

Land Bank tills profits despite volatile economic environment

Centurion, South Africa – 27 August 2015: State-owned Land Bank, a specialist agricultural Bank providing financial services to the agricultural sector posted strong results for the financial year ended 31 March 2015 reporting continued strong levels of credit quality, revenue growth and net income.

The following notable successes were achieved during the past financial year:

- The Bank achieved growth in its performing loan book of 10.4% to R36.4 billion;
- Gross Interest Revenue growth of 25.9% to R3.1 billion;
- Continued decline of operating costs with the cost to income ratio falling to 54.9% (FY2014:59.9%);
- Net profit from continuing operations of R352 million;
- Emerging farmers sector advances grew to R2.3 billion (FY2014: R2.0 billion);
- Nationally, the Land Bank now has approximately 31% market share of all agricultural finance in South Africa.

Speaking on the occasion, Mr TP Nchocho, CEO, Land Bank said, “Today’s results demonstrate the strong progress we have made during the past 12 months. The Bank is not only in a strong position to navigate ourselves safely through this environment, but also given the liquidity and capital levels we are confident in our ability to fulfill our mandate as well as those enshrined in the National Development Plan.”

Notwithstanding the strong financial results, the operating environment remained tough, characterised by a liquidity crunch in the domestic market, and general re-pricing of perceived heightened credit risk.

Margins also came under pressure as the Reserve Bank hiked interest rates during the financial year in review. The prevailing economic conditions of slow growth, lower demand and rising inflation were further exacerbated by the worsening power situation.

Despite these challenges, the Land Bank posted healthy gains for the year in review recording a net profit from continuing operations of R352 million.

Equally impressive, the Bank’s Cost to Income Ratio reduced to 54.9% for the financial year in review. The quality of the balance sheet has remained relatively stable, with a marginal increase in the NPL ratio from 3.2 % in the prior year to 3.7%.

Banking operations saw gross loans increase by 10.9% or R3.7 billion to R37.8 billion, while performing loans increased by R3.4 billion (10.4%) to R36.4 billion.

The Bank has remained vigilant in providing for distressed accounts with additional net impairments amounting to R166.7 million being raised. Total impairments (inclusive of suspended interest and fees) as a percentage of the loan book is at 2.9%.

“Nonetheless, going forward the picture is looking brighter in terms of net income, return on investment and asset quality.”

Government support in the form of additional guarantees amounting to R4 billion, coupled with internal initiatives aimed at continually improving and re-aligning the operations contributed to navigating the institution through these economic tides.

For over a century, the Land Bank has been the cornerstone of agricultural finance remaining resilient and relevant throughout the various economic crises that have shaken the sector.

'We remain focused on our aim to become an institution of strategic significance in terms of our tangible contribution to the growth, development and inclusive transformation of the agri sector," Nchocho added.

The following key points reflect the upward trajectory of the Land Bank over the past financial year;

- The Bank developed an Environmental and Social Sustainability strategy in 2013 and began executing it during the year, with more recent addition of the Environmental and Social Management System (ESMS).
- This will enhance the assessment and management of environmental and social (E&S) risks associated with agricultural lending.
- The Bank has achieved level 3 Broad Based Black Economic Empowerment status.

These organisational achievements are not without its challenges, and the continued growth plan requires more capital resources.

“We need to demonstrate innovation, operational efficiency and clearly display our understanding of the markets in which we operate as well as the risks we face as a development finance institution,” Nchocho concluded.

The Bank has made significant progress in identifying issues that need immediate attention and corrective action. A new executive team has been named in order to improve operational performance and accountability. At the same time, the Bank is finalising a comprehensive analysis of its loan portfolio and internal pricing models.

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