Sens Announcement

The Land and Agricultural Development Bank of South Africa

(JSE Code: BILB)

("the Land Bank")

The Land and Agricultural Development Bank of South Africa: Audited annual financial results for the year ended 31 March 2019

Overview

The 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 the Land Bank's debt instruments. The full set of financial statements is available on the Land Bank website at: www.landbank.co.za

Preparation of the financial statements

The Annual Financial Results have been prepared under the supervision of the Acting Chief Financial Officer, Mr. Yatheen Ramrup 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 2018. 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 are 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 the 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 the Land Bank for the year ended 31 March 2019 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 has expressed an unqualified audit report on the year-end financial statements.

Sector outlook and economic conditions

Land Bank found the external environment extremely difficult during the past financial year. Slow economic growth, weak performance in the agricultural investment space combined with wide-spread drought and other sector-specific events had a negative effect on our ability to increase revenue with a concomitant impact on non-performing loans as clients face significant challenges.

The health of the agricultural sector is the most significant contextual influence on our ability to create value and to deliver development impact. Sector growth declined (-4.8% year-on-year) due to sustained drought in several areas, a late start to the grain planting season and diseases in various livestock sectors. After being severely depressed for the first half of the year, agriculture's contribution to GDP showed a sharp recovery in in the second half of 2018. The sector grew by 13.7% in Q3 and 7.9% in Q4 following massive contractions of -42.3% in Q2 and -33.7% in Q1. However, the negative trend returned in Q1 in 2019 as the sector again contracted by -13.2%.

Simultaneously, the South African economy has been struggling to gain momentum despite political changes, an economic stimulus and recovery plan as well as an investment drive, as businesses and foreign investors seek real reforms. Stagnant growth, political uncertainty, the weakened reputation of state-owned entities and subsequent sovereign credit downgrades have resulted in higher costs of funding.

Uncertainty around regulatory proposals for land expropriation without compensation remains a strategic risk for the Bank. The regulatory proposal regarding Expropriation without Compensation that was instigated on 27 February 2018, remains unresolved. The report by the Advisory Panel on Land Reform and Agriculture that was released by the President on 28 July 2019 pointed towards a holistic approach to land reform. In our opinion, if the proposal is well executed as part of the broader land reform programme, expropriation (with or without) compensation has the potential for some significant economic and social benefits for the economy of South Africa and to the agricultural sector in particular.

We responded to these external issues by increasing the pro-active monitoring of our loan book and investing in the assessment of environmental and social risks in our credit process. Moreover, we are co-operating with stakeholders and clients, identifying actions to adapt and mitigate climate risk and develop a more resilient institution.

In the aftermath of the 2015/16 drought, Land Bank and IDC partnered to create a R400 million drought relief fund for affected farmers that provided low-interest rate loans. The fund was extended to cater for the subsequent drought in the Western Cape and applications were considered from other drought-affected areas during FY2019. As at 31 March 2019, R377.4 million (FY2018: R344.0 million) had been approved for 258 applicants under the facility with a further R57.5 million in applications under consideration.

Development outcomes

The Bank continued to balance its financial sustainability and development mandate during FY2019. The absolute value of transformational loans on our book has increased to R7.9 billion, which represents 17% of the loan book, up from 12% in FY2018. This is according to our definition of transformation as any entity that is majority Black-owned (51% or more Black ownership; or BBBEE level 4 and at least 30% Black shareholding). We recognise that this definition is broad and does not always contribute to the development of the sector in terms of advancing smallholder farmers.

We disbursed loans for transformation to the value of R5.07 billion, thereby contributing to the achievement of Sustainable Development Goal (SDG) 10. We seek to support gender inclusivity in the sector, by entering into transactions with women-owned enterprises and some that allow female employees to become shareholders. We provided financing to 33 women-owned enterprises in 64 transactions through our CDBB division to the value of almost R103 million. We provided financing to youth-owned enterprises through 17 transactions to the value of R19 million. One of our greatest challenges to growing the development book has been the shortage of funding to subsidise development interest rates. The Bank forfeited R56.0 million in income by providing subsidised interest rates to these farmers.

Land Bank provided R1.9 billion in loan funding and invested a further R231.0 million of proprietary funds in a transformation transaction with Afgri Grain Silo Company. This involved the transfer of 5 million tons of grain storage and handling capacity from Afgri Operations to a consortium of investors. The transaction created the first majority Black-owned grain management company in South Africa in one of the largest transformation deals ever concluded in the agricultural sector.

In partnership with the Jobs Fund and Deciduous Fruit Producers Trust, we launched the R600 million Hortfin Fund, which will provide loans to majority Black-owned smallholder and medium scale commercial farmers in the deciduous fruit sector. We also received approval from the Jobs Fund to launch a R300 million mezzanine fund to provide subordinated mezzanine debt to medium-scale Black commercial farmers.

The insurance subsidiary (Land Bank Insurance Company) launched the country's first Black crop insurance assessor programme in conjunction with Walter Sisulu University and enrolled 20 Black learners for the two-year programme. The Black insurance broker training programme that was first launched in 2016 is ongoing and continue to create a network of Black agricultural insurance brokers.

The insurance company is a partner to the Public Private Partnership project through SAIA which is looking at various means, products and funding to make Agriculture insurance affordable and accessible to smallholder farmers.

During the year the Bank started a sinking fund with an initial investment of R500 million, and currently stands at R1.0 billion with the primary objective of ensuring liquidity in respect of future debt maturities. As part of our commitment to development and transformation, the funds under management were invested with four emerging black-owned asset managers.

Key impressions of the financial results and activities

The 2019 financial results of the Group and Bank have been impacted by a number of events which affected the Bank's interest income and other key ratios in FY2020. Our financial performance reflects this context with profit of R130.6 million, primarily because of increasing impairments. Increased impairments and Non-Performing Loans bears testimony to the challenges facing the sector and more specifically our clients' difficulties. Moreover, we have a significant exposure to Tongaat Hulett, which we moved from "Stage 1: Performing" to "Stage 2: Under-performing" at year-end as a conservative credit risk management measure based on the developments there.

Some further challenges arose due to the sovereign credit rating downgrades. The Bank quickly responded to challenges by prepaying some liabilities linked to sovereign downgrades to reduce our exposure to high-interest liabilities. While these prepayments position our liabilities at a lower future cost of funds, we incurred penalties for early settlement with a consequent effect on the income statement. We have managed our cost-to-income ratio closely in FY19 resulting in an improved ratio of 57.1%

A strong balance sheet counter-balances our income statement, which reflects our ability to respond quickly and effectively to mitigate unexpected negative impacts. Liquidity remains excellent and our access to funding continues along a positive trend. Fundraising efforts have been very successful, with oversubscribed offerings. We appreciate our investors' trust, particularly within the South African background for state-owned-entities. We acknowledge that just a few years ago such levels of investor support and confidence was rare.

During the final quarter of FY2019, the Bank received approval from the Competition Commission to conclude the sale of an asset that had been in distress for a number of years. The Bank had been seeking a solution that would allow the company to remain in business thus protecting both creditors and job opportunities for a number of years. However, the ultimate sale of the asset resulted in a significant reduction in the Bank's gross loan book of R2.3 billion. In addition, in March 2019 the Afgri Grain Silo Company transaction had the effect of reducing the Bank's gross loan book by a further R600 million. The reduction in assets will result in a concomitant reduction in income during FY2020 and beyond.

The reduction on the gross loan book will also negatively impact the non-performing loan ratio over the short term. There has been an increase in non-performing loans since the start of the 2019, with the majority of the increase stemming from the drought affected North-West and surrounds. The Bank is closely monitoring this situation and will focus on growing the loan book sustainably to off-set the loss in income while actively managing operational costs. Removing the above effects, our non-performing loans would have been reported at 8.3% instead of the current 8.8%.

Land Bank's challenge remains to balance our financial sustainability with the Bank's development mandate and expectations from its shareholder to increase support to smallholder farmers. Our aim is to ensure that we remain a financially sustainable Development Finance Institution in order to support sector transformation and development whilst crowding-in funds from various sources in support of the sector. We consciously make certain trade-offs in pursuit of this objective where we choose to forego some profit and reduce our potential equity by extending loans at lower interest rates than required by our risk models for developmental purposes.

The key financial performance indicators include the following:

- Sound capital adequacy position: CAR of 16.4% (FY2018: 17.3%)
- Strong liquidity position: LCR of 549.8% (FY2018: 214.3%)
- Stable funding position: NSFR of 102.0% (FY2018: 108.6%)
- Acceptable levels of short term funding: 50.0% (FY2018: 43.2%)
- Stable loan book: Gross Loans of R45.2bn (FY2018: R45.5bn)
- Non-performing loans: NPL of 8.8% (FY2018: 6.7%)
- Net interest income: R1.20bn (FY2018: R1.26bn)
- Impairment charges: R324 m (FY2018: R55 m)
- Profit from continuing operations: R130.6m (FY2018: R278.7m)

Events after financial year-end

The following management changes occurred post year end:

- Mr BJ van Rooy who was Acting CEO resigned from the Bank with effect 30 June 2019
- Ms K Gugushe was appointed as Acting CEO with effect 14 May 2019
- Mr YA Ramrup was appointed as Acting CFO with effect 14 May 2019
- Ms NV Mtetwa who was a non-executive director resigned from the Board with effect 31 August 2019

- The Bank has successfully renegotiated the Cost to Income (CTI) covenant level from 65% to 70% with all of its bilateral funders, save for two investors who were not amenable to the revised level of 70%.
  - ✓ These two funders hold bilateral Step Rate Notes as follows:
    - Funder 1: R1.046 billion for which the facilities expire in totality in November 2019; and
    - Funder 2: R1.56 billion for which one facility of ca. R0.56 billion expires in November 2019, while the other expires in May 2022.
  - ✓ The Bank has engaged with these funders on the way forward given that they were not amenable to revise the covenant levels and both indicated that whilst not changing the covenants, they are comfortable with the Bank's CTI levels.
- Land Bank and 29 other Banks from across the globe under the auspices of the UNEP-FI have developed the Principles for Responsible Banking (PRB) which represents the most progressive and comprehensive framework to guide banks towards a sustainable future. The PRBs are aligned with the SDGs, Paris Agreement and regional and national frameworks. On 29 July 2019 the Land Bank Board approved Land Bank becoming a signatory to the PRB on 22 September 2019.

Outlook

The health of the agricultural sector is the most significant contextual influence on the Bank's ability to create value and to deliver development impact. Sector growth declined (-4.8% year-on-year) due to sustained drought in several areas, a late start to the grain planting season and diseases in various livestock sectors.

The prevailing economic and weather conditions, are expected to impact on the Land Bank's business in the new financial year. We will continue to monitor the policy uncertainty regarding Land Expropriation without Compensation to determine if there will be any adverse impact on the Land Bank.

The Bank is however well positioned to navigate these stormy waters through its strong balance sheet, healthy liquidity and access to funding together with strong risk management practices; and a renewed focus on partnerships throughout the agricultural value chain and key stakeholders.

Statement of Financial Position as at 31 March 2019 (R'000)

	Group		Bank	
	FY2019	FY2018	FY2019	FY2018
Assets				
Cash and cash equivalents	3 213 121	2 421 069	3 202 568	2 362 130
Trade and other receivables	829 366	320 171	351 562	131 302
Short-term insurance assets	254 017	282 382	-	-
Repurchase agreements	30 257	15 706	30 257	15 706

Investments	3 181 534	2 619 887	1 988 001	1 406 650
Derivative assets	80 587	8 106	80 857	8 106
Loans and advances	44 465 456	43 418 462	44 465 456	43 418 462
Assets of discontinued operations classified as held-for-sale	6 259	147 328	6 259	147 328
Long-term insurance assets	8 287	10 753	-	-
Non-current assets held-for-sale	163 036	10 085	163 036	10 085
Investment Property	15 250	174 590	15 250	174 590
Property and equipment	32 154	38 202	31 992	37 996
Right of use of Leased Assets	68 093	-	67 672	-
Intangible assets	13 548	20 279	13 548	20 279
Total Assets	**52 360 587**	**49 487 020**	**50 416 188**	**47 732 634**
Equity				
Distributable reserves	6 720 931	6 547 725	5 581 484	5 445 930
Other reserves	93 467	100 978	93 467	100 978
Liabilities				
Trade and other payables	499 079	355 404	72 645	160 715
Short-term insurance liabilities	329 860	398 859	-	-
Long-term policyholders' liabilities	47 124	55 939	-	-
Funding liabilities	44 257 919	41 576 302	44 257 919	41 576 302
Lease liabilities	70 518	-	70 089	-
Provisions	40 373	82 632	39 268	79 528
Post-retirement obligation	301 316	369 181	301 316	369 181
Total Equity and Liabilities	**52 360 587**	**49 487 020**	**50 416 188**	**47 732 634**

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2019 (R'000)

	Group		**Bank**	
	FY2019	**FY2018**	**FY2019**	**FY2018**
Continuing Operations				
Net interest income	1 206 038	1 278 405	1 201 101	1 261 391

Interest income	*5 030 321*	*4 846 716*	*5 023 465*	*4 826 977*
Interest expense	*(3 824 283)*	*(3 568 310)*	*(3 822 364)*	*(3 565 586)*
Net impairment charges, claims and recoveries	(324 655)	(55 524)	(324 655)	(55 524)
Total income from lending activities	**881 383**	**1 222 882**	**876 446**	**1 205 867**
Non-interest expense	(262 667)	(313 627)	(251 361)	(308 015)
Non-interest income	113 977	89 855	105 452	85 727
Operating income from banking activities	**732 693**	**999 110**	**730 537**	**983 579**
Net insurance premium income	156 826	143 002	-	-
Net insurance claims	(165 886)	(153 008)	-	-
Other costs from insurance activities	(20 085)	(41 073)	-	-
Investment income and fees	104 645	62 639	21 299	16 584
Interest in post-retirement obligation	(22 533)	(29 757)	(22 533)	(29 757)
Interest on lease liability	(6 703)	-	(6 686)	-
Fair value gains	90 208	34 027	83 275	7 219
Operating income	**869 165**	**1 014 940**	**805 892**	**977 625**
Operating expenses	(628 341)	(654 531)	(602 845)	(628 740)
Net operating income	**240 824**	**360 409**	**203 047**	**348 885**
Non-trading and capital items	634	(1 247)	634	(1 247)
Net profit before indirect taxation	**241 458**	**359 162**	**203 681**	**347 638**
Indirect taxation	(73 170)	(68 922)	(73 045)	(68 922)
Net profit from continuing operations	**168 288**	**290 240**	**130 636**	**278 716**
Net (loss) / profit from discontinued operations	12 930	(36 023)	12 930	(36 023)
Profit for the year	**181 218**	**254 217**	**143 566**	**242 693**
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	(279)	(44 892)	(279)	(44 892)
Cash flow hedges: (Release) / gains on cash flow hedging instruments	(8 106)	8 106	(8 106)	8 106

Items that will not be reclassified subsequently to profit or loss				
Actuarial loss on the post-retirement obligation	(8 012)	(23 841)	(8 012)	(23 841)
Revaluation of land and buildings	874	269	874	269
Total other comprehensive income	**(15 523)**	**(60 358)**	**(15 523)**	**(60 358)**
Total comprehensive income for the year	**165 695**	**193 859**	**128 043**	**182 335**

Condensed statement of changes in equity as at 31 March 2019 (R'000)

	Group		**Bank**	
	FY2019	**FY2018**	**FY2019**	**FY2018**
Balance at the beginning of the year	**6 648 703**	**6 454 844**	**5 546 908**	**5 364 573**
Profit / (loss) for the year	181 218	254 217	143 566	242 693
Other comprehensive income for the year	(15 523)	(60 358)	(15 523)	(60 358)
Balance at the end of the year	**6 814 398**	**6 648 703**	**5 674 951**	**5 546 908**

Summarised Statement of Cash Flows for the year ended 31 March 2019 (R'000)

	Group		**Bank**	
	FY2019	**FY2018**	**FY2019**	**FY2018**
Cash flows from operating activities	3 443 754	3 827 271	3 625 105	3 811 150
Cash flows from operations	(5 338 940)	(6 040 830)	(5 337 021)	(6 038 106)
Cash flows from investing activities	33 132	(622 395)	(101 829)	(358 911)
Cash flows from financing activities	2 654 107	3 736 692	2 654 183	3 736 692
Net increase/ (decrease) in cash and cash equivalents	**792 052**	**900 738**	**840 438**	**1 150 825**
Cash and cash equivalents at the beginning of the year	2 421 069	1 520 331	2 362 130	1 211 305
Cash and cash equivalents at the end of the year	**3 213 121**	**2 421 069**	**3 202 568**	**2 362 130**

3 September 2019

Enquiries

Land and Agricultural Development Bank of South Africa

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Debt Sponsor

SBSA