

Land & Agricultural Development Bank of South Africa
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Via email

MA Moloto: Chairman of the Board, arthurmoloto@gmail.com
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Dear Sirs

RE: Governance Review of Land Bank

As you are aware, on August 31, 2016 Futuregrowth announced it had suspended lending to the 6 largest South African SOEs pending a review of their governance structures and independence. Pursuant to that, Futuregrowth has sought to engage the SOEs to perform the review and analysis.

We can confirm that Land Bank and Futuregrowth have, during the last 3 weeks, engaged in a productive review, explanation, disclosure and clearing-of-issues around Land Bank's governance. This included interaction with Land Bank's executive management team and the Board. In addition to a detailed review of the Board, Board Committee and Executive Management, the process included an assessment of Land Bank's policies, and practical evidence of the appropriate application of policies.

Following this review, Futuregrowth has lifted the suspension on lending to Land Bank with immediate effect. Longer term continuance of additional lending will be subject to the agreed amendments and provisions in lending agreements, as well as Futuregrowth's continual monitoring of Land Bank's governance and finances.

As you are aware, our in-depth governance due diligence took a dual approach, looking at governance from the shareholder to board level, and the board to entity level. Our process included the following high-level areas: 1) understanding the relationship, nature and extent of involvement and support from the Executive Authority, which represents the shareholder (government) and is currently National Treasury; 2) Obtaining a more in-depth understanding of the legislative/governance framework under which the Bank operates and understanding how changes to this can be made; and 3) an in-depth review of lending policies, practices, and mandates and the application thereof as well as the key decision-making structures and processes, including how exceptions and conflicts are dealt with, decision-making authorities, nominations, appointments and removal of individuals on various decision-making structures, etc.

The objective of our engagement was to obtain a deeper understanding of the Board's autonomy, decision making rights, commitment to fiduciary responsibility and shareholder's support and to see evidence of sound governance in practice.

Our due diligence extended further than a desktop review of policy documents -- we evaluated the practical application of these policies and mandates and requested evidence of policies in action. This included,

Directors

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among others, Board and sub-committee charters/mandates, Code of Ethics, Politically Exposed Persons Policy, Directors' and key decision-makers' conflicts registers, whistleblowing policy, Board and Directors' evaluations, Directors turnover statistics and the reasons therefore.

A key focus of our due diligence was the investment/lending process. We reviewed the Risk Committee Charter along with, the various credit and investment committees' terms of reference, with consideration given to composition of investment committees, the nomination, appointment and removal processes of members, delegation of authority, how conflicts of interest are managed and transaction approval levels.

We considered the procurement process and reviewed applicable policies, however due to Land Bank's primary business being lending and the relatively small quantum Land Bank spends on procurement, this was not a material area of focus.

Our due diligence revealed that currently there is an appropriately constituted board with a balance of skills and experience; a positive and constructive relationship between Board and Executive Authority; and evidenced application of policies and process.

We identified certain areas for improvement which we confirm were discussed with and well received by the Board. Although not exhaustive, these recommendations included: lower and approval limits for approval levels at certain investment and credit committees; increasing the quorum requirements for board and sub-committees; higher voting thresholds for decision-making on the Board and the various sub-committees; improved and more regular public disclosure of key indicators and information.

We are cognizant of the fact that governance is a dynamic process, the monitoring of which requires ongoing vigilance and engagement with management and shareholders. To this end, we have agreed with the Board and management that they will undertake regular public reporting on key matters in a bid to facilitate monitoring and transparency. We appreciate the fact that Land Bank has committed to regular, public reporting on significant changes to key policies, charters and terms of reference of Board and Board sub-committees; material changes to the Corporate Plan; detailed Board and executive management turnover; conflicts of interest as reported at Board and sub-committee level (including the frequency, remedies); and disclosure of the number and quantum of deals approved at the various credit and investment committees.

In principle we have agreed with Land Bank the inclusion of specific legal protections in any future bilateral loan agreements, as well as possibly in the Domestic Medium Term Note documentation. A key focus of these protections is to maintain the stability of the relationship with the current Executive Authority.

In undertaking a governance due diligence, a review of policies and charters is a good starting point., However, our detailed engagement and analysis has confirmed that when it comes to good governance, the "who" and the "how" matters - meaning that governance is something that is done daily, by people in the organization and that policies only tell a proportion of the full story. Over and above this, the Board and shareholders stated and ongoing commitment to implementing and practicing good governance is of paramount importance in ensuring the sustainable execution of its mandate.

We appreciate Land Bank's prompt and proactive engagement throughout this process, willingness to make the recommended changes to disclosure, legal agreements, decision-making and reporting and efforts to constantly maintain and improve Land Bank's governance processes and practices.

We remain your partners in South Africa's development.

Kind regards



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