347**
Interest income	2 739 514	1 495 297	-	4 234 811	21 753	4 256 564	-	4 256 564
Interest expense	(1 999 259)	(1 039 011)	-	(3 038 270)	(4 947)	(3 043 217)	-	(3 043 217)
Impairment releases/(charges) on loans and advances	24 727	(106 270)	-	(81 543)	-	(81 543)	47 519	(34 024)
Total income from lending activities	**764 982**	**350 016**	**-**	**1 114 998**	**16 806**	**1 131 804**	**47 519**	**1 179 323**
Non-interest expense	(269 072)	1	-	(269 071)	(1 169)	(270 240)	-	(270 240)
Non-interest income	24 186	14 924	21 502	60 613	2 287	62 900	-	62 900
Operating income from banking activities	**520 096**	**364 941**	**21 502**	**906 540**	**17 924**	**924 464**	**47 519**	**971 983**
Operating profit from insurance activities	-	-	-	-	(4 503)	(4 503)	-	(4 503)
Investment income	-	-	11 468	11 468	60 478	71 946	-	71 946
Interest on post-retirement obligation	-	-	(29 775)	(29 775)	-	(29 775)	-	(29 775)
Fair value loss	-	-	5 877	5 877	1 988	7 865	-	7 865
Operating income	**520 096**	**364 941**	**9 072**	**894 110**	**75 887**	**969 997**	**47 519**	**1 017 516**
Operating expenses	(21 200)	(5 890)	(192 175)	(219 265)	(11 471)	(230 736)	-	(230 736)
Staff costs	(69 658)	(11 345)	(250 499)	(331 502)	(13 708)	(345 210)	-	(345 210)
Depreciation and amortisation	(1 537)	(84)	(9 951)	(11 572)	(33)	(11 605)	-	(11 605)
Net operating income /(loss)	**427 701**	**347 622**	**(443 553)**	**331 771**	**50 675**	**382 446**	**47 519**	**429 965**
Non-trading and capital items	(285)	(405)	6 578	5 888	-	5 888	-	5 888
Net profit/(loss) before indirect taxation	**427 416**	**347 217**	**(436 975)**	**337 659**	**50 675**	**388 334**	**47 519**	**435 853**
Indirect taxation	-	-	(68 863)	(68 863)	-	(68 863)	-	(68 863)
Net profit/(loss)	**427 416**	**347 217**	**(505 838)**	**268 796**	**50 675**	**319 471**	**47 519**	**366 990**

SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)

FOR THE YEAR ENDED 31 MARCH 2018

	Commercial Development and Business Banking [2]	Corporate Banking and Structured Investments [2]	Group Capital and inter-segment eliminations [1]	Total Bank (excluding LDFU)	Insurance operations [3]	Total Group (excluding LDFU)	Discontinued operations LDFU	Total Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Other comprehensive income								
Actuarial losses on the post retirement obligation	-	-	(12 981)	(12 981)	-	(12 981)	-	(12 981)
Revaluation of land and buildings	-	-	1 983	1 983	-	1 983	-	1 983
Losses on financial assets at fair value through other comprehensive income	-	-	440	440	-	440	-	440
Total comprehensive income/(loss) for the year	427 416	347 217	(516 396)	258 238	50 675	308 913	47 519	356 432
Interest income								
External customers	2 739 514	1 495 297	-	4 234 811	21 753	4 256 564	-	4 256 564
Non-interest income/(expense)								
External customers	(244 886)	14 925	21 502	(208 458)	1 118	(207 340)	-	(207 340)

SEGMENT REPORTING (GEOGRAPHIC SEGMENTS)

FOR THE YEAR ENDED 31 MARCH 2018

Statement of financial position

	Commercial Development and Business Banking [2] R'000	Corporate Banking and Structured Investments [2] R'000	Group Capital and inter-segment eliminations [1] R'000	Total Bank (excluding LDFU) R'000	Insurance operations [3] R'000	Total Group (excluding LDFU) R'000	Discontinued operations LDFU R'000	Total Group R'000
Assets								
Segment assets	**28 441 566**	**12 589 512**	**2 590 801**	**43 621 879**	**1 622 818**	**45 244 697**	**197 139**	**45 441 836**
Working capital (incl. net loans and advances)	28 409 354	12 589 372	1 351 848	42 350 574	555 120	42 905 694	197 139	43 102 833
Investments	-	-	983 184	983 184	876 890	1 860 074	-	1 860 074
Investment properties	30 444	-	137 356	167 800	-	167 800	-	167 800
Property and equipment	1 768	140	43 145	45 053	183	45 236	-	45 236
Non-current assets held-for-sale	-	-	47 993	47 993	-	47 993	-	47 993
Intangible assets	-	-	27 275	27 275	-	27 275	-	27 275
Insurance assets	-	-	-	-	190 625	190 625	-	190 625
Liabilities								
Segment liabilities	**28 188 885**	**13 440 750**	**(3 175 190)**	**38 454 445**	**532 547**	**38 986 992**	**-**	**38 986 992**
Working capital (incl. funding liabilities)	28 255 283	13 439 838	(3 685 980)	38 009 141	215 784	38 224 925	-	38 224 925
Provisions	(66 398)	912	172 580	107 094	1 737	108 831	-	108 831
Post-retirement obligation	-	-	338 210	338 210	-	338 210	-	338 210
Insurance liabilities	-	-	-	-	315 026	315 026	-	315 026

* Subsequent to year end, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" but rather that of a "discontinued operation". The FY2017 disclosure have been amended to reclassify the interest expense, operating expenses and liabilities associated with the "Discontinued operation - LDFU" to Corporate Banking and Structured Investments". Refer to note 48.

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

[2] During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 numbers were restated.

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

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

- Commercial Development and Business Banking, which consists of 9 regional offices and 16 satellite branches spread across the country, responsible for the intermediary channels of the Bank and provides finance to emerging, development and commercial farmers.
- Corporate Banking and Structured Investments, which consists of two branches, provides finance to the corporate agri-related businesses.
- LDFU, which was established to provide finance for the development of land. The activities of the division were discontinued in 2008.
- Group capital which consists of treasury, finance and other central functions.
- Insurance Operations consisting of LBLIC and LBIC which provides Life and Agricultural short-term 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:

- Its reported revenue, from both external clients and other segments, 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 re
- Its assets are 10% or more of the combined assets of all operating segments.

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

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

The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies. Cost of funding is allocated based on the monthly average cost of funding for Land Bank and the segment's gross loan balances at year end.

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

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

1. General information

The consolidated and separate annual financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRS), which includes all applicable IFRSs, International Accounting Standards (IASs) and Interpretations issued by the IFRS Interpretations Committee. A summary of significant accounting policies is set out in note 3.

2. Basis of preparation

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

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

2.1 Functional and presentation currency

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

2.2 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.

3. Summary of significant accounting policies

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

3.1 Changes in accounting policies and disclosures

Adoption of new and revised pronouncements

In the current year, the company has adopted all new and revised IFRSs that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2017.

At the date of authorisation of these financial statements for the year ended 31 March 2018, the following IFRSs were adopted:

IFRS/ IFRIC	Details	Effect
Amendment to IAS 7 Statement of Cash Flows	Disclosure Initiative: Amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). Annual periods commencing on or after 1 January 2017.	Disclosure amended accordingly.

New standards and interpretations not yet adopted

The company has not applied the following new, revised or amended pronouncements that have been issued by the IASB as they are not yet effective for the financial year beginning 1 April 2017 (the list does not include information about new requirements that affect interim financial reporting or first-time adopters of IFRS since they are not relevant to the company). 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 company has assessed, where practicable, the potential impact of all these new standards, amendments and interpretations that will be effective in future periods.

Statement	Effective date
Amendment to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 - Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Amendment to IAS 40 - Transfers of investment property	1 January 2018
Annual improvements 2014-16 cycle	1 January 2018
Annual improvements 2015-17 cycle	1 January 2019

IFRS 1 - First-time Adoption of International Financial Reporting Standards

Annual Improvements 2014-2016 Cycle: Deletion of short-term exemptions that are no longer applicable.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Two amendments to IFRS 4 to address the interaction between IFRS 4 and IFRS 9.

The standard contains requirements in the following areas:

Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a fair value through other comprehensive income category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised

Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

This standard introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

IFRS 15 Revenue from contracts with customers

The standard provides a single, principles based five-step model to be applied to all contracts with customer. The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Enhanced guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration and multiple element arrangements, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenues are also introduced.

The initial application of IFRS 15 is not expected to have a significant impact on the Group's financial statements.

IFRS 16 - Leases

Sets out the principles for the recognition, measurement, presentation and disclosure of leases. One of the key changes brought by IFRS 16 is the elimination of the classification of leases as either operating leases or finance leases for a lessee, and the introduction of a single lessee accounting model.

Applying the model, a lessee is required to recognise:

- a right-of-use asset together with a lease liability representing the future lease payments for all leases (unless the lease term is shorter than 12 months or the underlying asset is of low value and the related exemptions are elected); and
- depreciation of leases assets separately from interest on lease liabilities in the statement of comprehensive income.

The standard provides revised guidance in defining what constitutes a lease and how the lease term is determined as well as enhanced disclosure requirements for both lessees and lessors about its leasing activities and how exposures are managed.

The effective date of IFRS 16 is 1 January 2019, with an allowance for early adoption, provided the entity applies IFRS 15 at the same time.

The implementation of IFRS 16 is expected to give rise to an increase in property, plant and equipment (right of use assets) and lease liabilities as lessee operating leases are currently not capitalised. This is not expected to have a significant impact on the Group's statement of financial position. The implementation will also give rise to an increase in expenses as there will be an additional depreciation charge on the right of use assets and interest on the lease liability. However, the Bank is still in the process of assessing the impact of adoption.

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 2021. 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

Amendment to IAS 40 - Transfers of investment property

Clarify when an entity should transfer property into, or out of investment property.

The amendments are generally required to be applied prospectively and will be applicable for reporting periods beginning on or after 1 January 2018.

This is not expected to have a significant impact on the Group's statement of financial position.

3.2 Business combinations

Subsidiaries are all entities (including structured entities) over which the Group 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 fair values at the acquisition date.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

The consolidated financial statements comprise the financial statements of the Land Bank and its subsidiaries, LBLIC, LBIC and LBIS (which is currently dormant) as at 31 March 2018.

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

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the statement of comprehensive income.

3.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable or received for services provided and goods delivered, net of discounts and Value Added Taxation (VAT) and where there is reasonable expectation that the income will be received and all attaching conditions will be complied with.

Interest income

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

Other income

(i) Fee and commission income

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

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

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

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

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

(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 3.24.1 and note 3.24.2.

3.4 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.

3.5 Fruitless and wasteful and irregular expenditure

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

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

When discovered, irregular expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either 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.

3.6 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases of assets are classified as finance leases when the leases transfer substantially all risks and rewards incidental to ownership of the assets to the Group. All other leases are classified as operating leases.

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

Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease after taking into account any fixed escalation clauses. Contingent rents are charged as an expense in the periods in which they are incurred.

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.

3.7 Post-employment benefits and short-term 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.

During FY2017, the Land Bank Retirement Fund ("LBRF") was migrated into an umbrella fund within the Alexander Forbes Retirement Fund (AFRF). The Land Bank Retirement Fund is in the process of being liquidated.

(i) 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.

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 plans is the present value of the defined benefit obligation at the statement of financial position date. The benefit obligation at the statement of financial position date is not reflected net of assets since these assets are not held in a legally separate entity that is not available to the Bank's own creditors. 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.

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.

3.8 Income taxation

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

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 SARS. Please refer to the notes of the annual financial statements for additional disclosure regarding the possible contingent liability raised in this regard.

3.9 Property and equipment

Land and buildings comprise owner occupied property. Land and buildings are shown at fair value, based on valuations by external independent valuers, 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.

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; all other 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.

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	3% 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

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

The carrying amounts of the company's tangible and intangible assets are reviewed at each year end to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the greater of its fair value less cost to sell and its value in use.

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 included in the statement of profit or loss and other comprehensive income 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 where the tenant occupies a significant portion (more than 50%) of the lettable space of the property. This threshold was set due to the Group's intention to let out any excess office space which exists at the Group's properties.

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.

3.11.1 (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.

3.11.2 (ii) Amortisation

Except for goodwill, 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.	10 years
Tier 2 asset	Software that is directly integrated with the core financial systems and additional developments and modules may have be added.	5 years
Other	Commodity software	3 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3.12 Impairment of non-financial assets

Intangible 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.

3.13 Financial instruments

3.13.1 Classification of financial instruments

The Group determines the classification of its financial assets at initial recognition. The Group classifies its financial assets into the following measurement categories:

- those to be measured at fair value through profit or loss (designated, held-for-trading or mandatorily measured as such);
- those to be measured at fair value through other comprehensive income (in terms of the Group's business model and contractual cash flows or designated as such); and
- those to be measured at amortised cost

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

The Group classifies its financial liabilities at amortised cost, unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities at fair value through profit or loss such as derivative liabilities.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, and financial guarantee contracts.

(i) Financial assets measured at amortised cost

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.

The Group has classified loans, trade receivables and cash at bank as amortised cost. These debt instruments are initially recognised at fair value plus directly attributable transaction costs.

After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method, less impairment. A provision for impairment of loans and receivables is established using the expected credit loss approach on date of initial recognition. A provision is raised using either a 12-month expected credit loss or lifetime expected credit loss approach.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in "Net interest income" in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income.

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.

(ii) Items at fair value through profit or loss

Items at fair value through profit or loss comprise:

- items held-for-trading
- items specifically designated as fair value through profit or loss on initial recognition; and
- debt instruments with contractual terms that do not represent solely payments of principal and interest.

Financial instruments held–for–trading

A financial instrument is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Land Bank enters into repurchase agreements from time to time, to manage liquidity. Land Bank also buys and sells government bonds to cover long- or short positions, which may result in a profit or loss. These instruments are classified as held-for-trading.

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

Financial instruments designated at fair value through profit or loss

Certain investments in equity instruments, commodity ETFs and collective investment schemes are designated at fair value through profit or loss at initial recognition, as these instruments meet the designation criteria as determined by management. Designation is determined on an instrument by instrument basis in line with the following criteria:

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

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

The fair values of listed investments are based on current stock exchange bid prices at the close of business on the statement of financial position date. If the market for a financial asset is not active or if it is unlisted, the Group's asset managers establish a fair value by using valuation techniques. These include discounted cash flow analysis, recent arm's length transactions, premium/ discount to net asset value and price earnings techniques. The main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

Financial assets at fair value through profit or loss

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS9.

(iii) Financial assets designated at fair value through other comprehensive income

Certain investments in equity instruments are designated at fair value through other comprehensive income at initial recognition, as these instruments are not held for operational purposes, and therefore their fair value movements should not be included in the operational profit of the Bank.

Financial assets at fair value through other comprehensive income are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Fair value gains/ (losses)' in the statement of other comprehensive income. Dividend income is recorded in 'Investment income' when the right to the payment has been established.

The fair values of listed investments are based on current stock exchange bid prices at the close of business on the statement of financial position date. If the market for a financial asset is not active or if it is unlisted, the Group's asset managers establish a fair value by using valuation techniques. These include discounted cash flow analysis, recent arm's length transactions, premium/ discount to net asset value and price earnings techniques. The main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

(iv) Derivative financial instruments and hedge accounting

The Group elected an accounting policy choice under IFRS 9 "Financial Instruments" to apply the hedge accounting requirements under IAS 39 "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.

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprise of instruments such as swaps, forward rate agreements, futures and options.

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 mark-to-market movements.

(v) 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".

(vi) Renegotiated loans

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

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

The length of specified period, depends on whether the loan has a monthly or annual repayment profile.

Refer to modifications in note 41.3.

3.13.2 Recognition and initial measurement of financial instruments

A financial asset or financial liability is recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and advances are recognised when cash is advances (or settled) to the borrowers.

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

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

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

3.13.3 Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Group has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.13.4 Derecognition of financial instruments

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

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.

3.13.5 Impairment of financial instruments

(i) 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 of 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".

(ii) Assets carried at amortised cost

The Group's accounting policy for impairment of financial assets changed significantly having early adopted IFRS 9, with effect 1 April 2015 (FY2016), and the expected credit loss model is now applied. The IFRS 9 impairment requirements are based on an expected credit loss model replacing the incurred loss methodology model under IAS 39.

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 the 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:

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 is 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

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provisions for doubtful debt) rather than the gross carrying amount.

At each reporting date, the Bank 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 of 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 Land Bank's portfolio main risk drivers are weather conditions, which are not predictable on a long-term time horizon, changes in the 12-month PD are considered the best indicator for significant increase in credit risk over the expected life of a financial asset.

The Bank 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 Bank considers its historical loss experience and adjusts this for current observable data. In additional, the Bank 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-indicies, including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses ant previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

Overall, the impairment under IFRS 9 results in earlier recognition of credit losses compared to under IAS 39. Impairment under IFRS9 allows for impairment in relation to "future events" rather than "historic events" under IAS39.

3.13.6 Day 1 profit

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

3.13.7 Amortised cost of financial instruments

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

3.14 Sale and repurchase agreements

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

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

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

3.15 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.

3.16 Trade and other receivables

Trade and other receivables are initially measured at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts, if any, except for the following receivables:

- Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less impairment losses for bad and doubtful debt, if any; and
- Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount less impairment losses for bad and doubtful debt, if any.

At each reporting date, the Group assesses whether there is any objective evidence that a receivable or Group of receivables is impaired. Impairment losses on trade and other receivables are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the receivable’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition. The impairment loss is reversed if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised.

3.17 Funds administered on behalf of related parties

The Group manages funds on behalf of related parties. These amounts are disclosed at amortised cost. The net position in terms of legal right to offset of these funds administered on behalf of related parties are separately disclosed in the notes to the annual financial statements. These funds are not carried on the statement of financial position of the Group.

3.18 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. Trade and other payables are carried at amortised cost.

3.19 Funding liabilities

Funding liabilities were previously carried at amortised cost with certain liabilities being carried at fair value, with the fair value movements being accounted for in profit or loss throughout the year. Upon adoption of IFRS 9, with effect 1 April 2015 (FY2016), the Bank elected to carry all of it's funding liabilities at amortised cost. 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.

3.20 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.

3.21 Foreign currency translation

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.

3.22 Related parties

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

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

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

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

3.23 Contingencies

Possible obligations of the Group, the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group and present obligations of the Group where it is not probable that an outflow of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured reliably, are not recognised in the Group's statement of financial position but are disclosed in the notes to the financial statements.

Possible assets of the Group, the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group, are not recognised in the Group's statement of financial position and are only disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

3.24 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.

3.24.1 Short-term insurance

Short-term insurance provides benefits under crop and agri-assets policies.

(i) Recognition and measurement

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.

Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums written that relate to risk periods extending into the following year. The Unearned Premium Reserve (UPR) is established to recognise the unexpired risk for which premiums have already been written. The UPR is set with reference to the remaining days of each the contracts as at the valuation date for assets and winter crops. This method is in line with the requirements of the Short-term Insurance Act.

For the "Hail Summer", "Multi Peril Summer" and "Horticulture" crop portfolios in the current reporting period, the UPR calculation is based on the incidence of risk over the term of the policy. The risk incidence pattern was set with reference to recent historic claims experience provided by the underwriting manager. In the prior reporting period, the crop insurance was written as a reinsurance inwards agreement over a period of twelve months and the UPR was earned on the remaining days method. The change of earning the UPR on summer crops is a prospective change considering the change from crop being written as reinsurance inward agreement in the previous reporting period to an underwriting management agreement in the current reporting period.

Commission

Commission is payable to sales staff on short-term insurance business. Commission is accounted for on all in-force policies in the financial period during which it is incurred. Acquisition costs for short-term insurance business is deferred over the period in which the related premiums are earned.

Fee income

The reinsurance broker pays the brokerage 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 with the settlement of the accounts to reinsurers.

Provision for unexpired risk

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

Provision for notified claims (outstanding claims)

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

Provision for claims incurred but not reported (IBNR)

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

Deferred acquisition costs (DAC)

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

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

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.

3.24.2 Long-term insurance

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

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

Underwriting benefits

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

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 Long-term Insurance Act of 1998; and
- Actuarial guidance also provides for the use of discretionary margins where 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.

Administration costs

Administration costs on short-term insurance business consist of directly attributable costs payable to the underwriting manager 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 will be recognised directly to the statement of comprehensive income.

3.25 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:

3.25.1 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 date and the of 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 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 introduced the use of macro-economic factors, 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-economic factors, including any forecasts of future economic conditions are reviewed regularly as to reduce any differences between loss estimates ad actual loss experience.

(i) LDFU loan impairments

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

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

During 2018 the Group contracted independent professional valuators to obtain up to date valuations in order to ensure that the carrying values of these loans do not exceed the net realisable values. Where the valuations obtained exceed the carrying values, the directors opted to maintain the current values due to uncertainties surrounding the potential conditions of disposal and legalities. The independent valuation is used, unless there is an unconditional offer of sale on the security held. The realisable value is then adjusted to the value of the offer received.

3.25.2 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, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

3.25.3 Insurance

(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.

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

(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:

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.

Policy expenses

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

(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, 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 past 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 Short-term Insurance Act, as required by the 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.

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.

3.25.4 Classification and measurement of the floating and fixed rate notes, as well as the syndicated loans

The Group has elected to classify the floating and fixed rate notes, as well as the syndicated loans as held at amortised cost with all movements in the carrying value being accounted for in the statement of profit or loss and other comprehensive income.

3.25.5 Basis of allocation of segment revenue, assets and liabilities

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

3.25.6 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.

3.25.7 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.

3.25.8 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.

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

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

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

3.26.1 Properties in possession

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

3.26.2 Disposal of properties in possession

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

4. Cash and cash equivalents

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Favourable cash balances				
Cash balances - commercial	**1 654 987**	1 496 412	**1 596 091**	1 187 426
Cash balances - short term investments	**766 082**	23 919	**766 039**	23 879
	2 421 069	1 520 331	**2 362 130**	1 211 305

Cash at banks are primarily held to mitigate the Group's refinancing/liquidity risk. Refer to note 41 for the credit risk ratings of the counterparties where bank accounts are held.

At 31 March 2018, the amount of undrawn borrowing facilities amounted to R 2.65 billion (FY2017: R 250 million), of which R2.15 billion (FY2017: R250 million) was unconditional.

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

Refer to note 47 for significant funding initiatives post year end.

5. Trade and other receivables

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Trade receivables	**289 842**	316 197	**30 797**	6 643
Accrued investment income	**18 860**	6 643	**18 860**	6 643
Accrued interest - hedging [1]	**11 937**	-	**11 937**	-
Premium receivable	**237 296**	208 985	**-**	-
Reinsurance receivable	**21 749**	100 569	**-**	-
Other receivables	**30 329**	68 846	**100 505**	132 306
Intercompany loans - LBLIC [2]	**-**	-	**85 327**	82 308
Prepaid expenses	**5 205**	10 666	**5 205**	10 666
Loans to current employees [3]	**697**	1 164	**697**	1 164
Loans to former employees [3]	**87**	267	**87**	267
- Gross	**120**	501	**120**	501
- Impairments	**(33)**	(234)	**(33)**	(234)
Fruitless and wasteful expenditure receivable [4]	**29**	-	**29**	-
Irregular expenditure receivable [4]	**-**	767	**-**	767
Sundry receivables [5]	**24 311**	55 982	**9 159**	37 134
	320 171	385 043	**131 302**	138 949

Classification of trade and other receivables

Items included in trade and other receivables are classified as financial instruments carried at amortised cost.

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Prepaid expenses	**5 205**	10 666	**5 205**	10 666
Trade and other receivables net of non-financial instruments (refer note 39)	**314 966**	374 377	**126 097**	128 283

Group receivables amounting to R2.1 million (FY2017: R7.4 million) are expected to be recovered after more than 12 months.

The carrying amount of trade and other receivables approximates their fair value. There are no other customer who represent more than 5% of trade receivables.

Group receivables amounting to R2.1 million (FY2017: R7.4 million) are expected to be recovered after more than 12 months.

The carrying amount of trade and other receivables approximates their fair value. There are no other customer who represent more than 5% of trade receivables.

	Less than 1 year R'000	1 - 2 years R'000	More than 2 years R'000	Total R'000
Trade and other receivables past due but not impaired				
2018				
Group				
Loans to current employees				
Gross loan amount	10	10	676	696
Portion of gross loan amount past due but not impaired	10	10	676	696
Loans to former employees				
Gross loan amount	8	8	104	120
Portion of gross loan amount past due but not impaired	8	8	71	87
2017				
Group				
Loans to current employees				
Gross loan amount	22	22	1 120	1 164
Portion of gross loan amount past due but not impaired	22	22	1 120	1 164
Loans to former employees				
Gross loan amount	16	16	469	501
Portion of gross loan amount past due but not impaired	16	16	235	267

[1] 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.

[2] Refer to note 38.2.2 for the detail on the intercompany loan.

[3] Loans to employees consists of:
Housing loans
Staff home loans granted by Land Bank which are receivable between 18 years to 20 years with an average remaining period of 18.5 years.
The interest rate on the employee home loans is fixed at 3% per annum and the fair value of the loans is R0.2 million (FY2017: R0.5 million). The practice to grant home loans to employees was discontinued during 1998.

Pension backed housing loans
During FY2017, the Land Bank Retirement Fund ("LBRF") approached the Land Bank as participating employer to purchase the pension fund backed housing loans in order for the LBRF to be compliant with legislation as they would move the administration of the fund assets to a more effective administration platform. The Fund and participating employer had taken a decision to migrate the Fund into an umbrella fund within the Alexander Forbes Retirement Fund (AFRF). Before the LBRF could be transferred to the AFRF umbrella arrangement all existing housing loans in the fund had to be settled. The LBRF ceded all its rights under these loans to the Land Bank as participating employer.

The LBRF previously issued to members of the Fund in terms of Section 19(5) of the Pension Fund Act (PFA) and the Rules of the Fund allowed for loan repayment terms of 30 years or until retirement, which ever comes first. The Fund ceased granting loans at the commencement of the National Credit Act (Act 34 of 2005).
All pension backed housing loans are derecognised upon repayment, or retirement at which point outstanding balances are settled from Member's Fund Credits.

[4] Refer to note 45 and note 46 for the details on fruitless and wasteful and irregular expenditure receivable.

[5] The sundry receivables consist of sundry debtors which are non-interest bearing with no fixed terms of repayment.

6. Short-term insurance assets and liabilities	Group 2018 R'000	Group 2017 R'000
Short-term insurance liabilities	**398 859**	260 264
Technical provision	**358 857**	226 483
Outstanding claims	**229 619**	109 722
Incurred but not reported claims	**41 248**	27 252
Provision for unearned premiums	**87 990**	89 509
Unearned commission income	**40 002**	33 781
Less: **Short-term insurance assets**	**(282 382)**	(178 527)
Reinsurers' share of technical provisions	**(235 503)**	(138 676)
Outstanding claims	**(145 035)**	(55 160)
Incurred but not reported claims	**(28 775)**	(19 112)
Provision for unearned premiums	**(61 693)**	(64 404)
Deferred acquisition costs	**(46 879)**	(39 851)
Net short-term insurance technical provisions	**116 477**	81 737

The summer crop UPP is calculated on the claims occurring basis for the published accounts, based on historical claims occurrence tables, which are reviewed annually. For the FSB statutory reports, the approved straight line basis over the term of the policy is used. Below are the reserves calculated according to the statutory basis.

	Statutory basis Group 2018 R'000	Statutory basis Group 2017 R'000
Short-term insurance liabilities	**544 497**	421 483
Technical provision	**504 495**	387 702
Provision for unearned premiums	**235 645**	246 692
Outstanding claims	**229 619**	109 673
Incurred but not reported claims	**39 231**	31 337
Unearned commission income	**40 002**	33 781
Short-term insurance assets	**(385 349)**	(293 945)
Reinsurers' share of technical provisions	**(338 470)**	(254 094)
Reinsurance on provision for unearned premiums	**(165 753)**	(177 020)
Reinsurance on outstanding claims	**(145 035)**	(55 160)
Reinsurance on Incurred but not reported claims	**(27 682)**	(21 914)
Deferred acquisition costs	**(46 879)**	(39 851)
Net short-term insurance technical provisions : statutory basis	**159 148**	127 538

Unearned Premium Reserve movement	Gross R'000	Reinsurance R'000	Net R'000
Balance at 31 March 2016	**78 789**	**(58 513)**	**20 276**
Provision earned	(78 789)	58 513	(20 276)
New provision raised	89 509	(64 404)	25 105
Balance at 31 March 2017	**89 509**	**(64 404)**	**25 105**
Provision earned	(89 509)	64 404	(25 105)
Provision increased	87 990	(61 693)	26 297
Balance at 31 March 2018	**87 990**	**(61 693)**	**26 297**

Deferred acquisition costs	Gross R'000	Reinsurance R'000	Net R'000
Balance at 31 March 2016	**36 972**	**(27 013)**	**9 959**
Provision earned	(36 972)	27 013	(9 959)
Provision increased	39 851	(33 781)	6 070
Balance at 31 March 2017	**39 851**	**(33 781)**	**6 070**
Provision earned	(39 851)	33 781	(6 070)
Provision increased	46 879	(40 002)	6 877
Balance at 31 March 2018	**46 879**	**(40 002)**	**6 877**

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

Gross claims incurred

Accident year	2016 R'000	2017 R'000	2018 R'000
At end of accident year	250 079	362 175	503 458
One year later	25 909	15 377	
Two years later			
Current estimate of gross cumulative claims incurred	**275 988**	**377 552**	**503 458**

Net claims incurred

Accident year	2016 R'000	2017 R'000	2018 R'000
At end of accident year	75 583	106 548	150 370
One year later	8 914	4 613	
Two years later			
Current estimate of net cumulative claims incurred	**84 497**	**111 161**	**150 370**

Gross claims paid

Accident year	2016 R'000	2017 R'000	2018 R'000
At end of accident year	(90 399)	(256 237)	(270 157)
One year later	(185 634)	(208 255)	
Two years later			
Current estimate of gross cumulative claims paid	**(276 033)**	**(464 492)**	**(270 157)**

Net claims paid

Accident year	2016 R'000	2017 R'000	2018 R'000
At end of accident year	(27 254)	(74 967)	(80 726)
One year later	(57 173)	(64 143)	
Two years later			
Current estimate of net cumulative claims paid	**(84 427)**	**(139 110)**	**(80 726)**

Outstanding claims movement	Gross R'000	Reinsurance R'000	Net R'000
Balance at 31 March 2016	**170 635**	**(97 671)**	**72 964**
Provision utilised	(140 735)	97 671	(43 064)
Provision increased	79 773	(55 160)	24 613
Balance at 31 March 2017	**109 673**	**(55 160)**	**54 513**
Provision utilised	(109 673)	55 160	(54 513)
Provision increased	229 619	(145 035)	84 584
Balance at 31 March 2018	**229 619**	**(145 035)**	**84 584**

Incurred but not reported movement	Gross R'000	Reinsurance R'000	Net R'000
Balance at 31 March 2016	**22 463**	**(13 678)**	**8 785**
Claims paid against provision	(21 190)	14 833	(6 357)
Provision utilised	(1 273)	(1 155)	(2 428)
New provision raised	27 253	(19 080)	8 173
Balance at 31 March 2017	**27 253**	**(19 080)**	**8 173**
Claims paid against provision	(21 190)	14 833	(6 357)
Provision released	(6 063)	4 247	(1 816)
Provision increased	41 246	(28 775)	12 471
Balance at 31 March 2018	**41 246**	**(28 775)**	**12 471**

7. Repurchase agreements

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Republic of South Africa bonds				
- R186	**5 533**	5 533	**5 776**	5 533
- R208	**10 173**	9 616	**9 930**	9 616
	15 706	15 149	**15 706**	15 149

The Group enters into sale and repurchase agreements to cover any short positions that the Group may experience from time to time.

Interest relating to these instruments is disclosed in note 25.

None of these assets had been past due or impaired at the end of the reporting period.

	Group		Bank	
	2018	2017	2018	2017
8. Investments	R'000	R'000	R'000	R'000
Investment in subsidiary - LBLIC	-	-	30	30
Investment in subsidiary - LBIC	-	-	350 000	350 000
Unlisted investments	565 124	76 288	565 124	76 288
Assets earmarked for medical aid liabilities	345 182	359 866	345 182	359 866
Investment in listed shares	146 314	197 000	146 314	197 000
Investments held by LBLIC	1 271 199	1 226 920	-	-
Investments held by LBIC	292 068	-	-	-
	2 619 887	1 860 074	1 406 650	983 184

None of these assets had been past due or impaired at the end of the reporting period.

Analysis of investments

8.1 Assets earmarked for medical aid liabilities

These are investments held with Coronation Asset Managers.

	Group 2018	Group 2017	Bank 2018	Bank 2017
Listed investments	335 088	345 518	335 088	345 518
Local equity	245 654	242 749	245 654	242 749
Local bonds	50 075	53 187	50 075	53 187
Foreign equity	39 359	49 582	39 359	49 582
Commodities	2 290	2 514	2 290	2 514
Local ETF	2 290	2 514	2 290	2 514
Cash	7 804	11 834	7 804	11 834
Local	3 506	11 834	3 506	11 834
Foreign	4 298	-	4 298	-
	345 182	359 866	345 182	359 866

The funds are entrusted to portfolio managers for investment purposes. The funds are earmarked to fund the future medical aid contributions of retired employees. The investments are classified as designated at fair value trough profit or loss and are measured and disclosed at fair value. These investments are exposed to interest rate risk, equity price risk and foreign exchange risk. Refer to note 39 for more information on the related risks and mitigation strategies.

	Bank	
	2018	2017
	%	%
Assets earmarked for medical aid liabilities are invested as follows:		
Local equities		
Financial (excl. real estate)	25%	19%
Basic materials	18%	21%
Industrials	1%	3%
Consumer goods	16%	21%
Health care	8%	3%
Consumer services	21%	26%
Telecommunications	8%	7%
Other securities	2%	0%

Refer to the note 22 for the post-retirement obligation disclosure.

		Group		Bank	
8.2	**Unlisted investments**	**2018**	**2017**	**2018**	**2017**
		R'000	**R'000**	**R'000**	**R'000**
	Fair value				
	Ordinary shares in Capespan Capital (Pty) Ltd	**1 498**	1 288	**1 498**	1 288
	Ordinary shares in Acorn Agri (Pty) Ltd	**119 699**	75 000	**119 699**	75 000
	Ordinary shares in Mouton Holdings (Pty) Ltd	**140 186**	-	**140 186**	-
	Ordinary shares in Southern Cross Investment Holdings (Pty) Ltd	**170 281**	-	**170 281**	-
	Ordinary shares in Cavalier Group of Companies (Pty) Ltd	**48 975**	-	**48 975**	-
	Ordinary shares in Ideafruit (Pty) Ltd	**84 485**	-	**84 485**	-
		565 124	76 288	**565 124**	76 288

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.

Capespan Capital (Pty) Ltd

The Land Bank acquired a 19% ordinary share in one of its corporate clients, Capespan Capital (Pty) Ltd, for a nominal amount of R19. The investment relates to a debt agreement entered into between the Bank and Capespan Capital (Pty) Ltd. The effective date of the agreement was 18 July 2013.

Capespan Capital (Pty) Ltd was valued as at 31 March 2018. The valuation was based on the Net Asset Value (NAV) of the company. The NAV of the business amounts to R7.89 million (FY2017: R6.78 million), which results in an investment value of R1.50 million (FY2017: R1.29 million) for the Bank.

Acorn Agri (Pty) Ltd

During the 2017 financial year, the Land Bank acquired 47,159,495 ordinary shares to the value of R75 million in Acorn Agri (Pty) Ltd, in a conversion transaction of preference share investment in Afrifresh Group (Pty) Ltd. The effective date of the agreement was 23 March 2017.

At the time of acquisition, the acquired shares represented approximately 5.4% of the equity in Acorn Agri (Pty) Ltd.

During the 2018 financial year, the Land Bank acquired additional 27,009,507 ordinary shares to the value of R50 million in Acorn Agri (Pty) Ltd, in a debt to ordinary share conversion. The effective date of this transaction was 21 August 2017.

Acorn Agri (Pty) Ltd was valued as at 31 March 2018. The valuation was based on the Net Asset Value (NAV) per share, which amounts to R1.70 per share, resulting in an investment value of R119.70 million (FY2017: R75 million) for the Bank.

Mouton Holdings (Pty) Ltd

The Land Bank acquired a 17.40% interest in Mouton Holdings (Pty) Ltd, for a nominal amount of R117.60 million in a debt to ordinary share conversion. The effective date of the agreement was 31 May 2017. The debt to ordinary share conversion was part of the original terms and conditions of the loan and was not a distressed asset restructure.

Mouton Holdings (Pty) Ltd was valued as at 31 March 2018. The valuation was based on the Discounted Cash flow method (DCF) of the company, resulting in an investment value of R140.19 million for the Bank.

Southern Cross Investment Holdings (Pty) Ltd

The Land Bank acquired a 19.90% interest in Southern Cross Investment Holdings (Pty) Ltd, for a nominal amount of R174.60 million. This is phase 1 of the BEE transaction, phase 2 will involve a BEE partner that will buy 9.9% of Land Bank's shares (reducing our investment to 10%). The effective date of the agreement for phase 1 was 3 November 2017.

Southern Cross Investment Holdings (Pty) Ltd was valued as at 31 March 2018. The valuation was based on the DCF, resulting in an investment value of R170.28 million for the Bank.

Cavalier Group of Companies (Pty) Ltd
The Land Bank acquired a 19.9% interest in Cavalier Group of Companies (Pty) Ltd for a nominal amount of R56.42 million. The effective date of the agreement was 7 July 2017.

Cavalier Group of Companies (Pty) Ltd was valued as at 31 March 2018. The valuation was based on the DCF, resulting in an investment value of R48.98 million for the Bank.

Ideafruit (Pty) Ltd
The Land Bank acquired 17.5% of the shares in Ideafruit (Pty) Ltd for R83.90 million. The effective date of the agreement was 18 October 2017.

Ideafruit (Pty) Ltd was valued as at 31 March 2018. The valuation was based on the DCF, resulting in an investment value of R84.49 million for the Bank.

8.3 Listed investments	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Rhodes Food Group Holdings Limited	**146 314**	197 000	**146 314**	197 000

During the 2017 financial year, Land Bank disposed of its 49.9% share in Renaissance Brands (Pty) Ltd in exchange for 7,762,018 listed shares in Rhodes Food Group Holdings Limited.

Rhodes Food Group Holdings Limited was valued in March 2018 based on the listed share price. The listed share price of Rhodes Food Group Holdings Limited as at 31 March 2018, was R18.85 per share (FY2017:R23.86), resulting in an investment value of R146.31 million (FY2017: R197 million) for the Bank.

8.4 Investment in LBLIC (100%)	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
LBLIC shares (15,000 ordinary shares at par value of R2 each)	-	-	**30**	30
Actuarial valuation (LBLIC)			**1 169 884**	1 121 530

Up until 31 March 2014, the Land Bank indirectly held these shares through its 100% holding of the Land Bank Insurance Services (SOC) Limited (LBIS) which was the sole beneficial shareholder of LBLIC.

With effect from 1 April 2014, the Land Bank acquired all the LBLIC shares from LBIS at R nil. LBLIC is therefore a direct subsidiary of the Land Bank.

The company provides life insurance cover to clients of the Land Bank under mortgage loans. The company's actuarial value of the surplus as at 31 March 2018 amounted to R1.17 billion (FY2017: R1.12 billion). In terms of the shareholder's agreement, the Land Bank guarantees the solvency of LBLIC. The Land Bank, as a holding company, does not expect to be called upon to perform under this guarantee. The shares are accounted for at cost in terms of IFRS.

8.5 Investment in LBIC (100%)	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
LBIC shares (1,250 (FY2016: 1,100) ordinary shares at no par value)	-	-	**350 000**	350 000

Up until 31 March 2014, Land Bank indirectly held these shares through its 100% holding of Land Bank Insurance Services (SOC) Limited (LBIS) which was the sole beneficial shareholder of LBIC.

With effect from 1 April 2014, Land Bank acquired all the LBIC shares from LBIS at Rnil. LBIC is therefore a direct subsidiary of the Land Bank.

LBIC now houses the short-term insurance activities of the Group, such as short-term asset and crop insurance.

The shares are accounted for at cost in terms of IFRS.

During FY2017, the Land Bank contributed R150 million capital as part of the shareholder's support towards the operations of LBIC. The contribution was converted into 150 no par value shares in LBIC in March 2017, therefore increasing the issued shares of LBIC from 1,100 to 1,250.

8.6 Investment in LBIS (100%) - dormant	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
LBIS shares (1,000 ordinary shares at no par value)	-	-	-	-

In May 2014, the Minister approved that LBIS be dissolved and that the two insurance companies be held directly by the Land Bank.

Land Bank Insurance Services (SOC) Limited (LBIS), which is currently dormant, was the ultimate holding company of LBIC and LBLIC until 31 March 2014. LBIS is now a fellow subsidiary of LBLIC and LBIC.

The shares are accounted for at cost in terms of IFRS.

8.7 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	
	2018	2017
	R'000	R'000
Equities	**378 665**	412 151
Commodities	**28 366**	35 568
Collective investment schemes	**338 983**	370 893
Bonds	**241 418**	247 763
Cash deposits and similar securities	**274 737**	146 565
Investment policy	**9 030**	13 980
	1 271 199	1 226 920

Designated at fair value through profit or loss

		Group 2018 R'000	Group 2017 R'000
8.7.1	**Equities**		
	Equities comprise:		
	Ordinary shares listed on the JSE [1]	368 825	396 489
	Preference shares listed on the JSE [1]	9 840	15 662
		378 665	412 151

Equities are classified as designated as at fair value through profit or loss.

		Group 2018 R'000	Group 2017 R'000
8.7.2	**Commodities**		
	ETF's - local [1]	23 633	30 498
	ETF's - foreign (at market value)	4 733	5 070
		28 366	35 568

Commodity ETF's are classified as designated as at fair value through profit or loss.

		Group 2018 R'000	Group 2017 R'000
8.7.3	**Collective investment schemes ("CIS")**		
	Equity - foreign unit trusts	215 433	173 388
	Balanced fund - foreign	35 529	39 080
	Currency derivatives	(172)	(146)
	Property - listed shares (REITs & REHD's)	66 492	69 959
	Unlisted shares	21 701	-
	Money market - local	-	88 612
		338 983	370 893

CIS are classified as designated as at fair value through profit or loss.

[1] Investments at market prices per the JSE.

		Group 2018 R'000	Group 2017 R'000
8.7.4	**Investments in interest bearing assets**		
	Bonds listed on the BESA - at market value	241 418	247 763
	Government	143 855	145 160
	Parastatal and municipal	5 292	11 073
	Corporate	92 271	91 530
	Cash, deposits and similar securities	274 737	146 564
	Deposits with banks - local	216 148	66 991
	Deposits with banks - foreign	66	-
	Money market instruments	58 523	79 573
		516 155	394 327
	Classification of investments in interest bearing assets		
	- Designated as amortised cost instruments	216 214	66 991
	- Designated as at fair value through profit or loss	299 941	327 336

		Group	
		2018	2017
		R'000	R'000
8.7.5	**Investment policy**		
	Equity - local	-	8 333
	Equity - foreign	-	4 655
	Cash	-	405
	Property	9 030	587
		9 030	13 980

The Investment policy is classified as designated as 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.

Register of investments
A register containing details of all investments is available for inspection at the registered office of LBLIC.

8.8 Investments held by LBIC
This investment is held by Futuregrowth Asset Managers.

	Group	
	2018	2017
Investments in interest bearing assets	R'000	R'000
Bonds listed on the BESA - at market value	121 383	-
Local/ Government	121 383	-
Cash, deposits and similar securities	170 685	-
Deposits with banks - local	170 685	-
	292 068	-
Classification of investments in interest bearing assets		
- Designated as at fair value through profit or loss	292 068	-

9. Strategic trading

The main objectives of strategic trading, in the absence of making a market in Land Bank bonds/ notes, are as follows:
- To remain visible in the secondary market;
- To monitor debt capital market developments and rate movements;
- To maintain relationships with brokers and banks; and
- To maintain Treasury systems, Nutron connectivity and training of junior traders.

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Government bonds				
At fair value				
Asset				
- R208	-	9 617	-	9 617
Liability				
- R186	-	(5 533)	-	(5 533)
Contractual amount received/(payable) on maturity				
Asset				
- R208	-	10 000	-	10 000
Liability				
- R186	-	(5 000)	-	(5 000)

Contractual amount receivable represents the face value of amount thatthe land bank has purchased in the capitalmarket

As these financial assets and liabilities are held-for-trading, they are classified as financial assets/ liabilities at fair value through profit and loss.

None of these bonds had been past due or impaired at the end of the reporting period.

10. Hedging derivatives

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, wiz. 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.

The Bank designate the derivatives entered into for risk management purposes as follow:

- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges).

The table below sets out hedging derivative assets and liabilities by the type of hedge relationship in which they are designated.

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Hedging derivatives in cash flow hedges [1]				
- Asset	9 297	-	9 297	-
- Liability	(1 191)	-	(1 191)	-
	8 106	-	8 106	-

[1] 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 mark-to-market movements.

The Group elected an accounting policy option under IFRS 9 "Financial Instruments" to apply the hedge accounting requirements under IAS 39 "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.

In addition, the Group documents its assessment, both at inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Group measures hedge effectiveness on a prospective basis at inception, as well as retrospectively and prospectively over the term of the hedge relationship.

Cash flow hedges

The operations of the Group are subject to the risk of interest rate fluctuations to the extent of the repricing profile of the Group's statement of financial position. Derivatives are held for the purpose of managing existing or anticipated interest rate risk. Derivatives are entered into after consideration of the interest rate risk from a portfolio of exposures, such as a portfolio of assets, or the net exposure from a portfolio of assets and liabilities. Where the derivatives used are eligible for hedge accounting, they are designated in a cash flow hedge relationship where possible to manage the profit and loss volatility associated with the derivatives which would otherwise be measured at fair value through profit or loss. This requires identification of eligible assets or liabilities, and designation of derivatives to obtain hedge accounting. Cash flow hedge accounting involves designating derivatives as hedges of the variability in highly probable forecast future cash flows attributable to interest rate risk from the benchmark interest rate on variable rate assets and liabilities.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss and other comprehensive income. Amounts accumulated in equity are transferred to the statement of profit or loss and other comprehensive income in the period(s) in which the hedged item (e.g. the forecast hedged variable cash flows) affects the statement of profit or loss and other comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the statement of profit or loss and other comprehensive income when the forecast transaction is ultimately recognised in the statement of profit or loss and other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity at that time is immediately transferred to the income statement.

Given the recent nature of the interest rate risk strategy, the hedge effectiveness was limited to the profit or loss impact of the hedge. Going forward, methods used to test hedge effectiveness and establish the hedge ratio will include regression analysis, and for some portfolio hedge relationships, a comparison to ensure the expected interest cash flows from the portfolio exceed those of the hedging instruments. The main potential source of hedge ineffectiveness from cash flow hedges is mismatches in the terms of hedged items and hedging instruments, for example the frequency and timing of when interest rates are reset. The fair value profit generated on the portfolio of R8.6 million (FY2017: Rnil), provides sufficient evidence of the success of the implementation of the strategy.

The aim of the strategy is to stabilize the spread between Prime and Jibar with swaps. The spread can increase and decrease in anticipation of forecasted interest rate increases or decreases affecting the cost of funds. In order to address the mismatch in the repricing of the prime and Jibar rates the bank implemented a strategy with an inverse effect.

The nominal amount of derivatives designated in cash flow hedge relationships is as follows.

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Interest rate swaps				
- Asset	2 800 000	-	2 800 000	-
- Liability	(2 800 000)	-	(2 800 000)	-
	-	-	-	-

The following tables show the notional amount of derivatives designated in cash flow hedge relationships in time bands based on the maturity of the derivatives.

2018	0 to 3 months R'000	3 to 12 months R'000	1 to 5 years R'000	Over 5 years R'000	Total R'000
Group and Bank					
Interest rate swaps					
- Pay fixed	-	-	2 800 000	-	2 800 000
- Receive fixed	-	-	2 800 000	-	2 800 000

There is no balance in the cash flow hedge reserve from any hedge relationship for which hedge accounting is no longer applied.

11. Loans and advances *

Group and Bank

11.1 Gross loans per business segment

	Gross loans R'000	Expected Credit Loss (ECL) [1] R'000	Net loans R'000
2018			
Corporate Banking and Structured Investments	13 261 165	(1 644 933)	11 616 232
Commercial Development and Business Banking	32 290 154	(479 364)	31 810 790
Loan commitments and guarantees	-	(8 560)	(8 560)
	45 551 319	**(2 132 857)**	**43 418 462**
2017*			
Corporate Banking and Structured Investments	14 291 521	(1 650 943)	12 640 578
Commercial Development and Business Banking	29 052 618	(709 793)	28 342 825
Loan commitments and guarantees	-	(7 849)	(7 849)
	43 344 139	**(2 368 585)**	**40 975 554**

* During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 disclosure have been amended to conform to the FY2018 disclosure framework. Refer to note 48.

1 Included in the ECL is an amount of R56.4 million (FY2017: R69.5 million) relating to interest in suspense. The Group continues to accrue interest and fees, where appropriate, on doubtful debts when there is a realistic prospect of recovery. The interest and fees are charged to customer accounts but it is not recognised to income; and is placed in a suspense account - only to be recognised to income, if there ceases to be significant doubt about its recovery. Loans are transferred to a "non-accrual" status where the operation of the customer's account has ceased. This lending is managed by a specialist recovery departments and is written down to its estimated realisable value. Interest and fees are not added to the lending or placed in a suspense account as the recovery thereof is considered unlikely, is only recognised to income when received.

Loan type	Nature of interest rate	Average term of repayment	Average interest rate 2018	Average interest rate 2017
Short term loans	Variable	1 year	11.60%	12.27%
Medium term loans	Variable	1 to 5 years	11.65%	11.19%
Long term loans	Variable/ Fixed	> 5 years	11.00%	11.03%

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
11.2 Loans by maturity profile [1]				
< 3 months	**7 964 107**	7 685 650	**7 964 107**	7 685 650
3 - 6 months	**3 674 340**	4 793 132	**3 674 340**	4 793 132
6 - 9 months	**3 417 370**	3 533 562	**3 417 370**	3 533 562
9 - 12 months	**1 356 877**	1 004 508	**1 356 877**	1 004 508
1 - 5 years	**5 503 718**	4 351 860	**5 503 718**	4 351 860
> 5 years	**23 615 117**	21 655 326	**23 615 117**	21 655 326
Total	**45 531 529**	43 024 038	**45 531 529**	43 024 038

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

11.3 Loans by credit quality	Performing loans [1] R'000	Under performing loans [2] R'000	Non performing loans [3] R'000	Total R'000
2018				
Corporate Banking and Structured Investments	10 875 737	2 125 079	260 349	13 261 165
Commercial Development and Business Banking	28 150 886	1 361 186	2 778 082	32 290 154
Gross loans and advances	**39 026 623**	**3 486 265**	**3 038 431**	**45 551 319**
Expected Credit Loss (ECL)	(159 874)	(1 417 756)	(555 227)	(2 132 857)
Net loans and advances	**38 866 749**	**2 068 509**	**2 483 204**	**43 418 462**
Guarantees				815 573
Loan commitments				6 751 717
Gross loan commitments and guarantees				**7 567 290**
Expected Credit Loss (ECL)				(8 560)
Net loan commitments and guarantees				**7 558 730**

	Performing loans [1] R'000	Under performing loans [2] R'000	Non performing loans [3] R'000	Total R'000
2017*				
Corporate Banking and Structured Investments	11 888 659	2 004 927	397 935	14 291 521
Commercial Development and Business Banking	24 395 026	1 992 554	2 665 038	29 052 618
Gross loans and advances	**36 283 685**	**3 997 481**	**3 062 973**	**43 344 139**
Expected Credit Loss (ECL)	(220 415)	(1 360 601)	(787 569)	(2 368 585)
Net loans and advances	**36 063 270**	**2 636 880**	**2 275 404**	**40 975 554**
Guarantees [4]				1 016 872
Loan commitments [4]				7 384 825
Gross loan commitments and guarantees				**8 401 697**
Expected Credit Loss (ECL)				(7 849)
Net loan commitments and guarantees				**8 393 848**

Included in the ECL is an amount of R56.4 million (FY2017: R69.5 million) relating to interest in suspense.

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

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

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

[4] During the year, the data enhancement initiatives of the Bank, resulted in improved data quality and more reliable information on commitments and guarantees for FY2017. FY2017 disclosure was adjusted to include the loan commitments on the Service Level Agreement portfolio.

[*] During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 disclosure have been amended to conform to the FY2018 disclosure framework. Refer to note 48.

Group and Bank	2018 R'000	2017 R'000
11.4 Loans and advances past due not impaired		
0 to 30 days past due	**169 180**	331 469
31 to 90 days past due	**144 856**	548 644
90+ days past due	**1 747 349**	2 421 325
Total loans and advances past due but not impaired	**2 061 385**	3 301 438

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

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

Group and Bank	Corporate Banking and Structured Investments R'000	Commercial Development and Business Banking R'000	Loan commitments and guarantees R'000	Total R'000
2018				
Balance at the beginning of the year [1]	1 650 370	640 884	7 849	2 299 103
Movement for the year				
Credit losses written off:	(252 508)	(35 515)	-	(288 023)
- Statement of financial position write off (utilisation)	(216 494)	(26 795)	-	(243 289)
- Statement of comprehensive income write off	(36 014)	(8 720)	-	(44 734)
Net impairment raised/ (released) to the statement of comprehensive income	241 492	(176 809)	711	65 394
Balance at the end of the year [1]	1 639 354	428 560	8 560	2 076 474
2017				
Balance at the beginning of the year [1]	1 925 453	672 268	10 089	2 607 810
Movement for the year				
Credit losses written off:	(379 606)	(43 543)	-	(423 149)
- Statement of financial position write off (utilisation)	(374 399)	(30 557)	-	(404 956)
- Statement of comprehensive income write off	(5 207)	(12 986)	-	(18 193)
Net impairment raised/ (released) to the statement of comprehensive income	104 523	12 159	(2 240)	114 442
Balance at the end of the year [1]	1 650 370	640 884	7 849	2 299 103

[1] The balances exclude suspended interest of R56.4 million (FY2017: R69.5 million).

11.6 Impairment releases/ (charges), claims and recoveries

Group and Bank	Corporate Banking and Structured Investments R'000	Commercial Development and Business Banking R'000	Loan commitments and guarantees R'000	Total R'000
2018				
Net impairments raised/ (released) to the statement of comprehensive income	**241 492**	**(176 809)**	**711**	**65 394**
Recoveries in respect of amounts previously written off	**(1 772)**	**(8 098)**	**-**	**(9 870)**
	239 720	**(184 907)**	**711**	**55 524**
2017*				
Net impairments raised/ (released) to the statement of comprehensive income	104 523	12 159	(2 240)	114 442
Recoveries in respect of amounts previously written off	(586)	(8 222)	-	(8 808)
Claims provision	-	(24 091)	-	(24 091)
	103 937	(20 154)	(2 240)	81 543

* During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 disclosure have been amended to conform to the FY2018 disclosure framework. Refer to note 48.

11.7 Collateral held as security

The Group holds collateral which it is entitled to sell in the case of default by the owner of the collateral. The amount and type of collateral held for the exposure depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of the types of collateral. The value of the collateral are determined with reference to the realisable value of security under forced-sale conditions.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. In general, the Group does not occupy repossessed properties for business. The repossessed properties are accounted for as non-current assets held-for-sale in terms of IFRS 5. The carrying amount of collateral taken in possession during the year is R 4.1 million (FY2017: R3.1 million).

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

Nature of assets	Estimated value %	Bank 2018 R'000	Bank 2017 R'000
Biological assets	10% - 100%	**1 426 665**	4 114 449
Commodities	50% - 90%	**786 724**	5 455 222
Debtors	30% - 70%	**7 336 709**	3 960 152
Deposits	90% - 100%	**121 645**	117 786
Guarantee	95% - 100%	**44 629**	82 498
Land and buildings*	10% - 75%	**37 977 141**	20 198 741
Office equipment and computers	10%	**39 987**	12 342
Plant and equipment	30% - 50%	**1 985 734**	1 479 806
Shares and investments	30% - 100%	**4 295 800**	3 097 159
Specialised infrastructure	50%	**163 291**	107 281
Stock	10%-70%	**2 112 011**	2 968 104
Subleases	75%	**-**	-
Trademarks	50%	**18 021**	18 983
Vehicles	30% - 50%	**235 909**	405 269
Suretyship	10%	**-**	39 953
Cessions held over unpaid shares	30%	**1 417**	879 201
Other	10%	**497 695**	2 892 595
Total		**57 043 378**	45 829 541

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

Concentration of credit risk

By the very nature of the Bank's business it is exposed to credit concentration risk in the agricultural sector, as well as to certain counterparties / group of connected parties mainly within the Corporate Banking loan portfolio. Notwithstanding these risks, there is strategic benefit to the Bank by holding such exposures as the traditioznal large agri-businesses are often better positioned than financiers to mitigate risk in the agricultural value chain. Furthermore large agri-businesses are characterised by a spread in geographical locations, product /commodity diversification, vertical or horizontal integration in their respective value chains and diverse client risk profiles which mitigates the concentration risk for the Bank.

The current Group policy on credit concentration risk requires that the full Board of Directors approves any exposure in excess of 20% (FY2017: 25%) (50% for certain strategic clients who meets specific credit criteria) of the Bank's own equity [1] to any counterparty or group of connected parties. Furthermore, all acquired loan books managed through Service Level Agreements have credit concentration risk limits imposed by the Bank to mitigate concentration risk.

As at year-end there was one counterparty (FY2017: one) with individual exposure of more than 25% of the Bank's own equity. This counterparty is also a strategic partner and falls below the 50% threshold. The total exposure of this counterparty at year-end amounted to R3.50 billion (FY2017: R3.22 billion). The exposure was approved by Credit and Investment Committee and the Land Bank Board. The counterparty is abiding to its loan repayment terms and conditions.

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

12. Assets of discontinued operation classified as held-for-sale

12.1 Analysis of loans per category

Group and Bank	Gross loans R'000	Total impairment R'000	Net loans R'000
2018			
Land for development*	**504 093**	**(356 765)**	**147 328**
2017			
Land for development	630 605	(433 466)	197 139

* Judgment by consent was obtained against one client on 9 November 2016 on condition that Land Bank will only execute on the client's assets after six months from the judgment. The client was unsuccessful in selling its assets and the assets were bought in by Land Bank on the Sheriff's execution auction on 27 February 2018. These assets were on sold to third parties and are in the process of being transferred from Land Bank to the Purchaser, resulting in a reduction of the gross loans.

12.2 Loans by credit quality

	Non performing loans R'000	Total R'000
2018		
Land for development	504 093	504 093
Gross loans and advances	**504 093**	**504 093**
Expected Credit Loss (ECL)	(356 765)	(356 765)
Net loans and advances	**147 328**	**147 328**
2017		
Land for development	630 605	630 605
Gross loans and advances	**630 605**	**630 605**
Expected Credit Loss (ECL)	(433 466)	(433 466)
Net loans and advances	**197 139**	**197 139**

12.3 Loans and advances past due not impaired

	2018 R'000	2017 R'000
0 to 30 days past due	-	-
31 to 90 days past due	-	-
90+ days past due	**147 328**	157 030
Total loans and advances past due but not impaired	**147 328**	157 030

12.4 Provision for impairment: reconciliation of movement per business unit

	2018 R'000	2017 R'000
Balance at the beginning of the year	**433 466**	480 985
Movement for the year:		
Credit losses written off:	**(112 724)**	-
- Statement of financial position write off (utilisation)	**(97 434)**	-
- Statement of comprehensive income write off	**(15 290)**	-
Net impairment raised/ (released) to the statement of comprehensive income	**36 023**	(47 519)
Balance at the end of the year	**356 765**	433 466

		2018 R'000	2017 R'000
12.5	**Impairment (charges)/ releases, claims and recoveries**		
	Net impairments raised/ (released) to the statement of comprehensive income	**36 023**	(47 519)
12.6	**Collateral held as security**		
	Land and buildings	**169 252**	219 840

The properties, where relevant, were valued by independent professional valuators to obtain up to date valuations in order to ensure that the carrying values of these loans do not exceed the net realisable values. Where unconditional offers were received, the market value was adjusted to reflect the value of the offer received. The total market value of the collateral held for this portfolio amounts to R398.17 million (FY2017: R465.75 million), forced sale value amounts to R169.3 million (FY2017: R219.8 million).

As disclosed in note 23, the LDFU loans entered into by the Group in 2007, were outside the mandate of the Group in terms of the Land Bank Act.

As at 31 March 2018, the situation is as follows:
Final liquidation orders have been granted for three of the LDFU client's estates. In one of the liquidated estates, Land Bank has proven its claim and Land Bank awaits the final liquidation and distribution account, which is expected during FY2019. Legal action was instituted against the sureties of this client and judgment was granted in our favour. The sureties have filed an application for leave to appeal and we await judgment on the opposed application for leave to appeal, which was argued on 22 March 2018.

In the other two liquidated estates, Land Bank still needs to prove its claim. In the largest exposure Land Bank's claim was proven on 25 April 2018 and on the other estate we still await the date to prove our claim.

Agreements were entered into with two of the remaining clients that their assets may be sold by Land Bank in any manner Land Bank may deem fit and Land Bank was successful in selling one of the client's assets and await transfer of the assets. The other client's assets were sold, but the agreement fell through due to an unsuccessful due diligence. This client has informed Land Bank that it has applied for funding to facilitate a transaction.

Judgment by consent was obtained against the remaining client (Panamo) on 9 November 2016 on condition that Land Bank will only execute on the client's assets after six months from the judgment. The client was unsuccessful in selling its assets and the assets were bought in by Land Bank on the Sheriff's execution auction on 27 February 2018. These assets were on sold to third parties and are in the process of being transferred from Land Bank to the purchaser.

Subsequent to year end, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" but rather that of a "discontinued operation". Refer to note 48.

13. Non-current assets held-for-sale

		Group		Bank	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
	Properties in possession	**10 085**	47 993	**10 085**	47 993
13.1	**Properties in possession**				
	Opening balance	**47 993**	47 622	**47 993**	47 622
	Plus: Additions	**4 099**	3 126	**4 099**	3 126
	Less: Disposals	**(42 172)**	(2 945)	**(42 172)**	(2 945)
	Fair value adjustment	**-**	-	**-**	-
	Reversal of prior year impairment losses	**165**	190	**165**	190
	Closing balance	**10 085**	47 993	**10 085**	47 993

These represent the properties bought in by the Group due to clients defaulting on their loan payments. The intention of the Group is to sell these properties to recover the outstanding payments on the defaulted loans. In view of the current volatile market conditions and low property valuations, the properties in possession will only be disposed of as and when conditions render it economically viable. The Group exclusively hold these properties with a view to dispose of them:

- BP 1938 located in Pietermaritzburg
- BP 2102 located in East London
- BP 2110 located in Pietermaritzburg
- BP 2112 located in Pretoria
- BP 2114 located in Nelspruit
- BP 2116 located in Welkom
- BP 2117 located in Pretoria

The following disposals took place and profits/(losses) recognised are:

31 March 2018	Carrying amount	Selling Price	VAT	Profit/(Loss) after tax
	R'000	R'000	R'000	R'000
BP 2107 located in North West	40 167	30 491	-	(9 676)
BP 2115 located in Polokwane	2 005	2 964	364	595
	42 172	**33 455**	**364**	**(9 081)**

31 March 2017	Carrying amount	Selling Price	VAT	Profit/(Loss) after tax
	R'000	R'000	R'000	R'000
BP 2009 located in Potchefstroom - abandoned to DRDLR	1 000	-	-	(1 000)
BP 2111 located in Gauteng	808	1 482	182	492
BP 2113 located in Pretoria	610	610	-	-
BP 2039 located in Tzaneen	527	627	77	23
	2 945	**2 719**	**259**	**(485)**

Refer to note 44 for the methods used to determine the fair values for these assets.

14. Investment property

	Group 2018	Group 2017	Bank 2018	Bank 2017
	R'000	R'000	R'000	R'000
Opening balances	**167 800**	106 740	**167 800**	106 740
Transfer from property and equipment [1]	**-**	52 181	**-**	52 181
Fair value adjustments	**6 790**	8 879	**6 790**	8 879
Closing balance	**174 590**	167 800	**174 590**	167 800
Investment property comprises the following:				
Office buildings	**174 590**	167 800	**174 590**	167 800
Rental income derived from investment properties	**14 898**	15 063	**14 898**	15 063
Direct operating expenses generating rental income	**(1 568)**	(741)	**(1 568)**	(741)
Net profit arising from investment properties carried at fair value	**13 330**	14 322	**13 330**	14 322

A register containing details of the investment properties and fair value adjustments is available for inspection at the Group's registered office. There are no restrictions on the title of the property and no property has been pledged as security.

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.

Please refer to note 44 for the fair value hierarchy and methods used to determine the fair value of these assets.

[1] Relates to the following buildings that were reclassified from property and equipment to investment property:

31 March 2017	Buildings Cost R'000	Buildings Accumulated depreciation R'000	Land Cost R'000	Total R'000
Reclassified on 1 April 2016 in line with the organisational review:[2]				
Beaufort West	1 292	-	1 908	3 200
Calvinia	2 012	-	288	2 300
Cradock	6 498	-	202	6 700
Ermelo	2 820	-	430	3 250
Kroonstad	3 800	-	400	4 200
Lichtenburg	3 500	-	400	3 900
Vryheid	5 097	-	2 703	7 800
Reclassified on 1 November 2016				
Rustenburg	10 306	(187)	4 594	14 713
George	4 467	(81)	1 733	6 119
Total	**39 792**	**(268)**	**12 658**	**52 182**

[2] Owner occupied property was reclassified as investment property as the Bank occupies an insignificant portion of the space of the property after the organisational review. The Bank's intention is to let out any excess office space which exists at the Bank's properties.

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15. Property and equipment

	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	Total R'000
2018							
Group							
Open market value/cost at 1 April 2017	3 722	21 527	37 911	19 820	522	15 331	98 833
Additions	-	-	811	874	-	-	1 685
Disposals	-	-	(4 214)	(2 506)	-	-	(6 720)
Revaluation [1]	96	(845)	-	-	-	-	(749)
Open market value/cost at 31 March 2018	**3 818**	**20 682**	**34 508**	**18 188**	**522**	**15 331**	**93 049**
Accumulated depreciation and impairment losses at 1 April 2017	-	-	(24 175)	(16 432)	(406)	(12 584)	(53 597)
Depreciation	-	(1 019)	(5 572)	(1 075)	(6)	(942)	(8 614)
Depreciation write-back as a result of the revaluation	-	1 019	-	-	-	-	1 019
Disposals	-	-	4 116	2 229	-	-	6 345
Accumulated depreciation and impairment losses at 31 March 2018	**-**	**-**	**(25 631)**	**(15 278)**	**(412)**	**(13 526)**	**(54 847)**
Net carrying value at 31 March 2018	**3 818**	**20 682**	**8 877**	**2 910**	**110**	**1 805**	**38 202**

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	Land	Buildings	Computer equipment	Furniture, fittings and office equipment	Motor vehicles	Leasehold improvements	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2017							
Group							
Open market value/cost at 1 April 2016	16 145	59 503	28 422	23 773	522	12 892	141 257
Additions	-	-	13 997	839	-	2 439	17 275
Disposals	-	-	(4 508)	(4 792)	-	-	(9 300)
Reclassification to investment property [2]	(12 657)	(39 792)	-	-	-	-	(52 449)
Revaluation [1]	234	1 816	-	-	-	-	2 050
Open market value/cost at 31 March 2017	**3 722**	**21 527**	**37 911**	**19 820**	**522**	**15 331**	**98 833**
Accumulated depreciation and impairment losses at 1 April 2016	-	-	(24 954)	(19 859)	(400)	(12 089)	(57 302)
Depreciation	-	(1 577)	(3 500)	(723)	(6)	(495)	(6 301)
Depreciation write-back as a result of the revaluation	-	1 309	-	-	-	-	1 309
Depreciation effect of the reclassification to investment property [2]	-	268	-	-	-	-	268
Disposals	-	-	4 279	4 150	-	-	8 429
Accumulated depreciation and impairment losses at 31 March 2017	**-**	**-**	**(24 175)**	**(16 432)**	**(406)**	**(12 584)**	**(53 597)**
Net carrying value at 31 March 2017	**3 722**	**21 527**	**13 736**	**3 388**	**116**	**2 747**	**45 236**

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FOR THE YEAR ENDED 31 MARCH 2018

	Land	Buildings	Computer equipment	Furniture, fittings and office equipment	Motor vehicles	Leasehold improvements	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2018							
Bank							
Open market value/cost at 1 April 2017	3 722	21 527	37 737	19 508	522	15 331	98 347
Additions	-	-	811	874	-	-	1 685
Disposals	-	-	(4 185)	(2 466)	-	-	(6 651)
Revaluation [1]	96	(845)	-	-	-	-	(749)
Transfer to subsidiary	-	-	(98)	(22)	-	-	(120)
Open market value/cost at 31 March 2018	**3 818**	**20 682**	**34 265**	**17 894**	**522**	**15 331**	**92 512**
Accumulated depreciation and impairment losses at 1 April 2017	-	-	(24 132)	(16 172)	(406)	(12 584)	(53 294)
Depreciation	-	(1 019)	(5 510)	(1 073)	(6)	(942)	(8 550)
Depreciation write-back as a result of the revaluation	-	1 019	-	-	-	-	1 019
Depreciation effect of the transfer to subsidiary	-	-	8	20	-	-	28
Disposals	-	-	4 087	2 194	-	-	6 281
Accumulated depreciation and impairment losses at 31 March 2018	**-**	**-**	**(25 547)**	**(15 031)**	**(412)**	**(13 526)**	**(54 516)**
Net carrying value at 31 March 2018	**3 818**	**20 682**	**8 718**	**2 863**	**110**	**1 805**	**37 996**

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FOR THE YEAR ENDED 31 MARCH 2018

	Land R'000	Buildings R'000	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	Total R'000
2017							
Bank							
Open market value/cost at 1 April 2016	16 145	59 503	28 194	23 403	522	12 892	140 659
Additions	-	-	13 997	844	-	2 439	17 280
Disposals	-	-	(4 263)	(4 727)	-	-	(8 990)
Reclassification to investment property [2]	(12 657)	(39 792)	-	-	-	-	(52 449)
Revaluation [1]	234	1 816	-	-	-	-	2 050
Transfer to subsidiary	-	-	(191)	(12)	-	-	(203)
Open market value/cost at 31 March 2017	**3 722**	**21 527**	**37 737**	**19 508**	**522**	**15 331**	**98 347**
Accumulated depreciation and impairment losses at 1 April 2016	-	-	(24 788)	(19 538)	(400)	(12 089)	(56 815)
Depreciation	-	(1 577)	(3 467)	(722)	(6)	(495)	(6 267)
Depreciation write-back as a result of the revaluation	-	1 309	-	-	-	-	1 309
Depreciation effect of the transfer to subsidiary	-	-	19	(2)	-	-	17
Depreciation effect of the reclassification to investment property [2]	-	268	-	-	-	-	268
Disposals	-	-	4 104	4 090	-	-	8 194
Accumulated depreciation and impairment losses at 31 March 2017	**-**	**-**	**(24 132)**	**(16 172)**	**(406)**	**(12 584)**	**(53 294)**
Net carrying value at 31 March 2017	**3 722**	**21 527**	**13 605**	**3 336**	**116**	**2 747**	**45 053**

[1] Refer to note 44.4 for the methods used to determine the fair values for these assets.

[2] Refer to note 14 for the details of the properties reclassified as investment properties.

The land and buildings were valued by independent property valuators as 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.

A register containing details of the owner-occupied properties and the revaluation thereof is available for inspection at the Group's registered office.

The opening accumulated depreciation on 1 April 2017 was written back to the carrying amount of buildings when revalued in terms of the net replacement value method.

16. Intangible assets

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Computer software				
Net carrying Value	**20 279**	27 275	**20 279**	27 275
Cost at the beginning of the year	**81 974**	90 552	**81 974**	90 552
Accumulated amortisation	**(61 510)**	(54 699)	**(61 510)**	(54 699)
Additions/ new development - current year	**-**	1 855	**-**	1 855
Disposal/ write-off	**(185)**	(10 433)	**(185)**	(10 433)
Reconciliation of movement during the year				
Carrying value at the beginning of the year	**27 275**	34 131	**27 275**	34 131
Additions/ new developments	**-**	1 855	**-**	1 855
Amortisation	**(6 811)**	(6 599)	**(6 811)**	(6 599)
Disposal/ write-off	**(185)**	(2 112)	**(185)**	(2 112)
Net carrying value at the end of the year	**20 279**	27 275	**20 279**	27 275

Included in the cost of intangible assets are computer software that has been fully amortised however still in use with a historical cost of R13.5 million (FY2017: R13.5 million). The Group will reassess the useful lives of all the intangible assets during the FY2018 together with the review of the accounting policy in order to reflect the most correct estimated useful lives of all intangible assets.

	Group		Bank	
	2018	2017	2018	2017
17. Distributed and other reserves	R'000	R'000	R'000	R'000
Distributable reserves from continuing operations				
Capital fund	**4 397 655**	4 397 655	**4 397 655**	4 397 655
General reserve [1]	**698 246**	479 394	**1 048 275**	829 423
Insurance reserve	**1 451 824**	1 440 300	**-**	-
Total distributable reserves	**6 547 725**	6 317 349	**5 445 930**	5 227 078
Other reserves	**100 978**	137 495	**100 978**	137 495
Mark-to-market reserve	**(43 604)**	1 288	**(43 604)**	1 288
Cash flow hedge reserve	**8 106**	-	**8 106**	-
Revaluation of property	**136 476**	136 207	**136 476**	136 207
	6 648 703	6 454 844	**5 546 908**	5 364 573

[1] Subsequent to year end, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" but rather that of a "discontinued operation". The FY2017 disclosure have been amended to reclassify the reserves of the disposal group to the general reserve of continuing operations. The general reserve includes the impact of the impairment on the LDFU portfolio. Refer to note 48.

17.1 Description of equity components

General reserve

The General reserve comprises of accumulated retained earnings.

Capital fund

The Capital fund consists of an initial loan by government which was converted to equity in 2006 as part of the government commitment to support the Bank as well as further capital injections from the National Treasury in FY2015.

Insurance reserve

The Insurance reserve is a component of Group retained earnings and represents the accumulated surplus of LBLIC and LBIC from insurance activities.

Mark-to-market reserve

The Mark-to-market reserve relates to the fair value adjustment on the unlisted and listed investments held by the Bank. Please refer to notes 8.2 and 8.3.

Cash flow hedge reserve

The cash flow hedge reserve records the effective portion of changes in the fair valuation of derivatives designated as cash flow hedging instruments.

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.

18. Trade and other payables

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Accrued expenses	29 716	38 445	15 199	30 374
Intercompany loans - LBIC	-	-	-	66 981
Amounts due to intermediaries	13 258	35 772		
Amounts due to reinsurers	159 474	234 810		
Trade payables	47 107	19 819	47 107	19 819
Deferred Income	-	1 027	-	1 027
Loan costs and fees received in advance	47 542	41 200	47 542	41 200
Other	52 953	6 702	47 854	4 559
Premiums received in advance	108	104		
Amounts due to SASRIA	2 233	1 865	-	-
Client deposits for approved loans	3 013	38	3 013	38
	355 404	379 782	160 715	163 998

The trade and other payables are classified as other financial liabilities and are carried at amortised cost. Trade and other payables are generally paid as follows:

- Accrued expenses: one month;
- Loan costs and fees received in advance: one to three months;
- Client deposits for approved loans: one to three months; and
- Other: one month.

As noted in the maturity analysis, Group payables amounting to R59.9 million (FY2016: R44.6 million) are expected to be settled after more than 12 months.

19. Long-term policyholders' liabilities

	Group	
	2018	2017
	R'000	R'000
Policyholders' liabilities under insurance contracts	51 880	50 469
Notified claims	2 076	676
Claims (incurred but not reported)	1 983	3 617
	55 939	54 762

19.1 Policyholders' liability excluding Incurred But Not Reported (IBNR) and notified claims

	2018	2017
Present value of policy liabilities	28 276	33 219
Plus: present value of future expenses	24 254	17 265
Less: present value of future premiums	(20 828)	(23 295)
Liability excluding AIDS reserve	31 702	27 189
Plus: AIDS reserve	554	894
Less: reinsurance reserve	(8 399)	(8 954)
Plus: expense overrun reserve	19 624	22 386
Plus: gross IBNR	1 983	-
Less: ceded IBNR	(1 246)	-
Plus: gross OCR	2 314	-
Less: ceded OCR	(1 227)	-
Total policyholders' liability excluding IBNR and notified claims	45 305	41 515

	Group 2018 R'000	Group 2017 R'000
19.2 Movement in the long-term policyholders' liability		
Balance at the beginning of the year	**41 515**	34 429
Movement in the long-term policyholders' liability	**3 790**	7 086
Balance at the end of the year	**45 305**	41 515

19.3 Movement in the IBNR

	Gross R'000	Ceded R'000	Net R'000
2018			
Balance at the beginning of the year	**3 617**	**(2 863)**	**754**
Movement in the IBNR	**(1 634)**	**1 617**	**(17)**
Balance at the end of the year	**1 983**	**(1 246)**	**737**
2017			
Balance at the beginning of the year	830	(415)	415
Movement in the IBNR	2 787	(2 448)	339
Balance at the end of the year	3 617	(2 863)	754

19.4 Movement in notified (outstanding) claims	Gross R'000	Ceded R'000	Net R'000
2018			
Balance at the beginning of the year	672	**(281)**	391
Movement in the IBNR	1 404	**(827)**	577
Balance at the end of the year	2 076	**(1 108)**	968
2017			
Balance at the beginning of the year	528	(246)	282
Movement in the IBNR	148	(35)	113
Balance at the end of the year	676	(281)	395

19.5 Total long-term insurance liabilities	Gross R'000	Ceded R'000	Net R'000
2018			
Long-term policyholders' liability	**51 880**	**(8 399)**	**43 481**
Notified claims	**2 076**	**(1 108)**	**968**
IBNR	**1 983**	**(1 246)**	**737**
Total long-term insurance liabilities	**55 939**	**(10 753)**	**45 186**
2017			
Long-term policyholders' liability	50 469	(8 954)	41 515
Notified claims	676	(281)	395
IBNR	3 617	(2 863)	754
Total long-term insurance liabilities	54 762	(12 098)	42 664

	Group		Bank	
	2018	2017*	2018	2017*
	R'000	R'000	R'000	R'000
20. Funding liabilities				
At amortised cost	**41 576 302**	37 839 610	**41 576 302**	37 839 610

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

* Subsequent to year end, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" but rather that of a "discontinued operation". The FY2017 disclosure have been amended to reclassify the liabilities of the disposal group to the funding liabilities of continuing operations. Refer to note 48.

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20.1 Analysis of funding

		Non-cash	Cash		Non-cash	Cash			
2018	**Opening balance**	**Re-alignment of amortised cost [1]**	**New issues/ utilisation**	**Repayment/ settlements**	**Accrued interest**	**Discount/ premium**	**Prepaid arranging fees**	**Closing balance**	**Fair value**
Group and Bank	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Commercial funding									
Commercial paper	**20 215 160**	**310 016**	**607 371**	**(2 702 691)**	**1 038**	**(774 478)**	**-**	**17 656 416**	**17 885 259**
Bills	756 432	13 568	557 371	-	-	(329 390)	-	997 981	1 081 678
Call bonds	658 924	(4 294)	-	(479 700)	1 038	-	-	175 968	174 900
Floating rate notes - 1 year	2 687 077	(29 077)	-	(1 970 915)	-	(3 512)	-	683 573	687 140
Floating rate notes - 2 to 5 years	2 926 670	(32 670)	-	(209 324)	-	(36 331)	-	2 648 345	2 752 382
Promissory notes	13 186 057	362 489	50 000	(42 752)	-	(405 245)	-	13 150 549	13 189 159
Deposits	**736 405**	**(4 465)**	**23 285**	**(47 992)**	**-**	**-**	**-**	**707 233**	**707 233**
Agri-related business deposits	231 076	135	23 282	-	-	-	-	254 493	254 493
Department of Agriculture, Forestry and Fisheries Funds	4 600	(4 600)	-	-	-	-	-	-	-
Employee deposits	26	-	-	(26)	-	-	-	-	-
Forced stock sale deposits	500 665	-	-	(47 966)	-	-	-	452 699	452 699
Small institutional deposits	38	-	3	-	-	-	-	41	41
Facilities	**2 899 587**	**2 135**	**-**	**(2 901 856)**	**3 690**	**-**	**(2 564)**	**992**	**992**
Committed	2 399 587	2 135	-	(2 401 856)	3 690	-	(2 564)	992	992
Uncommitted	500 000	-	-	(500 000)	-	-	-	-	-

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		Non-cash	Cash		Non-cash	Cash			
2018 **Group and Bank**	**Opening balance** **R'000**	**Re-alignment of amortised cost [1]** **R'000**	**New issues/ utilisation** **R'000**	**Repayment/ settlements** **R'000**	**Accrued interest** **R'000**	**Discount/ premium** **R'000**	**Prepaid arranging fees** **R'000**	**Closing balance** **R'000**	**Fair value** **R'000**
DMTN issuances	**5 643 750**	**(68 950)**	**6 317 000**	**(1 142 000)**	**154 347**	**44 597**	**(1 827)**	**10 946 917**	**10 835 927**
Floating rate notes	4 935 980	(51 180)	4 717 000	(1 142 000)	74 332	15 973	(1 699)	8 548 406	8 478 711
- LBK05	757 764	(5 764)	-	-	5 706	(32)	-	757 674	749 986
- LBK07	388 605	(1 605)	-	(387 000)	-	-	-	-	-
- LBK08	330 033	(5 033)	-	-	4 906	-	-	329 906	325 331
- LBK14U	499 252	748	-	-	11 043	-	-	511 043	500 013
- LBK15	1 409 709	(34 709)	-	-	30 230	9 411	(765)	1 413 876	1 375 207
- LBK16	191 352	(1 552)	-	-	1 518	-	(79)	191 239	189 894
- LBK17	524 323	(1 323)	-	-	1 293	-	(344)	523 949	523 295
- LBK18	233 650	(650)	500 000	-	2 003	2 193	(503)	736 693	750 960
- LBK19	601 292	(1 292)	155 000	(755 000)	-	-	-	-	-
- LBK21	-	-	868 000	-	5 313	1 008	-	874 321	868 284
- LBK22	-	-	568 000	-	3 645	1 466	-	573 111	568 298
- LBK23	-	-	611 000	-	4 237	1 927	(8)	617 156	611 314
- LBK25	-	-	500 000	-	1 014	-	-	501 014	500 283
- LBK26	-	-	245 000	-	520	-	-	245 520	245 138
- LBK27	-	-	1 270 000	-	2 904	-	-	1 272 904	1 270 708
Fixed rate notes	707 770	(17 770)	1 600 000	-	80 015	28 624	(128)	2 398 511	2 357 216
- LBK11	506 014	(16 014)	-	-	16 014	-	-	506 014	494 695
- LBK12U	201 756	(1 756)	-	-	1 809	-	-	201 809	209 529
- LBK20	-	-	795 000	-	25 327	29 159	(42)	849 444	822 890
- LBK24	-	-	805 000	-	36 865	(535)	(86)	841 244	830 102
Term loans - amortising	**1 506 208**	**7 592**	**4 018 455**	**(176 871)**	**14 917**	**-**	**(514 547)**	**4 855 754**	**5 367 790**
5 year syndicated loan	500 128	(128)	-	(111 111)	282	-	-	389 171	389 992
7 year syndicated loan (Government guaranteed)	1 006 080	7 720	-	(65 760)	847	-	(6 601)	942 286	958 012
10 year syndicated loan (MIGA supported) [2]	-	-	4 018 455	-	13 788	-	(507 946)	3 524 297	4 019 786
Term loans - bullet term	**3 893 134**	**5 866**	**-**	**(2 295 000)**	**1 377**	**-**	**(7 146)**	**1 598 231**	**1 619 148**
1 year term loan	506 773	(6 773)	-	(500 000)	-	-	-	-	-
3 year syndicated loans	1 791 003	3 997	-	(1 795 000)	-	-	-	-	-
6 year syndicated loan (Government guaranteed)	1 595 358	8 642	-	-	1 377	-	(7 146)	1 598 231	1 619 148
Step rate notes									
Step rate notes	**1 836 741**	**(25 741)**	**2 441 000**	**-**	**47 866**	**-**	**-**	**4 299 866**	**4 268 169**
Total commercial funding	**36 730 985**	**226 453**	**13 407 111**	**(9 266 410)**	**223 235**	**(729 881)**	**(526 084)**	**40 065 409**	**40 684 518**

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		Non-cash	Cash		Non-cash	Cash			
2018	Opening balance	Re-alignment of amortised cost [1]	New issues/ utilisation	Repayment/ settlements	Accrued interest	Discount/ premium	Prepaid arranging fees	Closing balance	Fair value
Group and Bank	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Development and multilateral funding									
Term loans - amortising	**966 444**	**(11 899)**	**327 000**	**(90 909)**	**11 196**	**-**	**(8 683)**	**1 193 149**	**1 150 015**
10 year term loan - KFW [5]	-	-	327 000	-	177	-	(8 683)	318 494	330 283
12 year term loan - EIB [3]	-	-	-	-	-	-	-	-	-
15 year term loan - AfDB	966 444	(11 899)	-	(90 909)	11 019	-	-	874 655	819 732
25 year term loan - World Bank [4]	-	-	-	-	-	-	-	-	-
Total development and multilateral funding	**966 444**	**(11 899)**	**327 000**	**(90 909)**	**11 196**	**-**	**(8 683)**	**1 193 149**	**1 150 015**
Disaster relief funding									
Drought relief									
10 year amortising term loan - IDC	142 181	(631)	175 559	-	3 515	-	(2 880)	317 744	290 723
Total disaster relief	**142 181**	**(631)**	**175 559**	**-**	**3 515**	**-**	**(2 880)**	**317 744**	**290 723**
Total funding liabilities	**37 839 610**	**213 923**	**13 909 670**	**(9 357 319)**	**237 946**	**(729 881)**	**(537 647)**	**41 576 302**	**42 125 256**

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

2 This facility was secured from International Banks and is supported by a Guarantee from the Multilateral Investment Guarantee Agency (MIGA), which is a division of the World Bank Group.

3 During the year under review the Land Bank had secured a EUR50 million funding line from the European Investment Bank. The facility is project based and will be drawn as and when qualifying projects are financed. As of 31 March 2018, there had been no draw downs against the facility and the Bank expects utilisation to commence during FY2019.

4 During the year under review the Land Bank had secured a $93 million funding line from the World Bank. The facility is project based and will be drawn as and when qualifying projects are financed. As of 31 March 2018, there had been no draw downs against the facility and the Bank expects utilisation to commence during FY2019.

5 During the year under review the Land Bank secured a EUR55 million funding line from KfW. The facility is general purpose funding to Agri SMME's. The drawdowns of which R327 million (March 2018); R327 million (September 2018) and R245 million (March 2019).

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

		Non-cash	Cash		Non-cash	Cash			
	Opening balance	Re-alignment of amortised cost [1]	New issues/ utilisation	Repayment/ settlements	Accrued interest	Discount/ premium	Prepaid arranging fees	Closing balance	Fair value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Commercial funding									
Commercial paper	**20 287 727**	**471 838**	**978 006**	**(1 096 277)**	**4 294**	**(430 428)**	**-**	**20 215 160**	**20 367 546**
Bills	758 995	8 505	2 500	-	-	(13 568)	-	756 432	757 409
Call bonds	732 769	(3 719)	-	(74 420)	4 294	-	-	658 924	658 815
Floating rate notes - 1 year	3 704 439	33 393	-	(1 021 857)	-	(28 898)	-	2 687 077	2 695 388
Floating rate notes - 2 to 5 years	2 649 405	21 729	289 666	-	-	(34 130)	-	2 926 670	3 030 328
Promissory notes	12 442 119	411 930	685 840	-	-	(353 832)	-	13 186 057	13 225 606
"Deposits"	**856 037**	**-**	**15 031**	**(134 668)**	**5**	**-**	**-**	**736 405**	**736 405**
Agri-related business deposits	365 744	-	-	(134 668)	-	-	-	231 076	231 076
Department of Agriculture, Forestry and Fisheries Funds	4 600	-	-	-	-	-	-	4 600	4 600
Employee deposits	21	-	-	-	5	-	-	26	26
Forced stock sale deposits	485 637	-	15 028	-	-	-	-	500 665	500 665
Small institutional deposits	35	-	3	-	-	-	-	38	38
Facilities	**1 507 142**	**(5 484)**	**1 400 000**	**-**	**3 093**	**-**	**(5 164)**	**2 899 587**	**2 903 093**
Committed	1 007 142	(5 484)	1 400 000	-	3 093	-	(5 164)	2 399 587	2 403 093
Uncommitted	500 000	-	-	-	-	-	-	500 000	500 000
DMTN issuances	**5 340 068**	**(53 068)**	**2 920 800**	**(2 633 000)**	**57 672**	**12 151**	**(873)**	**5 643 750**	**5 627 002**
Floating rate notes	4 637 757	(40 757)	2 920 800	(2 633 000)	39 902	12 151	(873)	4 935 980	4 923 304
- LBK03	1 020 570	(20 570)	-	(1 000 000)	-	-	-	-	-
- LBK05	754 610	(2 610)	-	-	5 838	(74)	-	757 764	753 097
- LBK06	1 141 056	(8 056)	-	(1 133 000)	-	-	-	-	-
- LBK07	388 429	(1 429)	-	-	1 466	139	-	388 605	388 218
- LBK08	331 214	(6 214)	-	-	5 033	-	-	330 033	332 583
- LBK13	501 753	(1 753)	-	(500 000)	-	-	-	-	-
- LBK14U	500 125	(125)	-	-	125	-	(873)	499 252	501 051
- LBK15	-	-	1 375 000	-	22 623	12 086	-	1 409 709	1 397 760
- LBK16	-	-	189 800	-	1 552	-	-	191 352	191 365
- LBK17	-	-	523 000	-	1 323	-	-	524 323	524 310
- LBK18	-	-	233 000	-	650	-	-	233 650	233 643
- LBK19	-	-	600 000	-	1 292	-	-	601 292	601 277

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

		Non-cash	Cash		Non-cash	Cash			
	Opening balance	Re-alignment of amortised cost [1]	New issues/ utilisation	Repayment/ settlements	Accrued interest	Discount/ premium	Prepaid arranging fees	Closing balance	Fair value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Fixed rate notes	702 311	(12 311)	-	-	17 770	-	-	707 770	703 698
- LBK11	500 536	(10 536)	-	-	16 014	-	-	506 014	502 349
- LBK12U	201 775	(1 775)	-	-	1 756	-	-	201 756	201 349
Term loans - amortising	**1 570 614**	**8 946**	**-**	**(65 760)**	**419**	**-**	**(8 011)**	**1 506 208**	**1 445 131**
5 year syndicated loan	500 167	(167)	-	-	128	-	-	500 128	502 503
7 year syndicated loan (Government guaranteed)	1 070 447	9 113	-	(65 760)	291	-	(8 011)	1 006 080	942 628
Term loans - bullet term	**3 381 326**	**17 674**	**500 000**	**-**	**8 488**	**-**	**(14 354)**	**3 893 134**	**3 921 522**
1 year term loan	-	-	500 000	-	7 593	-	(820)	506 773	507 593
3 year syndicated loans	1 787 916	7 084	-	-	447	-	(4 444)	1 791 003	1 800 670
6 year syndicated loan (Government guaranteed)	1 593 410	10 590	-	-	448	-	(9 090)	1 595 358	1 613 259
Step rate notes									
Step rate notes	-	-	1 811 000	-	25 741	-	-	1 836 741	1 813 436
Total commercial funding	**32 942 914**	**439 906**	**7 624 837**	**(3 929 705)**	**99 712**	**(418 277)**	**(28 402)**	**36 730 985**	**36 814 135**
Development and multilateral funding									
Term loans - amortising									
15 year term loan with AfDB	1 004 135	(4 135)	-	(45 455)	11 899	-	-	966 444	912 812
Total development and multilateral funding	**1 004 135**	**(4 135)**	**-**	**(45 455)**	**11 899**	**-**	**-**	**966 444**	**912 812**
Disaster relief funding									
Drought relief									
10 year amortising term loan with IDC	77 083	-	64 467	-	631	-	-	142 181	142 181
Total disaster relief	**77 083**	**-**	**64 467**	**-**	**631**	**-**	**-**	**142 181**	**142 181**
Total funding liabilities	**34 024 132**	**435 771**	**7 689 304**	**(3 975 160)**	**112 242**	**(418 277)**	**(28 402)**	**37 839 610**	**37 869 128**

Commercial funding

The R20 billion Domestic Medium Term Note Programme

To enhance transparency, investor protection mechanisms and investor confidence, the Land Bank's R20 billion DMTN Programme was amended in March 2017, to include:

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

The Land Bank board approved an increase in the size of the Programme from R20 billion to R30 billion on 13 March 2018.

Reconciliation of notes in issue [1]			2018 R'000	2017 R'000
Opening balance			**5 574 800**	5 287 000
Notes issued:	**Issue date**	**Maturity date**		
LBK15	12 October 2016	12 October 2021	**-**	425 000
LBK15 1st Tap	9 February 2017	12 October 2021	**-**	575 000
LBK15 2nd Tap	15 February 2017	12 October 2021	**-**	375 000
LBK16	30 November 2016	30 November 2019	**-**	189 800
LBK17	22 March 2017	22 March 2020	**-**	523 000
LBK18	22 March 2017	22 March 2022	**-**	233 000
LBK18 1st Tap	18 April 2018	22 March 2022	**500 000**	-
LBK19	23 March 2017	23 March 2018	**-**	600 000
LBK19 1st Tap	13 April 2018	23 March 2018	**155 000**	-
LBK20	8 June 2018	8 June 2022	**150 000**	-
LBK20 1st Tap	12 September 2017	8 June 2022	**500 000**	-
LBK20 2nd Tap	18 September 2017	8 June 2022	**145 000**	-
LBK21	4 September 2017	4 September 2018	**331 000**	-
LBK21 1st Tap	14 September 2017	4 September 2017	**307 000**	-
LBK21 2nd Tap	27 September 2017	4 September 2017	**180 000**	-
LBK21 3rd Tap	3 October 2017	4 September 2017	**50 000**	-
LBK22	4 September 2017	4 September 2020	**243 000**	-
LBK22 1st Tap	27 September 2017	4 September 2020	**325 000**	-
LBK23	4 September 2017	5 September 2022	**426 000**	-
LBK23 1st Tap	27 September 2017	5 September 2022	**105 000**	-
LBK23 2nd Tap	16 November 2017	5 September 2022	**80 000**	-
LBK24	10 October 2017	10 October 2024	**305 000**	-
LBK24 1st Tap	27 October 2017	10 October 2024	**500 000**	-
LBK25	23 March 2018	25 March 2019	**500 000**	-
LBK26	23 March 2018	21 March 2021	**245 000**	-
LBK27	23 March 2018	23 March 2023	**1 270 000**	-
Notes redeemed:				
LBK03	26 September 2013	1 October 2016	**-**	(1 000 000)
LBK06	6 March 2014	6 March 2017	**-**	(1 133 000)
LBK07	16 September 2014	16 September 2017	**(387 000)**	
LBK13	17 March 2016	17 March 2017	**-**	(500 000)
LBK19	23 March 2017	23 March 2018	**(755 000)**	
Closing balance			**10 749 800**	5 574 800

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

Step rate notes

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

Reconciliation of notes in issue [1]			2018 R'000	2017 R'000
Opening balance			**1 811 000**	-
Notes issued:	**Issue date**	**Maturity date**		
SRN 1, tranche 1	19 October 2016	19 October 2019	-	465 000
SRN 1, tranche 2	28 October 2016	28 November 2019	-	465 000
SRN 1, tranche 3	25 November 2016	25 November 2019	-	116 000
SRN 2, tranche 1	1 November 2016	1 November 2019	-	200 000
SRN 3, tranche 1	8 November 2016	8 November 2019	-	565 000
SRN 4, tranche 1	10 May 2017	11 May 2022	**500 000**	-
SRN 4, tranche 2	11 May 2017	17 May 2022	**500 000**	-
SRN 5, tranche 1	24 May 2017	24 May 2022	**482 000**	-
SRN 5, tranche 2	25 May 2017	25 May 2022	**418 000**	-
SRN 6, tranche 1	26 July 2017	26 July 2018	**41 000**	-
SRN 7, tranche 1	26 March 2018	26 March 2021	**500 000**	-
Notes redeemed:				
No notes have been redeemed during the year, persuant to the put option.			-	-
Closing balance			**4 252 000**	1 811 000

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

Development and multilateral funding

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

- R1.0 billion loan with the African Development Bank. The purpose of the loan is to on-lend to the Land Bank's commercial and development clients whom meet qualifying usage criteria. To date R568 million has been utilised with a further R432 million available for qualifying projects.
- R5.0 billion funding line with the Public Investment Corporation. This facility is earmarked to support transformation within the agricultural sector.
- $93 million funding line with the World Bank. This facility is earmarked to give financial aid to participating financial intermediaries and direct beneficiaries.
- R899 million funding line with KfW Development Bank. This facility is earmarked to finance small- and medium-sized agricultural enterprises. To date R327 million has been utilised with a further R572 million available for qualifying projects.

During the year under review the Land Bank had secured a EUR50 million funding line from the European Investment Bank. The facility is project based and will be drawn as and when qualifying projects are financed. As of 31 March 2018, there had been no draw downs against the facility and the Bank expects utilisation to commence during FY2019.

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

Disaster relief

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

The loan may be used for :

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

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

	2018 * Spread to 3 month Jibar	2017 * Spread to 3 month Jibar
Weighted average interest cost of commercial funding (NACM)		
Short-term: ≤ 1 year	**0.68%**	0.68%
Medium-term: > 1 year ≤ 5 years	**2.47%**	1.62%
Long-term: > 5 years	**3.22%**	2.79%
Total Cost of Funding	**1.73%**	1.15%
Weighted average interest cost of development and multilateral funding (NACM)		
Long-term: > 5 years **	**0.68%**	0.36%
Weighted average interest cost of natural disaster relief funding (NACM)		
Long-term: > 5 years	**(1.41%)**	0.15%

* Weighted average Jibar

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

21. Provisions

	Opening balance R'000	Additional provision raised R'000	Provision utilised R'000	Reversal of provision R'000	Closing balance R'000
Group					
2018					
Staff incentives	29 469	58 412	(29 469)	-	58 412
Leave pay	8 734	6 205	(3 486)	-	11 453
Labour disputes	3 730	2 285	(340)	(665)	5 010
Legal fees	40 845	-	(14 384)	(20 000)	6 461
Other	26 053	-	(24 757)	-	1 296
	108 831	**66 902**	**(72 436)**	**(20 665)**	**82 632**
2017					
Staff incentives	23 605	29 469	(23 605)	-	29 469
Leave pay	20 428	8 736	(6 747)	(13 683)	8 734
Labour disputes	1 174	3 730	(282)	(892)	3 730
Administration and penalty fees	26 895	3 600	(5 280)	(25 215)	-
Legal fees	43 624	20 755	(6 257)	(17 277)	40 845
Restructuring	68 000	-	(68 000)	-	-
Other	23 191	24 714	(21 852)	-	26 053
	206 917	**91 004**	**(132 023)**	**(57 067)**	**108 831**

	Opening balance R'000	Additional provision raised R'000	Provision utilised R'000	Reversal of provision R'000	Closing balance R'000
Bank					
2018					
Staff Incentives	28 135	55 791	(28 135)	-	55 791
Leave pay	8 332	5 912	(3 274)	-	10 970
Labour disputes	3 730	2 286	(340)	(665)	5 011
Legal fees	40 845	-	(14 384)	(20 000)	6 461
Other	26 052	-	(24 757)	-	1 295
	107 094	**63 989**	**(70 890)**	**(20 665)**	**79 528**
2017					
Staff incentives	22 536	28 135	(22 536)	-	28 135
Leave pay	19 402	8 332	(6 358)	(13 044)	8 332
Labour disputes	1 174	3 730	(282)	(892)	3 730
Administration and penalty fees	26 895	3 600	(5 280)	(25 215)	-
Legal fees	43 624	20 755	(6 257)	(17 277)	40 845
Restructuring	68 000	-	(68 000)	-	-
Other	23 191	24 713	(21 852)	-	26 052
	204 822	**89 265**	**(130 565)**	**(56 428)**	**107 094**

21.1 Staff incentives

The provision for discretionary performance bonuses is payable to employees and is determined by taking into account both the performance of the Bank as well as the performance of individual employees.

21.2 Leave pay

Accumulated leave is payable to employees upon termination of services. Provision for leave pay is calculated on the leave days outstanding at the end of the year multiplied by the cost to company of the employees in terms of employment contracts.

21.3 Labour disputes

Provision raised in respect of certain labour related disputes regarding legacy matters which are likely to result in probable settlements by the Group. This provision only includes the compensation portion of the disputes, the legal related costs are included under the legal costs category. These legal costs are expected to be paid out within the next 12 months.

21.4 Legal fees

Provision raised for the estimated legal costs in respect of specific legal cases currently in progress at year end. The legal firms bill monthly and therefore payment is made against this provision monthly.

22. Post-retirement obligation

22.1 Medical benefit plan

The defined benefit obligation plan is unfunded. However, the Group does have an investment earmarked specifically for this obligation (refer to note 8.1). The estimated medical aid contributions for the next year effective 1 April 2018 amounts to R24.4 million (FY2017: R23.2 million). The time value of money has not been taken into account as it is believed that the difference will be insignificant.

Movement in the present value of the benefit obligations:	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Defined benefit obligation 1 April	**338 210**	323 552	**338 210**	323 552
Current service cost	**2 005**	3 792	**2 005**	3 792
Interest cost	**29 757**	29 775	**29 757**	29 775
Recognised actuarial losses	**23 841**	12 981	**23 841**	12 981
Curtailment	**-**	(10 669)	**-**	(10 669)
Benefits paid	**(24 632)**	(21 221)	**(24 632)**	(21 221)
Defined benefit obligation 31 March	**369 181**	338 210	**369 181**	338 210

Total expenses resulting from the Group's defined benefit plans can be analysed as follows:

Components of net periodic medical benefit cost:

	Group 2018	Group 2017	Bank 2018	Bank 2017
Current service cost	**(2 005)**	(3 792)	**(2 005)**	(3 792)
Interest costs	**(29 757)**	(29 775)	**(29 757)**	(29 775)
Total included in interest and staff costs	**(31 762)**	(33 567)	**(31 762)**	(33 567)
Curtailment	**-**	10 669	**-**	10 669
Total expenses recognised in profit or loss	**(31 762)**	(22 898)	**(31 762)**	(22 898)
Actuarial (losses) recognised in other comprehensive income	**(23 841)**	(12 981)	**(23 841)**	(12 981)

22.2 Maturity profile of members

	Membership Profile 2018			
Employee status	Number	Average age (years)	Average past service (years)	Average number of dependents *
Active	122	49.11	24.70	1.97
Pensioners	378	69.11	-	0.58
	500	**64.22**	**24.70**	**0.92**

	Membership Profile 2017			
Employee status	Number	Average age (years)	Average past service (years)	Average number of dependants *
Active	131	48.84	23.69	1.87
Pensioners	379	69.56	-	0.65
	510	**64.24**	**23.69**	**0.97**

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 number of members reduced due to the impact of the organisational review.

* The average number of dependents only reflects dependents who are receiving a medical scheme contribution subsidy.

22.3 Sensitivity analysis

	Effect on current service and interest cost		Effect on accumulated post-medical aid defined benefit obligation	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Increase in medical inflation by 1%	**36 034**	36 171	**411 431**	380 926
Decrease in medical inflation by 1%	**28 689**	28 478	**322 473**	306 157

23. Discontinued operation classified as held-for-sale

During FY2007, the Land for Development Finance Unit (LDFU) entered into loans that were deemed to be outside the mandate of the Group in terms of the Land Bank Act. An independent forensic investigation concluded in September 2007 indicated alleged irregularities in the origination, management and administration of these loans. During October 2007, a moratorium was placed on the approval of any new loans and pay-outs on existing loans.

During July 2008, as part of the formalisation of the turnaround strategy, a decision was made to discontinue the LDFU operation and to dispose of the loan portfolio. The discontinuance decision formed part of the stabilisation phase of the turnaround strategy and has been encapsulated in the then corporate plan approved by the Board of Directors.

As at 31 March 2009, the LDFU operations is a separate reportable operating segment of the Group and it was classified as a disposal group held-for-sale abd as a discontinued operation.The disposal of some of the properties have taken place since the discontinuance decision, however, in view of the current market conditions, properties in this portfolio will only be disposed of as and when conditions render it economically viable.

Subsequent to year end, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" as these properties will not be disposed of together in a single transaction. Upon settlement of these assets, no associated liabilities will be transferred either. Given this, the LDFU portfolio satisfies the definition of a discontinued operation and the FY2017 disclosure have been amended to conform to the FY2018 disclosure framework. Refer to note 48.

The results of LDFU for the year are presented below:

		Group		Bank	
		2018	2017	2018	2017
	Notes	R'000	R'000	R'000	R'000
Impairment charge on loans and advances	12.5	**(36 023)**	47 519	**(36 023)**	47 519
Net loss from discontinued operations		**(36 023)**	47 519	**(36 023)**	47 519

The major classes of assets of LDFU classified as held-for-sale as at year end are as follows:

Assets					
Loans and advances classified as assets held-for-sale	12	**147 328**	197 139	**147 328**	197 139

24. Interest income

Measured at amortised cost				
Interest from loans and advances	**4 640 964**	4 087 424	**4 640 964**	4 087 424
Interest on short-term deposits	**87 511**	62 339	**87 511**	62 339
Interest from banks	**104 468**	102 943	**92 363**	83 773
Interest hedging	**1 282**	1 275	**1 282**	1 275
Interest on swaps	**2 802**	-	**2 802**	-
Interest on debentures	**2 055**	-	**2 055**	-
Interest on premiums written	**7 300**	-		
Interest on trade receivables	**334**	2 583	**-**	-
	4 846 716	4 256 564	**4 826 977**	4 234 811

	Group		Bank	
	2018	2017	2018	2017
25. Interest expense*	R'000	R'000	R'000	R'000
Debentures	-	56	-	56
Commercial funding	3 433 201	2 925 836	3 433 201	2 925 836
Development and multilateral funding	74 314	82 636	74 314	82 636
Disaster relief funding	13 710	2 544	13 710	2 544
Other	47 085	32 145	44 361	27 198
Total interest expense	3 568 310	3 043 217	3 565 586	3 038 270
25.1 Interest expense incurred per class of funding				
Designated at fair value through profit or loss				
Interest on debentures	-	56	-	56
Financial liabilities at amortised cost				
Interest paid on commercial funding	3 433 201	2 925 836	3 433 201	2 925 836
- Commercial paper	1 502 265	1 657 175	1 502 265	1 657 175
- Deposits	82 187	111 452	82 187	111 452
- Facilities	66 128	145 860	66 128	145 860
- DMTN issuances	774 744	463 353	774 744	463 353
- Term loans - amortising	447 041	157 038	447 041	157 038
- Term loans - bullet term	249 533	325 591	249 533	325 591
- Step rate notes	311 303	65 367	311 303	65 367
Interest paid on development and multilateral funding	74 314	82 636	74 314	82 636
- Term loans - amortising	74 314	82 636	74 314	82 636
Interest paid on disaster relief funding	13 710	2 544	13 710	2 544
- Drought relief	13 710	2 544	13 710	2 544
Other	47 085	32 145	44 361	27 198
- Government guarantee fees [1]	(9 727)	17 875	(9 727)	17 875
- Arranging fees - effective interest rate method [2]	54 088	9 323	54 088	9 323
- Credit balances [3]	2 724	4 947	-	-
Total interest expense	3 568 310	3 043 217	3 565 586	3 038 270

* Subsequent to year end, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" but rather that of a "discontinued operation". The FY2017 disclosure have been amended to reclassify the interest expense of the disposal group to continuing operations. Refer to note 48.

[1] During the year an amount of R7.3 million was paid. The credit balance is as a result of a reversal of excess provisions.

[2] During the year the arranging fees were reclassified from operating expenses to interest expense as these arranging fees form part of the "Effective Interest Rate" of funding instruments. Refer to note 48.

[3] Crop policy holders have an option to defer payment of premium to the end of the crop season. The interest accrued under these arrangements is ceded to the reinsurers in line with the quota share treaty ceding ratios. 40% of premium payable to non-approved reinsurers on the quota share treaty is retained as a deposit premium. Settlement is effected 12 months later, with interest.

26. Non-interest expense

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Account administration fee expense [1]	(308 015)	(269 071)	(308 015)	(269 071)
Sundry expense	(5 612)	(1 169)	-	-
	(313 627)	(270 240)	(308 015)	(269 071)

[1] Account administration fees 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 24 note 25 and note 11.5 respectively.

The full amount of R308 million (FY2017: R269 million) relates to fee expenses of financial instruments not measured at fair value through profit or loss and the Bank did not incur any fees and commission expenses due to trust and fiduciary activities resulting from the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions.

27. Non-interest income

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Fee and commission income	51 162	35 058	52 231	36 201
Account administration fee income	50 017	33 968	50 017	33 968
Fund administration fees	1 145	1 090	1 145	1 090
Administration fee from LBLIC	-	-	1 069	1 080
Referral fee	-	-	-	63
Other	38 693	27 842	33 496	24 412
Income from properties in possession	-	3	-	3
Investment property rentals	14 898	15 063	14 898	15 063
Sundry income	23 795	12 776	18 598	9 346
	89 855	62 900	85 727	60 613

28. Operating profit from insurance activities

	Group 2018 R'000	Group 2017 R'000
28.1 Net insurance premium income	143 002	135 720
Gross written premium	555 006	537 849
Long-term insurance contracts	10 165	11 652
Short-term insurance contracts	544 841	526 197
Gross written premium	543 322	536 917
Change in the unearned premium reserve	11 099	(10 720)
Change in the unexpired risk reserve	(9 580)	-
Less: reinsurance premium	(412 004)	(402 129)
Long-term insurance contracts	(5 536)	(6 463)
Short-term insurance contracts	(406 468)	(395 666)
Reinsurance premium written	(403 757)	(401 557)
Change in the unearned premium reserve	(2 711)	5 891

		Group 2018 R'000	Group 2017 R'000
28.2	**Net movement in the unearned premium reserve**		
	Published basis		
	Premium income	20 679	10 720
	Reinsurance premium paid	2 711	(5 891)
		23 390	4 829
	Statutory basis		
	Premium income	(11 048)	52 097
	Reinsurance premium paid	11 267	(32 065)
		220	20 032
28.3	**Net insurance claims**	(153 007)	(114 548)
	Long-term insurance contract claims	(5 563)	(1 471)
	Gross claims paid	(20 376)	(3 382)
	Movement in the expected cost of outstanding claims	(1 404)	(148)
	Reinsurance recoveries	15 390	2 024
	Movement in the expected reinsurance ceded cost of outstanding claims	827	35
	Short-term insurance contract claims	(147 445)	(113 077)
	Gross claims paid	(378 996)	(441 871)
	Incurred but not reported claims	(14 065)	(4 790)
	Movement in the expected cost of outstanding claims	(119 947)	60 962
	Reinsurance recoveries	265 992	309 731
	Reinsurance: Incurred but not reported claims	9 696	5 402
	Movement in the expected reinsurance ceded cost of outstanding claims	89 875	(42 511)
28.4	**Other costs from insurance activities**		
	Movement in policyholders' liability	(1 808)	(7 423)
	Net commission and administration fees	(39 265)	(18 252)
		(41 073)	(25 675)

29. Investment income and fees

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
An analysis of revenue is as follows:				
Investment income from financial assets classified as at fair value through profit or loss:	71 170	79 664	19 290	13 373
Dividend income	32 322	29 658	13 335	8 023
Interest income	38 848	50 006	5 955	5 350
Investment management and performance fees	(8 531)	(7 718)	(2 706)	(1 905)
	62 639	71 946	16 584	11 468

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
30. Fair value gains				
Held-for-trading	(1 165)	(678)	(1 165)	(678)
Strategic trading assets	(689)	(494)	(689)	(494)
Instruments in (Repos)	(476)	(184)	(476)	(184)
Designated at fair value through profit or (loss)				
Investment income	35 192	8 543	8 384	6 555
Realised gains	72 132	50 198	34 858	18 562
Unrealised fair value losses	(36 940)	(41 655)	(26 474)	(12 007)
	34 027	7 865	7 219	5 877

31. Operating expenses

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Depreciation	8 411	5 006	8 349	4 973
Amortisation - computer software	6 810	6 598	6 810	6 598
Audit fees	15 923	15 525	14 409	13 731
- External [1]	8 410	8 882	6 896	7 088
- Internal	7 513	6 643	7 513	6 643
Directors' emoluments	20 665	19 675	15 816	15 308
- Executive	13 775	13 476	10 365	10 427
- Non-executive	6 890	6 199	5 451	4 881
Leases	30 437	28 794	30 437	28 794
- Actual payment	31 047	29 155	31 047	29 155
- Effect of straight-lining	(610)	(361)	(610)	(361)
Management fees	646	755	646	755
Professional fees	22 986	34 365	20 764	30 756
Staff costs	447 489	345 209	432 220	331 502
- Salaries and contributions	341 365	307 833	331 371	298 521
- Staff related provisions and other [2]	106 124	37 376	100 849	32 981
Cost of restructuring	2 611	31 120	2 611	31 120
- Professional fees	-	10 380	-	10 380
- Staff cost	2 611	9 596	2 611	9 596
- Other operating expenses	-	11 144	-	11 144
Other operating expenses*	98 553	100 504	96 678	98 802
- Computer and data costs	23 559	22 259	23 559	22 259
- Repairs and maintenance	7 075	5 464	7 075	5 464
- Rates and taxes	8 000	9 179	8 000	9 179
- Travel and accommodation	15 384	7 788	14 698	7 188
- Corporate social investment	11 053	7 813	11 053	7 813
- Other [3]	33 482	48 001	32 293	46 899
	654 531	587 551	628 740	562 339

* Subsequent to year end, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" but rather that of a "discontinued operation". The FY2017 disclosure have been amended to reclassify the operating expenses of the disposal group to continuing operations. Refer to note 48.

[1] Included in these fees are non-audit services amounting to Rnil (FY2017: R92k)

[2] The increase relates to additional expenses incurred in FY2018 due to an under provision in FY2017.

[3] This includes sundry operating expenses such as security, legal fees, cleaning and marketing amongst others. During FY2018 the legal fees were included as part of other operating expenses. The FY2017 disclosure have been amended to conform to the FY2018 disclosure.

During the year the arranging fees were reclassified from operating expenses to interest expense as these arranging fees form part of the "Effective Interest Rate" of funding instruments. Refer to note 48.

	Group		Bank	
	2018	2017	2018	2017
32. Non-trading and capital items	R'000	R'000	R'000	R'000
Fair value gain on investment properties (note 14)	**6 790**	8 879	**6 790**	8 879
Foreign exchange gain	**1 089**	35	**1 089**	35
Loss on investment recognition (note 8.3)	**-**	(393)	**-**	(393)
Impairment of other assets	**201**	100	**201**	100
Non-current assets held-for-sale fair value adjustment (note 13.1)	**165**	190	**165**	190
Loss on disposal of property and equipment	**(227)**	(326)	**(227)**	(326)
Loss on write-off intangible assets (note 16)	**(185)**	(2 112)	**(185)**	(2 112)
Loss on disposal of non-current assets held-for-sale (note 13.1)	**(9 080)**	(485)	**(9 080)**	(485)
	(1 247)	5 888	**(1 247)**	5 888

33. Indirect taxation

	Group 2018	Group 2017	Bank 2018	Bank 2017
Value Added Tax [1]	**68 922**	68 863	**68 922**	68 863

[1] Value-added taxation comprises the portion that is irrecoverable as a result of the interest earned in the South African financial services sector.

34. Funds under administration

	Group 2018	Group 2017	Bank 2018	Bank 2017
Asset				
Cash balance held for the funds administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF)	**198 080**	121 581	**198 080**	121 581
Liabilities				
DAFF	**188 417**	112 562	**188 417**	112 562
DRDLR	**9 663**	9 019	**9 663**	9 019
	198 080	121 581	**198 080**	121 581

34.1 Funds administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF)

	Group 2018	Group 2017	Bank 2018	Bank 2017
Agri-BEE fund	**150 605**	102 508	**150 605**	102 508
DAFF administration fund - flood relief	**34**	33	**34**	33
MAFISA fund	**11 769**	10 021	**11 769**	10 021
Development subsidy	**26 009**	-	**26 009**	-
	188 417	112 562	**188 417**	112 562

	Group		Bank	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
34.2 Funds administered on behalf of the Department of Rural Development and Land Reform (DRDLR)				
Land for Redistribution and Agricultural Development (LRAD) grant	9 663	9 019	9 663	9 019
34.3 Reconciliation of movement in funds under administration				
Agri-BEE				
Balance at the beginning of the year	102 508	59 018	102 508	59 018
Receipts	40 166	38 232	40 166	38 232
Accrued interest	7 931	6 427	7 931	6 427
Credit transfer	-	-	-	-
Disbursements	-	(1 169)	-	(1 169)
Balance at the end of the year	150 605	102 508	150 605	102 508
34.3.1 DAFF poverty fund				
Balance at the beginning of the year	33	32	33	32
Accrued interest	1	1	1	1
Balance at the end of the year	34	33	34	33
34.3.2 MAFISA fund				
Balance at the beginning of the year	10 021	9 358	10 021	9 358
Receipts	1 000	-	1 000	-
Accrued interest	748	663	748	663
Balance at the end of the year	11 769	10 021	11 769	10 021
34.3.3 LRAD grant				
Balance at the beginning of the year	9 019	8 421	9 019	8 421
Receipts	17	-	17	-
Accrued interest	627	598	627	598
Balance at the end of the year	9 663	9 019	9 663	9 019
34.3.4 DAFF development subsidy				
Balance at the beginning of the year	-	-	-	-
Receipts	100 000	-	100 000	-
Accrued interest	90	-	90	-
Transfer to Land Bank	(74 081)	-	(74 081)	-
Balance at the end of the year	26 009	-	26 009	-

34.4 Description of the funds under administration

Agri-BEE fund

Parliament approved a sector specific allocation for the Agri-BEE Fund that will allocate grants to promote the rural community based empowerment groups. The bank acts as an agent on behalf of the DAFF in the administration of the Fund. Disbursements amounted to Rnil (FY2017: R1.16 million). An injection of R40.2 million (FY2017:R38.2 million) from DAFF and Rnil (FY2017: R3.4 million) from clients own contributions was received during the current financial year.

DAFF poverty fund

The fund has been set up by the DAFF to respond to any food crisis by means of procurement of agricultural implements and starter packs.

MAFISA fund

The MAFISA Fund has been set up on request of the DAFF to invest money in approved projects of the Department through on-lending to individuals. Monies received from the DAFF for the MAFISA Fund is invested in a separate bank account on behalf of the DAFF. No on-lending has taken place during the period under review. An injection of R1 million was received from Kaap Agri during the current year.

Land for Redistribution and Agricultural Development (LRAD) grant

The fund has been set up on behalf of the DRDLR.

DAFF development subsidy

Land Bank received R100 million from the Department of Agriculture, Forestry and Fisheries on the 26th of March 2018. The fund was set up to assist Black Commercial Producers in the form of equity acquisition, interest rate subsidies and technical assistance. This is a part of the broader efforts from DAFF and the Land Bank to accelerate development and transform the agricultural sector. During the same period, the Land Bank accessed R74.1 million of the funds to recoup some of the interest foregone in supporting the Development mandate.

		Group		Bank	
		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
34.5	**Emerging farmers` support facility & REM wholesale finance facility**				
	Asset				
	Cash balance held for the support facilities	**305 660**	295 327	**305 660**	295 327
	Liabilities				
	Emerging farmers support facility	**304 080**	284 295	**304 080**	284 295
	REM wholesale finance support facility	**1 580**	11 032	**1 580**	11 032
		305 660	295 327	**305 660**	295 327
34.5.1	**Emerging farmers support facility**				
	Balance at the beginning of the year	**284 295**	265 424	**284 295**	265 424
	Accrued interest	**19 785**	18 871	**19 785**	18 871
	Balance at the end of the year	**304 080**	284 295	**304 080**	284 295
34.5.2	**REM wholesale finance support facility**				
	Balance at the beginning of the year	**11 032**	15 048	**11 032**	15 048
	Receipts	**-**	50 000	**-**	50 000
	Accrued interest	**386**	1 595	**386**	1 595
	Disbursements	**(9 838)**	(55 611)	**(9 838)**	(55 611)
	Balance at the end of the year	**1 580**	11 032	**1 580**	11 032

34.6 Description of the emerging farmers support & REM wholesale finance support facility

Emerging farmers support facility

The Land Bank received R208.0 million from the Department of Rural Development and Land Reform on the 17th of August 2011. The transfer received is a guarantee for identified deserving emerging farmers which require rescue packages. The identified farmers all have mortgage loans with the Land Bank and the Bank can only access the guarantee after complying with conditions as set by the Department of Rural Development and Land Reform. The only movement in the facility to date has been the interest accrued on the transfer received.

REM wholesale finance support facility

The Land Bank received 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 period under review (FY2017: R50 million) and disbursements of R9.8 million (FY2017: R55.6 million).

35. Contingent liabilities

35.1 LBLIC Tax

The former LBIC as a wholly owned subsidiary of Land Bank, was exempt from Income Tax in terms of section 10(1)(cA)(ii) of the Income Tax Act, 1962 (Act No. 58 of 1962).

With effect 01 April 2012, LBIC was restructured in line with Ministerial approval of its revised business model, which was based on a preferred "Hold Co" structure by the Financial Services Board ("FSB"). The restructured insurance group now consisted of LBIS Holding Co, LBIC (Short-term insurance co) and LBLIC (Long-term insurance co).

As part of the implementation of LBIC's restructure during FY2014 LBIS group management approached the South African Revenue Services ("SARS") for a tax ruling to confirm that the tax privileges of the former LBIC, would still apply to the restructured group, as in effect nothing has changed, i.e. all companies effectively remain 100% owned by the Land Bank, albeit "indirectly".

The tax ruling received back from SARS was negative, stating that because of the inclusion of the LBIS holding company within the insurance group structure, the LBIC and LBLIC operating companies would not be entitled to exemption from Income Tax, as unlike the former LBIC - these companies were not "direct" wholly owned subsidiaries of the Land Bank.

LBIS group management then approached the Minister of Finance requesting approval for the removal of the LBIS holding company, from the group structure.

The Minister of Finance granted approval for the request to remove the LBIS holding company on 14 May 2014. This approval indicated that in terms of the new group structure both LBIC (ST Co) and LBLIC (Ltd Co) can apply for tax exemption in terms of section 10(1)(cA)(ii) of the Income Tax Act, 58 of 1962. Furthermore, the Minister requested that the company engage with the FSB regarding the approved revised structure.

Following the Ministerial approval, management is re-engaging SARS with the application for a tax exemption from 01 April 2012 to 31 March 2014, for both LBIC and LBLICand 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 liabilityfor LBLIC for the period, 1 April 2012 to 31 March 2014. The FSB has approved the new structure.

In the unlikely event that SARS does 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 period1 April 2012 to 14 May 2014 Management is of the view that it is improbable that this approval will not be granted and the matter will be resolved in FY2019.

The Bank awaits feedback from SARS on the exemption applications submitted.

36. Contingent assets

As at 31 March 2018, LBIC was still in the process of finalising an agreement with ABSA, whereby ABSA would settle half of the benefits they derived from their reinsurance treaties for the 2014/2015 crop season in the form of commission revenue and stop loss protection agreed on the 30% line, less expenses they had incurred in term of broker commission and underwriting management fees.

The adjustments expected as at 31 March 2018 and those reported as at 31 March 2017, are reflected as follows:

	Group	
	2018	2017
	R'000	R'000
Net loss reported	**(67 699)**	(32 062)
Expected benefit	**8 204**	8 990
Retained earnings benefit	**(59 495)**	(23 072)

The reinsurance quota share treaties contain various sliding scale commission adjustment clauses, depending on the loss ratios for the season. The fruit treaty has experienced good loss ratios over the past two seasons, resulting in additional reinsurance commission. The final adjustment will be performed at the end of the season.

37. Commitments *

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
37.1 Loan commitments and guarantees				
Guarantees [1]	**815 573**	1 016 872	**815 573**	1 016 872
Loan commitments	**6 751 717**	7 384 825	**6 751 717**	7 384 825
	7 567 290	8 401 697	**7 567 290**	8 401 697

* During the year, the data enhancement initiatives of the Bank, resulted in improved data quality and more reliable information on commitments and guarantees for FY2017. FY2017 disclosure was adjusted to include the loan commitments on the Service Level Agreement portfolio. Refer to note 48.

[1] The above guarantees are included in the clients' approved facility limits and it is unknown when the guarantees will be presented for payment.

37.2 Debentures/ stock purchased

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Repo's				
- R186 (Nominal value: R5 million)	**5 776**	5 533	**5 776**	5 533
- R208 (Nominal value: R10 million)	**9 930**	9 616	**9 930**	9 616
	15 706	15 149	**15 706**	15 149

37.3 Lease commitments

The Group has entered into various lease agreements with third parties in respect of equipment and premises for its day-to-day operations. The lease periods on equipment range from three to five years and one to five years on buildings.

As at 31 March the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Operating lease commitments - Group as lessee				
Payable within one year	**29 174**	18 391	**29 174**	18 391
Payable between one to five years	**21 684**	5 264	**21 684**	5 264
	50 858	23 655	**50 858**	23 655
Operating lease commitments - Group as lessor				
Receivable within one year	**3 266**	5 141	**3 266**	5 141
Receivable between one to five years	**2 212**	3 834	**2 212**	3 834
	5 478	8 975	**5 478**	8 975

During FY2018, the Group extended its lease agreement on the building for its head office on 1 December 2017, for a further two years, which accounts for more than 75% of the total lease expense. The agreement has a renewal option for a further five years and an escalation clause of 8% annually. The lease expenses payable within the next financial year amounts to R22.5 million (FY2017: R13.5 million) and the amount payable between one and five years amounts to R15.8 million (FY2017: Rnil).

A register containing details of the existence and terms of renewal and escalation clauses is available for inspection at the Group's registered office.

38. Related party transactions

38.1 Relationships between parents, subsidiaries and associates

The ultimate controlling party of the Land Bank is government, National Treasury, both incorporated in South Africa.

The following represents the significant subsidiaries of the Bank:

	Ownership Interest	
	2018	2017
Land Bank Life Insurance Company (SOC) Limited (LBLIC)	**100%**	100%
Land Bank Insurance Company (SOC) Limited (LBIC)	**100%**	100%
Land Bank Insurance Services (SOC) Limited (LBIS) [1]	**100%**	100%

[1] In May 2014, the Minister approved that the former holding company (LBIS) be dissolved and that the two insurance companies (LBIC and LBLIC) be held directly by Land Bank. As at 31 March 2018 LBIS has not been dissolved and remains in a dormant state.

38.2 Transactions with related parties other than key management personnel

38.2.1 Amounts received from related parties during the year

	2018	2017
	R'000	R'000
i) Land Bank Life Insurance Company (SOC) Limited - Subsidiary		
Policy administration fees received by Land Bank	**92**	241
Referral fee received by Land Bank	**-**	63
Portion of non-executive directors emoluments paid by LBLIC	**80**	80
Property and equipment transferred (from)/ to LBLIC (at NAV)	**(6)**	169
Land Bank interest bearing assets held by LBLIC through the investment portfolio	**708**	1 228
	874	1 781

LBLIC is a 100% owned subsidiary of the Land Bank. An administration and management fee of R92k per annum (FY2017: R241k) is paid by LBLIC to Land Bank for support services such as finance, human resources, compliance and information technology.

At year end LBLIC holds, through the investment portfolio, Land Bank interest bearing investments valued at R0.7 million (FY2017: R1.2 million).

	2018 R'000	2017 R'000
ii) Land Bank Insurance Company (SOC) Limited - Subsidiary		
Policy administration fees received by Land Bank	**943**	822
Property and equipment transferred to LBLIC (at NAV)	**95**	34
Portion of non-executive directors emoluments paid by Land Bank	**320**	320
	1 358	1 176
Capital contribution from Land Bank		
- Cash	**70 000**	80 000
- Intercompany receivable	**(70 000)**	70 000
	-	150 000

During the FY2017 reporting period, the Land Bank contributed R150 million capital as part of the shareholders' support towards the operations of LBIC. R80 million was paid in cash on 31 March 2017, and the remaining R70 million was paid on 4 April 2017. The contribution was converted into 150 no par value shares in LBIC in March 2017, therefore increasing the issued shares of LBIC from 1,100 to 1,250. There were no further contributions in the current reporting period save for the actual cash payment relating to the R70 million intercompany receivable.

LBIC is a 100% owned subsidiary of the Land Bank. An administration and management fee of R943k per annum (FY2017: R822k) is paid by LBLIC to Land Bank for support services such as finance, human resources, compliance and information technology.

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.

Transactions during the year

No financial support in the form of cash injections was received during the current and previous financial year.

Government Support - Financial Guarantees

As at 31 March 2018, the Land Bank held a total of R9.6 billion guarantees which can be broken down as follows:

- R1.5 billion sustainability guarantee (issued during May 2017)
- R8.0 billion funding guarantees, of which R5.0 billion has been drawn (R3.7 billion on balance sheet and R1.3 billion in support of the World Bank's $93 million which to date has not been utilised), with R3.0 billion unutilised. The remaining R3.0 billion guarantee is accessible subject to the Land Bank achieving pre-determined gearing threshold as dictated by the shareholder.
- R0.1 billion historic "consolidation of debt" guarantee.

An annual fee of 0.3% per annum is payable to National Treasury on the guarantees granted (refer to note 25).

iv) Other related parties

The Bank obtains funding from institutions, of which the most significant nominal values are disclosed below:

Funding received	2018 R'000	2017 R'000
Corporation for Public Deposits	**1 312 500**	1 142 500
Industrial Development Corporation	**611 168**	565 804
National Housing Finance	**60 000**	120 000
Petro SA	**957 371**	600 000
Post Bank	**615 000**	695 000
Public Investment Corporation	**9 795 000**	9 855 000
Magalies Water	**6 750**	13 005
SA Police Medical Fund	**10 000**	10 000
South African Special Risks Insurance Association	**100 000**	100 000
	13 467 789	13 101 309
Other government related parties:		
African Development Bank	**863 636**	954 545
	14 331 425	**14 055 854**

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.

Abandonment of repossessed property to DRDLR	**-**	**1 000**

During the current financial year the Bank signed a deed of abandonment for a repossessed farm property in Potchefstroom to the DRDLR for the benefit of the farm residents.

38.2.2 Amounts owed by/(to) related parties

i) Subsidiaries	Note	2018 R'000	2017 R'000
Land Bank Life Insurance Company (SOC) Limited (LBLIC)	5	**81 211**	82 308
Land Bank Insurance Company (SOC) Limited (LBIC)		**4 116**	(66 981)

The intercompany account is held as a trading account between LBIC, LBLIC and its holding company, Land Bank. In terms of the shareholders' agreement, interest on the outstanding loan balance is charged at the prime overdraft rate, the loan is unsecured and has been sub-ordinated by Land Bank. Settlement will take place in cash. A decision was taken by the executive of the holding company that no interest would be charged on the outstanding loan balance during the current and prior financial periods under review.

There was no provision for doubtful debts at the statement of financial position date and no bad debt expense in the year (FY2017: Rnil).

38.2.3 Amounts owed to related parties	Note	2018 R'000	2017 R'000
DAFF	34.1	**188 417**	112 562
Micro-Agricultural Finance Institution		**11 769**	10 021
Agricultural Broad Based Black Economic Empowerment		**150 605**	102 508
DAFF Development Subsidy		**26 009**	-
DAFF Flood Relief		**34**	33
Department of Rural Development and Land Reform	34.2	**9 663**	9 019
Emerging Farmers' Support Facility & REM Wholesale Finance Facility	34.5	**305 660**	295 327
		503 740	416 908
i) Funds under administration			
DAFF	34.1	**188 417**	112 562
DRDLR	34.2	**9 663**	9 019
		198 080	121 581
Cash balances held for funds administered		**198 080**	121 581

ii) Micro-Agricultural Finance Institution (MAFISA)

The Bank was appointed as administrator of the state owned scheme, known as MAFISA by the DAFF. The Bank maintains separate accounting records for MAFISA which reflected the following balances at the reporting date.

		2018 R'000	2017 R'000
Bank balances of the MAFISA fund	34.3.2	**11 769**	10 021
MAFISA fund balance		**11 769**	10 021

iii) Agricultural Broad Based Black Economic Empowerment (Agri-BEE)

The Bank was appointed as administrator of the Agri-BEE funds in September 2006 in which monies, appropriated by parliament, was paid for the implementation of Agri-BEE. An injection of R40.2 million (FY2017:R38.2 million) from DAFF and Rnil (FY2017: Rnil) from clients own contributions was received during the current financial year.

iv) Emerging Farmers' Support Facility & REM Wholesale Finance Facility		2018 R'000	2017 R'000
Emerging farmers support facility	34.5.1	**304 080**	284 295
REM wholesale finance support facility	34.5.2	**1 580**	11 032
		305 660	295 327
Cash balance held for the support facilities		**305 660**	295 327

38.2.4 Transactions between subsidiaries

An administration fee of R11.4 million (FY2017: R10.2 million) was charged to LBIC, the short-term company, for services rendered by LBLIC.

	2018 R'000	2017 R'000
Amounts owed to LBLIC by LBIC	**4 964**	4 743

There was no provision for doubtful debts at the statement of financial position date and no bad debt expense in the year (FY2017: Rnil) relating to this intercompany transaction.

Revenue transactions for the year ended 31 March

	2018	2017
Total subsidiary salary costs (including executive director)	**13 534**	13 252
Service fees charged to LBIC for salaries	**(10 141)**	(9 730)
LBLIC salaries	**3 393**	3 522
Total subsidiary contributions to medical aid fund	**529**	490
Service fees charged to LBIC for medical aid	**(423)**	(392)
LBLIC medical aid	**106**	98
Total subsidiary contributions to retirement fund	**1 012**	1 008
Service fees charged to LBIC for Group Life Insurance	**(810)**	(805)
LBLIC retirement fund	**202**	203
Remuneration recharge to LBIC	**(11 374)**	(10 927)

38.2.5 Transactions with key management personnel

	2018 R'000	2017 R'000
Short-term employee benefits	**40 288**	36 803
Other long-term benefits	**771**	730
Termination benefits	**459**	257

Key management personnel comprises of executive- and non-executive directors.

Other transactions

There were no other transactions with key management personnel during the period under review.

39. Financial instruments

39.1 Credit risk

Definition

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.

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.

Credit risk management process

The credit risk management process has four stages, as reflected in the figure above. 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:

- In terms of long-term insurance policies issued before August 2006, the Land Bank guarantees the payment of the premium;
- Long-term insurance policies issued after August 2006, policyholder debtors outstanding for more than 60 days are not accounted for in premiums. If premium income is not paid within 60 days, the policy lapses if the client does not approve the premium to be added to the loan facility;
- For Group credit life business from 1 July 2016, the intermediary pays the premium net of brokerage and admin fees after 45 days;
- Short-term crop insurance is sold either as a cash or credit policy in the current financial period. Cash premiums need to be settled within 45 days. Credit policies are settled at the end of the season. Policy premiums outstanding after 45 days are then submitted to the attorneys, unless a new agreement is reached with the policyholder;
- On the reinsurance agreement in the prior reporting period, LBIC received the quota share bordereaux from the insurer 45 day after quarter end, which were then settled 30 days later. Outstanding settlements are then referred for legal opinion.
- As reinsurers, LBIC receives quota share bordereaux from the insurer 45 days after quarter end, which are then settled 30 days later; and
- Short-term asset insurance policy premiums are paid to the lead underwriter within 45 days on a co-insurance agreement. Policies are cancelled if premiums are not received in the 45 day period.

The insurance companies apply a life time expected credit loss allowance on premiums using a provision matrix.

Reinsurance credit risk

LBLIC and LBIC makes use of reinsurance to:

- Access underwriting expertise;
- Enable it to underwrite risks greater than its own risk appetite; and
- Protect its mortality/ risk book against catastrophes.

The use of reinsurance exposes the Group to credit risk. The counterparty risks of reinsurers are managed through formal contractual agreements which have been set up between the Group and reinsurers. These agreements include terms and conditions which regulates the relationship between the Group and reinsurers. Credit risk in respect of reinsurance is further managed by placing the Group's reinsurance only with companies that have high credit ratings. LBLIC 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 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.

			Group		Bank	
			2018	2017	2018	2017
39.2	Credit exposure		R'000	R'000	R'000	R'000

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

		Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
Asset class with asset credit risk exposure		**49 227 906**	45 130 768	**47 484 479**	43 520 231
Loans		**43 565 790**	41 172 693	**43 565 790**	41 172 693
Cash at bank		**2 421 069**	1 520 331	**2 362 130**	1 211 305
Trade and other receivables (excluding prepaid expenses)		**314 966**	374 377	**126 097**	128 283
Short-term insurance assets		**282 382**	178 527	**-**	-
Repurchase agreements		**15 706**	15 149	**15 706**	15 149
Hedging derivatives		**8 106**	-	**8 106**	-
Strategic trading assets		**-**	9 617	**-**	9 617
Investments *		**2 619 887**	1 860 074	**1 406 650**	983 184
Asset class without asset credit risk exposure		**259 114**	311 068	**248 155**	298 787
Intangibles		**20 279**	27 275	**20 279**	27 275
Prepaid expenses		**5 205**	10 666	**5 205**	10 666
Investment property		**174 590**	167 800	**174 590**	167 800
Long-term insurance assets		**10 753**	12 098	**-**	-
Non-current assets held-for-sale		**10 085**	47 993	**10 085**	47 993
Property and equipment		**38 202**	45 236	**37 996**	45 053
Total assets per statement of financial position		**49 487 020**	45 441 836	**47 732 634**	43 819 018
Add off balance sheet items exposed to credit risk					
Guarantees issued [1]	37.1	**815 573**	1 016 872	**815 573**	1 016 872
Loan commitments [1]	37.1	**6 751 717**	7 384 825	**6 751 717**	7 384 825
Operating lease commitments - group as lessor	37.3	**5 478**	8 975	**5 478**	8 975
		57 059 788	53 852 508	**55 305 402**	52 229 690
Maximum credit exposure - selected items		**56 800 674**	53 541 440	**55 057 247**	51 930 903

Credit exposure is calculated on the basis of selected items on and off the balance sheet (guarantees and loan commitments).

Collateral

Refer to note 11.7 for collateral held against the loans and advances.

* Included in the Group investments is an amount of R1 012.6 million (FY2017: R1 035.4 million) which relates to investments which do not have credit exposure (Bank: R285.0 million; FY2017: R292.3 million).

[1] During the year, the data enhancement initiatives of the Bank, resulted in improved data quality and more reliable information on commitments and guarantees for FY2017. FY2017 disclosure was adjusted to include the loan commitments on the Service Level Agreement portfolio. Refer to note 48.

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40. Credit risk continued

Gross loan book exposure by agricultural sector

2018

Agricultural Sector	Corporate Banking and Structured Investments Direct	Corporate Banking and Structured Investments Indirect	Corporate Banking and Structured Investments Total	Commercial Development and Business Banking Direct	Commercial Development and Business Banking Indirect	Commercial Development and Business Banking Total	Total	Stage 1: Performing	Stage 2: Under-performing	Stage 3: Non-performing
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Agri-Business	2 356 670	-	2 356 670	38 635	863 024	901 659	3 258 329	900 311	2 151 178	206 838
Agro-processing	-	-	-	-	281 312	281 312	281 312	268 744	10 964	1 604
Citrus	486 689	-	486 689	102 597	131 352	233 949	720 638	639 578	4 822	76 238
Cotton	-	-	-	1 932	59 694	61 626	61 626	59 782	-	1 844
Dairy	399 573	-	399 573	329 040	273 430	602 470	1 002 043	906 162	2 077	93 804
Deciduous fruit	619 330	-	619 330	191 845	19 606	211 451	830 781	744 468	19 780	66 533
Equipment	-	-	-	-	23 140	23 140	23 140	23 140	-	-
Feedlot	45 877	-	45 877	9 807	39 293	49 100	94 977	93 107	-	1 869
Financial services	415 070	-	415 070	555 085	1 552 818	2 107 903	2 522 973	2 311 772	49 502	161 698
Flowers	-	-	-	4 930	-	4 930	4 930	4 395	-	535
Fodder	-	-	-	85 757	74 529	160 286	160 286	103 589	1 624	55 072
Game	-	-	-	197 308	4 332	201 640	201 640	154 198	13 490	33 952
Grain	6 607 425	-	6 607 425	1 126 046	18 560 786	19 686 832	26 294 257	24 543 529	1 085 467	665 260
Inputs	-	-	-	-	-	-	-	-	-	-
Inputs supplier	24 098	-	24 098	180	71 799	71 979	96 077	38 854	-	57 223
Irrigations scheme	-	-	-	-	35 320	35 320	35 320	705	-	34 616
Livestock	44 495	-	44 495	2 544 212	576 392	3 120 604	3 165 099	2 539 856	44 455	580 789
Logistics	-	-	-	-	367 048	367 048	367 048	367 048	-	-
Nuts	96 577	-	96 577	167 204	97 475	264 679	361 256	360 468	369	418
Ostriches	4 408	-	4 408	45 570	-	45 570	49 978	44 562	-	5 416
Other	-	-	-	7 444	227 125	234 569	234 569	177 335	-	57 235
Pork	-	-	-	24 957	-	24 957	24 957	18 698	-	6 259
Poultry	339 880	-	339 880	332 039	142 145	474 184	814 064	687 500	20 487	106 078
Subtropical fruit	-	-	-	52 771	171 731	224 502	224 502	163 398	5 555	55 549
Sugar cane	662 000	-	662 000	395 203	223 052	618 255	1 280 255	1 204 733	18 551	56 971
Table grapes	-	-	-	20 065	35 647	55 712	55 712	53 869	1 843	-
Tea	145 091	-	145 091	15 776	-	15 776	160 867	15 658	-	145 209
Timber	680 101	-	680 101	62 261	439 781	502 042	1 182 143	1 178 336	-	3 807
Tobacco	(7 338)	-	(7 338)	4 979	12 807	17 786	10 448	(1 932)	-	12 379
Vegetables	-	-	-	379 378	667 242	1 046 620	1 046 620	540 038	17 459	489 124
Wine	341 219	-	341 219	325 968	318 285	644 253	985 472	884 719	38 642	62 110
Total	**13 261 165**	**-**	**13 261 165**	**7 020 989**	**25 269 165**	**32 290 154**	**45 551 319**	**39 026 620**	**3 486 265**	**3 038 430**

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FOR THE YEAR ENDED 31 MARCH 2018

2017 *

Agricultural Sector	Corporate Banking and Structured Investments			Commercial Development and Business Banking						
	Direct	Indirect	Total	Direct	Indirect	Total	Total	Stage 1: Performing	Stage 2: Under-performing	Stage 3: Non-performing
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Agri-Business	2 572 228	-	**2 572 228**	43 467	870 233	**913 700**	**3 485 928**	1 548 999	1 875 727	61 201
Agro-processing	-	-	**-**	-	221 819	**221 819**	**221 819**	207 900	471	13 448
Citrus	693 608	-	**693 608**	96 763	231 918	**328 681**	**1 022 288**	938 566	6 190	77 534
Cotton	-	-	**-**	1 673	33 186	**34 859**	**34 859**	31 616	888	2 355
Dairy	321 902	-	**321 902**	297 891	345 974	**643 865**	**965 767**	775 426	61 373	128 968
Deciduous fruit	463 596	-	**463 596**	231 557	-	**231 557**	**695 153**	634 050	6 322	54 781
Equipment	-	-	**-**	-	23 555	**23 555**	**23 555**	23 555	-	-
Feedlot	30 342	-	**30 342**	13 024	-	**13 024**	**43 366**	35 215	-	8 150
Financial services	534 860	-	**534 860**	481 826	409 416	**891 242**	**1 426 102**	1 391 538	19 181	15 383
Flowers	-	-	**-**	4 645	2 271	**6 916**	**6 916**	6 718	198	-
Fodder	-	-	**-**	75 140	55 977	**131 117**	**131 117**	111 279	3 819	16 019
Game	-	-	**-**	191 944	22 372	**214 316**	**214 316**	180 003	1 362	32 950
Grain	7 274 714	-	**7 274 714**	854 386	16 801 468	**17 655 854**	**24 930 569**	22 274 967	1 182 013	1 473 589
Inputs	-	-	**-**	-	18 603	**18 603**	**18 603**	18 603	-	-
Inputs supplier	24 103	-	**24 103**	200	63 035	**63 235**	**87 338**	64 931	-	22 407
Livestock	30 569	-	**30 569**	2 246 579	727 502	**2 974 081**	**3 004 650**	2 346 436	124 859	533 355
Logistics	-	-	**-**	-	169 461	**169 461**	**169 461**	169 461	-	-
Nuts	89 972	-	**89 972**	170 980	59 062	**230 042**	**320 014**	319 596	-	418
Ostriches	5 070	-	**5 070**	11 319	-	**11 319**	**16 389**	10 654	-	5 735
Other	-	-	**-**	192 403	703 227	**895 630**	**895 630**	265 545	438 998	191 088
Pork	-	-	**-**	17 904	-	**17 904**	**17 904**	15 503	-	2 402
Poultry	97 923	-	**97 923**	302 077	436 068	**738 145**	**836 068**	706 707	35 167	94 194
Subtropical fruit	-	-	**-**	62 049	135 099	**197 148**	**197 148**	172 242	10 163	14 742
Sugar cane	633 256	-	**633 256**	358 446	267 451	**625 897**	**1 259 153**	1 192 991	5 746	60 417
Table grapes	-	-	**-**	22 695	93 743	**116 438**	**116 438**	114 558	1 880	-
Tea	130 358	-	**130 358**	13 590	-	**13 590**	**143 948**	13 431	130 358	159
Timber	801 914	-	**801 914**	25 103	414 675	**439 778**	**1 241 692**	1 239 064	1 132	1 496
Tobacco	85 653	-	**85 653**	5 078	93 013	**98 091**	**183 744**	132 995	4 065	46 684
Vegetables	31	-	**31**	349 670	288 165	**637 835**	**637 866**	424 604	43 535	169 727
Wine	501 422	-	**501 422**	285 530	209 386	**494 916**	**996 338**	916 531	44 035	35 772
Total	**14 291 521**	**-**	**14 291 521**	**6 355 939**	**22 696 679**	**29 052 618**	**43 344 139**	**36 283 684**	**3 997 482**	**3 062 974**

* During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 disclosure have been amended to conform to the FY2018 disclosure framework. Refer to note 48.

41. Credit risk 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:

31 March 2018	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	401 910	286 348	79 132	-	767 390
AA+	230 349	36 638	-	-	266 987
AA	73 003	17 869	-	-	90 872
AA-	8 216	1 912 704	-	-	1 920 920
A+	10 077	-	-	-	10 077
A	2 435	2 231	-	-	4 666
A-	5 247	4 071	-	-	9 318
BB+	-	32 951	-	-	32 951
BBB+	-	150 000	-	-	150 000
BBB	1 452	-	-	-	1 452
BBB-	15 706	-	-	-	15 706
Other *	-	43 730 069	-	-	43 730 069
Not rated **	10 768	2 762	-	270 344	283 874
Total	**759 163**	**46 175 643**	**79 132**	**270 344**	**47 284 282**
31 March 2017					
AAA	168 153	18 809	260	-	187 222
AA+	24 162	14 218	-	-	38 380
AA	69 828	1 450 286	86 489	-	1 606 603
AA-	24 572	3 035	1 960	-	29 567
A+	5 798	6 691	308	-	12 797
A	1 392	-	-	-	1 392
A-	-	-	-	-	-
BB+	-	185 612	-		185 612
BBB+	2 281	-	-	-	2 281
BBB	101	-	-	-	101
BBB-	15 149	-	-	-	15 149
Other *	2 482	41 115 318	-	-	41 117 800
Not rated **	1 535	-	-	345 280	346 815
Total	**315 453**	**42 793 969**	**89 017**	**345 280**	**43 543 719**

Refer to notes 4, 7 and 8 for Bond movements

* This includes the Corporate Banking and Structured Investments, Commercial Development and Business Banking and LDFU loans. These clients 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.

** These assets do not have a formal rating and mainly relate to premium debtors. A lifetime expected credit loss provision is applied to premium debtors.

41.1 Credit exposure by line of business - loan book

Gross loan book	2018 R'000	2018 % Total	2017 * R'000	2017 * % Total
Continuing operations				
Corporate Banking and Structured Investments	**13 261 165**	**29%**	14 291 521	32%
Commercial Development and Business Banking	**32 290 154**	**70%**	29 052 618	66%
Total gross loan book from continuing operations	**45 551 319**		43 344 139	
Less: Expected Credit Loss (ECL)	**(2 132 857)**		(2 368 585)	
Carrying amount of loans from continuing operations	**43 418 462**		40 975 554	
Discontinued operations				
LDFU	**504 093**	**1%**	630 605	2%
Total gross loan book from discontinued operations				
Less: Expected Credit Loss (ECL)	**(356 765)**		(433 466)	
Carrying amount of loans from discontinued operations	**147 328**		197 139	
Balance per annual financial statements - total carrying amount	**43 565 790**	**100%**	41 172 693	100%

* During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 disclosure have been amended to conform to the FY2018 disclosure framework. Refer to note 48.

Balance as per the following notes: 12 & 23

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. The LDFU loans constitute 1 percent (FY2017: 2 percent) of total loans and the LDFU operations have been classified as discontinued.

41.2 Credit exposure by maturity - Gross loan book

Based on the maturity of the loans as disclosed in note 11 and 12, the credit exposure by maturity is as follows:

	2018 R'000	2018 %	2017 R'000	2017 %
Short-term	**16 412 694**	**36%**	17 016 852	40%
Medium-term	**5 503 718**	**12%**	4 351 860	10%
Long-term	**23 615 117**	**52%**	21 655 326	50%
	45 531 529	**100%**	43 024 038	100%

In terms of the exposure profile by maturity, the Land Bank's exposure concentrates on the long-term - i.e. loans extended for periods of five years and longer. The exposure as at 31 March is R23.6 billion (FY2017: R21.7 billion).

Credit exposure by geographic/regional distribution

2018 Province	Corporate Banking and Structured Investments R'000	Commercial Development and Business Banking R'000	LDFU R'000	Total R'000	Total %
Eastern Cape	888 874	1 129 433	-	2 018 307	4%
Free State	78 681	6 159 386	-	6 238 067	14%
Gauteng	5 467 535	5 392 681	504 093	11 364 309	25%
KwaZulu-Natal	547 730	1 377 626	-	1 925 356	4%
Mpumalanga	611 925	5 833 797	-	6 445 722	14%
Northern Cape	1 404 075	4 462 475	-	5 866 550	13%
Limpopo	-	1 314 053	-	1 314 053	3%
North West	3 214 646	3 668 253	-	6 882 899	15%
Western Cape	1 047 699	2 952 450	-	4 000 149	9%
Gross loan book	**13 261 165**	**32 290 154**	**504 093**	**46 055 412**	**100%**

2017 * Province	Corporate Banking and Structured Investments R'000	Commercial Development and Business Banking R'000	LDFU R'000	Total R'000	Total %
Eastern Cape	1 011 022	987 908	-	1 998 930	5%
Free State	550 710	5 838 470	-	6 389 180	15%
Gauteng	4 319 011	4 697 569	92 848	9 109 428	21%
KwaZulu-Natal	651 835	1 050 444	439 980	2 142 259	5%
Mpumalanga	2 218 607	5 168 293	-	7 386 900	17%
Northern Cape	1 280 436	2 844 367	-	4 124 803	9%
Limpopo	-	1 040 918	-	1 040 918	2%
North West	2 992 661	4 974 549	97 777	8 064 987	18%
Western Cape	1 267 239	2 450 100	-	3 717 339	8%
Gross loan book	**14 291 521**	**29 052 618**	**630 605**	**43 974 744**	**100%**

* During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". The FY2017 disclosure have been amended to conform to the FY2018 disclosure framework.

41.3 Credit risk management practices in relation to the recognition and measurement of expected credit losses

Having early adopted IFRS 9 - Financial Instruments with effect 1 April 2015, the Group applies a three-stage approach to the 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:

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

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provisions for doubtful debt) rather than the gross carrying amount.

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 PD, LGD and 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. 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; no prepayments assumed.	PDs: migration matrices for multi-year migration effects, term structure analysis for seasoning effect, macro-economic overlay for cyclicality. LGD: LGD model calibrated with own data history. EAD: CCF modelling with own data, inclusion of repayment schedules.
Whether a credit risk has increased significantly since initial recognition	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. 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.	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. 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.

Low credit risk

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 impairment 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.

Macro-economic factors

IFRS 9 introduced the use of macro-economic factors when calculating ECL. To the extent that is is relevant and practical 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-indicies, including any forecasts of future economic conditions are reviewed regularly.

For information on financial assets' credit risk exposure, including significant credit risk concerntrations please see note 39.1.

Defaults and write offs: expected credit losses

Land Bank defines a default as unwillingness to pay and/ or past due > 90 days.

In order to determine whether financial assets are credit-impaired Land Bank considers:

- 90 days past due on a material debt obligation;
- Credit obligation put on non-accrual status, i.e. Interest is suspended;
- Any bad debt write off, or account specific provisions;
- Sale of credit obligation at a material economic loss;
- Distressed restructuring of credit obligations;
- Obligor's bankruptcy or similar protection such as business rescue.

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 issue 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
- 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 is insufficient dividends for the estate and the assets within the estate are of minimal value and / or are not dispensable to the debtor’s dependants; 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 financial assets are written off when the aforementioned criteria has 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 R9.9 million (FY2017: R8.8 million).

Modification

During the year 29 accounts to the value of R84.2 million (gross loans at 31 March 2017) were modified, which resulted in expected credit loss provision releases of R0.25 million during the year. As at 31 March 2018 the gross loans relating to the modified accounts amounted to R73.2 million. The following table shows the impact of modifications during the reporting period:

	Gross loans		Expected credit losses	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Loss allowance: expected credit losses				
Gross loans	**73 182**	**84 207**	**323**	**568**
- Stage 1	68 613	-	242	-
- Stage 2	3 570	58 460	22	-
- Stage 3	999	25 747	59	568

Stage migration (Gross loans and relating expected credit losses)

Group and Bank		Stage 1 [1]	Stage 2 [2]	Stage 3 [2]	Total
2018	**Note**	R'000	R'000	R'000	R'000
Gross loans as reported for 2017	11.3	**36 283 685**	**3 997 481**	**3 062 973**	**43 344 139**
Stage migration - improvements		**1 143 369**	**(735 795)**	**(407 574)**	
- Stage 2 to 1		778 923	(778 923)	-	
- Stage 3 to 1		364 446	-	(364 446)	
- Stage 3 to 2		-	43 128	(43 128)	
Stage migration - deterioration		**(1 189 725)**	**228 851**	**960 874**	
- Stage 1 to 2		(638 476)	638 476	-	
- Stage 1 to 3		(551 249)	-	551 249	
- Stage 2 to 3		-	(409 625)	409 625	
Net stage migration		**(46 356)**	**(506 944)**	**553 300**	
Expected credit losses as reported for 2017	11.3	**220 415**	**1 360 601**	**787 569**	**2 368 585**
Stage migration - improvements		**9 532**	**35 750**	**(45 282)**	
- Stage 2 to 1		1 263	(1 263)	-	
- Stage 3 to 1		8 269	-	(8 269)	
- Stage 3 to 2		-	37 013	(37 013)	
Stage migration - deterioration		**(53 889)**	**(126 170)**	**180 059**	
- Stage 1 to 2		(8 306)	8 306	-	
- Stage 1 to 3		(45 583)	-	45 583	
- Stage 2 to 3		-	(134 476)	134 476	
Net stage migration		**(44 357)**	**(90 420)**	**134 777**	

[1] 12 month expected credit losses
[2] Life time expected credit losses

Stage migration (Gross loans and relating expected credit losses)

Group and Bank 2017	Note	Stage 1 [1] R'000	Stage 2 [2] R'000	Stage 3 [2] R'000	Total R'000
Gross loans as reported for 2016	11.3	**30 468 391**	**5 109 005**	**3 441 924**	**39 019 320**
Stage migration - improvements		**1 401 215**	**(976 220)**	**(424 995)**	
- Stage 2 to 1		1 125 787	(1 125 787)	-	
- Stage 3 to 1		275 428	-	(275 428)	
- Stage 3 to 2		-	149 567	(149 567)	
Stage migration - deterioration		**(1 231 090)**	**832 718**	**398 372**	
- Stage 1 to 2		(883 122)	883 122	-	
- Stage 1 to 3		(347 968)	-	347 968	
- Stage 2 to 3		-	(50 404)	50 404	
Net stage migration		**170 125**	**(143 502)**	**(26 623)**	
Expected credit losses as reported for 2016	11.3	**172 224**	**1 483 100**	**942 399**	**2 597 723**
Stage migration - improvements		**29 130**	**6 480**	**(35 610)**	
- Stage 2 to 1		1 620	(1 620)	-	
- Stage 3 to 1		27 510	-	(27 510)	
- Stage 3 to 2		-	8 100	(8 100)	
Stage migration - deterioration		**(155 957)**	**14 743**	**141 214**	
- Stage 1 to 2		(33 249)	33 249	-	
- Stage 1 to 3		(122 708)	-	122 708	
- Stage 2 to 3		-	(18 506)	18 506	
Net stage migration		**(126 827)**	**21 223**	**105 604**	

[1] 12 month expected credit losses
[2] Life time expected credit losses
* Excludes the impact of suspended interest

41.4 Liquidity risk

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 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 liquidity. A borrowing and funding plan and a liquidity contingency plan will be maintained taking into account the structure of the Group's balance sheet as well as its dynamics within the South African agricultural market.

Control and management

The following control measures are in place:

- The Bank monitors the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) measurements as underpinned by the internationally accepted Basel Accord.
- A liquidity committee meets on a monthly basis to determine the required liquidity levels.
- Active and detailed monitoring of clients cash flow requirements.
- The Bank reviews its treasury policies in line with market best practices on an annual basis.
- Actively attracting new investors and funding sources.
- Increased investor limits and appetite.
- A Domestic Medium Term Note (DMTN) programme.
- Active management of maturities.

Monitoring the liquidity position

The Asset and Liability Management Committee (ALCO) monitors the group's liquidity and maturity mismatches. ALCO reviews the quality of funding and ensures that the sources of funding are adequately diversified. It is the Bank's policy to maintain an adequate liquidity buffer to meet its cash flow requirements.

The Bank manages its liquidity requirements by the issuance of call bonds, Land Bank bills, Land Bank debentures and promissory notes. Loans, undrawn facilities and committed overdraft facilities are also available to the bank should the need for additional funding arise.

Liquidity risk is managed by 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.

The Bank's Liquidity risk is managed by maintaining a pool of unencumbered assets and additional liquidity as calculated by a behavioural model for credit, market and operational risk. The Bank voluntary adopted certain liquidity and funding risk management principles from the Basel accord with Board approved deviations (to cater for the Bank's unique business model of being a single shareholder, non-deposit taking institution that cannot offer transactional products) to report Liquidity Coverage Ratio (LCR) and Net Stable Funding Ration (NSFR).

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 statutory CAR for LBLIC was calculated to be 106.8 times (FY2017: 112.2 times), which means that the insurance company has ample surplus assets to cover liabilities.

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.

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 plus R10 million CAR 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 use 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.
- The Bank has historically enjoyed a 100% roll-over rate from PIC and CPD debt investments and this behaviour is expected to continue. For this reason, the Bank excludes contractual maturities from these institutions from the 30 day maturity profile.
- Acknowledge a deviation from the regulation in terms of assumptions made regarding roll-over rates with investors to assess the likelihood of roll-over. The Bank will always apply the minimum roll-over rate (between historic roll-overs and investor discussions) to the calculations of the LCR.

These deviations from the Banking Regulations 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.

	Group 2018 R'000	Group 2017 R'000	Bank 2018 R'000	Bank 2017 R'000
The tables below summarise the maturity analysis for financial liabilities:				
Financial liabilities				
Trade and other payables	**355 404**	379 782	**160 715**	163 998
Short-term insurance liabilities	**398 859**	260 264	**-**	-
Long-term policyholder liability	**55 939**	54 762	**-**	-
Funding and liabilities at amortised cost	**41 576 302**	37 839 610	**41 576 302**	37 839 610
Total financial liabilities	**42 386 504**	38 534 418	**41 737 017**	38 003 608

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42. Liquidity risk continued

Maturity analysis for financial liabilities

2018	**< 3 months**	**3 - 6 months**	**6 - 9 months**	**9 - 12 months**	**1 - 5 years**	**> 5 years**	**Drawn facilities**	**Open ended**	**Total**
Financial liabilities	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Other financial liabilities									
Trade and other payables (excluding deferred income)	84 630	-	-	16 116	12 583	-	-	47 386	160 715
Funding at amortised cost	7 251 587	4 918 648	2 149 508	3 621 400	17 822 316	5 811 852	991	-	41 576 302
Bank at 31 March 2018	**7 336 217**	**4 918 648**	**2 149 508**	**3 637 516**	**17 834 899**	**5 811 852**	**991**	**47 386**	**41 737 017**
Less: intercompany loan (LBLIC)	(81 211)	-	-	-	-	-	-	-	(81 211)
Less: intercompany loan (LBIC)	(4 116)	-	-	-	-	-	-	-	(4 116)
Less: intercompany loan (LBIC to LBLIC)	(4 964)	-	-	-	-	-	-	-	(4 964)
LBLIC									
Other financial and insurance liabilities									
Trade and other payables	85 137	-	-	-	-	-	-	-	85 137
Long-term policyholders' liabilities	3 715	2 886	2 064	1 551	25 401	20 322	-	-	55 939
LBIC									
Other financial and insurance liabilities									
Trade and other payables	148 292	6 538	356	43 849	810	-	-	-	199 845
Short-term insurance liabilities	398 857	-	-	-	-	-	-	-	398 857
Group at 31 March 2018	**7 881 927**	**4 928 072**	**2 151 928**	**3 682 916**	**17 861 110**	**5 832 174**	**991**	**47 386**	**42 386 504**

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2017 Financial liabilities	< 3 months R'000	3 - 6 months R'000	6 - 9 months R'000	9 - 12 months R'000	1 - 5 years R'000	> 5 years R'000	Drawn facilities R'000	Open ended R'000	Total R'000
Other financial liabilities									
Trade and other payables (excluding deferred income)	105 322	-	-	6 839	11 703	-	-	40 134	163 998
Funding at amortised cost	8 427 732	6 119 442	4 231 116	2 575 073	11 509 267	2 055 040	2 921 940	-	37 839 610
Bank at 31 March 2017	**8 533 054**	**6 119 442**	**4 231 116**	**2 581 912**	**11 520 970**	**2 055 040**	**2 921 940**	**40 134**	**38 003 608**
Less: intercompany loan (LBIC)	(66 981)	-	-	-	-	-	-	-	(66 981)
LBLIC									
Other financial and insurance liabilities									
Trade and other payables	85 703	-	-	-	-	-	-	-	85 703
Long-term policyholders' liabilities	4 873	2 357	1 649	2 982	13 274	29 623	-	-	54 758
LBIC									
Other financial and insurance liabilities									
Trade and other payables	112 899	174 226	-	-	-	-	-	-	287 125
Short-term insurance liabilities	154 893	69 470	30 469	-	5 382	-	-	-	260 214
Group at 31 March 2017	**8 824 441**	**6 365 495**	**4 263 234**	**2 584 894**	**11 539 626**	**2 084 663**	**2 921 940**	**40 134**	**38 624 427**

42.1 Market risk

Definition
Market risk is defined as the risk of loss due to adverse movements in interest rates, credit spreads and in the prices of equities, currency and commodities.

In other words, values of financial instruments may change resulting in both potential gains and losses as a result of:
- Changes in interest rates (fair value and cash flow interest rate risk); and
- Changes in market prices (price risk).

For the Group, market risk mainly emanates from interest rate risk arising from its lending portfolio as well as wholesale funding. The Group's asset and liability management of the balance sheet is exposed to market risk via interest rate movements. This impacts the Bank's profitability and net interest margin earned.

A Treasury policy as well as a Hedging policy takes into account interest rate movement and various limits have been established to effectively manage market risk of the Group.

Objective of market risk monitoring

The objective of market risk monitoring is to prevent or restrict adverse movements in market rates or prices, such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices.

Market risk - Insurance activities
For assets backing 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) Appointment of 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:
   - Setting of appropriate mandates and benchmarks for the asset managers for performance monitoring;
   - 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.

42.2 Interest rate risk

Interest rate risk is the risk of declines of earnings and market values of assets due to movements of interest rates. Most of the statement of financial position items of the Group generate revenue and costs which are interest rate related.

Interest rate risk monitoring

The Asset and Liability Management Committee (ALCO) consisting of the Bank's executive management monitors, among other things, the implementation of the Bank's interest rate risk policy. ALCO formulates medium to long-term interest rate views as the official forecast of interest rates. Sensitivity analysis is performed by the independent risk monitoring department where the interest rate risk mismatch limit is set.

Fixed/ floating rate funding

When interest rates are expected to change, the ratio of the interest rate mismatch between fixed and floating interest rates applicable to assets and liabilities can be adjusted in such a manner that the bank benefits from the expected interest rate view. The current interest rate risk mismatch limit is a maximum of 25%. The funding split percentage as at 31 March 2018 was 91.7% floating (FY2017: 95% floating).

Interest rate risk policy

The Bank reviews its interest rate risk policy in line with market practices on an annual basis.

Sensitivity analysis

Sensitivity analysis has been determined based on the exposure to interest rates for derivatives and other financial liabilities and assets at the statement of financial position date. A 100 basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of a reasonably possible change in interest rates on the Group's profit.

The effect of a reasonable possible change in interest rates, and all other variables held constant, the Bank's profit would be as follows using data as at 31 March 2018:

	31 March 2018		31 March 2017	
Bank	**Net interest income**	**Effect on equity**	**Net interest income**	**Effect on equity**
	R'000	**R'000**	**R'000**	**R'000**
Incremental change in yield				
Expected NII	**1 325 651**	**-**	1 458 740	-
Potential movement: 100 Basis point up	**1 490 200**	**164 549**	1 589 480	130 732
Potential movement: 100 Basis point down	**1 161 101**	**(164 549)**	1 328 010	(130 732)

The Land Bank's sensitivity to interest rates has increased over the past year from R131 million to R165 million and this can be ascribed to the fact that a larger portion of the Land Bank's funding is fixed. At 31 March 2017, the Land Bank relied on 5% fixed funding expressed as a percentage of its total funding while this number stood at 8.3% on 31 March 2018.

The Land Bank implemented an interest rate risk hedging program in the 2017/18 financial year by means of interest rate swaps. The interest rate risk hedging program involves hedging the basis risk that the Bank is exposed to due to the difference in the base rates of its assets and liabilities. The implementation of the program is done on an increasing scale over a time period of five years, as per the Bank's Interest Rate Risk Management Policy. As a result, the initial impact of the swaps program on the Bank's interest rate risk sensitivity is limited because the underlying nominal values of the swaps that were done in the first year remain too small to markedly influence the Bank's interest rate risk sensitivity. As the underlying nominal amounts of the interest rate risk swaps are increased over the next five years as per the Bank's Interest Rate Risk Management Policy, the effect of the hedging on the Bank's interest rate risk sensitivity is expected to become more pronounced.

Details of the Bank's hedging program can be found in note 10.

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 holds a variety of government and corporate bonds with varying maturities, which carry fixed and floating 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 (of -50/100 Basis Points and +50/100 Basis Points).

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	
	31 March 2018	31 March 2017
LBLIC	R'000	R'000
Incremental change in yield		
100 Basis Points decrease	13 391	16 124
50 Basis Points decrease	5 513	8 062
50 Basis Points increase	(5 334)	(7 541)
100 Basis Points increase	(12 382)	(15 082)
LBIC		
Incremental change in yield		
100 Basis Points decrease	1 167	-
50 Basis Points decrease	583	-
50 Basis Points increase	(583)	-
100 Basis Points increase	(1 167)	-

A portion of the assets backing policyholders' liabilities are held in bonds and the balance is held in cash and cash equivalents.

42.3 Currency 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 line 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 States Dollars. The following Rand value of assets denominated in foreign currencies are included in the statement of financial position:

Group	United States Dollar US$	South African Rand
	US$'000	R'000
31 March 2018		
Equities - unit trusts (USD base currency)	**16 546**	**215 261**
Balanced funds	**2 731**	**35 529**
Commodities - metals	**364**	**4 733**
Cash on deposit at call	**5**	**66**
Foreign currency exposure	**19 646**	**255 589**
Exchange rates (ZAR:USD):		
Closing rate - 31 March 2018	**11.87**	**0.08**
Average rate	**13.01**	**0.08**

	United States Dollar	South African Rand
Group	**US$'000**	**R'000**
31 March 2017		
Equities - USD base currency unit trusts	13 270	177 898
Balanced funds	2 915	39 080
Commodities - metals	378	5 070
Cash, deposits and similar securities	7	98
Foreign currency exposure	16 570	222 146
Exchange rates (ZAR:USD):		
Closing rate - 31 March 2017	13.41	0.07
Average rate	14.00	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	
LBLIC	**31 March 2018**	**31 March 2017**
Incremental change in yield *	**R'000**	**R'000**
USD		
10% decrease	**(25 559)**	(22 215)
5% decrease	**(12 779)**	(11 107)
5% increase	**12 779**	11 107
10% increase	**25 559**	22 215

* During FY2018 the sensitivity analysis was adjusted to include the impact of a 5% change in yield instead of 20% as per FY2017. FY2017 disclosure was amended to conform to FY2018 disclosure.

Impairment

Sensitivity analysis

The sensitivity analysis on impairment has been determined based on the exposure to the percentage of the balance outstanding which the Land Bank expects not to recover when a loan defaults on its payment (loss given default - LGD) at the statement of financial position date. A 5% increase or decrease in the LGD is used when reporting impairment risk and represents management's assessment of a reasonably possible change in impairment expenses on the Group's profit.

Based on the effect of a reasonable possible change in interest rates, and all other variables held constant, the Bank's profit would be as follows using data as at 31 March:

Rate analysis	Interest income R'000	Net impairment charges, claims and recoveries R'000	Non-interest (expense)/ income R'000	Loans and advances R'000	Effect on equity R'000
31 March 2018					
As at 31 March 2018 : Base	**4 826 977**	**55 524**	**222 288**	**43 418 462**	**-**
Potential movement: -5%	**4 823 523**	**233 308**	**222 288**	**43 237 224**	**(181 238)**
Potential movement: 5%	**4 823 140**	**(137 354)**	**222 288**	**43 221 747**	**(196 715)**
31 March 2017					
As at 31 March 2017 : Base	4 234 811	77 513	221 609	40 981 617	-
Potential movement: -5%	4 232 104	243 150	221 609	40 813 311	(168 305)
Potential movement: 5%	4 234 002	(96 637)	221 609	40 806 697	(174 920)

42.4 Insurance risk

42.4.1 Insurance risk - long-term

LBLIC provides mortgage and credit life insurance for persons who take out loans with the Land Bank. Until 2008, LBLIC only had one product in issue which was a non profit decreasing term assurance that paid the outstanding amount of a Land Bank mortgage loan at death. Since then, LBLIC 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.

Reinsurance risk

LBLIC has reinsurance cover to reduce risks proportionally, as well as to limit exposure per event in order to limit the impact per event on the current year's earnings.

The cover is placed on the local reinsurance market. The core components of the reinsurance program comprise:

- Individual excess of loss which limits exposure per policyholder to R1 million, prior to the effect of the 50% quota share treaty; and
- Individual quota share which provides protection of 50% of the risk per policy, to the maximum of R1 million.

The LBLIC 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. Furthermore, an actuarial valuation by an independent actuary annually.

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2018, LBLIC believes that its IBNR liability for claims is adequate. There were no outstanding claims.

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 2017, 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).

2018			Value	Change	
Policyholders' liability - Individual Life			**R'000**	**R'000**	**%**
Base value			**41 356**		
Investment return	+1%	from 7.0% to 8.0%	40 462	(894)	(2%)
	-1%	from 7.0% to 6.0%	42 358	1 002	2%
Mortality	+10%	1.1 x mortality	42 415	1 059	3%
	-10%	0.9 x mortality	40 274	(1 082)	(3%)
Expenses	+5%	from 80.0% to 84.0%	42 079	723	2%
	-5%	from 80.0% to 76.0%	40 667	(689)	(2%)

2018			Value	Change	
Policyholders' liability - Group Life			**R'000**	**R'000**	**%**
Base value			**1 302**		
Investment return	+1%	from 6.5% to 7.5%	1 292	(10)	(1%)
	-1%	from 6.5% to 5.5%	1 311	9	1%
Mortality	+10%	1.1 x mortality	1 409	107	8%
	-10%	0.9 x mortality	1 231	(71)	(5%)

2017			Value	Change	
Policyholders' liability - Individual Life			**R'000**	**R'000**	**%**
Base value			**40 964**		
Investment return	+1%	from 7.89% to 8.89%	40 071	(893)	(2%)
	-1%	from 7.89% to 6.89%	41 966	1 002	2%
Mortality	+10%	1.1 x mortality	42 024	1 060	3%
	-10%	0.9 x mortality	39 873	(1 091)	(3%)
Expenses	+10%	from 55.0% to 60.5%	41 688	724	2%
	-10%	from 55.0% to 49.5%	40 275	(689)	(2%)

2017			Value	Change	
Policyholders' liability - Group Life			**R'000**	**R'000**	**%**
Base value			**1 302**		
Investment return	+1%	from 7.14% to 8.14%	1 288	(14)	(1%)
	-1%	from 7.14% to 6.14%	1 316	14	1%
Mortality	+10%	1.1 x mortality	1 575	273	18%
	-10%	0.9 x mortality	1 113	(189)	(12%)

42.4.2 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.

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. Motor cover insures risks associated with the possession and use of vehicles. Property cover insures risks associated with the ownership of moveable and immovable assets, other than those covered specifically in another class.

Engineering cover insures risks associated with the possession and use of machinery or equipment in the form of irrigation systems on farms. Liability cover insures 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 claims.

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.

The net claims ratio for LBIC, which are important in monitoring insurance risk are summarised below:

Loss history	2018	2017
LBIC: Net insurance benefits and claims on short-term business expressed as a % of net earned premiums	(107%)	(87%)

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.

2018			**Value**	**Change**	
Underwriting result			**R'000**	**R'000**	**%**
Reported results			**(68 088)**		
Premium	+10%		(66 305)	1 783	(3%)
	-10%		(69 872)	(1 783)	3%
Claims	+5%	112%	(75 461)	(7 372)	11.%
	-5%	102%	(60 716)	7 372	(11%)
Expenses	+15%		(71 128)	(3 040)	4%
	-15%		(65 049)	3 040	(4%)

2017			**Value**	**Change**	
Underwriting result			**R'000**	**R'000**	**%**
Reported results			**(18 527)**		
Premium	+10%		(16 764)	1 762	(9%)
	-10%		(20 289)	(1 762)	10%
Claims	+5%	92%	(24 181)	(5 654)	31%
	-5%	82%	(12 873)	5 654	(30%)
Expenses	+15%		(21 285)	(2 758)	15%
	-15%		(15 769)	2 758	(14%)

(ii) 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 2018, both LBLIC and LBIC believe that their liabilities for claims are adequate.

(iii) 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

- Individual excess of loss which limits exposure to R1 million per client, prior to the quota share treaty; and
- Individual quota share which provides protection to 50% of the retained portion after excess of loss.

Short-term insurance contracts

- Individual quota share cover on crop, which provides protection to limit losses to 30% per event;
- Individual quota share cover on agri-assets, which provides protection to limit losses to 40% of 100% on the 70% co-insurance agreement per risk; and
- Stop loss cover for losses over 105% to 250% of the total crop exposure.

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.

(iv) Concentration risk

LBLIC

Investment portfolio concentration risk

The allocation of investment portfolio as at 31 March was as follows:

	2018		2017	
Asset classes	R'000	%	R'000	%
Equities - local	**466 860**	**38 %**	490 443	41 %
Resources	**74 495**	**16 %**	52 854	11 %
Financials	**162 505**	**35 %**	168 958	34 %
Industrials	**229 860**	**49 %**	268 631	55 %
Commodities - local	**23 633**	**2 %**	30 498	2 %
Bonds - local	**241 417**	**19 %**	247 762	20 %
Fixed interest	**156 214**	**65 %**	150 615	61 %
Floating rate	**42 006**	**17 %**	40 649	16 %
Inflation linked	**42 991**	**18 %**	54 848	22 %
Other	**206**	**0 %**	1 650	1 %
Cash, deposits and similar securities - local	**274 670**	**21 %**	235 482	19 %
Investment policy - property (local)	**9 030**	**0 %**	587	0 %
Foreign assets	**255 589**	**20 %**	222 146	18 %
Total LBLIC	**1 271 199**	**100 %**	1 226 918	100 %

11.35% of the portfolio was held in RSA Central Government bonds as at 31 March 2017 (FY2017: 11.83%)

7.66% of the portfolio was held in an Investec Money Market fund as at 31 March 2017 (FY2017: 7.22%)

5.16% of the portfolio was held in an Investec Global Equity Fund as at 31 March 2017 (FY2017: 5.49%)

5.41% of the portfolio was held in a Coronation Global Equity Fund as at 31 March 2017 (FY2017: 5.47%)

LBIC

Investment portfolio concentration risk

The allocation of investment portfolio as at 31 March was as follows:

	2018		2017	
	R'000	%	R'000	%
Bonds - local	121 383	42 %	-	0 %
Fixed interest	49 518	41 %	-	0 %
Floating rate	68 049	56 %	-	0 %
Inflation linked	3 816	3 %	-	0 %
Cash, deposits and similar securities - local	170 685	58 %	-	0 %
NCD's	169 206	99 %	-	0 %
Other	1 479	1 %	-	0 %
Total LBIC	292 068	100 %	-	0 %

The NCD's are split about equally amongst the five main banks.

Investment manager performance, portfolio and manager allocations are monitored and reported to the company management and Investment and Actuarial Board on a regular basis by the company's investment consultants. Upper and lower bounds are assigned to each asset class and are reviewed annually, with the investment policy. All classes were within bounds as at 31 March 2018.

LBLIC	2018	
Asset classes	Lower bound	Upper bound
Equities - local	30 %	50 %
Bonds - local	15 %	35 %
Cash, deposits and similar securities - local	10 %	30 %
Foreign assets	5 %	25 %

LBIC	2018	
Asset classes	Lower bound	Upper bound
Equities - local	0 %	5 %
Bonds - nominal	30 %	50 %
Bonds - inflation linked	0 %	10 %
Cash, deposits and similar securities - local	40 %	80 %
Foreign assets	0 %	5 %

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

	2018	2017
Portfolio	**R'000**	**R'000**
Credit life insurance - Group	6 048	6 962
Credit life insurance - Individual	4 117	4 690
	10 165	11 652

Long-term insurance gross written premium by age bands

	2018	2017
Portfolio	**R'000**	**R'000**
20 - 29	23	26
30 - 39	357	391
40 - 49	1 250	1 367
50 - 59	2 699	3 083
60 - 69	4 270	5 074
70+	1 566	1 711
	10 165	11 652

	2018			2017		
Portfolio	**Number**	**Value R'000**	**Average R'000**	**Number**	**Value R'000**	**Average R'000**
20 - 29	222	19 029	86	223	19 107	86
30 - 39	773	238 465	308	805	259 085	322
40 - 49	1 342	437 441	326	1 527	498 783	327
50 - 59	1 556	463 661	298	2 008	578 559	288
60 - 69	1 428	362 380	254	1 848	452 830	245
70+	113	35 755	316	316	70 448	223
Total	5 434	1 556 731	286	6 727	1 878 812	279

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

	2018	2017
Portfolio	**R'000**	**R'000**
Short-term insurance (crop)	543 322	535 688
Short-term insurance (assets)	-	1 228
	543 322	536 916

Short-term crop insurance gross written premium by class of business

	2018		2017	
	Gross Written Premium	Net Written Premium	Gross Written Premium	Net Written Premium
Portfolio	R'000	R'000	R'000	R'000
Winter hail	70 521	18 512	52 094	13 597
Multi-peril winter	6 518	1 711	3 259	851
Horticulture	52 553	11 498	48 541	8 446
Grapes	16 878	3 692	19 144	3 331
Other fruits	25 149	5 503	18 284	3 181
Nuts	10 526	2 303	11 113	1 934
Hail Summer	394 508	103 558	395 380	101 934
Maize	131 018	34 392	192 115	50 040
Beans	212 911	55 889	164 259	41 933
Other	50 579	13 277	39 006	9 961
Multi-peril summer	19 222	5 046	36 414	9 313
Maize	12 234	3 211	27 635	7 643
Beans	4 806	1 262	5 184	953
Other	2 182	573	3 595	717
Total	543 322	140 325	535 688	134 141

Multi peril is limited to 15% of the total crop portfolio.

Short-term asset insurance gross written premium by class of business

	2018	2017
	R'000	R'000
Portfolio		
Motor	-	662
Non-motor	-	566
	-	1 228

Short-term crop insurance gross written premium by geographical segment

	2018	2017
	R'000	R'000
Portfolio		
Northern Cape	44 972	32 375
KwaZulu-Natal	83 408	89 476
Eastern Cape	34 431	34 612
Mpumalanga/ Gauteng	135 252	148 401
Limpopo	33 536	22 820
Free State	167 921	164 383
North West	33 170	35 553
Western Cape	10 632	8 068
	543 322	535 688

42.5 Equity price risk

The equity risk exposures arise from the medical aid fund assets and the LBLIC investment portfolio. Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

The effect on equity (as a result of a change in the fair value of equity instruments held-for-trading in the category financial assets through profit or loss at 31 March) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Group		Bank	
	Change in equity price	Effect on equity	Change in equity price	Effect on equity
	%	R'000	%	R'000
2018				
Individual stocks and indices	**10**	**90 977**	**10**	**28 730**
2017				
Individual stocks and indices *	10	70 700	10	29 484

The effect on equity has been calculated using the equity balances at year end.

* The calculation for FY2017 does not include the equity in foreign unit trusts and investment policies. If these were included, the effect on equity would be R92.9 million.

Price risk - LBLIC

LBLIC 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	
	31 March 2018	31 March 2017
	R'000	R'000
Incremental change in price		
Excluding the impact of derivatives		
10% decrease	**(34 850)**	(34 941)
5% decrease	**(17 437)**	(17 373)
5% increase	**17 464**	17 845
10% increase	**34 955**	35 490
Including the impact of derivatives		
10% decrease	**(29 317)**	(34 488)
5% decrease	**(14 662)**	(17 176)
5% increase	**14 637**	16 811
10% increase	**29 165**	33 431

42.6 Investment strategy

LBIC

The Investment Policy was updated and approved on 21 February 2018. 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.

Bucket	Matching assets	Definition
Short	Cash & Bonds	Current liabilities plus CAR 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 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 following notional asset allocations have been chosen to represent each bucket. The allocations recognise that the Company is in start-up phase and do not necessarily represent the asset allocations once it is in full operation. Given that the bulk of investments are held for 6 to 9 months, with a maximum of 12 months, and the lack of appetite for any losses the full portfolio should be considered short term until the business builds up more surplus capital. As such all assets are considered to fall into the short-term bucket.

Bucket	Local equity	Local nominal bonds	Local inflation linked bonds	Local cash	Foreign	Expected long-term real return
Short term	0%	40%	0%	60%	0%	1.6%
Medium term	0%	50%	20%	30%	0%	2.1%
Long term	55%	20%	10%	5%	10%	5.1%

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.

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 World + 40% Citigroup Gov Bonds

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 June 2017. For the 9 months from July 2017 to the end of March 2018 the fund returned 6.20% (8.35% annualised). The fund has outperformed against the target of CPI + 1.0% which was 5.0% over the 12 month period.

LBLIC

The Investment Policy was updated and approved on 21 February 2018. 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 CAR 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.

The following notional asset allocations have been chosen to represent each bucket. The table below shows the asset allocation for each bucket and its real return expectation.

Bucket	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.

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

The fund has a CPI + 4% performance objective (FY2017: CPI+5%).
The fund returned 4.7% for the 12 months to end March 2018 which is below the CPI + 4% target (net of fees).

43. Capital management

The primary source of capital used by the Group is shareholder's equity funds. The amount of capital required is directly linked to risks arising from insurance business underwritten, as well as the Group's credit and operational risk. Accordingly risk management is an important component of effective capital management.

Capital management objectives and approach

The Group has established the following capital management objectives and approach to managing the risks that affect its capital position:

- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholder;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders and stakeholder;
- To maintain healthy capital ratios in order to support its business objectives; and
- To support the credit rating of the Bank.

The Group's capital management policy for its insurance and non-insurance business is to hold sufficient capital to cover statutory requirements.

The following main strategies were applied to achieve capital management objectives:

- Effective management of credit risk;
- Effective management of underwriting risk,
- Effective management of operational risk - a sound internal control framework reduces operational risk, which in turn has a positive effect in the calculation of required capital; and
- Routine forecasts of capital requirements, assessment against both available capital as well as the expected internal rate of return - including risk and sensitivity analyses.

The purpose of the Group's capital management is to ensure an efficient use of capital in relation to risk appetite and business development. The Group does not have to comply with any regulatory capital requirements.

Capital Adequacy Requirements (CAR) - Insurance activities

LBLIC

The Long-term and Short-term Insurance Acts of 1998 specify a standard approach to be used in the insurance industry to assess the level of solvency (or financial strength) of an insurance company. The methodology requires the calculation of an amount representing the minimum level of capital required by each insurer to adequately cover risks inherent in the business it conducts. This measure is the Capital Adequacy Requirement (CAR).

The Statutory CAR calculation is performed on a prescribed methodology for long-term insurance, as set out in the FSB Board Notice 14 of 2010. The calculation has a number of distinct components designed to put a numerical value to the different risks in the business. The CAR is not included in the policy liabilities as a contingency reserve, it is the additional amount required, over and above the actuarial liabilities, to ensure the company is able to meet material deviations in the main assumptions effecting the assurer's business. It is an independent benchmark against which the solvency level of an insurer can be measured. The FSB has been reviewing the prudential regulatory regime for insurers, in line with Solvency II in Europe, under the SAM regime. Pillar 1 focuses on capital adequacy. A Quantitative Impact Study was done on the prior reporting period's results, in preparation for SAM, as well as parallel runs on statutory returns in the current reporting period. The company remains solvent under the new requirements that are expected to come into effect in 2018.

For the long-term insurance portfolio, a minimum CAR has been allowed for as would be required by the FSB, based on the higher of:

- Ordinary CAR (OCAR) - R6.9 million (FY2017: R6.6 million).
- Minimum CAR (MCAR) - Higher of R10.0 million and 13 weeks' operating expenditure of R1.7 million (FY2017: R2.0 million).

CAR for long-term insurance is calculated to be R10 million (FY2017: R10.0 million).

Excess assets over liabilities, on a statutory basis, are R1.1 billion (FY2017: R1.1 billion). CAR cover remains strong at 117.0 times (FY2017: 112.2 times) on the statutory requirements, which means that the Life Insurance Company is well capitalised.

LBIC

The Short-term Insurance Act of 1998 specifies a standard approach to be used in the insurance industry to assess the level of solvency (or financial strength) of an insurance company. The methodology requires the calculation of an amount representing the minimum level of capital required by each insurer to adequately cover risks inherent in the business it conducts. This measure is the CAR.

The statutory CAR calculation is performed on a prescribed methodology for short-term insurance as set out in the FSB Board Notice 169 of 2011. The calculation has a number of distinct components designed to put a numerical value to the different risks in the business in an attempt to ensure that the company holds sufficient reserves to cover any variations in actual future experience that may be worse than what has been provided for in the insurance liabilities. The CAR is an independent benchmark against which the solvency level of an insurer can be measured.

With effect from 1 January 2012, the prescribed methodology for short-term insurance was revised to reflect a more risk-based approach in CAR management. This is in line with the current development considered as part of the Solvency and Assessment Management (SAM) framework which is part of the FSB's review of prudential regulatory regime in line with Solvency II in Europe, which is expected to become effective on 1 July 2018.

Companies will need to maintain a capital balance that will be sufficient to meet obligations in the event of substantial deviations, such as a 1-in-a-200-year event, from the main risk assumptions effecting the business. This measure is called the Solvency Capital Adequacy Requirement (or SCR). Pillar 1 of SAM focuses on capital adequacy.

One of the requirements of SAM is that all insurance companies conduct an ORSA (Own Risk Solvency Assessment) to assess, monitor, manage and report on the risks faced by the company, to ensure the company's solvency needs are sufficiently met all times.

The company submitted it's ORSA report to the FSB as required in the current reporting period, and their mock ORSA report in the prior reporting period.

The company meets the current minimum CAR requirements. The shareholder added additional capital in the current reporting period to ensure the company was sufficiently capitalised to accommodate the anticipated growth of the company, using the pending SAM SCR requirements.

For the short-term legacy run-off insurance portfolio (in LBLIC), no CAR has been raised (FY2017: Rnil).

For the short-term insurance portfolio, a minimum CAR has been allowed for as would be required by the FSB, based on the higher of:
- R10 million;
- 15% of premium income, net of reinsurance, which amounts to R20.9 million (FY2017: R20.3 million);
- 13 weeks' operating expenditure, which amounts to R18.3 million (FY2017: R15.1 million);
- The Solvency Capital Adequacy Requirements (SCR) risk based CAR which is calculated to be R48.8 million (FY2017: R45.3 million).

The CAR for short-term insurance is calculated to be R48.8 million (FY2017: R45.3 million).

Excess assets over liabilities, on a statutory basis, are R189.2 million (FY2017: R232 million). This yields a CAR cover of 3.9 times (FY2017: 5.0 times) on the statutory requirements, before taking the asset spreading requirements into consideration.

Capital Adequacy Requirements (CAR) - the Land Bank

The Bank has adopted a Basel-like Total Capital Adequacy Ratio (TCAR) with Board approved deviations from the Regulations to determine the amount of capital needed to ensure solvency and liquidity. The TCAR calculation is underpinned by the Standardised Approach principles. The Bank targets a minimum total capital adequacy ratio of 15%. The Basel Accord requires that banks meet three minimum capital adequacy ratios, in order to ensure that banks have an acceptable mix between high quality, expensive capital and lower quality, less expensive capital, these are:
- Common Equity Tier 1 (CET1) minimum = CET1 / total Risk Weighted Assets (RWA);
- Tier 1 minimum = (CET1 + Additional Tier 1 (AT1)) / total RWA; and
- Total minimum = (CET1 + AT1 + Tier 2) / total RWA.

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

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

The Land Bank (Bank) capital adequacy was estimated based on the following approaches:
- Credit risk: The Standardised Approach;
- Operational risk: The Basic Indicator Approach;
- Equity risk in the banking book: The Simple Risk-weight Approach;
- Market risk: Standardised approach; and
- Credit and operational risk have been identified as the major risk types affecting the Land Bank.

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

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

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

	Bank	
	2018	**2017**
Capital adequacy		
Total capital adequacy	**17.3%**	17.7%

Capital supply	2018 R'000	2017 R'000
Ordinary shareholders' equity	4 397 655	4 397 655
Retained earnings	1 048 275	829 423
Accumulated other comprehensive income	100 978	137 495
Property revaluation reserve	136 476	136 207
Other reserves	(35 498)	1 288
Common Equity Tier 1 (CET1) Capital: Instruments and reserves	5 546 908	5 364 573
Common Equity Tier 1 Capital: Regulatory adjustments	(20 279)	(27 275)
Intangible assets	(20 279)	(27 275)
Total available Common Equity Tier 1 capital	5 526 629	5 337 298
Total availableTier 2 capital	586 162	563 930
General allowance for credit impairment	586 162	563 930
Total available capital	6 112 791	5 901 228
National Treasury guarantee *	2 800 000	2 800 000
Capital demand		
Risk weighted assets		
Credit risk	46 847 991	45 114 357
Counterparty risk	45 003	30
Operational risk	2 445 016	2 465 733
Equity risk	998 899	371 133
Market risk	43 657	50 207
Other assets risk	360 333	305 032
Threshold items	875 075	875 075
Total	51 615 974	49 181 567

* Refer to note 38 on related parties.

44. Fair value hierarchy of financial instruments

44.1 Carrying amount and fair value of financial instruments

Group	2018 Carrying amount R'000	2018 Fair value R'000	2017 Carrying amount R'000	2017 Fair value R'000
Financial assets				
Fair value through profit or loss				
Repurchase agreements	15 706	15 706	15 149	15 149
Investments	2 619 887	2 619 887	1 860 074	1 860 074
Strategic trading assets	-	-	9 617	9 617
Loans and receivables				
Cash and cash equivalents	2 421 069	2 421 069	1 520 331	1 520 331
Trade and other receivables	320 171	319 585	385 043	383 638
Loans and advances	43 565 790	43 565 790	41 172 693	41 172 693
Total financial assets	48 942 623	48 942 037	44 962 907	44 961 502

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	**R'000**	**R'000**	**R'000**	**R'000**
Fair value through profit or loss				
Strategic trading liabilities	**-**	**-**	5 533	5 533
Financial liabilities at amortised cost				
Trade and other payables	**355 404**	**355 404**	379 782	379 782
Funding	**41 576 302**	**42 125 256**	37 839 610	37 869 128
Policyholders' liabilities	**55 939**	**55 939**	54 762	54 762
Total financial liabilities	**41 987 645**	**42 125 256**	38 279 687	38 309 205
Bank				
Financial assets				
Fair value through profit or loss				
Repurchase agreements	**15 706**	**15 706**	15 149	15 149
Investments	**1 406 650**	**1 406 650**	983 184	983 184
Strategic trading assets	**-**	**-**	9 617	9 617
Loans and receivables				
Cash and cash equivalents	**2 362 130**	**2 362 130**	1 211 305	1 211 305
Trade and other receivables	**131 302**	**130 716**	138 949	137 544
Loans and advances	**43 565 790**	**43 565 790**	41 172 693	41 172 693
Total financial assets	**47 481 578**	**47 480 992**	43 530 897	43 529 492
Financial liabilities				
Fair value through profit or loss				
Strategic trading liabilities	**-**	**-**	5 533	5 533
Financial liabilities at amortised cost				
Trade and other payables	**160 715**	**160 715**	163 998	163 998
Funding	**41 576 302**	**42 125 256**	37 839 610	37 869 128
Total financial liabilities	**41 737 017**	**42 285 971**	38 009 141	38 038 659

Methods used to determine fair values for the Group

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following assumptions and methods were used to estimate the fair values:

Those held at fair value are fair valued with reference prices quoted in the market that are readily available. Included in this classification are equities, debt instruments and cash.

Cash and cash equivalents, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Swaps, if applicable, are valued using inputs obtained from independent sources. The inputs are loaded into the Aford model, a derivative valuation tool that is customised to the South African environment and developed by an independent third party. The fair value of a swap is equal to the present value of all future cash flows using the daily market swap curve. The model uses fixed and floating future cash flows. The fixed cash flows are known and are easily calculated. The floating cash flows are unknown and are calculated using the cubic splines interpolation method.

Changes in fair value are attributable to interest rate fluctuations. There have been no changes in fair value that are attributable to the change in credit risk as there have been no upward or downward movements in the credit risk as per the Fitch rating.

44.2 Determination of fair value and fair value hierarchy

Financial assets and liabilities measured at fair value in the balance sheet are categorised in its entirety into the following three levels of the fair value hierarchy based on the basis of the lowest level input that is significant to the fair value measurement in its entirety:

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.

31 March 2018	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Financial assets				
Bank				
Repurchase agreements	15 706	-	-	15 706
Equities	184 241	-	-	184 241
Real estate	61 414	-	-	61 414
Commodities	2 290	-	-	2 290
Bonds	50 075	-	-	50 075
Cash deposits and similar securities	-	7 804	-	7 804
Foreign equities	39 359	-	-	39 359
Rhodes Food Group Holdings Limited	146 314	-	-	146 314
Investment in Acorn Agri (Pty) Ltd	-	-	119 699	119 699
Investment in Capespan Capital (Pty) Ltd	-	-	1 498	1 498
Ordinary shares in Mouton Holdings (Pty) Ltd	-	-	140 186	140 186
Ordinary shares in Southern Cross Investment Holdings (Pty) Ltd	-	-	170 281	170 281
Ordinary shares in Cavalier Group of Companies (Pty) Ltd	-	-	48 975	48 975
Ordinary shares in Ideafruit (Pty) Ltd	-	-	84 485	84 485

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
LBLIC				
Equities	378 665	-	-	378 665
Commodities	23 633	4 733	-	28 366
Bonds	241 418	-	-	241 418
Cash deposits and similar securities	-	216 214	-	216 214
Collective investment schemes	66 492	272 491	-	338 983
Equity - foreign unit trusts	-	215 433	-	215 433
Balanced fund - foreign	-	35 529	-	35 529
Currency derivatives: FEC's	-	(172)	-	(172)
Unlisted equity	-	21 701	-	21 701
Property - listed shares	66 492	-	-	66 492
Money market instruments	-	58 523	-	58 523
Investment policy	-	9 030	-	9 030
LBIC				
Bonds	121 383	-	-	121 383
Cash deposits and similar securities	-	170 685	-	170 685
Total financial assets	**1 330 989**	**739 480**	**565 124**	**2 635 593**
Non-financial assets				
Bank				
Non-current assets held-for-sale	-	-	10 085	10 085
Investment properties	-	-	174 590	174 590
Property and equipment	-	-	37 996	37 996
Total non-financial assets	**-**	**-**	**222 671**	**222 671**
Financial liabilities				
LBLIC				
Policyholders' liabilities	-	-	55 939	55 939
Total financial liabilities	**-**	**-**	**55 939**	**55 939**
31 March 2017				
Financial assets				
Bank				
Repurchase agreements	-	15 149	-	15 149
Equities	196 627	-	-	196 627
Real estate	46 122	-	-	46 122
Commodities	2 514	-	-	2 514
Bonds	53 187	-	-	53 187
Cash deposits and similar securities	-	11 834	-	11 834
Foreign equities	-	49 582	-	49 582
Rhodes Food Group Holdings Limited [1]	197 000	-	-	197 000
Investment in Acorn Agri (Pty) Ltd	-	-	75 000	75 000
Investment in Capespan Capital (Pty) Ltd	-	-	1 288	1 288

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
LBLIC				
Equities	412 151	-	-	412 151
Commodities	30 498	5 070	-	35 568
Bonds	247 763	-	-	247 763
Collective investment schemes	69 959	300 934	-	370 893
Equity - foreign unit trusts	-	173 388	-	173 388
Balanced fund - foreign	-	39 080	-	39 080
Currency derivatives	-	(146)	-	(146)
Interest bearing instruments	-	88 612	-	88 612
Property - listed shares	69 959	-	-	69 959
Money market instruments	-	79 573	-	79 573
Investment policy	-	13 980	-	13 980
Total financial assets	**1 255 821**	**476 122**	**76 288**	**1 808 231**
Non-financial assets				
Bank				
Non-current assets held-for-sale	-	-	47 993	47 993
Investment properties	-	-	167 800	167 800
Property and equipment	-	-	45 053	45 053
Total non-financial assets	**-**	**-**	**260 846**	**260 846**
Financial liabilities				
LBLIC				
Policyholders' liabilities	-	-	54 762	54 762
Total financial liabilities	**-**	**-**	**54 762**	**54 762**

[1] During FY2017 Rhodes Food Group (listed investment) was not included under Level 1. Disclosure have been amended to conform to the FY2018 disclosure.

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44.3 Reconciliation of recurring fair value measurements categorised within level 3 of the fair value hierarchy

Unquoted equity shares	Southern Cross Investment Holdings (Pty) Ltd R'000	Capespan Capital (Pty) Ltd R'000	Acorn Agri (Pty) Ltd R'000	Mouton Holdings (Pty) Ltd R'000	Cavalier Group of Companies (Pty) Ltd R'000	Ideafruit (Pty) Ltd R'000	Total R'000
As at 31 March 2016	**-**	**848**	**-**	**-**	**-**	**-**	**848**
Purchases	-	-	75 000	-	-	-	75 000
Re-measurement recognised in OCI	-	440	-	-	-	-	440
As at 31 March 2017	**-**	**1 288**	**75 000**	**-**	**-**	**-**	**76 288**
Purchases	174 566	-	50 000	117 600	56 420	83 898	482 484
Re-measurement recognised in OCI	(4 285)	210	1 506	22 586	(7 445)	587	13 159
Dividends	-	-	559	-	-	-	559
Disposal	-	-	(7 366)	-	-	-	(7 366)
As at 31 March 2018	**170 281**	**1 498**	**119 699**	**140 186**	**48 975**	**84 485**	**565 124**

Refer to note 8.2.

Property	Non-current assets held-for-sale R'000	Investment property R'000	Property and equipment R'000	Total R'000
As at 31 March 2016	**47 622**	**106 740**	**75 649**	**230 011**
Purchases	3 126	-	-	3 126
Fair value adjustment for recognised in the statement of profit or loss	190	8 879	-	9 069
Re-measurement recognised in OCI	-	-	2 050	2 050
Reclassification from property and equipment to investment property	-	52 181	(52 450)	(269)
Disposal	(2 945)	-	-	(2 945)
As at 31 March 2017	**47 993**	**167 800**	**25 249**	**241 042**
Purchases	4 099	-	-	4 099
Fair value adjustment for recognised in the statement of profit or loss	165	6 790	-	6 955
Re-measurement recognised in OCI	-	-	(749)	(749)
Disposal	(42 172)	-	-	(42 172)
As at 31 March 2018	**10 085**	**174 590**	**24 500**	**209 175**

	Group	
	2018	**2017**
Policyholders' liabilities	**R'000**	**R'000**
Present value of policy liabilities	**28 276**	33 219
Plus: Present value of future expenses	**24 254**	17 265
Less: Present value of future premiums	**(20 828)**	(23 295)
Liability excluding AIDS reserve	**31 702**	27 189
Plus: AIDS reserve	**554**	894
Plus: Expense overrun reserve	**19 624**	22 386
Total long-term policyholders' liability excluding IBNR and notified claims	**51 880**	50 469

Refer to note: 19.1

44.4 Description of significant unobservable inputs to level 3 valuations

As at 31 March 2018

Unquoted equity	Valuation technique	Significant unobservable inputs	Sensitivity of the input to the fair value
Capespan Capital (Pty) Ltd	NAV. Joint venture company, value derived from investment activities (BS approach).	Audited Financial Statements	N/A
Acorn Agri (Pty) Ltd	NAV. Investment holding company, value derived from the investment activities (BS approach).	Audited Financial Statements	N/A
Mouton Holdings (Pty) Ltd	DCF. Operating entity, value derived from operating activities of the business (IS approach).	DCF valuation: Discount rates range between 18.2% and 20.2%	Discount rate: +1%: -R126 480 000 -1%: +R155 990 000
Southern Cross Investment Holdings (Pty) Ltd	DCF. Operating entity, value derived from operating activities of the business (IS approach).	DCF valuation: Discount rates range between 17.3% and 27.3%	Discount rate: +1%: -R154 259 000 -1%: +R188 521 000
Cavalier Group of Companies (Pty) Ltd	DCF. Operating entity, value derived from operating activities of the business (IS approach).	DCF valuation: Discount rates range between 19.0% and 20.0%	Discount rate: +1%: -R5 541 238 -1%: +R6 520 717
Ideafruit (Pty) Ltd	DCF. Operating entity, value derived from operating activities of the business (IS approach).	DCF valuation: Discount rates range between 19.0% and 21.0%	Discount rate: +1%: -R91 864 600 -1%: +R76 622 573

Asset	Valuation technique	Significant unobservable inputs		Sensitivity of the input to the fair value
Property and equipment	Net income capitalisation method	Vacancy rate range: Income/expense ratio range: Capitalisation rates range:	2.5% - 10% 18.9% - 26.4% 11.5% - 12%	Capitalisation rate: +1%: R22 025 713 -1%: R26 157 205
Investment property	Net income capitalisation method	Vacancy rate range: Income/expense ratio range: Capitalisation rates range:	2% - 8% 16.6% - 47.2% 9.8% - 13%	Capitalisation rate: +1%: R161 934 358 -1%: R193 986 878
Properties in possession	Comparable sales method	Natural grazing land per ha.:	R5 250 - R98 000	Market value per ha. of land: + R1000 p/ha.: R27 420 792 - R1000 p/ha.: R25 647 973
		Irrigated pasture land per ha.:	R46 500 - R46 550	
		Farm yard land per ha.:	R7 000 - R25 000	
		Wasteland per ha.:	R0	
		Industrial land per ha.:	R2	
		Construction price for dwellings per m2:	R6 850 - R8 712	
		Construction price for other structures per m2:	R2 150 - R2 550	

As at 31 March 2017

Unquoted equity	Valuation technique	Significant unobservable inputs	Sensitivity of the input to the fair value
Capespan Capital (Pty) Ltd	NAV	Audited Financial Statements	N/A
Acorn Agri (Pty) Ltd	DCF and NAV - whatever was more appropriate for the underlying entity	NAV: Audited Financial Statements DCF valuation: Discount rates range between 20.4% and 30.4% EBITDA Margin ranges between 3% and 35%	NAV: N/A Discount rate: +1%: -R1 107.9 million -1%: +R1 178.7 million

Asset	Valuation technique	Significant unobservable inputs		Sensitivity of the input to the fair value
Property and equipment	Net income capitalisation method	Vacancy rate range: Income/expense ratio range: Capitalisation rates range:	3% - 5% 17.7% - 29.9% 11% - 12%	Capitalisation rate: +1%: R26 388 604 -1%: R31 481 062
Investment property	Net income capitalisation method	Vacancy rate range: Income/expense ratio range: Capitalisation rates range:	1.5% - 8% 14.5% - 41.9% 9.8% - 13%	Capitalisation rate: +1%: R151 045 736 -1%: R181 091 945
Properties in possession	Comparable sales method	Natural grazing land per ha.:	R5 250 - R30 000	Market value per ha. of land: + R1000 p/ha.: R17 424 036 - R1000 p/ha.: R13 542 710
		Irrigated pasture land per ha.:	R8 000	
		Farm yard land per ha.:	R7 000 - R25 000	
		Wasteland per ha.:	R6 000	
		Industrial land per ha.:	R2	
		Construction price for dwellings per m2:	R5 600 - R8 712	
		Construction price for other structures per m2:	R1 700 - R2 800	
		Depreciated value:	75%	

44.5 Description of level 2 valuation techniques

Level 2 investments are valued using a valuation technique based on assumptions that are supported by prices from observable current market transactions:

- Repurchase transactions: Market value of the underlying bonds.
- 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.

45. 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		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
45.1 Reconciliation of amounts transferred to receivables for recovery				
Opening balance	-	6	-	6
Add: F&WE for the current year transferred to receivables	29	27	29	27
Less: amounts recovered in current year	-	(6)	-	(6)
Less: amounts written off	-	(27)	-	(27)
Closing balance	29	-	29	-

In terms of regulatory requirements the accounting officer must determine who the responsible party is from whom the amount of F&WE must be recovered. The receivables relates to traffic fines expected to be recovered from the responsible employees.

	Group		Bank	
45.2 Analysis of current F&WE	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Current matters				
- Penalties and interest	115	418	115	400
- Overpayment of investment advisory services	1 700	-	1 700	-
As per statement of profit or loss and other comprehensive income	1 815	418	1 815	400

The fruitless and wasteful expenditure of the prior year relates mainly to South African Revenue Service interest and penalties of R364 000. The fruitless and wasteful expenditure for the current year, relates mainly to the overpayment of the post-retirement medical aid expenses of R111 600 and for investment advisory services of R1.7 million.

	2018
F&WE relating to prior year discovered in the current year:	R'000
- Overpayment of FY2016 bonuses paid in FY2017	2 206
- Overpayment of post-retirement medical aid in FY2017	334
	2 540

These amounts were both deemed as irrecoverable and were written off. The Board is of the view that the overpayment of bonuses is irrecoverable due to the negative impact on staff morale and possible labour law consequences and will be written off.

The post-retirement medical aid contributions were paid on behalf of pensioners, some of them who are deceased, and therefore the amount was deemed as irrecoverable.

46. Irregular expenditure

46.1 Reconciliation of irregular expenditure

	Group		Bank	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
Opening balance	**2 718**	-	**2 297**	-
Expenditure deemed as irregular relating to current year	**2 080**	2 746	**2 080**	2 325
Expenditure recovered in the current year	**(41)**	-	**(41)**	-
Expenditure approved and derecognised by the Board	**(2 080)**	(28)	**(2 080)**	(28)
Amounts recommended by the Board for the condonation from National Treasury	**2 677**	2 718	**2 256**	2 297
Amounts submitted to National Treasury	**2 677**	2 718	**2 256**	2 297

46.2 Analysis of current irregular expenditure

Incident	2018 R'000
Expenditure incurred for services rendered where prior approval was not obtained before commencement of work related to the validation of collateral held by intermediaries of the Bank. Detail investigations were conducted on the services rendered and these transactions, conditions or events have not resulted in the Bank suffering any loss, there was no fraudulent activity and value for money was derived from the use of the goods procured or services rendered. [1]	82
Expenditure incurred for services rendered in relation to the development of a credit and pricing model for the Structured Investments' transactions that the Bank offered from FY2018, where prior approval and contract was not in place before commencement of work. Detail investigations were conducted on the services rendered and these transactions, conditions or events have not resulted in the Bank suffering any loss, there was no fraudulent activity and value for money was derived from the use of the goods procured or services rendered.[1]	1558
Expenditure incurred in respect of a tender that was only advertised for 12 days, instead of for a minimum of 14 days as required by the procurement policy. This transactions have not resulted in the Bank suffering any loss, there was no fraudulent activity and value for money was derived from the use of the goods procured or services rendered. [1]	440
	2 080

[1] These expenses were approved and derecognised by the Land Bank Board on 30 July 2018.

Incident	2017 R'000
The incident relates to the overpayment of salary, where an incorrect rate of increase was used and an additional bonus payment. The salary overpayment was recovered during FY2018, while the Board approved and derecognised the additional bonus payment as regular on 27 November 2017.	767
The expenditure deemed as irregular relates mainly to instances where goods and services were procured from the service providers where the tax status of the supplier was not confirmed when quotes were obtained from the service provider. The tax status was however confirmed when payments were made to these service providers. These transactions, conditions or events have not resulted in the Bank suffering any loss, there was no fraudulent activity, and value for money was derived from the use of the goods procured or services rendered.[2]	456
Expenditure incurred for goods procured as a result of the Bank's interpretation of the application of section 9(1) of the Preferential Procurement Regulations for local content. These transactions, conditions or events have not resulted in the Bank suffering any loss, there was no fraudulent activity, and value for money was derived from the use of the goods procured or services rendered.[2]	1074
	2 297

	2017 R'000
Insurance subsidiaries	
Incident	
The expenditure deemed as irregular relates mainly to instances where goods and services were procured from the service providers where the tax status of the supplier was not confirmed when quotes were obtained from the service provider. The tax status was however confirmed when payments were made to these service providers. These transactions, conditions or events have not resulted in the companies suffering any loss, there was no fraudulent activity, and value for money was derived from the use of the goods procured or services rendered. [3]	421
	421

[2] These expenses were approved and derecognised by the Land Bank Board on 4 July 2017.

[3] These expenses were approved and derecognised by the LBIC/LBLIC Boards on 29 June 2017.

47. Event after the balance sheet date

Funding matters:
Post 31 March 2018 the following funding matters have been concluded and executed on:

Debt issuances
- During May 2018, as part of a refinancing transaction with Nedbank, the Land Bank partially redeemed R500 million of an existing 5 year bond (LBK05) maturing in February 2019, replacing same with a R750 million tap issuance of LBK 27, effectively increasing the noteholder's exposure by R250 million.
- During May 2018 the Land Bank concluded a R625 million, 10 year Fixed Rate Bond (LBK 28) under the DMTN Programme by way of private placement.
- During June 2018 the Land Bank concluded a R500 million, 5 year Fixed Rate Bond (LBK 29) under the DMTN Programme by way of private placement.

Voluntary debt redemptions
- On 31 May 2018 the Land Bank voluntary prepaid Facility A2 (R524 million) under the R2.7 billion guaranteed syndicated loan of 31 December 2015.
- On 29 June 2018 the Land Bank voluntary prepaid Facility B2 (R587.4 million) under the R2.7 billion guaranteed syndicated loan of 31 December 2015.

These voluntary prepayments will effectively reduce the Land Bank's guaranteed debt by R1.1 billion thereby reducing the Sovereign's contingent liabilities in respect of SOE guarantees.

Sinking fund
- During June 2018, the Land Bank's ALCO committee approved its 1st investment of R500 million into the Land Bank's approved Sinking Fund/ Debt Redemption Programme.
- This invest is in the form of a bullet investment and has been allocated to three black owned asset managers in an effort by the Land Bank to support the transformation of the Asset Management industry in South Africa.

Post-retirement medical aid liability:
Post year-end the Land Bank concluded a buy-out of the post-retirement medical aid liability of some of the pensioners at a cost of R66.4 million. The affected pensioners` liability will thus be removed from the Bank`s books and will be managed by a separate service provider who has structured an annuity product in exchange for taking the risk and rewards associated with the post-retirement medical aid liability.

Changes to Board members:
Subsequent to year end, following the approval by the Minister of Finance, the following changes were made to the Land Bank Board:

The reappointment of the following Non-Executive Directors of Land Bank for a period of three years with effect from 1 June 2018:
- Mr MA Moloto (Chairperson of the Board);
- Ms D Hlatshwayo (Newly appointed Deputy Chairperson of the Board and Chairperson of the Land Bank Insurance Companies' Boards); and
- Ms SA Lund (Chairperson of the Risk and Governance Committee).

Dr ST Cornelius and Mr M Makgoba have been appointed as new Board members for a period of three years, effective 1 June 2018, as replacements to the outgoing Non-Executive Directors. Prof. ASM Karaan (resigned 31 August 2017) and Ms N Zwane (term expired 30 June 2018).

Subsequent to year end, the following changes were made to the Land Bank Insurance Board:

- Mr M Scharneck was appointed effective 01 April 2018 as a board member for LBLIC/LBIC and also as a member of the Investment and Actuarial Committee and Audit and Risk Committee.
- Mr S Masuku was appointed effective 01 April 2018 as a board member for LBIC/LBLIC and also as the Chairperson of the Audit and Risk Committee.

Changes to executive management:

Gary Conway has resigned as Executive Manager: Corporate Banking and Structured Investments with effect from 13 July 2018.

LDFU matters:

The Bank reached a settlement on two of the LDFU matters, Amber Mountain and Emerald Sky. In terms of the settlement agreements, the Bank expects to receive an amount of R150.9 million as a settlement. Of this estimated amount, the Bank has received an amount of R111.4 million, while an unconditional and irrevocable guarantee has been provided for the balance of R39.5 million.

48. Comparative figures

Arranging fees

During the year it was decided to reclassify "arranging fees" from Operating expenses to "Interest expense" as these arranging fees form part of the "Effective Interest Rate" of funding instruments. The FY2017 numbers have been amended to conform to the FY2018 disclosure framework.

LDFU reclassification

As a result of the matters referred to in note 47, it became evident that the LDFU portfolio no longer meets the definition of a "disposal group" as these properties will not be disposed of together in a single transaction. Upon settlement of these assets, no associated liabilities will be transferred either. Given this, the LDFU portfolio satisfies the definition of a discontinued operation and was erroneously classified in FY2017 as a disposal Group. The FY2017 disclosure have been amended to conform to the FY2018 disclosure framework.

The classification of the LDFU portfolio as a discontinued operation is more appropriate and fits the definition of a Discontinued Operation as per IFRS 5 Appendix A; Defined terms: discontinued operation (b) Which states that this unit "is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation". It has always been the intention to dispose of the unit as part of single co-ordinated plan.

The following line items have been reclassified in FY2017:

Statement of financial position

- 'Liabilities of disposal group classified as held-for-sale" to "Funding liabilities"

Statement of profit or loss and other comprehensive income

- Interest expense in "Net loss from discontinued operations" to "Interest expense"
- Operating expense in "Net loss from discontinued operations" to "Other operating expense"

Statement of changes in equity

- "Discontinued operations" to "General reserve"

Segment reporting

- Interest expense, operating expenses and the funding liabilities of "Discontinued operations - LDFU" to "Corporate Banking and Structured Investments and "Northern region" respectively. All properties are based in the Northern region.

Statement of profit or loss and other comprehensive income

Group		Previously Reported 2017	Reclassifications 2017	Restated 2017
Continuing operations		**R'000**	**R'000**	**R'000**
Net interest income		1 273 717	(60 370)	1 213 347
Interest income	24	4 256 564	-	4 256 564
Interest expense	25	(2 982 847)	(60 370)	(3 043 217)
Net impairment charges, claims and recoveries	11.6	(81 543)	-	(81 543)
Total income from lending activities		1 192 174	(60 370)	1 131 804
Non-interest expense	26	(270 240)	-	(270 240)
Non-interest income	27	62 900	-	62 900
Operating income from banking activities		984 834	(60 370)	924 464
Net insurance premium income	28.1	135 720	-	135 720
Net insurance claims	28.3	(114 548)	-	(114 548)
Other costs from insurance activities	28.4	(25 675)	-	(25 675)
Investment income and fees	29	71 946	-	71 946
Interest in post-retirement obligation		(29 775)	-	(29 775)
Fair value gains	30	7 865	-	7 865
Operating income		1 030 367	(60 370)	969 997
Operating expenses	31	(595 160)	7 609	(587 551)
Net operating income		435 207	(52 761)	382 446
Non-trading and capital items	32	5 888	-	5 888
Net profit before indirect taxation		441 095	(52 761)	388 334
Indirect taxation	33	(68 863)	-	(68 863)
Net profit from continuing operations		372 232	(52 761)	319 471
Net loss from discontinued operations	23	(5 242)	52 761	47 519
Profit for the year		**366 990**	**-**	**366 990**
Other comprehensive income				
Items that will be reclassified into profit or loss				
Net losses on financial assets designated at fair value through other comprehensive income		440	-	440
Items that will not be reclassified subsequently to profit or loss				
Actuarial loss on the post-retirement obligation		(12 981)	-	(12 981)
Revaluation of land and buildings		1 983	-	1 983
Total other comprehensive income		**(10 558)**	**-**	**(10 558)**
Total comprehensive income for the year		**356 432**	**-**	**356 432**

Bank		Previously Reported 2017	Reclassifications 2017	Restated 2017
Continuing operations		**R'000**	**R'000**	**R'000**
Net interest income		1 256 911	(60 370)	1 196 541
Interest income	24.	4 234 811	-	4 234 811
Interest expense	25	(2 977 900)	(60 370)	(3 038 270)
Net impairment charges, claims and recoveries	11.6	(81 543)	-	(81 543)
Total income from lending activities		1 175 368	(60 370)	1 114 998
Non-interest expense	26	(269 071)	-	(269 071)
Non-interest income	27	60 613	-	60 613
Operating income from banking activities		966 910	(60 370)	906 540
Net insurance premium income	28.1	-	-	-
Net insurance claims	28.3	-	-	-
Other costs from insurance activities	28.4	-	-	-
Investment income and fees	29	11 468	-	11 468
Interest in post-retirement obligation		(29 775)	-	(29 775)
Fair value gains	30.	5 877	-	5 877
Operating income		954 480	(60 370)	894 110
Operating expenses	31	(569 948)	7 609	(562 339)
Net operating income		384 532	(52 761)	331 771
Non-trading and capital items	32	5 888	-	5 888
Net profit before indirect taxation		390 420	(52 761)	337 659
Indirect taxation	33	(68 863)	-	(68 863)
Net profit from continuing operations		321 557	(52 761)	268 796
Net loss from discontinued operations	23	(5 242)	52 761	47 519
Profit for the year		**316 315**	**-**	**316 315**
Other comprehensive income				
Items that will be reclassified into profit or loss				
Net losses on financial assets designated at fair value through other comprehensive income		440	-	440
Items that will not be reclassified subsequently to profit or loss				
Actuarial loss on the post-retirement obligation		(12 981)	-	(12 981)
Revaluation of land and buildings		1 983	-	1 983
Total other comprehensive income		**(10 558)**	**-**	**(10 558)**
Total comprehensive income for the year		**305 757**	**-**	**305 757**

Statement of financial position

Group		Previously Reported 2017	Reclassifications 2017	Restated 2017
Assets		**R'000**	**R'000**	**R'000**
Cash and cash equivalents	4	1 520 331	-	1 520 331
Trade and other receivables	5	385 043	-	385 043
Short-term insurance assets	6	178 527	-	178 527
Repurchase agreements	7	15 149	-	15 149
Investments	8	1 860 074	-	1 860 074
Strategic trading assets	9	9 617	-	9 617
Loans and advances	11	40 975 554	-	40 975 554
Assets of discontinued operation classified as held-for-sale	12	197 139	-	197 139
Long term insurance asset	19.5	12 098	-	12 098
Non-current assets held-for-sale	13	47 993	-	47 993
Investment property	14	167 800	-	167 800
Property and equipment	15	45 236	-	45 236
Intangible assets	16	27 275	-	27 275
Total assets		**45 441 836**	**-**	**45 441 836**
Equity and liabilities				
Equity				
Distributable reserves	17	6 317 349	-	6 317 349
Other reserves	17	137 495	-	137 495
		6 454 844	**-**	**6 454 844**
Liabilities				
Trade and other payables	18	379 782	-	379 782
Strategic trading liabilities	9	5 533	-	5 533
Short-term insurance liabilities	6	260 264	-	260 264
Long-term policyholders' liabilities	19	54 762	-	54 762
Funding liabilities	20	36 918 757	920 853	37 839 610
Provisions	21	108 831	-	108 831
Post-retirement obligation	22	338 210	-	338 210
Liabilities of disposal group classified as held-for-sale	23	920 853	(920 853)	-
Total equity and liabilities		**45 441 836**	**-**	**45 441 836**

Bank		Previously Reported 2017	Reclassifications 2017	Restated 2017
Assets		**R'000**	**R'000**	**R'000**
Cash and cash equivalents	4	1 211 305	-	1 211 305
Trade and other receivables	5	138 949	-	138 949
Repurchase agreements	7	15 149	-	15 149
Investments	8	983 184	-	983 184
Strategic trading assets	9	9 617	-	9 617
Loans and advances	11	40 975 554	-	40 975 554
Assets of discontinued operation classified as held-for-sale	12	197 139	-	197 139
Non-current assets held-for-sale	13	47 993	-	47 993
Investment property	14	167 800	-	167 800
Property and equipment	15	45 053	-	45 053
Intangible assets	16	27 275	-	27 275
Total assets		**43 819 018**	**-**	**43 819 018**
Equity and liabilities				
Equity				
Distributable reserves	17	5 227 078	-	5 227 078
Other reserves	17	137 495	-	137 495
		5 364 573	**-**	**5 364 573**
Liabilities				
Trade and other payables	18	163 998	-	163 998
Strategic trading liabilities	9	5 533	-	5 533
Funding liabilities	20	36 918 757	920 853	37 839 610
Provisions	21	107 094	-	107 094
Post-retirement obligation	22	338 210	-	338 210
Liabilities of disposal group classified as held-for-sale	23	920 853	(920 853)	-
Total equity and liabilities		**43 819 018**	**-**	**43 819 018**

Statement of financial position

Group		Previously Reported 2016	Reclassifications 2016	Restated 2016
Assets		R'000	R'000	R'000
Cash and cash equivalents	4	2 507 463	-	2 507 463
Trade and other receivables	5	174 419	-	174 419
Short-term insurance assets	6	206 916	-	206 916
Repurchase agreements	7	14 706	-	14 706
Investments	8	1 691 704	-	1 691 704
Loans and advances	11	36 353 418	-	36 353 418
Assets of discontinued operation classified as held-for-sale	12	149 620	-	149 620
Long term insurance asset	19.5	661	-	661
Non-current assets held-for-sale	13	47 622	-	47 622
Investment property	14	106 740	-	106 740
Property and equipment	15	83 955	-	83 955
Intangible assets	16	34 131	-	34 131
Total assets		**41 371 355**	**-**	**41 371 355**
Equity and liabilities				
Equity				
Distributable reserves	17	5 963 340	-	5 963 340
Other reserves	17	135 072	-	135 072
		6 098 412	**-**	**6 098 412**
Liabilities				
Trade and other payables	18	383 547	-	383 547
Short-term insurance liabilities	6	299 009	-	299 009
Long-term policyholders' liabilities	19	35 787	-	35 787
Funding liabilities	20	33 156 039	868 092	34 024 131
Provisions	21	206 917	-	206 917
Post-retirement obligation	22	323 552	-	323 552
Liabilities of disposal group classified as held-for-sale	23	868 092	(868 092)	-
Total equity and liabilities		**41 371 355**	**-**	**41 371 355**

Bank		Previously Reported 2016	Reclassifications 2016	Restated 2016
Assets		**R'000**	**R'000**	**R'000**
Cash and cash equivalents	4	2 120 577	-	2 120 577
Trade and other receivables	5	331 008	-	331 008
Repurchase agreements	7	14 706	-	14 706
Investments	8	557 836	-	557 836
Loans and advances	11	36 353 418	-	36 353 418
Assets of discontinued operation classified as held-for-sale	12	149 620	-	149 620
Non-current assets held-for-sale	13	47 622	-	47 622
Investment property	14	106 740	-	106 740
Property and equipment	15	83 844	-	83 844
Intangible assets	16	34 131	-	34 131
Total assets		**39 799 502**	**-**	**39 799 502**
Equity and liabilities				
Equity				
Distributable reserves	17	4 923 745	-	4 923 745
Other reserves	17	135 072	-	135 072
		5 058 817	**-**	**5 058 817**
Liabilities				
Trade and other payables	18	188 180	-	188 180
Funding liabilities	20	33 156 039	868 092	34 024 131
Provisions	21	204 822	-	204 822
Post-retirement obligation	22	323 552	-	323 552
Liabilities of disposal group classified as held-for-sale	23	868 092	(868 092)	-
Total equity and liabilities		**39 799 502**	**-**	**39 799 502**

Loans and advances

During the year under review the Service Level Agreement portfolio was transferred from "Corporate Banking and Structured Investments" to "Commercial Development and Business Banking". With the introduction of Business Banking and Structured Investments, the Bank considered whether the SLA portfolio is best suited in the Corporate Banking space. After analysing the SLA portfolio in terms of type of products and risks associated, amongst other, it was determined that the portfolio is more retail in nature and best suited in the CDBB space which is predominently the retail business unit. The FY2017 disclosure have been amended to conform to the FY2018 disclosure framework.

11.3 Loans by credit quality	Performing loans	Under performing loans	Non performing loans	Total
2017	**R'000**	**R'000**	**R'000**	**R'000**
Gross loans and advances				
Reported: Corporate Banking and Structured Investments	30 308 812	3 753 784	2 011 892	36 074 488
Transfer of Service Level Agreement Portfolio	(18 420 153)	(1 748 857)	(1 613 956)	(21 782 966)
Restated: Corporate Banking and Structured Investments	**11 888 659**	**2 004 927**	**397 936**	**14 291 522**
Reported: Commercial Development and Business Banking	5 974 873	243 697	1 051 082	7 269 652
Transfer of Service Level Agreement Portfolio	18 420 153	1 748 857	1 613 956	21 782 966
Restated: Commercial Development and Business Banking	**24 395 026**	**1 992 554**	**2 665 038**	**29 052 618**

11.6 Impairment releases/ (charges), claims and recoveries	Previously Reported	Reclassifications	Restated
	R'000	**R'000**	**R'000**
2017			
Net impairments raised/ (released) to the statement of comprehensive income			
Corporate Banking and Structured Investments	57 057	47 466	104 523
Commercial Development and Business Banking	61 413	(49 254)	12 159
Loan commitments and guarantees	(4 028)	1 788	(2 240)
	114 442	**-**	**114 442**

37.1 Loan Commitments and Guarantees

As indicated in note 11.3, during the year, the data enhancement initiatives of the Bank, resulted in improved data quality and more reliable information on commitments and guarantees for FY2017. FY2017 disclosure was adjusted to also include the loan commitments of the Service Level Agreement portfolio. The FY2017 Annual Financial Statements included an amount of R990.5 million in respect of loan commitments, which erroneously excluded the commitments of the Service Level Agreement portfolio. This amount was adjusted to R7.4 billion.

The FY2017 Annual Financial Statements included an amount of R660.3 million in respect of guarantees, which erroneously excluded the guarantees of the Service Level Agreement portfolio. This amount was adjusted to R1.0 billion.

ANNEXURE A: GROUP REMUNERATION

In accordance with the Land Bank Act, the Minister of Finance determines the remuneration, allowances and assosciated 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 - Land Bank non-executive directors and executive directors for FY2018 (R'000)

	Board	AGM	Audit & Finance	Risk and Governance	Credit and Investment	HR	SEC	Ad hoc Meetings	Cash salary	Performance Bonuses	Other Benefits[2], Fees & Expenses	Total
Non-Executive Directors												
Mr MA Moloto	752	23	-	-	212	114	15	24	-	-	-	1 140
Ms D Hlatshwayo	239	17	-	-	184	114	15	24	-	-	5	598
Ms N Zwane	273	17	85	-	-	100	15	24	-	-	-	514
Prof ASM Karaan	100	-	-	-	93	-	-	-	-	-	-	193
Ms SA Lund[1]	273	17	100	87	-	-	-	24	-	-	7	508
Ms TT Ngcobo	273	17	-	57	-	144	20	49	-	-	4	564
Ms D Motau	239	-	-	-	232	-		16	-	-	9	496
Adv S Coetzee	238	17	-	57	-	114	15	33	-	-	1	475
Ms M Makgatho	239	17	71	-	170	-	-	24	-	-	4	525
Ms G Mtetwa	221	-	148	43	-	-	-	24	-	-	2	438
Subtotal	**2 847**	**125**	**404**	**244**	**891**	**586**	**80**	**242**	**-**	**-**	**32**	**5 451**
Executive Directors												
Mr TP Nchocho Chief Executive Officer	-	-	-	-	-	-	-	-	4 362	1 737	102	6 201
Mr BJ van Rooy Chief Financial Officer	-	-	-	-	-	-	-	-	3 254	883	27	4 164
Total Land Bank	**2 847**	**125**	**404**	**244**	**891**	**586**	**80**	**242**	**7 616**	**2 620**	**161**	**15 816**

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

[2] Includes Group Life, Capital Disability and Total and Temporary Disability Benefits as well as vitality benefits

ANNEXURE A: GROUP REMUNERATION

Table 2: Remuneration - Land Bank non-executive directors and executive directors for FY2017 (R'000)

	Board	Audit & Finance	Risk and Governance	Credit and Investment	HR & SEC	Ad hoc Meetings	Cash Salary	Performance Bonuses	Other Benefits[3], Fees & Expenses	Total
Non-Executive Directors										
Mr MA Moloto	714	-	-	180	97	8	-	-	-	999
Ms D Hlatshwayo	217	-	-	153	83	16	-	-	4	473
Ms N Zwane	234	97	-	-	97	8	-	-	-	436
Prof ASM Karaan	200	14	-	224	-	8	-	-	-	446
Ms SA Lund[1]	234	97	85	-	-	8	-	-	4	428
Mr BP Mathidi[2]	150	90	28	-	-	24	-	-	3	295
Ms TT Ngcobo	250	-	56	-	126	24	-	-	3	459
Ms D Motau	250	-	-	194	-	8	-	-	9	461
Adv S Coetzee	234	-	56	-	97	8	-	-	1	396
Ms M Makgatho	234	69	-	167	-	8	-	-	2	480
Ms G Mtetwa	8	-	-	-	-	-	-	-	-	8
Subtotal	**2 725**	**367**	**225**	**918**	**500**	**120**	**-**	**-**	**26**	**4 881**
Executive Directors										
Mr TP Nchocho Chief Executive Officer	-	-	-	-	-	-	4 009	2 090	202	6 301
Mr BJ van Rooy Chief Financial Officer	-	-	-	-	-	-	2 996	1 021	109	4 126
Total Land Bank	**2 725**	**367**	**225**	**918**	**500**	**120**	**7 005**	**3 111**	**337**	**15 308**

[1] Paid to Transnet Foundation until Q4 which 50% was paid to Ms Lund in terms of her employer policy on non-executive directorship

[2] Paid to Momentum Asset Management

[3] Includes Group Life, Capital Disability and Total and Temporary Disability Benefits as well as vitality benefits

Table 3: Remuneration - Land Bank Insurance Services non-executive directors and executive directors for FY2018 (R'000)

	Board	Audit & Risk	Investment & Actuarial	Ad hoc Meetings	Cash Salary	Performance Bonuses	Other Benefits[1], Fees & Expenses	Total
Non-Executive Directors								
Ms D Hlatshwayo	501	-	-	16	-	-	-	517
Mr DJ Bergman	138	83	36	8	-	-	3	268
Ms D Motau	89	46	46	8	-	-	-	189
Ms TT Ngcobo	114	-	-	8	-	-	-	122
Adv S Coetzee	125	-	-	8	-	-	-	133
Ms M Makgatho	26	55	46	-	-	-	-	127
Ms N Zwane	75	-	-	8	-	-	-	83
Subtotal	**1 068**	**184**	**128**	**56**	**-**	**-**	**3**	**1 439**
Executive Director								
Mr M Rakgalakane Managing Director	-	-	-	-	2 968	414	28	3 410
Total	**1 068**	**184**	**128**	**56**	**2 968**	**414**	**31**	**4 849**

[1] Other benefits include vitality benefits

Table 4: Remuneration - Land Bank Insurance Services non-executive directors and executive directors for FY2017 (R'000)

	Board	Audit & Risk	Investment & Actuarial	Ad hoc Meetings	Cash Salary	Performance Bonuses	Other Benefits[1], Fees & Expenses	Total
Non-Executive Directors								
Ms B Luthuli	131	36	-	16	-	-	2	185
Ms D Motau	75	54	45	16	-	-	-	190
Ms TT Ngcobo	75	-	-	16	-	-	-	91
Adv S Coetzee	37	-	-	-	-	-	-	37
Ms M Makgatho	-	-	36	-	-	-	-	36
Ms D Hlatshwayo	440	-	-	16	-	-	-	456
Mr DJ Bergman	149	109	45	16	-	-	4	323
Subtotal	**907**	**199**	**126**	**80**	**-**	**-**	**6**	**1 318**
Executive Director								
Mr M Tyikwe[2] Managing Director	-	-	-	-	385	809	17	1 211
Mr M Rakgalakane[3] Managing Director	-	-	-	-	1 762	-	76	1 838
Total	**907**	**199**	**126**	**80**	**2 147**	**809**	**99**	**4 367**

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

[2] Resigned on 31 May 2016

[3] Appointed as at 10 August 2016

Table 5: Remuneration - Land Bank executive officers in FY2018 (R'000)

Title	Basic Salary	Bonus	Cellphone Allowances	Other benefits[1]	Total
Mr JS Mthembu[2] Executive Manager: Legal Services	1 672	657	16	-	2 345
Ms ETM Dlamini Executive Manager: Human Capital	2 544	732	24	4	3 304
Ms L Ndlovu Executive Manager: Commercial Development and Business Banking	2 429	632	24	-	3 085
Mr WJ Jacobs[3] Executive Manager: Agricultural Economics and Advisory	1 658	619	16	2	2 295
Mr SCE Soundy Executive Manager: Strategy and Communications	2 614	694	24	4	3 336
Mr GJM Conway [4] Executive Manager: Corporate Banking and Structured Investments	2 599	671	24	4	3 298
Ms K Gugushe Chief Risk Officer	2 718	714	24	3	3 459
Mr F Stiglingh Executive Manager: Portfolio Management Services	2 595	561	24	4	3 184
Mr SN Sebueng [5] Executive Manager: Legal	550	-	6	-	556
Dr LL Magingxa [6] Executive Manager: Agricultural Economics & Advisory	209	-	2	-	211
Total	**19 588**	**5 280**	**184**	**21**	**25 073**

[1] Other benefits include vitality benefits

[2] Resigned as at 30 November 2017

[3] Resigned as at 30 November 2017

[4] Resigned as at 13 July 2018

[5] Appointed as at 01 January 2018

[6] Appointed as at 01 March 2018

Table 6: Remuneration - Land Bank executive officers in FY2017 (R'000)

Title	Basic Salary	Bonus	Cellphone Allowances	Other benefits[1]	Total
Mr JS Mthembu Executive Manager: Legal Services	2 320	867	24	69	3 280
Ms ETM Dlamini Executive Manager: Human Capital	2 342	876	24	70	3 312
Ms L Ndlovu Executive Manager: Commercial Development and Business Banking	2 247	563	24	67	2 901
Mr WJ Jacobs Executive Manager: Agricultural Economics and Advisory	2 300	648	24	69	3 041
Mr SCE Soundy Executive Manager: Strategy and Communications	2 407	488	24	71	2 990
Mr GJM Conway[2] Executive Manager: Corporate Banking and Structured Investments	2 404	803	24	66	3 297
Ms K Gugushe Chief Risk Officer	2 514	508	24	74	3 120
Mr F Stiglingh[3] Executive Manager: Portfolio Management Services	1 989	-	20	72	2 081
Total	**18 523**	**4 753**	**188**	**558**	**24 022**

[1] Other benefits include Group Life, Capital Disability and Total & Temporary Disability Benefits as well as vitality benefits

[2] Title changed from 01 August 2016

[3] Appointed as at 01 June 2016

INTEGRATED ANNUAL REPORT 2018

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RP430/2018
ISBN: 978-0-621-46918-9

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