

## **Sens Announcement**

The Land and Agricultural Development Bank of South Africa

(JSE Code: BILB)

("Land Bank")

### **The Land and Agricultural Development Bank of South Africa: Audited annual financial results for the year ended 31 March 2018**

#### **Overview**

Land Bank is a state owned, agricultural development finance institution, whose only shareholder is the Government of the Republic of South Africa. The summary of Annual Financial results is published on SENS to provide information to holders of Land Bank's debt instruments. The full set of financial statements is available on Land Bank's website at: [www.landbank.co.za](http://www.landbank.co.za)

#### **Preparation of the financial statements**

The Annual Financial Results have been prepared under the supervision of the Chief Financial Officer, Mr. Bennie van Rooy CA (SA).

The directors take full responsibility for the preparation of the summary of annual financial results and for correctly extracting the financial information from the underlying audited financial statements for inclusion in the SENS announcement.

#### **Basis of preparation**

Accounting policies adopted and methods of computation are consistent with those applied to the Annual Financial Statements at 31 March 2017. The Annual Financial Statements are prepared on the historical cost basis except for the following assets and liabilities which are stated at their fair value: financial assets or financial liabilities held-for-trading; financial assets or financial liabilities designated at fair value through profit or loss; financial assets or financial liabilities designated at fair value through other comprehensive income; investment properties; and post-retirement medical benefit which is measured at actuarial values.

The Annual Financial Statements have been prepared in accordance with the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS"), Public Finance Management Act of South Africa ("PFMA"), Section 27 to 31 of the Companies Act of South Africa and Land Bank Act, 2002.

The Preparation of Annual Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

#### **Audit of the financial results**

The Annual Financial Results of Land Bank for the year ended 31 March 2018 have been audited by Auditor-General of South Africa. In their audit report, which is available for inspection at the Company's Registered Office, the Auditor-General stated that their audit was conducted in accordance with International Standards on Auditing, and have expressed an unmodified audit report on the year-end financial statements.

## Salient features of the Bank's solid financial performance

During FY2018, Land Bank continued to create value for its stakeholders and 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.

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.

The performance highlights include the following:

- |   |  |
|---|--|
| ▪ Sound capital adequacy position:                    | CAR of 17.3% (FY2017: 17.7%)             |
| ▪ Strong liquidity position:                          | LCR of 214.3% (FY2017: 85%)              |
| ▪ Stable funding position:                            | NSFR of 108.6% (FY2017: 86.7%)           |
| ▪ Reduced reliance on short term funding              | 43.2% (FY2017: 56.4%)                    |
| ▪ Increased loan book:                                | Gross Loans of R45.5bn (FY2017: R43.3bn) |
| ▪ Reduced non-performing loans:                       | NPL of 6.7% (FY2017: 7.1%)               |
| ▪ Increase in net interest income:                    | R1.26bn (FY2017: R1.20bn)                |
| ▪ Increase in Bank profit from continuing operations: | R278.7m (FY2017: R268.8m)                |

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 R1.5billion to qualifying development assets during FY2018. More information on these transactions is available in our Integrated Report at: [www.landbank.co.za](http://www.landbank.co.za).

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

- US\$93 million 25-year Government Guaranteed World Bank facility;
- US\$300 million 10-year Multilateral Investment Guarantee Agency (MIGA) backed facility;
- EUR55 million unguaranteed 10-year KfW (German Development Bank) loan, and
- EUR50 million unguaranteed 12-year European Investment Bank (EIB) Climate Adaption facility.

These facilities were only approved following comprehensive due diligence investigations conducted by the multilateral 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.

## Further key impressions of the financial results and activities

Land Bank continued to focus on its developmental mandate role, whilst maintaining financial sustainability as follows:

- Developmental portion of loans increased to R5.4bn (12.0%), up from R4.9bn (11.3%) in FY2017
- Total developmental equity investments of R0.5bn (FY2017: R nil)
- Development loans and equity investment disbursement of R1.5bn
- Interest rate subsidies to emerging farmers of R74m
- Total insured crops to the value of R13bn of which R500m insured value was provided to 239 smallholder farmers

- R513m crop insurance claims paid during the year
- A total of R334m drought relief loans approved of which R240m was disbursed by year-end, with the balance awaiting fulfilment of loan conditions before disbursements
- Land Bank Insurance Company introduced the first Black Broker programme in the crop insurance sector during FY2017 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.

### **Events after the reporting period**

The Bank's Board have been strengthened with 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 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 Land Bank Insurance Board:

- Mr M Scharneck was appointed effective 01 April 2018 as a board member and 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 and as the Chairperson of the Audit and Risk Committee.

Mr Gary Conway, the Executive Manager: Corporate Banking and Structured Investments resigned with effect from 13 July 2018.

### **Outlook & Economic conditions**

The prevailing economic- and weather conditions, together with policy uncertainty regarding land expropriation without compensation are expected to impact negatively on Land Bank's business. The Bank is however well positioned to navigate these stormy waters through its renewed focus on partnerships throughout the agricultural value chain and key stakeholders.

**Statement of Financial Position as at 31 March 2018 (R'000)**

	Group		Bank	
	FY2018	FY2017	FY2018	FY2017
<b>Assets</b>				
Cash and cash equivalents	2 421 069	1 520 331	2 362 130	1 211 305
Trade and other receivables	320 171	385 043	131 302	138 949
Short-term insurance assets	282 382	178 527	-	-
Repurchase agreements	15 706	15 149	15 706	15 149
Investments	2 619 887	1 860 074	1 406 650	983 184
Strategic trading assets	-	9 617	-	9 617
Hedging derivative assets	8 106	-	8 106	-
Loans and advances	43 418 462	40 975 554	43 418 462	40 975 554
Assets of discontinued operations classified as held-for-sale	147 328	197 139	147 328	197 139
Long-term insurance assets	10 753	12 098	-	-
Non-current assets held-for-sale	10 085	47 993	10 085	47 993
Investment Property	174 590	167 800	174 590	167 800
Property and equipment	38 202	45 326	37 996	45 053
Intangible assets	20 279	27 275	20 279	27 275
<b>Total Assets</b>	<b>49 487 020</b>	<b>45 441 836</b>	<b>47 732 634</b>	<b>43 819 018</b>
<b>Equity</b>				
Distributable reserves	6 547 725	6 317 349	5 445 930	5 227 078
Other reserves	100 978	137 495	100 978	137 495
<b>Liabilities</b>				
Trade and other payables	355 404	379 782	160 715	163 998
Strategic trading liabilities	-	5 533	-	5 533
Short-term insurance liabilities	398 859	260 264	-	-
Long-term policyholders' liabilities	55 939	54 762	-	-
Funding liabilities	41 576 302	37 839 610	41 576 302	37 839 610
Provisions	82 632	108 831	79 528	107 094
Post-retirement obligation	369 181	338 210	369 181	338 210
<b>Total Equity and Liabilities</b>	<b>49 487 020</b>	<b>45 441 836</b>	<b>47 732 634</b>	<b>43 819 018</b>

**Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2018  
(R'000)**

	<b>Group</b>		<b>Bank</b>	
	<b>FY2018</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2017</b>
<b>Continuing Operations</b>				
Net interest income	1 278 405	1 213 347	1 261 391	1 196 541
<i>Interest income</i>	4 846 716	4 256 564	4 826 977	4 234 811
<i>Interest expense</i>	(3 568 310)	(3 043 217)	(3 565 586)	(3 038 270)
Net impairment charges, claims and recoveries	(55 524)	(81 543)	(55 524)	(81 543)
<b>Total income from lending activities</b>	<b>1 222 882</b>	<b>1 131 804</b>	<b>1 205 867</b>	<b>1 114 998</b>
Non-interest expense	(313 627)	(270 240)	(308 015)	(269 071)
Non-interest income	89 855	62 900	85 727	60 613
<b>Operating income from banking activities</b>	<b>999 110</b>	<b>924 464</b>	<b>983 579</b>	<b>906 540</b>
Net insurance premium income	143 002	135 720	-	-
Net insurance claims	(153 008)	(114 548)	-	-
Other costs from insurance activities	(41 073)	(25 675)	-	-
Investment income and fees	62 639	71 946	16 584	11 468
Interest in post-retirement obligation	(29 757)	(29 775)	(29 757)	(29 775)
Fair value gains	34 027	7 865	7 219	5 877
<b>Operating income</b>	<b>1 014 940</b>	<b>969 997</b>	<b>977 625</b>	<b>894 110</b>
Operating expenses	(654 531)	(587 551)	(628 740)	(562 339)
<b>Net operating income</b>	<b>360 409</b>	<b>382 446</b>	<b>348 885</b>	<b>331 771</b>
Non-trading and capital items	(1 247)	5 888	(1 247)	5 888
<b>Net profit before indirect taxation</b>	<b>359 162</b>	<b>388 334</b>	<b>347 638</b>	<b>337 659</b>
Indirect taxation	(68 922)	(68 863)	(68 922)	(68 863)
<b>Net profit from continuing operations</b>	<b>290 240</b>	<b>319 471</b>	<b>278 716</b>	<b>268 796</b>
Net (loss)/ profit from discontinued operations	(36 023)	47 519	(36 023)	47 519
<b>Profit for the year</b>	<b>254 217</b>	<b>366 990</b>	<b>242 693</b>	<b>316 315</b>
<b>Other comprehensive income</b>				
<b>Items that will be reclassified into profit or loss</b>				
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	-
<b>Items that will not be reclassified subsequently to profit or loss</b>				
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
<b>Total other comprehensive income</b>	<b>(60 358)</b>	<b>(10 558)</b>	<b>(60 358)</b>	<b>(10 558)</b>
<b>Total comprehensive income for the year</b>	<b>193 859</b>	<b>356 432</b>	<b>182 335</b>	<b>305 757</b>

#### Condensed statement of changes in equity as at 31 March 2018 (R'000)

	Group		Bank	
	FY2018	FY2017	FY2018	FY2017
<b>Balance at the beginning of the year</b>	<b>6 454 844</b>	<b>6 098 412</b>	<b>5 364 573</b>	<b>5 058 816</b>
Profit/ (loss) for the year	254 217	366 990	242 693	316 315
Other comprehensive income for the year	(60 358)	(10 558)	(60 358)	(10 558)
<b>Balance at the end of the year</b>	<b>6 648 703</b>	<b>6 454 844</b>	<b>5 546 908</b>	<b>5 364 573</b>

#### Summarised Statement of Cash Flows for the year ended 31 March 2018 (R'000)

	Group		Bank	
	FY2018	FY2017	FY2018	FY2017
Cash flows from operating activities	3 827 271	3 049 173	3 811 150	3 170 270
Cash flows from operations	(6 040 830)	(7 968 206)	(6 038 106)	(7 963 259)
Cash flows from investing activities	(622 395)	116 423	(358 911)	68 236
Cash flows from financing activities	3 736 692	3 815 478	3 736 692	3 815 478
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>900 738</b>	<b>(987 132)</b>	<b>1 150 825</b>	<b>(909 275)</b>
Cash and cash equivalents at the beginning of the year	1 520 331	2 507 463	1 211 305	2 120 580
<b>Cash and cash equivalents at the end of the year</b>	<b>2 421 069</b>	<b>1 520 331</b>	<b>2 362 130</b>	<b>1 211 305</b>

**20 August 2018**

Enquiries

Land and Agricultural Development Bank of South Africa

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Debt Sponsor

The Standard Bank of South Africa Limited