

INTEGRATED ANNUAL REPORT 2020







LAND BANK **2020 INTEGRATED** ANNUAL REPORT

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INTRODUCTION

A photograph of a tea plantation at sunset. The foreground is filled with tea bushes, their leaves silhouetted against the warm, golden light of the setting sun. The background shows rolling hills and a vast, hazy sky with soft clouds. The overall mood is peaceful and contemplative.

The report provides **information** that we consider to be of **material significance** in creating short-, medium-, and long-term **value** in delivering on our **development mandate**.

INTRODUCTION

About our report

The Land and Agricultural Development Bank of South Africa (Land Bank Group) is pleased to present our 2020 Integrated Annual Report. The report represents our primary report to our stakeholders and presents an overview of the Land Bank Group's performance, value created for stakeholders, and contributions to society for the year ended on 31 March 2020. The report has been structured to provide relevant financial and non-financial information including how the Group's strategy, governance, and performance add to the value-creation over the short, medium, and long term. The report has been prepared for all our stakeholders, with particular focus on matters relevant to the shareholder, providers of capital, regulators and clients.

This integrated report presents a concise and balanced assessment of our ability to create sustainable value through the application of our business model, including performing the Land Bank's statutory mandate and functions under the Land Bank Act and our outlook.

Scope and boundary

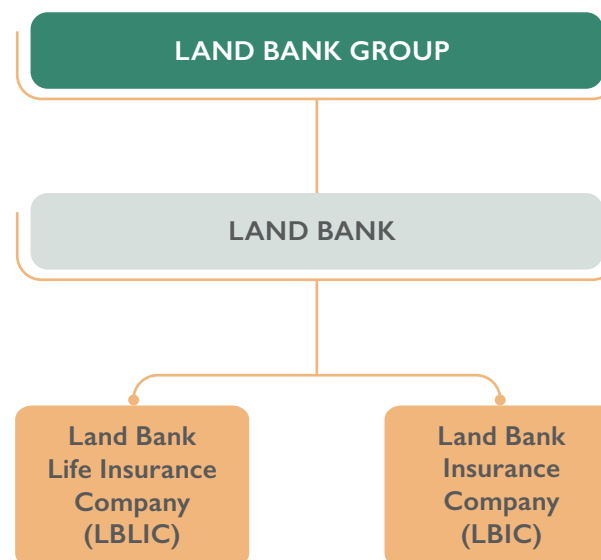
The Land Bank Group's 2020 Integrated Annual Report incorporates the financial reporting boundary of the Land Bank Group and covers the period from 1 April 2019 to 31 March 2020 (FY2020) for Land Bank and its insurance subsidiaries (see figure below). The report provides an overview of our financial and non-financial performance in the context of our strategy, and opportunities, material risks and outcomes, governance, social and environmental issues associated with our key stakeholders who significantly influence our ability to

create value in the short term (FY2020), as well as in the long and medium term (see Material matters page 45).

This report contains the Group's outlook, targets and objectives for the short term (FY2020) as well as for the medium to long term, as aligned with the National Development Plan (NDP) and Sustainable Development Goals (SDGs) with clear targets to 2030. Notable events after 31 March 2020 up until the Board's approval of the report on 18 December 2020 are included.

This includes the COVID-19 outbreak and its impact on the Group's operations.

Operating businesses reporting boundary for the FY2020 Integrated Annual Report



There has been no significant changes in our scope and aspect boundaries, size, structure or shareholding during the reporting period that would affect the comparability against the bank's FY2019 report.

Queries with regards to this report should be made to communication@landbank.co.za.

Our approach to materiality

The report provides information on matters which we consider to be material in our value creation process. It focuses on those issues identified as being most material to our capacity to create value and deliver on our development mandate. Materiality also considers the matters that could significantly influence our stakeholders' assessments and related decisions regarding our long-term sustainability. Material matters and the process we follow to determine these matters are outlined on page 45 of this report.

Value concept

Value creation is the consequence of how the Land Bank Group applies and leverages its resources, strategy and business model towards delivering holistic value for its stakeholders, including financial performance. Our value creation strategy is aligned to our Development Finance Institution (DFI) role and the associated legal mandate. Our current strategy and business model is aligned to the needs and expectations of a wide and diverse range of stakeholders. Our shareholders, investors and our clients are among the primary stakeholder groups that influence the development of our strategy and business model.

FY2020 reporting suite

This year we have produced a suite of reports, accessible on our website (www.landbank.co.za) as part of meeting our goal of providing complete, reliable and transparent reporting directed towards the information needs of all of our key stakeholders.

The **FY2020 integrated annual report** is the main report that provides a holistic view of the Group's business, governance, strategy, and performance, and the creation of value for all stakeholders. This report should be read in conjunction with the following more detailed reports for FY2020:

Group annual financial statements

A comprehensive report on our financial performance for FY2020 provides a detailed understanding of the financial aspects of our business and includes the directors' report and the Auditor-General's report.

King IV disclosures report for Land Bank

The King IV disclosures report provides more detailed information on our corporate governance environment referenced to the corporate governance framework applied within the Land Bank Group, including more specific disclosures on our compliance with the King IV Code™ of Governance.

Reporting frameworks and comparability

Our process for compiling and presenting the information contained in this report is guided by the principles and requirements of the International Integrated Reporting Council's Integrated Reporting

<IR> Framework, and the Global Reporting Initiative (GRI Standards) to provide relevant information on our material financial, environmental and social matters. For all disclosures we have considered information included in previous reports, applicable legislative and regulatory reporting requirements of the Companies Act, 2008 and the Public Finance Management Act (PFMA), as well as the JSE Debt Listing Requirements.

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

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 FY2020, a number of actions were undertaken in the organisation's implementation of the principles as set out in our King IV disclosures (see Land Bank King IV disclosures).

Assurance

The board, supported by the Audit and Finance Committee, is ultimately responsible for the effectiveness of the bank's application of combined assurance to support the integrity of the information presented in the integrated annual report.







This responsibility extends to the design and operating effectiveness of the bank's internal system of control, to identify, evaluate, manage and provide reasonable assurance against material misstatement and loss.

The bank's management together with the internal audit function plays a crucial role in assessing the effectiveness of our internal control environment.

Internal assurance applied to our integrated annual report includes coverage of figures as well as factual statements.

Navigation icons

Our capitals

	Financial capital		Intellectual capital
	Human capital		Social and relationship capital
	Natural capital		Manufactured capital

Material matters

	Financial sustainability		Development outcome and transformation
	Technical advancement (innovation)		Employee development, retention and remuneration
	Climate risk and environmental sustainability		Corporate governance
	Poorly executed land expropriation without compensation		

INTRODUCTION

Forward-looking information

This report contains forward-looking statements that relate to the financial position and future prospects of the Group and its subsidiaries. These are not guarantees or predictions of future performance. By their nature, forward-looking statements involve risk and uncertainty as they relate to future events and circumstances that may be beyond our control or that may cause the actual results to differ substantially from those implied or expressed in the forward-looking statements. Actual results and performance may differ materially from the Group's expectations as a result of known and unknown risks or uncertainties, or if estimates or assumptions prove inaccurate. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, persistent drought conditions, ratings downgrades and the COVID-19 pandemic.

The forward-looking statements have not been reviewed or otherwise reported on by the Group's external auditors. The directors, therefore, advise readers to use caution regarding interpreting any forward-looking statements in the report.

External reporting suite – individual report	Applicable law/regulation/ framework/standard	Assurance applied to ensure integrity of reporting	Outcome
2020 integrated annual report (the full report)	International Integrated Reporting Council's Integrated Reporting <IR> Framework Johannesburg Stock Exchange (JSE) Debt Listing Requirements	Land Bank Board Audit and Finance Committee Risk and Governance Committee Executive Committee Combined Assurance – application of Land Bank's three lines of defence including risk-based internal audit	Directors' approval
Annual financial statements for the year that ended 31 March 2020	Public Finance Management Act, 1999 Companies Act, 2008 and Companies Regulations 2011 International Financial Reporting Standards (IFRS)	Auditor-General Land Bank Board Audit and Finance Committee Executive Committee Combined assurance – application of Land Bank's three lines of defence, including risk-based internal audit	Directors' approval
2020 King IV disclosures	Land and Agricultural Development Bank Act, 2002 Companies Act, 2008 Public Finance Management Act, 1999 Insurance Act, 2017 Prudential Standards of the Prudential Authority: Governance and Operational Standards King IV Report on Corporate Governance for South Africa 2016 (King IV) JSE Debt Listing Requirements	Land Bank Board Audit and Finance Committee Risk and Governance Committee Executive	Directors' approval
Selected information on environmental, social and governance matters	Financial Services Sector Code for BBBEE Global Reporting Initiative (GRI) Standards UNEP-Fi Principles for Responsible Banking Task Force on Climate-Related Financial Disclosures	Empowerdex Audit and Finance Committee Risk and Governance Committee Executive Committee Combined Assurance – application of Land Bank's three lines of defence, including risk-based internal audit	Level 4 BBBEE rating confirmed Directors' approval

Board Approval

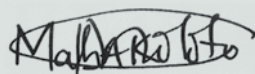
This report was approved by the Group's Board of Directors ("Board") and authorised for release on 18 December 2020. The Board acknowledges its responsibility to ensure the integrity of the FY2020 integrated annual report and supplementary information referenced therein. It has reviewed the contents of the report and believes it presents a fair representation of the Group's material issues, performance and prospects. The Bank's Audit and Finance Committee reviewed and recommended the report to the Board for approval. The Risk and Governance committee reviewed the 2020 King IV code disclosures and has recommended those disclosures to the Board for approval.

The Board has applied its mind to the integrated annual report and considered the operating context, strategy, and value creation model in this process. We have considered the completeness of the material aspects addressed in the report, and the relevance and reliability of the reported performance information. On this basis, the Board is satisfied that the FY2020 integrated annual report addresses those material matters that have, or could have, a material effect on the Group's ability to create value, and that the information contained in the report presents fairly the strategy and integrated performance of the Group.

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 that ended 31 March 2020 approved by the Board on 18 December 2020, which have been audited by the office of the Auditor-General of South Africa.

The Board approved the 2019 integrated annual report incorporating the 2019 King IV Code disclosures on 29 July 2019.



Mr MA Moloto
Non-executive chairperson



Mr A Kanana
Chief executive officer

Independent non-executive directors

1. Ms DR Hlatshwayo
2. Adv SJ Coetzee
3. Dr ST Cornelius
4. Ms SA Lund
5. Ms ME Makgatho
6. Mr MS Makgoba
7. Ms DN Motau
8. Ms TT Ngcobo
9. Ms NV Mtetwa



INTRODUCTION

Acronyms

AfDB	African Development Bank	IDC	Industrial Development Corporation of South Africa
AML	Anti-Money Laundering	IFRS	International Financial Reporting Standards
ARC	Agricultural Research Council	IIRC	International Integrated Reporting Council
BBBEE	Broad-Based Black Economic Empowerment	IPCC	Intergovernmental Panel on Climate Change
CAR	Capital Adequacy Ratio	LBIC	Land Bank Insurance Company SOC (Pty) Ltd
CB & SI	Corporate Banking and Structured Investments	LBLIC	Land Bank Life Insurance Company SOC (Pty) Ltd
CDBB	Commercial Development and Business Banking	LCR	Liquidity Coverage Ratio
COR	Combined Operating Ratio	NAMC	National Agricultural Marketing Council
CRISA	Code for Responsible Investing in South Africa	NPAT	Net Profit after Tax
CSI	Corporate Social Investment	NPL	Non-Performing Loan
DAFF	Department of Agriculture, Forestry and Fisheries	NSFR	Net Stable Funding Ratio
DALRRD	Department of Agriculture, Land Reform and Rural Development	PEP	Politically Exposed Person
DBSA	Development Bank of Southern Africa	PFMA	Public Finance Management Act 1 of 1999
DEA	Department of Environmental Affairs	PIC	Public Investment Corporation
DFI	Development Finance Institution specifically including Land Bank, IDC,	PIMS	Post-Investment Management Services
DOP	Delegation of Power	PRB	Principles for Responsible Banking
DRDLR	Department of Rural Development and Land Reform	SD	Supplier Development
EIB	European Investment Bank	SDG	Sustainable Development Goal
ERM	Enterprise Risk Management	SENS	Stock Exchange News Service
ESMS	Environmental and Social Management System	SLA	Service Level Agreement
ESS	Environmental and Social Sustainability	SOEs	State-Owned Entities, including DFIs
FICA	Financial Intelligence Centre Act 38 of 2001	SOP	Standard Operating Procedure
FY	Financial Year	TCFD	Task Force on Climate Related Financial Disclosures
GDP	Gross Domestic Product	UNEP-FI	United Nations Environmental Programme – Finance Initiative
GRI	Global Reporting Initiative	UNPRI	United Nations Principles for Responsible Investment
IA	Internal Audit	WFF	Wholesale Finance Facilities





LEADERSHIP PERSPECTIVE

A wide-angle photograph of a vast, dark, textured field under a massive, golden-orange sky filled with dramatic, billowing clouds. The sun is low on the horizon, creating a strong glow and long shadows. The field appears to be a recently plowed or sown agricultural field, with some green grass visible in the immediate foreground on the left.

As an organisation **focused on agriculture** in South Africa,
we are **mindful** of the risks that **climate change** poses having
observed this **impact** on our loan book over
the past few years.



STATEMENT FROM THE MINISTER

Mr TT Mboweni
Minister of Finance

I wish to emphasise the critical role that Land Bank as a state owned entity and a development finance institution plays in the South African economy, and in particular its importance to the agricultural sector. The role that Land Bank plays and contributes to the development, transformation and growth of the agricultural sector, and support for the objective of food security is very important to the state. It is for this strategic reason that the state continues to provide support within its means and capacity to assist the organisation as it embarks on its turnaround strategy following a very rocky FY2019/20.

The liquidity constraints that befell Land Bank following Moody's downgrade of the Bank's credit rating in January 2020 exacerbated existing structural liquidity risks that led to the Bank's failure to service some of its debts, leading to a default position with funders. A significant contribution to the credit rating downgrade

was the deterioration of the quality of the loan assets resulting from very tough conditions, including drought and various diseases in the agricultural sector, a few years before FY2019/20.

The Bank is in a very precarious financial position that has necessitated the Board's adoption of the Bank's Stabilisation and Remediation plan which includes amongst others, the conclusion of the debt restructure with its lenders, and the repurposing of the Bank's strategy. This aims to achieve an optimised and robust financial and business model that supports financial sustainability and increased development impact whilst placing less reliance on state support in the future.

I have expressed the commitment of the government to support the Bank as a pivotal player in the agricultural sector. In the appropriations budget statement on 24 June 2020, I announced an allocation of R3 billion to

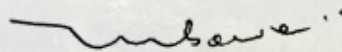
assist the Bank through its current financial challenges. In the Medium Term Budget Policy Statement, on 28 October 2020, I noted the Bank's request for R7 billion of capital that is intended to get Land Bank back on its financial sustainability trajectory.

I have noted, with big disappointment and concern, the Auditor General of South Africa's audit report of Land Bank's FY2019/20 consolidated and separate Annual Financial Statement, which concluded on a Disclaimer of Opinion audit outcome. I have urged the Board of Directors (BoD) of Land Bank to ensure that all the audit findings are addressed and internal controls are brought back to best practice levels as a matter of priority. I am informed that the Board and its executive management have already adopted a remediation plan to address the matters that have led to this undesirable audit outcome and to strengthen credit risk governance and improved internal controls, in this regard.

The process to strengthen the BoD is at an advanced stage, as I look to finalise the appointments of new Non-Executive Directors with pertinent and requisite skills and expertise required by the Bank at this time.

Land Bank needs to strengthen its capacity as an implementing agent for Departmental programmes, including the efficient use of blended finance solutions for the sector. This collaborative approach is necessary across the entire agricultural value chain, inclusive of the private sector and organised farmer organisations.

The hard journey to turn the fortunes of the Bank, and to safeguard its sustainability and effectiveness will require the dedication of all employees of the Bank, led by the BoD. I wish to pledge my support to the Board and employees of the Bank as they embark on the turnaround strategy.



Mr. TT Mboweni, MP
Minister of Finance





CHAIRPERSON FOREWORD

Mr MA Moloto
Non-executive chairperson

Introduction

Financial Year 2019/20 has been an extremely challenging period for Land Bank. The Bank had to contend with a plethora of problems ranging from environmental impacts on the agricultural sector which put pressure on the risk quality of the Bank's loan portfolio, to the Bank's financial distress which was precipitated by constrained liquidity position on the back of the Bank's credit rating downgrades that began in January 2020.

The Bank experienced extended vacancies in executive management positions, as well as in the Board which remained unfilled for an extended period of time during the financial year.

A significant part of the Board's work in this period involved a review of the Bank's focus areas to enhance alignment with its legislative mandate and stakeholder expectations, and to repurpose its corporate strategy towards the objective of increasing developmental impact and improved financial sustainability. The revised strategy has informed the Corporate Plan for FY2020/21 – FY2022/23, albeit in the context of the financial challenges faced by the Bank, and thus resulting into a need to first implement a stabilisation plan, in the short term, before the medium to long term elements of the repurposed strategy are undertaken.

Operating environment

The year under review was a difficult one for the South African agricultural sector. The sector contracted by 7.6% resulting in annual negative growth of -6.9% year-on-year. This was the second consecutive year of contraction. The output of various crops and horticulture produce declined notably because of the drought, while the livestock was negatively affected by the foot-and-mouth disease outbreak. The foot-and-mouth disease led to a ban on South Africa's livestock products.

This situation was exacerbated by the advent and spread of the Corona Virus (COVID-19) which, amongst others, had a negative impact on global demand for agriculture products, and resulted in decline in prices and a shutdown of the country and the economy.

Liquidity challenges

The Bank has had to deal with serious liquidity challenges following the impact of four consecutive credit rating downgrades of the Bank in calendar year 2020. Two of the downgrades occurred in FY2019/20, with the first downgrade on 21 January 2020 and the second one (linked to the sovereign downgrade) on 31 March 2020. Two further downgrades followed in the subsequent period. As at June 2020 the Bank's credit rating had

significantly declined, with the Bank's global credit rating at B3 ("highly speculative grade, substantial risk") and the national scale rating at Ba2 ("non-investment grade, speculative").

Apart from the Bank's default on some of its debt obligations, the low credit rating has resulted in increased cost of funding and an inability to raise further funds from the Capital and Debt Markets.

The downgrades and the liquidity challenges emanated from a combination of factors that included increasing Non-Performing Loans and Impairments as a result of the ongoing drought and diseases; a slow growth of the loan book; an unprecedented volume of claims in the insurance business because of hail events; uncertainty with the position of CEO which became vacant in December 2018 and was only filled on 1 March 2020; uncertainty with the position of CFO which became vacant in June 2019 and was only filled on 1 February 2020; and several resignations by senior managers holding key positions in the Finance Division to join a competitor. Additionally, there was concern raised by the rating agency of the reality that the State would be constrained to support the Bank's evidently lower capital buffers, given all other national budget priorities in the midst of difficult economic conditions.

Reflection on the strategic focus for the reporting period

Land Bank's Corporate Strategy for Financial Year 2019/2020 was articulated as a catalyst for growth and transformation in the agricultural sector. This followed on engagements with a variety of stakeholders to understand their expectations and concerns with the

Bank's role in the sector. Stakeholder input included feedback from clients, organised agriculture, funders and investors, regulators, as well as the Bank's shareholder.

The Corporate Strategy sought to achieve two objectives, namely to:

- Continue with its initiatives to support the development of the agricultural sector by providing R3bn of financing to develop new-generation farmers and contribute to the transformation in the sector; and
- Respond to stakeholder expectations for the creation of a more developmentally focused organisation. This process would entail a year of transition during which the organisation will maintain business as usual whilst laying the foundation for repurposing of the Bank.

Implementation of the new strategic trajectory would occur from Financial Year 2020/2021 and was expected to be undertaken over, at least, four years to maintain organisational stability and eliminate systemic risk on both the agricultural and banking sectors.

The aim was to establish, by the end of 2024, a separate business unit that would be wholly focused on supporting the development of smallholder farmers towards graduating into commercial agri-businesses. The support to smallholder farmers would be undertaken through an ecosystem of partnerships that provides a combination of financial and non-financial support to the farmers and able the provision of seamless pre- and post-finance solutions to them. At the same time, the Bank's existing commercial loan book would be managed through a business unit that is focused on maximising commercial returns and draw little, if any, government support.

Little of what the Bank had set out to do in this regard was achieved given the variety of challenges it had to confront and get to grips with.

Strategic relationships

The Bank participates in the Black Producers Commercialisation Programme Blended Finance (BPCP BF) Programme, a programme of the Department of Agriculture, Land Reform and Rural Development (DALRRD), in which Land Bank is appointed as an Implementing Agent. This programme seeks to provide a blend of grant funding (by DALRRD) and loans (by the Bank) to qualifying farmers. The project was suspended in April 2019, and reinstated in March 2020.

The Bank also administers projects that are supported, or funded through the Jobs Fund, and regard the relationship with the Jobs Fund as a crucial strategic intervention to support the creation and maintenance of jobs in the agricultural sector.

The Bank aims to strengthen its management capability to deliver on these types of strategic partnerships, including with agricultural commodity organisations.

Board governance

In the governance space, the only Chartered Accountant on the Board and Chairperson of the Bank's Audit and Finance Committee resigned effective 31 August 2020 and that vacancy has yet to be filled. There was therefore a considerable skills gap on the Board for the latter part of the financial year, and the Board has had to continue to function without this essential expertise.

LEADERSHIP PERSPECTIVE

Disclaimer of Opinion audit outcome

The Bank is extremely disappointed with the Disclaimer of Opinion outcome, which follows Unqualified Audit Opinion outcomes for at least the last decade. The key contributing factors for this disclaimer is related to matters that the Bank was alerted to by the Auditor General through the previous two years' audit reports, and are primarily related to the management of the Expected Credit Loss (ECL) model, as well as the maintenance of reliable ECL input data. Whereas the Board had initiated measures to address these findings, the loss of key skills to oversee this functional area led to a capability vacuum that the Bank was unable to immediately fill, resulting into very little progress during the financial year. The key vacancies included the following positions that have since been filled: Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head of Treasury, and the General Manager: Finance, Strategy and Planning.

The year ahead

Looking ahead, and given the financial challenges that the Bank has had to confront in the reporting period, the Board will focus on the financial stabilisation of the Bank, and to start the rebuilding process that is essential for enhancing the Bank's effectiveness as a specialist agricultural Development Finance Institution (DFI). The Stabilisation and Rebuilding Plan will include a restructuring of the Bank's liabilities and debt portfolio; resizing the Balance Sheet with the aim of reducing the gearing levels over time; implementing a tailored pricing strategy to address the diminishing margins resulting from increased cost of funding; and improved business efficiencies and reduction of costs, which includes a

review of commercial arrangements with the Bank's SLA Intermediary partners.

The stabilisation and turnaround of the Bank's performance and bolstering of its financial sustainability will be highly dependent on the support of the Shareholder in the form of capital injection and guarantees to its fund raising programmes. The Board will be placing particular focus to work with the Minister of Finance and National Treasury to ensure that support to the Bank brings about beneficial outcomes for the State.

The stabilisation of the Bank will set the foundation for the implementation of the repurposed strategy, Vision25, which will be focused on strengthening the Bank's role as an ecosystem catalyst in the agricultural sector. Key elements of the strategy includes an increased focus on partnerships with role players for the implementation of development and transformation programmes that will be achieved on the back of increased revenue diversification; increased products and services offerings towards enhanced client value propositions; orchestrating market access opportunities for clients; strengthened direct channel capabilities; improved technological and human capabilities; and improved business efficiencies.

The Board continues to facilitate the implementation of improved infrastructure, controls, systems and ethical behaviour to promote good governance and environment with appropriate controls and measures. This will enable appropriate and sufficient remediation of the audit findings identified by the Auditor General and improve Land Bank's audit outcomes in the future.

Acknowledgments / appreciation

The Board wishes to thank the Minister and the National Treasury Team for all the support that it has received during these trying times. The Board also wishes to thank the staff of the Land Bank Group for their unerring commitment to the Bank and its mandate at a time soaring uncertainty. The Bank wishes to thank all the funders, creditors and partners who have stood by and accommodated the Bank during its time of crisis. The Board finally wishes to thank Parliament for its support, and its continuing belief in the destiny and viability of the Bank.

Conclusion

The Board remains steadfast in the belief that Land Bank is a vital and necessary role player in South Africa's agricultural sector and that the Government, likewise, considers it a strategic contributor to agricultural development and transformation. The risks of Land Bank not functioning effectively are dire and include a possible increase in food inflation, as the country becomes increasingly reliant on imported foods. In the current COVID-19 crisis and with global supply chains being disrupted, supply side risks are real. In the absence of adequate funding from the Land Bank and certainty about the timely resolution of the current situation, emerging farmers don't have access to the capital needed to transition into established commercial farmers.



MR MA MOLOTO
NON-EXECUTIVE CHAIRPERSON



Principles for Responsible Banking

Overview

The Principles for Responsible Banking (PRB) provide a framework through which the banking industry can demonstrate how it makes a positive contribution to society. The principles are aligned to the objectives of the United Nations Sustainable Development Goals and the 2015 Paris Climate Agreement. They are relevant to the Land Bank in particular, and South Africa as a whole, given the high levels of poverty and inequality, and the urgent need for broad-based transformation that the country faces. The PRB are also increasingly important given the bank's changing strategic context and need for greater emphasis on its contribution to society and long-term sustainability.

Land Bank is a founding signatory of the UN Principles for Responsible Banking (UN PRB) and an active member of various UN PRB working groups, such as the Portfolio Impact Assessment Working Group. The bank participated in the development of the principles with the Core Group of 29 banks from across the world.

More than 100 banks from 49 countries signed the Principles at the annual UN General Assembly in September 2019.

This was followed by wide ranging consultations with stakeholders to introduce the principles and invite participation in the consultation process. These engagements included representatives of SADC

Central Banks, the South African Reserve Bank and other DFIs. The process enabled us to develop a thorough understanding of the relevance of the principles, promote their adoption by industry peers and successfully initiate the process of embedding them across our operations.

Our performance

The bank's strategic environment is changing. Among the key drivers of this change, is the identification of climate change as one of the bank's strategic risks. This has resulted in broad-based changes to the bank's policy framework.

During the year under review, we established a working group to assess our current strategy, business activities and processes concerning the implementation requirements of the PRB. The working group also evaluated the Group's alignment to the SDGs and identified specific areas for further consideration in order to improve alignment to material SDGs. The assessment showed our intermediaries have not developed an adequate Environmental and Social Management System (ESMS). As such, we have strengthened our policies and procedures to help them embed ESMS in their credit assessment process.

Case study: Capital Harvest

Land Bank is committed to managing environmental and social aspects of all its business operations by applying adequate due diligence practices that ensure environmental and social sustainability and enhance responsible lending practices. This is enabled through the implementation of Land Bank's Environmental and Social Sustainability Strategy, Environmental and Social Management System (ESMS) and Environmental and Social Risk Assessment (ESRA) processes, which are embedded within our operations and include environmental, labour, and occupational health and safety requirements.

During FY20 we engaged our intermediaries with the goal of developing a better understanding of their credit/on-lending practices in relation to our ESMS requirements. The exercise enabled us to identify gaps and develop action plans to ensure environmental and social risks identified during on-lending transactions are adequately assessed and managed.

Capital Harvest (Pty) Ltd is a niche agricultural finance institution, located in Stellenbosch, Western Cape. Established in 2010, Capital Harvest provides financial services to all types of primary and secondary agricultural business. Its portfolio is made up of a diverse range of clients including large agro-corporates such as fruit exporters and wine cellars.

Capital Harvest is one of the intermediaries for whom we conducted an ESMS gap analysis in the FY2020 period. The analysis found Capital Harvest

did not have a formal ESRA process in place. A plan of action and way forward was recommended for the intermediary to formalise and incorporate key components of the process into its policies and operations.

A number of challenges were identified in the process. These included Capital Harvest not having dedicated personnel and experience in implementing ESRA considerations into its business practices. In conjunction with consultants appointed by another Land Bank funder, Land Bank's environmental and social specialists, a risk assessment tool for intermediaries was developed and immediately incorporated into Capital Harvest's operations. The intermediary is now using the tool to conduct environmental and social risk assessments. Adequately trained staff have also been appointed to oversee ESRA issues within Capital Harvest.

We are pleased with the progress made so far and the number of recommendations adopted by Capital Harvest. We believe we can transfer some key learnings from this case to the rest of our intermediaries and will focus on this knowledge transfer in the next financial year.

Principle	Comment
<p>Alignment: Business strategy should align with the societal goals as expressed in the NDP as well as other international frameworks such as the SDGs and Paris Declaration.</p>	<ul style="list-style-type: none"> • The main benefit expected to accrue on full implementation of the PRBs is recognition as an environmentally and socially responsible bank. • Further, we will be able to embed more robust credit assessment processes, and make positive contributions to the national economy, environment and society. • We expect to enhance our relationships with key stakeholders on ESG matters through new technologies, products and services. • We also expect preferred access to green funding and improvement in loan portfolios.
<p>Impact and target setting: Work to continuously increase the positive impacts of financing, while reducing any negative effects.</p>	<ul style="list-style-type: none"> • Early adoption gives the bank access to methodologies, tools and resources to support implementation.
<p>Clients and customers: Work responsibly and position ourselves to create shared prosperity for current and future generations.</p>	<ul style="list-style-type: none"> • We expect to improve our client relationships through the provision of climate risk adjusted products and post-investment support.
<p>Stakeholders: Consult, engage and partner with relevant stakeholders to achieve society's goals.</p>	<ul style="list-style-type: none"> • Adoption of PRBs has initiated change within the bank by integrating ESG matters into our strategy, policies and procedures, thus enabling us to close gaps earlier and save on costs.
<p>Governance and culture: Implement commitments through effective governance and setting targets for the most significant impacts.</p>	<ul style="list-style-type: none"> • Becoming a signatory to the PRB has given us a head start in complying with proposed policy by National Treasury on financing a sustainable economy.
<p>Transparency and accountability: Commit to transparency and accountability for the bank's contribution to society's goals.</p>	<ul style="list-style-type: none"> • As founding members of the principles initiative, and one of the first African banks to become a signatory in September 2019, we will serve as a benchmark and a local authority to ensure wider adoption of the principles and greater accountability through local and regional advocacy of the principles.

Looking ahead

- Link policy framework to the corporate sustainability strategy in a manner that explicitly considers NDP and SDGs. This will entail aligning scorecards to the developmental mandate.
- Realign the bank's materiality and capital allocation processes to ensure it is better positioned to identify climate risks and scale interventions to mitigate their effects.
- Embed climate responsibility into overall operations and through our investments, promote climate resilience, inclusive growth, poverty reduction and shared value.
- Through our CSI programme, build the capacity of small-scale farmers to pursue sustainable agricultural practices and employment opportunities.
- Improve the bank's internal awareness of its own approach to sustainability. This will include the provision of high-level input to governance structures, including clear roles and responsibilities for sustainability, acknowledging that these Principles can only be fully implemented if all functions within the bank play a role, including integrating of environmental, social and relevant risk officers into a fully functioning sustainability team.
- Extend the processes developed in 2019 to other intermediaries and develop new partnerships.
- Enhance the reporting to UNEP on the bank's progress with regards to implementation of the PRBs. Current disclosures do not demonstrate the bank's approach to setting targets.

Performance highlights

HIGHLIGHTS

Transformation Disbursements



FY2019:
R5.07 billion

Executive Appointments

- The CEO was appointed effective 1 March 2020.
- The CFO was appointed effective 1 February 2020.

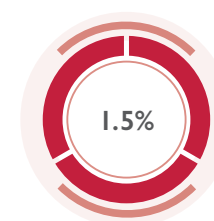
CHALLENGES

Net Loss



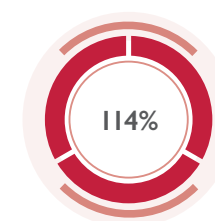
FY2019:
R0.9 billion

Net Interest Margin



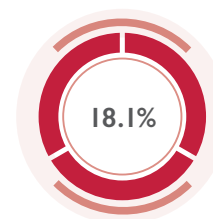
FY2019:
2.5%

Cost to Income Ratio



FY2019:
73%

Non-performing Loan Ratio



FY2019:
9.6%

Crop Insurance Claims Paid



FY2019:
R548.5 million

Credit Rating
Downgrade





ORGANISATIONAL OVERVIEW



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 we recognise our **stakeholders needs** in the business.

ORGANISATIONAL OVERVIEW

ABOUT LAND BANK

WHO WE ARE

We are a wholly government-owned DFI promoting inclusive agricultural and rural development for improved food security and economic growth.

Our wholly owned insurance subsidiaries, Land Bank Insurance SOC (LBIC) and Land Bank Life Insurance SOC (LBLIC) complement our other financial services by providing insurance and risk management solutions to the agricultural community.



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
Proactivity


















Our purpose

Our purpose is to provide appropriate financial services to:

- Transform and foster an inclusive agricultural sector by increasing agricultural land ownership and promoting greater participation to historically disadvantaged persons;
- Promote sustainable agrarian reform;
- Develop land and other agricultural resources on a sustainable basis;
- Contribute to food security; and
- Promote agricultural entrepreneurship and a competitive and profitable agricultural sector.

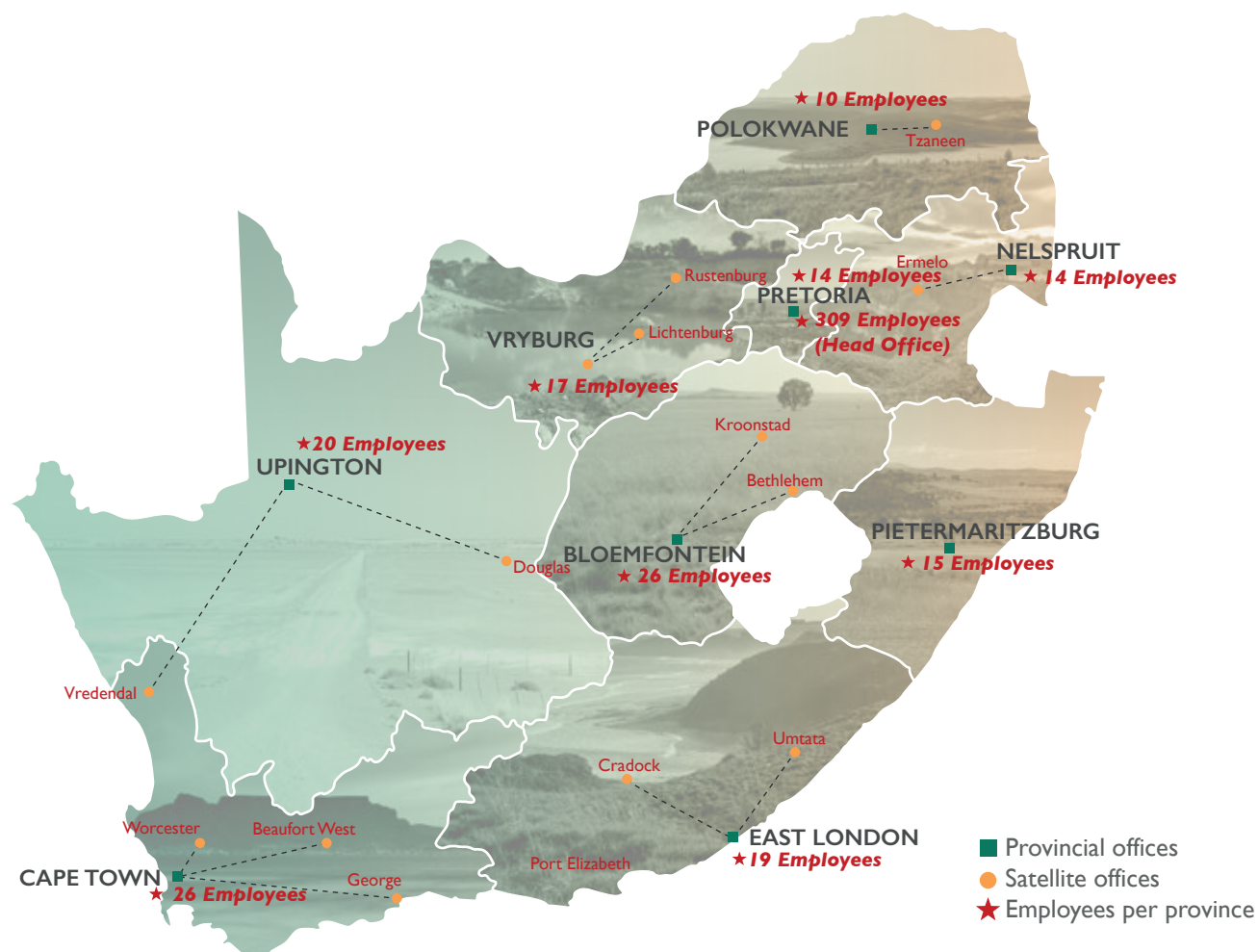
Our objectives

As set out in Section 3(1) of the Land Bank Act, align with the national and international goals as encapsulated by the NDP and SDGs to promote, facilitate and support:

Objectives	National Development Plan	SDGs
<ul style="list-style-type: none"> - 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 for the development of farming enterprises and agricultural purposes - Removal of the legacy of past racial, gender and generational discrimination in agriculture 	<ul style="list-style-type: none"> - Make land reform work to unlock the potential for a dynamic, growing and employment-creating agricultural sector 	 
<ul style="list-style-type: none"> - Programmes that contribute to agricultural aspects of rural development and job creation - Agricultural entrepreneurship - Enhancement of productivity, profitability investment and innovation in the agricultural and rural financial systems 	<ul style="list-style-type: none"> - 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 	  
<ul style="list-style-type: none"> - Commercial agriculture - Land access for agricultural purposes - Better use of land 	<ul style="list-style-type: none"> - Commercialise underused 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 	 
<ul style="list-style-type: none"> - Food security 	<ul style="list-style-type: none"> - Everyone should have access to sufficient, nutritious and safe food at all times 	 
<ul style="list-style-type: none"> - Promote and develop the environmental sustainability of land and related natural resources 	<ul style="list-style-type: none"> - Expand irrigated agriculture; find creative partnerships between opportunities 	       

ORGANISATIONAL OVERVIEW

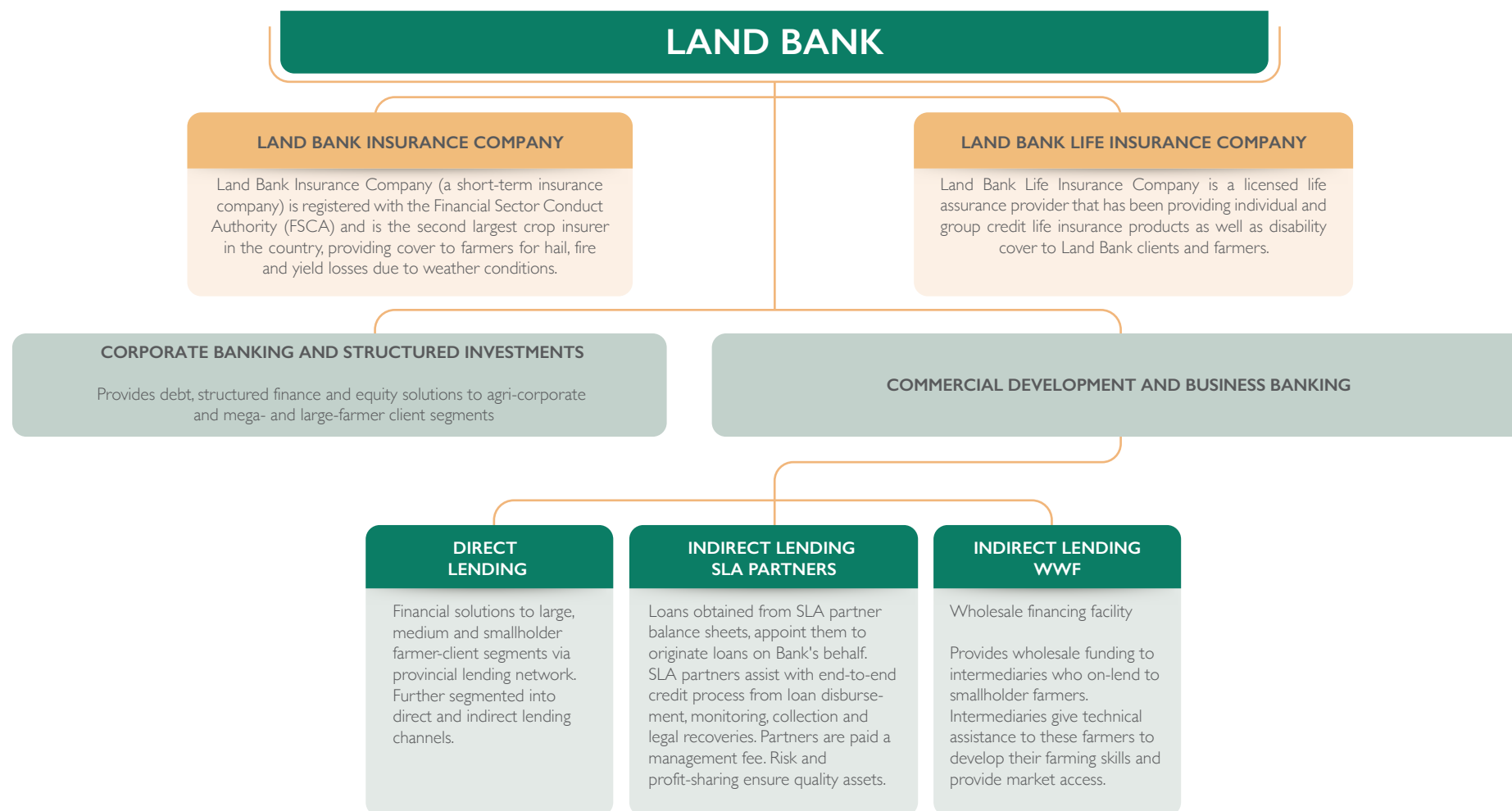
Our operations



The Land Bank Group has headquarters in Centurion with operations across South Africa. We service our clients through nine provincial and 14 satellite offices.

Our functional structure

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 through indirect channels (i.e. the operational footprint and infrastructure of the bank's intermediary partners or Service Level Agreement (SLA) partners). The banking operations are supplemented with insurance services through our two insurance subsidiaries.



ORGANISATIONAL OVERVIEW

Executive Committee – Land Bank



Members: 10



Historically
disadvantaged: 10



Male: 7
Female: 3



Mr AC Kanana, 38
Chief Executive Officer

- Appointed:
1 March 2020



Ms KH Mukhari, 47
Chief Financial Officer

- Appointed:
1 February 2020



Mr S Diza, 42
Acting Chief Risk Officer
Acting Chief Risk Officer: Credit

- Appointed:
*Acting: 2 March 2020
*Acting: 7 January 2019



Mr SN Sebueng, 40
Executive Manager:
Legal Services

- Appointed:
1 January 2018



Mr SCE Soundy, 55
Executive Manager:
Strategy & Communications

- Appointed:
17 August 2015



Ms ETM Dlamini, 60
Executive Manager:
Human Capital

- Appointed:
15 August 2013



Mr F Stiglingh, 49
Executive:
Post Investment Management Services
Acting Executive Manager:
Intermediary Channel Partnerships

- Appointed:
1 June 2016
15 February 2019



Ms U Magwentshu, 44
Executive Manager:
Corporate Banking
and Structured Investments

- Appointed:
1 March 2019



Dr LL Magingxa, 46
Executive Manager:
Agricultural Economics & Advisory

- Appointed:
1 March 2018



Mr L Makupula, 48
Acting Executive Manager:
Commercial Development
and Business Banking

- Appointed:
*Acting: 07 January 2020

ORGANISATIONAL OVERVIEW

Executive Committee - LBIC

Terminations

Name	Age	Designation	Terminated
Ms J Ragavan	39	Public Officer	31 December 2019



Members: 5



Historically
disadvantaged: 5



Male: 4
Female: 1



Mr M Rakgalakane, 52
Managing Director

- Appointed:
10 August 2016



Mr M Maseko, 31
Head:
Actuarial, Short Term and Life

- Appointed:
01 October 2014



Ms T Tisane, 43
Head:
Risk

- Appointed:
01 October 2019



Mr D Nondumo, 42
Executive Manager:
Sales

- Appointed:
01 December 2015



Mr MS Dladla, 39
Executive Manager:
Operations

- Appointed:
01 April 2008





OPERATIONAL OVERVIEW



During the year under review we **identified and determined** what **support** could enable mechanisms for more smallholder farmers and **increase transactions** that **promote transformation** and **inclusive growth**.

OPERATIONAL OVERVIEW

Operating context

The following section presents an outline of the external factors that have a material impact on our ability to deliver on our development mandate in the reporting period under review. Overall, the agricultural sector has been faced with increased volatility and policy uncertainty in line with prevailing climatic conditions, in particular, the sustained drought. These factors have placed constraints on the bank's ability to execute its mandate and perform against objectives.

Agricultural sector

The health and performance of the South African agricultural sector continues to have the most significant contextual influence on our ability to create value and deliver on our developmental imperatives. The sector continues to struggle amidst erratic weather patterns, sustained repeated droughts in parts of the country, the outbreak of diseases such as listeria, swine flu, and foot-and-mouth disease (FMD). Policy uncertainty around land reform has also contributed to a decline in investment in the sector.

The sector experienced declines in the first three quarters of FY2020 with significant recovery in Q4 of FY2020. The output of various crops and horticulture produce was impacted by unfavourable weather conditions in the winter season, while the livestock sector was negatively affected by the outbreak of FMD.

Sentiment on South Africa's agricultural sector remained negative for the first three quarters of FY2020 recovering to neutral in the final quarter of FY20. The Agbiz/IDC Agribusiness Confidence Index, which has

historically proved to be a reliable indicator of the growth path of the South African agricultural economy, improved by six points to 50 in the first quarter of FY2020 after remaining at levels below the neutral 50 point mark for six consecutive quarters.

In Q1 2020, the agricultural sector broke the sustained negative growth witnessed in the previous four quarters of 2019. The agricultural sector was in recession during all four quarters of 2019. This was influenced by the lower field crops output due to unfavourable weather conditions, particularly in the Free State and the Eastern Cape. The damage caused by droughts and foot-and-mouth disease, amongst other factors, seems to have subsided and South Africa's agricultural economy rebounded by 27.8% q/q in the first quarter of 2020 on a seasonally-adjusted and annualised basis.

In Q4 FY2020, the agricultural sector grew by 27.8% q/q seasonally adjusted and annualised. This was on the back of negative growth witnessed in the previous three quarters of FY2020, influenced by the lower field crops output due to unfavourable weather conditions, particularly in the Free State and the Eastern Cape. The country also produced lower horticultural output in the third quarter of FY2020. Overall, the agricultural sector contracted in FY2020 mainly influenced by a lower output of field crops, horticultural crops and the biosecurity challenges in the livestock sector. The outbreak of FMD in the cattle, pig and wool sector limited the amount of exports from these subsectors for most of 2019.

The Public-Private Growth Initiative announced by President Cyril Ramaphosa during the 2019 Business Economic Indaba suggests there is scope and appetite

for targeted partnerships between government and industry. As part of the initiative, the agricultural sector presented a business plan which could result in 120 000 new jobs by 2023. These jobs would mainly be concentrated in the high-value fruit sector, in which South Africa is already an established player at global level. Despite efforts such as this, the sector however continued to struggle to gain momentum and deliver on expectations. This has been attributed to a number of factors including political uncertainty, volatility resulting from climatic conditions and increased competition in the global market.

Implications for value

The stagnant sector growth had a direct impact on the growth of our loan book. In a declining economic environment, the bank's competitive value proposition needs to be enhanced. However, the bank's increased cost of funding, and application processing turnaround time are hindering the bank's competitiveness. In addition, the slow growth of the development book relative to the overall portfolio size may negatively impact stakeholder perceptions of the bank's ability to contribute to its transformation imperatives and the development of smallholder farmers.

Our strategic response

Within our current structure we are creating capacity to structure development transactions at scale, such as through blended finance programmes. Further, we are working on developing partnerships, which will enable us to offer affordably priced facilities for developing/emerging farmers. We are also developing smallholder farmer support programmes. We have incorporated

very clear development and transformation performance indicators into performance contracts. As part of an SLA improvement plan, we have engaged with our SLA partners to review our relationship arrangements towards improved mutually beneficial arrangements.

South African economic context

South Africa has a highly developed economy and advanced economic infrastructure, making it the most industrialised African economy and home to 75% of the largest African companies. Despite this, the country continues to face massive challenges particularly with respect to poverty, inequality and unemployment. While government has made considerable efforts to boost economic growth, reduce unemployment and address issues raised by credit-rating agencies, the country is plagued by rising public debt, inefficient state-owned enterprises and spending pressures, which have reduced the country's global competitiveness.

The economy grew 0.2% in 2019, against 0.8% in 2018, and is expected to fall to -7.3% in 2020 and pick up to 3.7% in 2021, according to the updated SARB forecasts from 21 July 2020. Analysts attribute this to a number of factors including contraction in multiple sectors, low consumer demand and an increasingly unreliable power supply on the back of ongoing challenges at Eskom.

Implications for value

These factors have had the combined effect of weakening the reputation of SOEs, reducing investor confidence and increasing costs of funding. The impact on the bank was exacerbated by the sovereign

downgrade and our Moody's downgrade. The knock-on effects of the pandemic are wider than just the bank, and extend to the sector at large. While the bank remains a key role player in the agricultural sector, it needs strong support from the shareholder to capitalise on current opportunities particularly considering its own set of challenges.

Our strategic response

Solutions to break out of the mutually reinforcing cycle of low growth and high inequality lie in taking bold actions that will ensure poor South Africans better access to good jobs, food security and benefit from inclusive growth. Some banks have placed limits on new business or new loan advances as they contain their own liquidity pressures and prepare for rising impairments and defaults. This creates opportunities for Land Bank to close the gap should the economic challenges and effects of the pandemic persist. However, we will not be able to intervene unless we resolve our liquidity challenges. We have lengthened our funding portfolio to reduce the refinancing risk and have issued five, seven and ten-year loans. We de-risked our book by pre-paying some liabilities in the anticipation of higher pricing linked to sovereign credit downgrades. This ultimately meant a penalty cost of R56.8 million, which affected our net interest income and net profit this year. However, it positions us for better profitability and a stronger balance sheet in future.

Land reform programme

While we believe land expropriation (with or without compensation) has the potential to deliver significant socio-economic benefit to the broader South African

economy, and agricultural sector in particular, this will only be the case if it is conducted within a sound legal framework and leads to more land being brought into production. As such, we continue to support efforts to advance land reform that will achieve transformation while protecting jobs, agricultural production and property rights. We expect this approach will shield the already fragile economy from negative impacts while contributing to inclusive growth and food security.

Implications for value

The reprioritisation of land reform by the country's Parliament has resulted in uncertainty with regards to its implications and that may affect decisions on investments in the sector. This creates an urgent need for policy certainty to guide the bank's long-term strategy and ability to create value. The finalisation of the Expropriation Bill, the Land Court Bill, the Beneficiary Selection and Allocation Policy as well as the Donation Policy is therefore critical to expedite in order to give direction and restore certainty.

Our strategic response

We have developed programmes to support people that have been allocated land in such a way that they can eventually become the bank's clients. We have also invested in increasing our capacity to learn from the experiences of other countries that have implemented land reform programmes. This was done through engagements with international DFIs and government agencies and will continue into the FY2021 period.

OPERATIONAL OVERVIEW

COVID-19 outbreak

The COVID-19 pandemic has added to existing pressure. Given South Africa's agriculture is export orientated, the disruptions the pandemic has caused on global value chains are a key concern. It is expected that some of the Land Bank clients will default on their payments as the economic fallout erodes or halts their income. The effects of the pandemic have highlighted once again the relevance of the bank with a development mandate and important role in ensuring the resilience, growth and sustainability of the agricultural sector.

Implications for value

The COVID-19 pandemic and subsequent national lockdown have had a massive impact on both the domestic sector exports and sector at large, following the ban on informal traders and disruptions to logistics and distribution networks. It also affected the livestock farmers in that they could not sell their animals at auctions, resulting in some defaults. Harvesting of dry beans and sorghum begins in April each year and this was affected by the lockdown as workers were not able to get to work due to transport shortages. COVID-19 also has the potential to impact crops under production. This includes crops such as potatoes, citrus, table grapes and avocados, all of which are currently in season and are likely to be affected by the closure of international exports. Internally, the bank was unable to conclude certain deals including registration of mortgage bonds, due to the temporary closure of the deeds office during national lockdown.

Our strategic response

We have invoked our Agricultural Disaster Risk Management process as part of the bank's COVID-19 response. This has enabled us to stress test the potential impact of COVID-19 based on a number of scenarios. Options that have been considered include the potential for clients to defer repayments. A disaster relief fund amounting to R100 million was also set up with Department of Agriculture, Land Reform and Rural Development (DALRRD) funding for FY2020/2021.

We partnered with local municipalities to address the food security concerns that have been exposed by COVID-19. There is an opportunity for the bank to provide ongoing support to community gardens and urban food security programmes and to create opportunities for small-scale farmers, particularly women and livestock producers. This is discussed further in the social and relationship capital section of this report on page 102.

Our clients

Our client segmentation is aligned with DALRRD's criteria in the draft Policy on Comprehensive Producer Development Support and the Amended AgriBEE code. The segmentation considers our transformation ambitions for each client segment as transformation occurs at all levels in the value chain and our financial solutions should support farmers across the segments. We do not provide finance to subsistence farmers as they typically rely on grants provided through government institutions and social investment programmes.



Client segmentation: primary sector

Primary agriculture client segment	Estimated market size	Definition	Land Bank offering	Land Bank transformational focus	Delivery channel
Mega/corporate farmers	Approximately 4 000 farmers	<ul style="list-style-type: none"> - Well-established agriculture enterprise - High-end production and processing capabilities; and distribution networks - Most revenue from value-adding activities 	<ul style="list-style-type: none"> - Mortgage and other term loans - Revolving credit facilities - Equity investments - Off-balance sheet facilities - Inventory and trade finance - Working capital and guarantees 	Create appropriate equity investment structures and opportunities for a generation of Black agri-entrepreneurs to enter the sector	CB & SI Intermediaries (SLA partners)
Large-scale commercial producer	<ul style="list-style-type: none"> - Approximately 60 000 farmers - Represent approximately 40 000 male and 20 000 female-headed households - Nearly two thirds African; approximately - 900 coloured - Remaining households - white 	<ul style="list-style-type: none"> - Established primary farming enterprises producing for the market; make a profit, with an annual turnover of more than R50 million 	<ul style="list-style-type: none"> - 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)
Medium farmers		<ul style="list-style-type: none"> - Established primary agriculture farming enterprises - Sound agricultural skill set and firm market access - Growth phase business lifecycle - Turnover between R10 million to R50 million 	<ul style="list-style-type: none"> - 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 smallerholder farmers	<ul style="list-style-type: none"> - Production as an additional source of income - Approximately 150 000 farmers of which about 80 000 are male-headed and 70 000 are female-headed households - 135 000 African, 12 000 white and 5 000 coloured households 	<ul style="list-style-type: none"> - 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 between R1 million and R10 million 	<ul style="list-style-type: none"> - Mortgage and medium-term loans to acquire land, livestock and equipment, establish perennial crops and physical infrastructure - Production loans 	Support smallerholder farmers to graduate to commercial status and grow the size of the agricultural sector overall, contributing to the creation of employment and reduction in poverty	CDBB Intermediaries (WFF partners) Training through our CSI programme
Household producers (subsistence farmers)	Approximately 2 million households	<ul style="list-style-type: none"> - Agricultural activities mainly undertaken to meet household food security needs, often located in a backyard, any surplus sold/bartered within community - Little profit and no ability to service a loan 	<ul style="list-style-type: none"> - Not part of the bank's client market as these households require grants which Land Bank cannot provide - Grants available from various government departments 	Limited support to food garden projects through our Corporate Social Investment (CSI) programme (page 105 of this report)	None

OPERATIONAL OVERVIEW

Client segmentation: secondary agriculture

Secondary agriculture client segment	Definition	Land Bank offering	Land Bank transformational focus	Delivery Channel
Agri-corporates AgBiz, the agricultural business chamber has approximately 70 members, excluding financiers	<p>Established organisations that use agri-produce as an input in the manufacturing of their goods, or provides services or inputs to the agricultural sector</p> <p>Not involved in primary agriculture, either food processing, commodity trading, input manufacturers or distributors of inputs and financing. Turnover is more than R50 million</p>	<ul style="list-style-type: none"> - 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). 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 agribusiness	<p>Small companies that use agri-produce as an input in the manufacturing of their goods or provide services or inputs to the agricultural sector</p> <p>No significant involvement in primary agriculture, either processing, commodity trading, input manufacturers or distributors of inputs and financing. Turnover is less than R50 million</p>	<ul style="list-style-type: none"> - 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	<p>CDBB</p> <p>Intermediaries (SLA partners)</p>

Our stakeholders

Land Bank has a broad mandate encompassing both commercial and developmental imperatives. This predisposes us to a co-dependence with a wide range of stakeholders. We recognise stakeholder engagement as key to delivering on our short- and long-term objectives. Stakeholders are defined as those people or groups that are interested in our business and can either affect or are affected by our value creation process.

Our stakeholder engagement strategy is aimed at building and sustaining value for all key stakeholders. It is also designed to enable our Board and senior management to deepen their understanding of the material matters that inform our strategy and decision-making.

Our ultimate objective is to serve South Africa's agricultural sector by providing fit-for-purpose financial services and placing them within reach of farmers across the country. Effective stakeholder engagement is central to achieving this objective. Based on that understanding, we have reviewed our stakeholder relations and reoriented them towards a more tailored approach that takes the needs, expectations and specific circumstances of each stakeholder group into account. We have also continued to identify opportunities and threats arising from stakeholders' concerns, which inform our strategy.

In FY2020, we consulted with our business units to identify the needs of our stakeholders in relation to their influence on the bank's ability to create value in the short, medium and long term. We made revisions to our stakeholder engagement strategy as a result of the insights gathered through this process.

Among the priority stakeholders identified was our shareholder representative, National Treasury, with whom we implemented a specific and detailed stakeholder engagement plan.

Subsequent assessments indicated that our Tier 1 stakeholders, which comprise regulators and ratings agencies, require close interaction and for us to keep them satisfied through statutory compliance, regular meetings, multimedia engagement and one-on-one meetings. We successfully achieved this in FY2020 and expect to continue these efforts over the next financial year.

Our Tier 2 stakeholders include government, local communities, industry bodies, the investment community and our clients. These require close engagement on an ongoing basis. Our revised stakeholder engagement plan has facilitated consistent engagement with our Tier 2 stakeholders through the introduction or expansion of mechanisms such as roadshows, participation in trade events and one-on-one meetings.

Tier 3 stakeholders include our suppliers. These require us to keep them informed. To this end, we have included them in roadshows, trade events and regular meetings.

Tier 4 stakeholders include our communities and industry bodies. These require us to keep them informed. To this end, we have also included them in roadshows, trade events and regular meetings.













Looking ahead

Overall, we expect our revised engagement plan to facilitate a better understanding of the key challenges, limitations and expectations of our priority stakeholders. The stakeholder engagement plan will also contribute to a better understanding of the bank's value creation model and mandate, while at the same time creating opportunities for us to learn from the experiences of our industry peers the world over. The main concerns and expectations of our priority stakeholders are outlined in the stakeholder table on page 44 of this report, and in the material matters section on page 45.

Our main priority for FY2021 is to continue incorporating the lessons we have learnt in the past. We are committed to an issues-driven approach to stakeholder relations, which takes into account the specific needs and circumstances of each stakeholder group. In addition, we began to implement a shared repository through which various stakeholders can access information.

In addition, we will continue to develop a better understanding of the needs of our key stakeholders. Each engagement plan will be championed by specific senior managers with a clear monitoring and evaluation tool. Further, the bank will continue to participate in the SADC Development Finance Institutions' network activities. This will allow for peer review, information-sharing and resource mobilisation among regional DFI institutions. From an international cooperation point of view, we will continue building on the bilateral cooperation with the German government in order to contribute to the current policy developments on land management and administration in South Africa.

OPERATIONAL OVERVIEW

Stakeholder concerns and expectations	Priority stakeholders impacted	Related material matter	Related capital
<ul style="list-style-type: none"> - Generating financial returns in an inclusive manner - The cost of finance - Reliance on short-term funding remains relatively high - Finding new funding sources for anticipated growth and funding maturities in an environment where the capital and debt markets remain volatile - Stronger capital buffers to enhance risk-bearing capacity and absorb unexpected losses - Challenging operating environment, which could lead to elevated credit risks - Potential impact on financial sustainability of Land Bank if expropriation without compensation is poorly executed without due regard for creditors rights 	National Treasury Investment community Ratings agencies Clients		R
<ul style="list-style-type: none"> - Development outcomes, providing sufficient support to black enterprises in the agricultural value chain - Lack of support to black farmers including technical and enterprise support - Social impact (jobs created and sustained, participation by women and youth) - Competitive client pricing and affordable pricing for smallholder farmers 	National Treasury Government departments Multi-lateral investors and agencies Clients Media		 R
<ul style="list-style-type: none"> - Environmental change as it affects our clients, their businesses and the bank's financial sustainability - Drought and water scarcity that limits the future prospects of the sector 	National Treasury Clients Investment community		
<ul style="list-style-type: none"> - Political interference and risk of exposure to state capture effects - Quality of governance and Board independence - Commitment to principles of responsible business and responsible investment - Maintaining a healthy Board and management culture focused on good stewardship principles - Effective integration of ethics and compliance management in the business - Reputational risk associated with lending and procurement activities 	National Treasury Regulators Investment community Employees Clients Media		 R
<ul style="list-style-type: none"> - Ability to attract and retain appropriate and experienced executive and management level leadership capability to lead the bank's execution of its strategy to perform its mandated functions - Competitive remuneration regarding the variable pay and benefits that Land Bank can offer compared with commercial banks - Transparent remuneration practices - Career prospects 	Employees Trade Unions Investment community Regulators		
<ul style="list-style-type: none"> - IT interface so that clients can easily engage with the bank - Turnaround times for credit application and approval processes including duplication of processes and administrative effort from both clients and employees - Full service offering for clients to place their agricultural lending needs all at one bank - Lack of innovative culture and failure to tap into the ideas of employees 	Clients Employees		 

What matters most - material matters

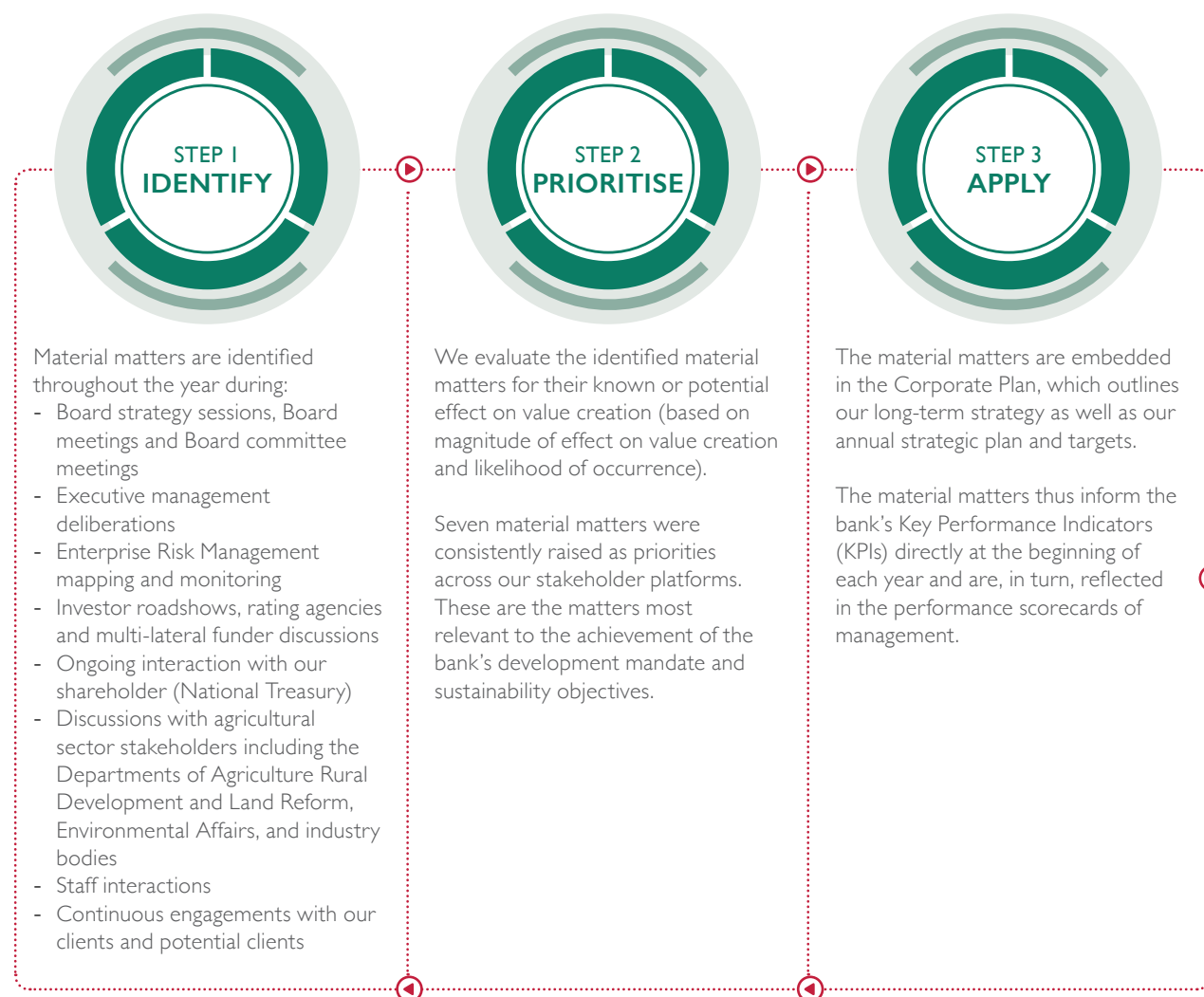
We identify our material matters by determining those issues that substantively affect our ability to create value over the short, medium and long term. These matters have changed slightly compared to last year. As the macroeconomic operating conditions change, new trends develop, and the needs and expectations of our stakeholders evolve, we expect material matters to change again, over time. Risk management is not listed as a material matter this year, due to progress in our risk management process and improved maturity profile, but it is discussed extensively under intellectual capital on page 97.

To identify material issues that might impact Land Bank, we carefully study our risk management framework, expectations from stakeholders, the macroeconomic and political operating environment as well as evolving industry trends. Our formalised stakeholder engagement process, described in the stakeholder engagement section page 43, informed the process.



While we consider the relevance of the needs and expectations of all our stakeholders, the needs and expectations raised by our priority stakeholders determine how we prioritise our material matters.







The Board considered and approved the disclosed material matters and was involved in the determination process. We outline below the process we have used to determine and prioritise our material matters:

Materiality determination process














OPERATIONAL OVERVIEW

Material matter	SDGs	Covered in this report under...	Performance indicator	Performance FY2020
<p>Financial sustainability</p> <p>The 2019/2020 annual financial statements are prepared at a time when Land Bank is facing a severe liquidity challenge. During the end of the 1st quarter and beginning of 2nd quarter of the 2020 calendar year, the bank experienced a liquidity shortfall which resulted in it defaulting on some of its obligations. This triggered a cross default and resulted in suspension of capital and interest payments to its funders.</p> <p>This has resulted in the bank's credit rating being downgraded to sub-investment status, posing a challenge to the bank's ability to successfully continue to source funding in the market.</p> <p>The bank appointed legal and corporate finance advisors to support the process of turning the organisation around. The bank, together with its advisors, and supported by the shareholders, are working on a solution which comprises the emergency liquidity funding solution, liability solution, asset solution, equity solution as well as a review of the Land Bank's repurposing strategy and the operating model. All remediation solutions are in progress and will start realising towards the end of August 2020. Successful implementation of these solutions will ensure that Land Bank remains viable and sustainable.</p> <p>The bank has the full support of its shareholders, who are working with Land Bank to successfully turn around the organisation. The shareholders have committed to further recapitalise Land Bank with R3 billion as announced in the appropriations budget tabled at Parliament on 24 June 2020.</p> <p>Associated capitals: Financial R</p> <p>Associated risks: Financial sustainability, capital and funding risks, corporate plan risks</p>	 	<p>Our Strategic Plan</p> <p>Financial Capital</p>	Achieve R250 million in profit	Incurred R2.8 billion loss
			2.8% interest income margin	1.5% interest income margin (R651 million net interest income generated)
			Cost-to-income ratio ≤ 63%	114%
			NPL ≤ 10% (IFRS 9 definition)	18.1%

Material matter	SDGs	Covered in this report under...	Performance indicator	Performance FY2020
 <p>Development impact and transformation Increase participation in the agricultural sector by historically disadvantaged individuals and contribute to land reform with disbursements and investments to farmers.</p> <p>Increase Land Bank operational efficiency in loan processing.</p> <p>Associated capitals: Social and relationship </p> <p>Associated risks: Development impact and transformation, corporate plan risks</p>	 	<p>Our Strategic Plan</p> <p>Social and Relationship Capital</p> <p>Divisional Overviews</p>	<p>Disburse R3.0 billion to increase ownership of agricultural land and enable agricultural production by historically disadvantaged individuals:</p> <p>Criteria:</p> <ul style="list-style-type: none"> (i) Majority black ownership; or (ii) Black individual as defined in the BBBEE Codes; or (iii) BBBEE Level 1 - 4 and >30% black ownership;; or (iv) Majority black women, youth or employee owned; or (v) Smallholder farmer owned 	R0.7 billion
			<p>Prepare to repurpose Land Bank to optimise development effectiveness</p>	<ul style="list-style-type: none"> • The repurpose plan was developed to inform the channel strategy • Funding plan to be presented to accompany corporate plan in January. Board has approved the preferred option to structure the bank into the commercial and development units. • The Board has approved the SLA improvement plan which is currently under execution
 <p>Corporate governance Sound governance enhances confidence that we are applying our available funding in a transparent, prudent and accountable manner; according to applicable law and documented controls. Investors are concerned with good governance, how we address political interference, ethical behaviour, ethical business conduct and anti-money laundering and corruption.</p> <p>Associated capitals: Financial R</p> <p>Associated risks: Governance ethics and fraud</p>		<p>Financial Capital</p> <p>Intellectual Capital</p>	<p>Classify 0% (R value) of operating expenses as irregular, fruitless or wasteful expenditure</p>	R312 109 million irregular expenditure R16 613 million fruitless and wasteful expenditure
			<p>No findings on unethical behaviour by a staff member</p>	One finding
			<p>Achieve unqualified audit without matter of emphasis</p>	Received a disclaimer audit opinion
			<p>Make all PFMA submissions within stipulated deadline</p>	IAR and AFS were not submitted as per stipulated timeline.

OPERATIONAL OVERVIEW

Material matter	SDGs	Covered in this report under...	Performance indicator	Performance FY2020
 Employee development, retention and remuneration In the current difficult economic and agricultural context, we must attract and retain talented leadership and a strong complement of capable management to lead and manage the organisation and achieve our strategic objectives. We must develop our capability through ongoing development of our human capital, and cultivating the right conditions for a high-performance culture. Associated capitals: Human  Associated risks: Human capital risks, corporate plan	  	Human Capital	% of black women in senior and executive management: 23%	25%
			% of black women in professional qualified and mid-management: 23%	26.15%
			% of ACI staff: 68%	70.50%
			90% of critical roles retained (average over year)	90%
			Implement 100% of culture survey initiative plan based on survey results from 2018/2019 to improve employee value proposition	100%
			At least 68% of training budget spend on ACI staff	84.16%
 Technical advancement (innovation) Advances in technology could improve risk management, increase productivity and lower entry barriers to the sector. We are lagging behind, in the commercial banking sector; in terms of technology and workflow automation. We need additional skills in agriculture on top of traditional technical farming expertise to improve and strengthen our IT capability and to deploy technological advances and capacity effectively. Associated capitals: Intellectual  Associated risks: Technology and information risks		Intellectual Capital	New material matter – no indicators	New material matter – no indicators
 Climate risk and environmental sustainability Climate risk poses a major challenge to the bank and our clients. Our long-term sustainability depends on a climate and socially resilient agricultural sector; stakeholder understanding of our management approach and oversight of this risk category. Associated capitals: Natural  Associated risks: Climate risk and environmental sustainability		Intellectual Capital Natural Capital	Utilisation of at least R100 million of EIB climate facility	R51.6 million

Material matter	SDGs	Covered in this report under...	Performance indicator	Performance FY2020
 <p>Poorly executed land expropriation without compensation Poorly executed land expropriation without compensation by government, which could affect national food security, sustainable farming and the economy, also threatens the financial viability of the bank. Expropriation without compensation may affect our rights as a creditor which could limit available funding to support the organisation's activities and increase non-performing loans. This risk, while not within our top 10 risks, remains a concern.</p> <p>Associated capitals: Financial, social and relationship R </p> <p>Associated risks: Poorly executed land expropriation without compensation</p>	 	<p>Statement from the chairperson</p> <p>Operating Context</p> <p>Social and Relationship Capital</p> <p>Financial Capital</p>	No indicators	No indicators



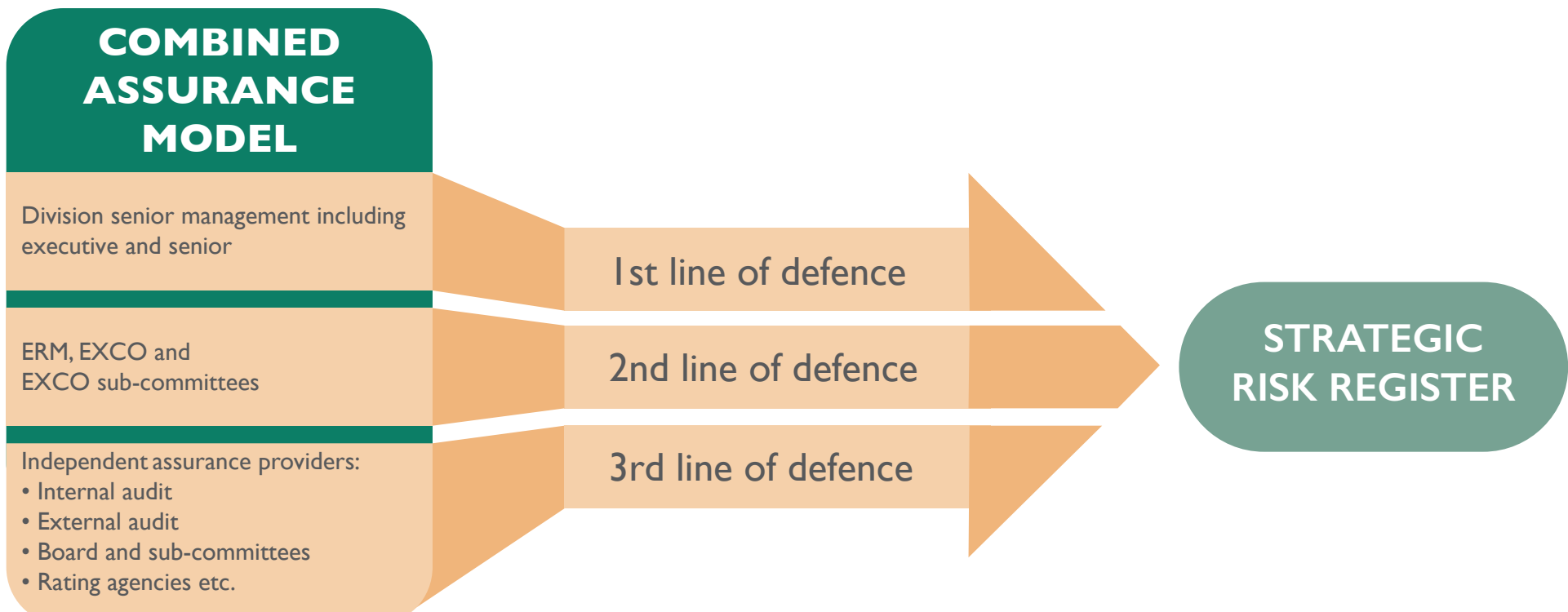
OPERATIONAL OVERVIEW

Land Bank’s assurance model

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.

Combined assurance offers benefits extending beyond mere compliance. It includes maximising risk and governance oversight; optimising overall assurance activities; improved reporting to the Board and other committees; coordinated and relevant assurance, with an emphasis on key risks faced by the Group; as well as enhanced control efficiencies and a possible reduction in assurance costs. The combined assurance model includes a combination of line function oversight, risk and resilience management and compliance functions, as well as other specialist assurance services. It also includes all assurance providers and line functions so that, collectively, these enable an effective control environment, integrity of information for decision-making by oversight committees, and for external reporting.

The three lines of defence are elaborated as follows:

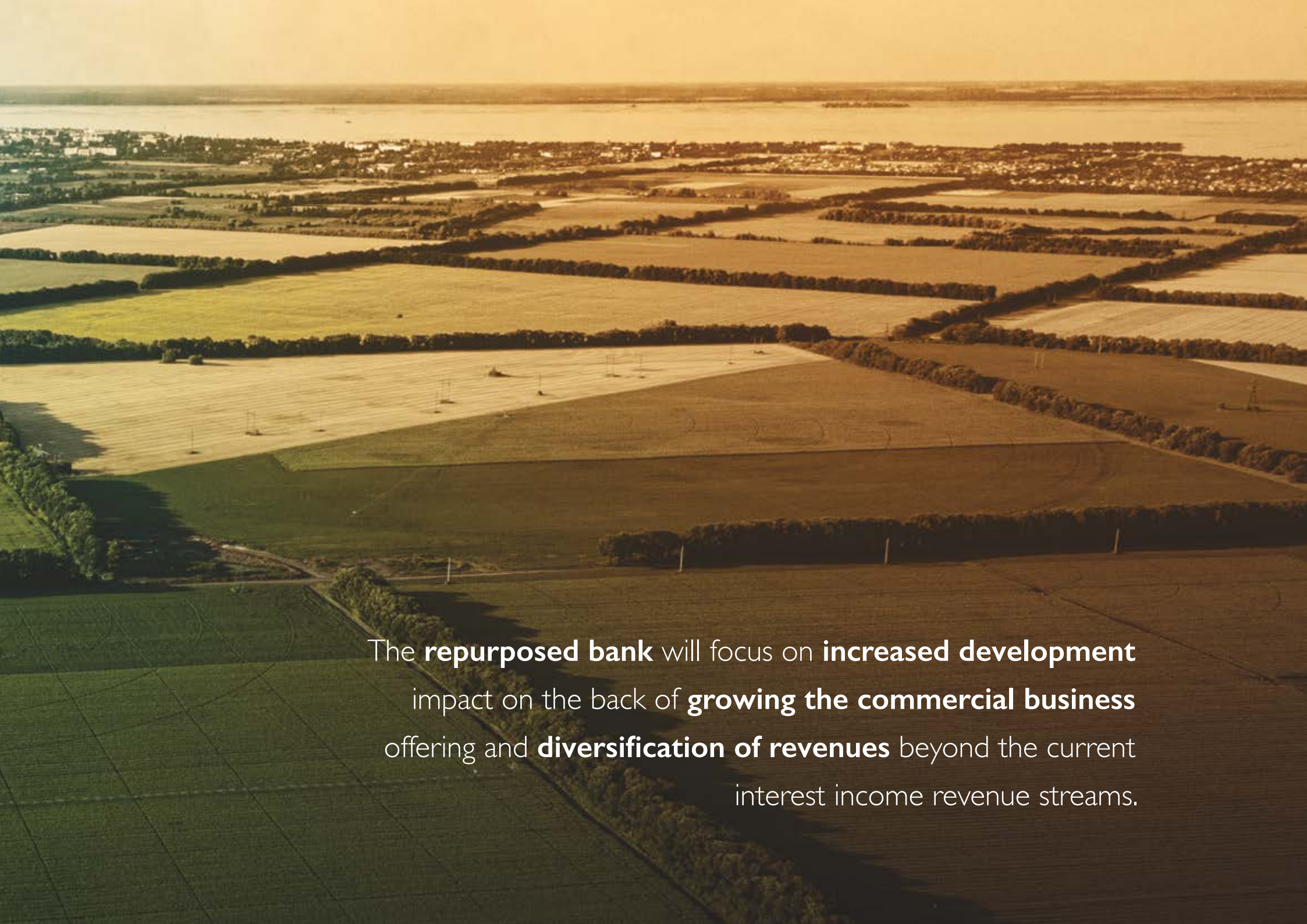


While the AFC is ultimately accountable for providing oversight of the combined assurance activities in terms of the combined assurance framework, the responsibility for combined assurance has been delegated to the Combined Assurance Forum. Internal Audit has been assigned the responsibility of establishing the forum and this process is underway. The forum will be responsible for facilitating and coordinating the execution of combined assurance activities and reports back to the EXCO. The AFC receives reports on the status of governance, risk management and compliance, and the adequacy of preventative and corrective controls from the various levels of assurance.





OUR **STRATEGY**

An aerial photograph of a rural landscape. The foreground and middle ground are dominated by large, rectangular agricultural fields in various shades of green and brown, separated by dark lines of trees and hedgerows. In the background, a small town or village is visible, followed by a large body of water under a hazy, golden sky. The overall tone is warm and sepia.

The **repurposed bank** will focus on **increased development** impact on the back of **growing the commercial business** offering and **diversification of revenues** beyond the current interest income revenue streams.



MESSAGE FROM THE CEO | **Mr AC Kanana** Chief Executive Officer

The year under review has been marked by a very challenging operating environment for Land Bank which culminated into an unprecedented threat to its financial sustainability as the last quarter of the financial year came to an end.

The operating environment was characterised by very low macro-economic growth, with the agricultural sector experiencing consecutive negative growth for all four quarters of 2019 (annual contraction of 6.9% compared to 2018) resulting from, largely, the impact of the persistent drought conditions dating back over three years, as well as the outbreak of diseases such as listeria, swine fever, and foot and mouth. All of these perils had a negative effect to local trade as well as export of meat and wool.

The operating environment imposed consequences of poor production and financial performances of agricultural businesses leading to loan repayment constraints and increased Non Performing Loans in the Bank's loan portfolio, particularly given the Bank's entire risk concentration in the agricultural sector resulting from its exclusive focus of financing this sector.

At the same time as the Bank contended with the difficult operating environment it had been making significant progress in the reduction of its high dependence on short term funding facilities, with the

funding mix reducing from approximately 70% of the funding portfolio in FY2015/16 to 45% short term funding in FY2019/20. Whereas this shift towards longer term funding was contributing to the reduction of liquidity risk as well as making a decent attempt to close the mismatch between the Bank's short term funding and its loan book that is dominantly laden with long term loans, it has had the effect of increasing the Bank's cost of funds. Given the large size of long term loans in the Bank's portfolio the passing of the increased cost of funds to clients has been slow, resulting in continued pressure to the net interest margin and reduced revenue.

The Bank's adversities were exacerbated by a downgrade of its credit rating by Moody's Rating Agency at the end of January 2020, following the agency's recognition of amongst others the challenging operating environment; an observation of the Banks' hardening credit risk, evidenced through increasing Non Performing Loans; the opinion that the capacity of the State to support the Bank was diminishing as a result of other state priorities; and the slow appointment of a permanent Chief Executive Officer.

The unfortunate timing of the Bank's downgrade had the effect of triggering a risk appetite review by funders for the Bank's investment instruments, thereby reducing the availability of funding available to the Bank at the

time when its liquidity buffer had decreased largely on the back of a deliberate and calculated delay on its fund raising programme. Land Bank's challenges worsened following the default of the Bank to settle some of its maturing funding facilities resulting in further downgrades, and a very difficult position for the Bank.

The external audit outcomes of the Auditor-General of South Africa for the financial year ending 31 March 2020 have revealed fundamental gaps in the internal control environment specifically in the management of the Land Bank loan book. Management and the Board have prepared and adopted an Audit Remediation plan to address all the matters raised by the Auditor General that led to the regrettable Disclaimer of Opinion.

An arduous journey to turn the Bank's predicament around is now in process.

Land Bank remains a critical and strategic asset for the State. Its strong base of clients, whose lending portfolio makes up approximately 28% of the agricultural debt market are an important constituent of the agricultural sector that is crucial for maintenance of food security for the country.

Additionally, as a Development Finance Institution, the Bank is a critical organ of the state for the transformation of the agricultural sector, and supporting the new entry and growth of previously disadvantaged commercial farmers and agricultural businesses. In this regard, the Bank has made significant strides to support development having increased the development component of its loan book from about 6% in FY2015/16 to 20% in FY2019/20. The Bank intends to build on this trend going forward.

In September 2019 the Bank became a signatory of the United Nations Environmental Programme Finance Initiative (UNEP FI), and as part of a devoted group of financial services institutions who intend to champion the Principles of Responsible Banking, the Bank will build on the strong foundation that has already been established through its Environmental and Sustainability Programme.

The more than 108 years of Land Bank's history comes with a strong institutional capability and knowledge base that should be leveraged upon and enhanced to be fit for purpose as the turnaround of the Bank is embarked upon.

The Bank's turn around will be built on a foundation of a robust Balance Sheet, which will include a process of resizing the Balance Sheet (reduction of both assets and liabilities); determining the appropriate level of Capital Requirement; establishing an appropriate mix of liability tenures (long term and short term funding facilities); and a focus on the reduction of the gearing ratio, overtime, to ideally below 400%. Additionally, the Bank will pay attention to an appropriate repricing of the loan book to meet the higher cost of funding as well as credit risk expected from the repositioning of advances towards more developmental activity; as well as improved business efficiencies and reduction of costs, including improved commercial arrangements with the Bank's Service Level Agreement Intermediary partners.

The repurposed bank will focus on increased development impact on the back of growing the commercial business offering and diversification of revenues beyond the current interest income revenue streams.

The Bank will focus on building its role as a catalyst to bring together an ecosystem of key players and providers of services in the agricultural sector, using a partnership based model to deliver a wider range of products and services, and development support programmes.



OUR STRATEGY

Our strategic plan

In last year's integrated annual report, we stated our intention to review and adjust the role of Land Bank towards a fit-for-purpose DFI that is better enabled to meet our development mandate. A considerable amount of work and engagement with stakeholders during the year under review has culminated in our Vision 25 strategy. We believe that the strategy will ensure a significant shift for the bank, as we introduce key initiatives aimed at improving the bank's financial sustainability while enabling it to achieve its development mandate in more substantial ways.

Background

Our mandate, which is defined by the Land Bank Act, includes equitable ownership of land, agrarian reform, land re-distribution and development programmes, access to land for agricultural purposes and commercial agriculture. Its overarching goals are to stimulate growth of the sector and better use of the land, to promote environmental sustainability, rural development and job creation, transformation of the sector, as well as food security.

We have made some notable achievements against this mandate. We have a sizeable balance sheet in the agricultural space, and development and transformation assets account for 20% of our loan book, and we enjoy a mature client base. We have a national footprint, and a recognition of our expertise and developmental role by local and international funding institutions. However, certain issues have hindered our ability to achieve more towards our mandate. We have experienced some failed loan covenants and defaults, and will need

to improve the value derived from our intermediary model. As a result, our clients are not seeing us as a bank of choice and our goodwill and reputation is fast diminishing. We need to restore our position in the sector.

We need to make some significant shifts to position ourselves for sustainability and to achieve our development mandate. Neither we, nor our shareholders, who support our mandate, wishes to see us in a position where we are constantly and largely reliant on state support and cash injections. It often appears that there is a trade-off between financial sustainability and developing the agricultural sector. In balancing these two necessities, understanding our client becomes critical. We must be able to attract clients by making it easy for them to transact with us and by offering them the diverse products that they require. We also need to deeply understand our development clients' needs for pre- and post-investment services, and importantly, their need for access to markets and the ability to farm at scale. Within this context, sustainability, development and client focus underpin our Vision 25 strategy.

Vision 25 – our strategy

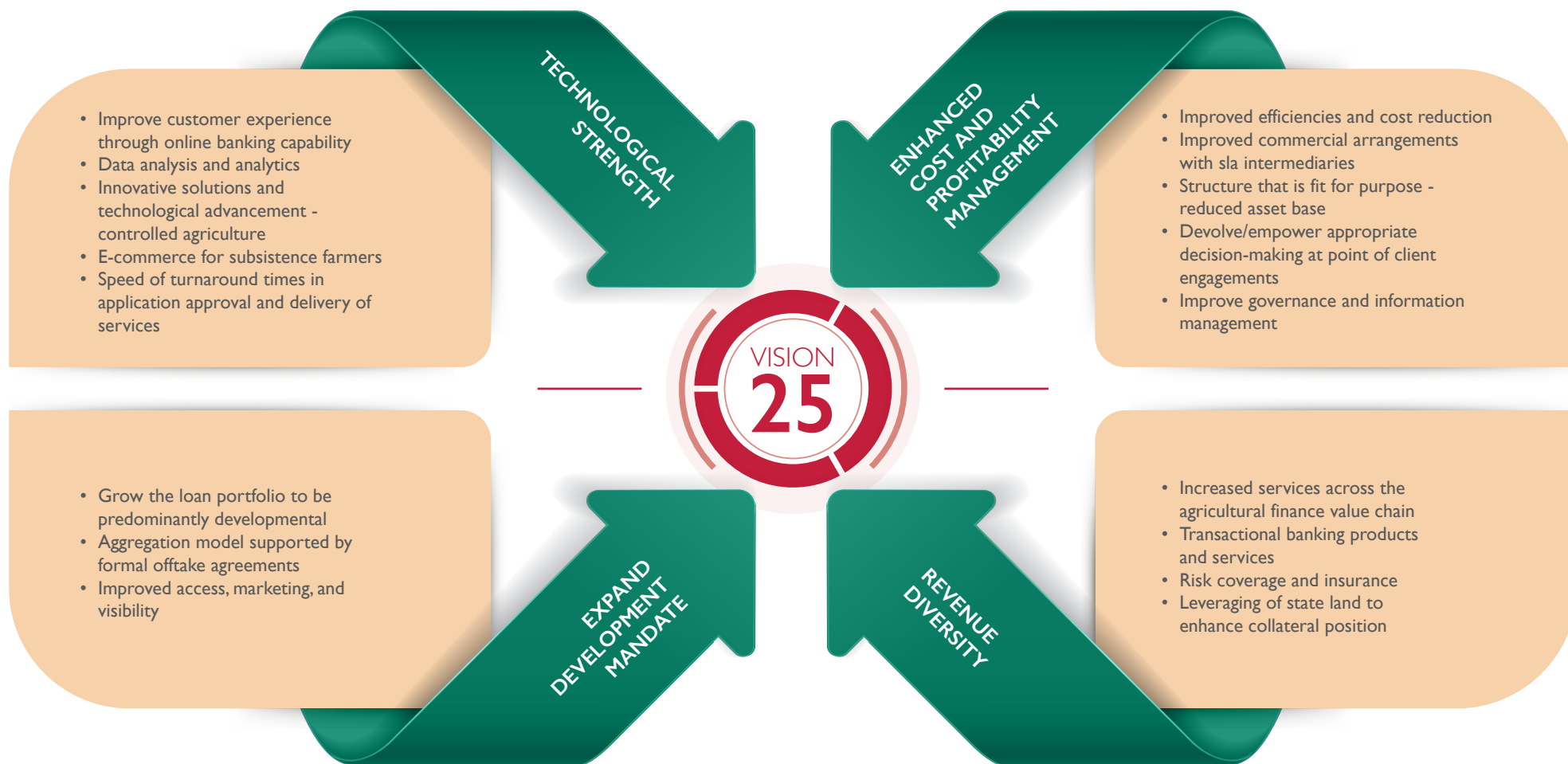
To better service our development mandate and to respond to the underlying causes of the deficiencies in this area of our operations, we plan to undergo a significant organisational change journey over the next few years. The organisational change responds to our manual processes, outdated operating model that does not facilitate the achievement of our mandate, staff and client needs and cost management requirements.

The key focus areas that will guide our change process therefore promote a sustainable Land Bank, underpinned by a focus on development and client service. The four areas are the following:

- Organisational change from manual to automated systems
- Change in the operating model to facilitate an improved development approach
- Development and empowerment of staff and focus on client service
- Management of costs
- Focus on orchestrating the agricultural ecosystem across the value chain

Our Vision 25 is a new Land Bank that is focused on technological strength, an expanded development mandate, revenue diversity where we increase the relative contribution of non-interest income to our revenue streams, and enhanced efficiencies and cost-management. This vision is depicted in the diagram below.





OUR STRATEGY

By the end of FY2025, we envision that we will be offering a wider range of financial services to meet our client requirements, enabled among others, through technological capability, electronic banking, card facilities and life cover for farmers and their employees. This will not only respond to client needs, but also to diversifying our revenue streams.

We will increase our direct channel capabilities to ensure an effective growth of the development book. The intermediary strategy will be improved in line with this objective to ensure sustainable and mutually beneficial arrangements.

Finally, and perhaps most importantly, we envision an expanded development mandate where the ratio of our development book will be significantly increased whilst ensuring a financially sustainable bank.

The focus on development includes several models to support developing farmers. The integrator model integrates and aggregates smaller holders into a value chain-based business. The off-taker model involves partnerships throughout the supply chain to provide developing farmers with access to large commercial food producers. It protects the potential for failure of

farmers and provides them with additional pre- and post-finance support.

Finally, we will explore an e-commerce platform for subsistence farmers, offering them access to potential customers. Currently, many subsistence farmers exchange products in their local areas. The platform aims to assist them to sell their goods to small businesses or individuals in a broader area. The platform will also assist with tracking of farmers for future development programmes.

Change programme - Focus areas for FY2021 and FY2022

There are some key dependencies to the achievement of our vision. In the short term, we need to address our current financial situation. The plan requires an asset solution to reduce the size of our liability, an equity solution including additional injections from the state and a liability solution to cure our default positions with funders.

Our repurposing plan will be executed, which entails separating the bank into two distinct business units:

commercial and development. The commercial unit will have diversified commercial offerings and revenue streams to better support commercial clients across the agricultural value chain. The development unit will offer affordable financial solutions, and value chain pre- and post-support services to, primarily, the smallholder segment.






The plan requires continued engagement with our stakeholders. Buy-in and approval by the Minister of Finance and National Treasury, as well as alignment with National and Provincial Departments of Agriculture are essential. The private sector is a critical anchor of this strategy, to support the off-take model and the aggregator model.

We will engage with our shareholders, government departments, the DFI community, our lenders at large and the private sector to ensure cross alignment about the future of the bank, the fit for purpose organisational structure and potential uptake by the private sector.

I invite the whole Land Bank community to rally behind this vision and each identify themselves in the Vision 25 roadmap.



OUR VALUE-CREATION MODEL

Capitals		Activities resulting in change	
		FY2020	FY2019
R Financial	Capital adequacy ratio	9.3%	14.3%
	Net stable funding ratio	95.5%	101.4%
	Gross loan book	R45.1 billion	R45.2 billion
	Non-performing loan ratio	18.1%	9.6%
 Intellectual	Computer software	R8 million	R13.5 million
 Human	Employees including fixed-term contract and learners	486	470
	Total remuneration including contributions and bonuses	R397.9 million	R405.6 million
	Average training spend per employee	R7 604	R21 192
 Social and relationship	Disbursements classified as transformational	R2.78 billion	R5.07 billion
	Supplier development	R4.1 spent on 9 suppliers	R5.1 million spent on 5 suppliers
	CSI expenditure	R5 million	R5.2 million
 Natural	Crop insurance claims paid	R130.6 million	R548.5 million
	Material consumption values		
	• Water (kl)	4 800	6 090
	• Fossil fuels (L)	124 842	100 529
	• Electricity (kwh)	1.93 million	2.09 million
 Manufactured	Loans screened for environmental risk		390
	Land and buildings	R24.4 million	R24.4 million
	Furniture and equipment	R2.6 million	R2.7 million
	IT systems and hardware	R1.4 million	R4 million



Corporate citizenship commitment

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 shareholders, 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.

Section 195(1) of the Constitution	Progress/output during FY2020
Promote and maintain a high standard of professional ethics	Key financial ratios have declined from 2019 due to the poor performance experienced by the bank in the financial year under review.
Promote efficient, economic and effective use of resources	The bank continues to leverage the existing software investments to enable automation of its business processes. The lifespan of some software assets is extended where deemed appropriate and guided by the risk assessments conducted, to depreciate them fully and shift them off the balance sheet in a positive and efficient manner, before committing to further capital expenditure.
Orientate public administration to development	The bank appointed two employees who completed their learnership programme with the bank to permanent positions. Both are African females. The bank has made various offers to attract talent to the bank and continues to monitor gender and race disparities. The Land Bank Group has spent 84.48% of the training budget on ACI.
Provide services impartially, fairly, equitably and without bias	3 739 shareholders of entities screened in terms of our anti-money laundering and politically-exposed persons policy (FY2019: 3 548)
Respond to people's needs and encourage the public to participate in policy-making	LBIC is a significant crop insurance player with +/- 30% market share. It has paid R0.785 billion rand in claims due to severe weather conditions and contributed to the sustainability of farming in South Africa.
Make public administration accountable	The fixed assets have remained the same with an exception of IT assets which declined due to amortisation.

Foster transparency with timely, accessible and accurate information to public

Cultivate good human-resource management and career development practices to maximise human potential

Public administration must broadly represent South Africans, 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

Regular investor roadshows held and information distributed publicly via the bank's website and SENS announcements regarding changes in executive management, Board members and Board Committees, as well as financial and interim financial results.

The bank is continuously striving towards embedding a high-performance culture and establishing itself as a world-class institution with the ability to attract the best talent.

The bank's human resources are aligned to employment legislative requirements and provisions. The policies and processes are implemented on principles of fairness and transparency.

The bank has an Employment Equity plan with targets set as per the Economic Active Population (EAP), and a drive to transform the workforce to have a higher representation of ACI (African, Coloured and Indian) employees.

The bank supports and encourages employee development including academic studies and seeking of formal qualifications.

The bank remuneration structure is based on job levels irrespective of race or gender.



OUR **PRINCIPAL** RISKS



We are responsible for **raising sufficient funding** to support inclusive **growth in the agricultural sector** and **increased resilience** against the challenges rising from climate change. Over the last two-and-a-half years, we have **successfully differentiated ourselves** from other SOEs by our **commitment to good governance** and **strong fundraising efforts**.

OUR PRINCIPAL RISKS

The bank's risks are determined through a comprehensive risk management framework designed to provide ongoing analysis of our business context and risk assessments to identify potential sources of risk. We calculated the probability of risk events, their potential impact on our business and their ranking in order of material priority. Upon this we base the formulation of our control measures. This is in line with our vision to become world-class at risk management, and our mission to use risk as an enabler for sustainable growth.

Risk appetite

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. We benchmark our risks against global and South African top strategic risks as published by local and global organisations.

During FY2020 a combination of risks arose simultaneously, requiring urgent engagement of and intervention by our shareholders. Although each of the risks could have a significant effect on the bank's risk profile, their simultaneous realisation led to a significant increase in the bank's overall risk profile and liquidity challenge.

The bank's Risk Appetite Framework (RAF) defines the amount and nature of risk we are willing to take. The RAF parameters are identified at the start of each strategic planning cycle and are adaptable to circumstantial changes in the agricultural sector.

During the risk evaluation step, we calculate the residual risk and develop the control requirements. Our Enterprise Risk Rating Matrix is shown below and corresponds to the risk ratings of each material issue.

LIKELIHOOD	5 – Very Likely >100%	4 – Likely 75 – 100%	3 – Moderate 50 – 75%	2 – Unlikely 25 – 50%	1 – Rare 0 – 25%
			- Poorly executed land expropriation	- Development impact and transformation	
				- Technology and information risks - Environmental and social sustainability - Legal and regulatory non-compliance, fraud, theft and corruption - Human capital risks	- Financial sustainability - Capital and funding risks - Corporate plan risks - Climate change - Leadership continuity
IMPACT					
	1 – Insignificant > R8m	2 - Minor >R8m to >R50m	3 - Moderate >R50m to <R100m	04 - Major > R100m to < R200	5 - Catastrophic > R200m

Our top risks

Below are our twelve principal risks, the actions we have taken to mitigate them and the strategic opportunities that they present.

Inability to achieve sustainable business growth (NII) of the overall loan book

The bank's net interest income (NII) continues to decline and is below our risk appetite at 2.23% for December 2019, and worsened to 1.5% at year-end against 2.8% target. The lack of growth in the direct loan book for CB & SI and CDBB continues to be an area of concern. The recent lack of funding has exacerbated this situation, and had a severe impact in the last quarter of 2020 and the first quarter of 2021.

Key risks:

- An application takes on average nine months to complete, while our competitors take weeks to grant loans. This remains the root cause for slow growth and rising cost to income.
- Turnaround times pose a real threat to our ability to grow and retain clients.
- The bank defaults to using price to attract clients at the expense of profitability.
- Higher cost of funding has led to a further squeeze on the bank's already narrow net interest margins.

Mitigating actions

- Continuous review of this pricing regime is necessary. Management already repriced most assets when facilities are renewed. More work is being done on SLA book, but the pace is relatively slow due to existing contractual arrangements.
- Management continue to implement some efficiencies in our credit processes such as revising certain DOP's (i.e. production and equipment loans plus AML process) to streamline approval processes, more people-related interventions are ongoing to increase efficiency.
- Fundraising activities to support the lending are also ongoing.

Strategic opportunities

A continuous review of our processes is being conducted as part of our Vision 25 strategic repurposing. Focus is on enhancing our pricing models, pricing philosophy, and reviewing of origination processes.

OUR PRINCIPAL RISKS

Credit default risk: High rate of non-performing loans and impairments

As at 31 March 2020, the NPL ratio was 18,1% (FY2019: 9,6%) above the Corporate Plan target and funders covenant of 10%. This reflected a significant deterioration of the asset quality for the bank as a result of the following drivers: the decline in net loans and advanced by 1,7 billion (3,8%) on the back of the liquidity challenges, second consecutive year of agricultural sector growth contraction, persistent drought in some regions, the outbreak of Foot and Mouth Disease (FMD) in the livestock industry, the change of SLA default definition from 120 to 90 days in arrears (90 days rebuttal approved in 2019) to align all the bank’s exposures.

Subsequently, impairments increased to R1,8 billion (FY2019: R1,2 billion) on the back of deteriorating asset quality for the period under review. Furthermore, the change in collateral disclosure methodology influenced the LGD to be higher and change in PD factor in alignment with the SLA default definition mentioned above.

Key risks:

- Breached loan covenants and an increasing cost of funding, which in turn impact on the underlying pricing for borrowers
- Risk rating downgrades
- The continued outbreaks including COVID-19, deteriorating climatic conditions, and low loan book growth continue to put pressure on the NPL ratio
- Further, an increase in impairments impacting profitability negatively
- Concentration risk resulting from similar impacts, eg FMD to the livestock industry

Mitigating actions	Strategic opportunities
<ul style="list-style-type: none">- Management put in place a number of measures to mitigate this risk including ongoing periodic reviews on SLAs underlying book as a proactive measure- Management is in the process of updating and reviewing NPL and credit risk strategy to contain this risk- Introduced the COVID-19 relief fund, funded and supported by government to assist defaulting customers- Enhance staging, modification, collateral management policies and processes to improve controls deficiencies- Develop products to assist clients to proactively mitigate climate risk	<p>The bank is initiating various strategic partnerships with both the public and private sectors to create the required ecosystem to enable better support to farmers.</p> <p>For more information see strategic plan on page 56.</p>

For more information see intellectual capital on page 97.

People risks: Leadership continuity risk/ lack of succession planning/ high critical talent attrition rate

While the bank's CFO and CEO were appointed in February and March 2020 respectively, the roles of Chief Risk Officer, Executive Manager: CDBB and Head of Internal Audit and various other GM's remain vacant. As a result of these vacancies the bank had numerous acting arrangements in vacant positions in the FY2020 period, which in turn, had an impact on the bank's ability to raise funding. The resignations of three General Managers and the Acting CEO contributed to investors' uncertainty around the stability of the bank.

Key risks:

- Imminent breach of loan covenants i.e. some investors require notification which gives them an opportunity to call or not roll-over funding in response to changes in the bank's executive structure. This would further exacerbate the bank's liquidity risk
- Lack of leadership continuity and poor succession planning
- Limited market supply of critical skills required by the bank
- Inadequate talent retention policies and processes
- Organisational climate and culture risk

Mitigating actions

- A new CFO and CEO were appointed in February and March 2020, respectively.
- The recruitment process to finalise the filling of the following critical roles has started and the roles advertised were the following:
 - Chief Risk Officer
 - General Manager: Treasury
 - General Manager: Finance Strategy & Financial Planning
 - General Manager: Corporate Strategy & Innovation
 - General Manager: Enterprise Risk Management
- Our human capital division has developed an action plan to bridge the skills gap within the bank.
- EXCO is in discussion on the outcome of the talent pool assessments and succession planning.
- In FY2020, we implemented 100% of the initiatives identified in our FY2018 corporate culture survey.

Strategic opportunities

A clear succession plan is necessary, in particular at senior executive level. Areas of concern where there is currently no succession planning in place such as internal audit, finance strategy and planning, treasury, enterprise risk, markets and liquidity risks, among others, require immediate attention by both management and the Board.

For more information see human capital page 113.

OUR PRINCIPAL RISKS

Operational inefficiencies

The lack of IT capabilities such as automated systems and processes to ensure data accuracy remains a challenge and contributes to our inability to compete and provide satisfactory customer service. The manual nature of the systems currently in use also contributes to our poor turnaround times. This leads to complaints and loss of business, lack of competitive advantage, reputation and ultimately, poor financial performance.

Key risks:

- Slow turnaround times resulting in complaints and loss of business and poor financial performance
- Lack of competitive advantage and operational inefficiencies resulting from manual processes

Mitigating actions

- The Land Bank Board approved an IT strategy in 2019 which outlines the direction the IT division would be taking to support the delivery of the broader Land Bank strategy and mandate, as well as improve efficiency in the long term.
- The strategy presents a range of carefully thought through tactical and future plans in line with the current internal / external business environment.
- The bank is already embarking on various process improvements, and origination tool automation in order to minimise manual processes.

For more information see intellectual capital page 97

Strategic opportunities

Ongoing review of the bank's IT strategy in line with business changes and priorities. Vision 25 already outlines the need to migrate to better systems and online processes, which the bank is already working towards.

Rising cost-to-income ratio

The cost-to-income (CTI) ratio was 114%, exceeding both the corporate plan (63%) and loan covenant target levels (70%). While efforts have been placed on growing the income (i.e. repricing, fees charges) and containing costs, this remains inadequate to restore the immediate problem. The continued flat growth on the book for a bigger part of FY2020, even prior to liquidity challenges, and now possible run down on the book following the liquidity crises and squeezed margins continue to put the bank in the red. The above efforts and further reviewing of the pricing model are actions that can only yield results in the medium term.

Key risks:

- The bank's mismatch between assets and liabilities maturity profile is also a contributing factor to the poor CTI and net interest margin
- Operational inefficiencies continue to impact the bank's performance
- Cost of funds (CoF) has increased following the downgrade by ratings agency Moody's. This has in turn made it difficult to grow or maintain the book at budgeted levels, worsening the NPL ratio of the bank, and subsequent breach of loan covenants at year end

Mitigating actions

Management explored options to address the bank's liquidity challenges by:

Engaging the shareholders with possible solutions such as:

- A capital injection of R3bn was approved by National Treasury in June 2020
- Management has approached National Treasury with regards to utilisation of guarantees without conditions to the value of R5.7bn. This will help in negotiations with funders
- Engagements with related parties (IDC/PIC/DBSA) to request possible assistance or support
- Engaging top 20 investors to build confidence and consider private placements
- Accessing funds via sinking funds and deposits

Failure to manage climate change impact

Land Bank workshop on climate change risks and opportunities was conducted and action plans to address the risks and capitalise on opportunities developed for engagement with key stakeholders that will improve the bank's ability (strategic approach) to mitigate and manage climate-related risks.

Mitigating actions

Some of the initiatives being implemented in mitigation of the impact of climate change include:

- Collaboration with NAMC on the development of a mobile application for reporting on CO2 footprint of farmers
- Collaboration with CSIR on climate risks including a case study
- Baseline assessment on climate change exposure on the current loan book
- Development of climate change roadmap and green products

Strategic opportunities

We plan to undergo a significant organisational change journey over the next few years. This will enable us to resolve underlying operational inefficiencies as well as ensure better alignment between our assets and liabilities maturity profile.

Strategic opportunities

Our financial sustainability is intrinsically linked to the continued existence of a climate-resilient and diversified agricultural sector. Therefore, we will focus on our own and our clients' efforts to mitigate and adapt to long-term changes in the available natural capital.

OUR PRINCIPAL RISKS

Misalignment of key performance indicators to corporate plan targets and loan covenants

The bank adopts strategically aligned key performance indicators across all bank measures of sustainability to enable a clear focus for divisional activities.

Key risks:

- Compliance with loan covenants provides an important indicator to investors about how confident they can be in investing in the bank
- Covenants which come close to breaches will not instil confidence in investors, and breaches in covenants can result in investors calling their funds
- The bank tracks loan covenant indicators as part of its corporate plan performance measures. Any breaches will result in negative performance reviews

Mitigating actions

- Management will monitor the loan covenants closely and communicate possible loan covenant breaches to funders on a proactive basis to ensure the impact of the possible calling of funds and/or non/rolling of funds is more predictable or manageable.

Strategic opportunities

This misalignment between key performance indicators and the corporate plan will be attended to in the coming financial year to ensure appropriate measures are put in place, and the two are harmonised.

Increased competitive environment threat to Land Bank

The bank's market share has declined as a result of the stagnant book. Our considered view is that should the bank address all the challenges relating to operational efficiencies, systems, pricing, funding model, group strategy, client service and sales strategy, this threat could be brought under control.

Key risks:

- Failure to embed repurposing strategy and acquire support for the strategy from the shareholders, sister government departments and government entities
- Our competitive advantage is curtailed by operational inefficiencies, lack of automated systems and slow turnaround times on transactions

Mitigating actions

- An IT strategy and architecture that is aligned to our business needs have been developed. The critical short-term actions are to invest in technology and systems to support workflow within the bank and provide better client service to farmers. Investments in technology to assess farm capacity and monitor ongoing risks to crops will also be incorporated into our loan monitoring and credit processes.

Strategic opportunities

There is an opportunity for ongoing engagements with the shareholders and other DFIs and government departments on the bank's new strategy.

Approach to understanding and managing climate change risk

The Land Bank's readiness and response programme includes the key step of obtaining an in-depth diagnosis of the expected impact of climate change on the South African agricultural sector. In this context the bank has continued its process of engagement with internal and external stakeholders during the year, partnering with the CSIR and Witwatersrand University's Global Change Institute on climate change impact assessment projects of prioritised relevance to the sustainability of the bank's current and future business and operations.

In tandem, the bank has been reviewing its current and future strategic positioning in relation to both climate change risks and opportunities. Accompanying these efforts, the bank has commenced a re-examination of the policies, practices and procedures that underpin its business operations to ensure that attention is focused on factoring climate change risks and opportunities into the bank's short-, medium- and long-term plans – including to minimise our own carbon footprint.

The bank's risk management programmes are also evolving as greater focus is channelled towards proactive management of climate change risk. In the context of our financing activities, we continue to refine implementation of our lending policies which aim to factor these risks into our lending decisions through assessment of our customers' capacity to proactively deal with climate change. Our regular communications with our clients and customers include emphasis on the importance of building climate change mitigation and adaptation risk into their business strategies and to establish plans to support decarbonisation of their operations to enhance long-term sustainability.



OUR PRINCIPAL RISKS

TCFD Theme	Progress to date	Focus area 2021-2023	Medium- to long-term vision on managing climate change risk – 2025 and beyond
GOVERNANCE	<ul style="list-style-type: none"> - The Board Risk and Governance Committee oversees management of climate-related risks – oversees progress with implementation of the Land Bank's Climate Change Response Framework - The Board Social and Ethics Committee recommends for approval to the Board, the bank's policies on climate-related objectives, goals and targets - The Group Executive Committee has been appraised of Land Bank's Climate Change Strategic Framework, which sets out Land Bank's proposed approach to managing its exposure to climate change risk - An action plan, including a Risk and Opportunities Assessment Framework is being developed as the basis for implementing the framework on an enterprise-wide basis 	<ul style="list-style-type: none"> - As part of implementation of its Climate Change Strategic Framework, Land Bank will: - Develop and publish its Climate Change Position Statement, to – <ul style="list-style-type: none"> (i) Formally affirm support for the Paris Agreement goals and South Africa's transition to a net-zero carbon economy in respect of the agriculture sector. (ii) Communicate Land Bank's commitment to work to manage the bank's role in transitioning to a net-zero carbon business strategy, including consideration of related impacts on the bank's clients and customers and on the social relationships and communities most impacted by climate change within the agricultural sector. - Develop an appropriate internal governance framework, including functional capability to address operational embedment of the objectives set out in the Position Statement in the bank's future business strategy and plans. 	<p>Land Bank's governance functions give strategic direction to, and actively monitor Land Bank's achievement of positive impact in addressing climate change, through its own business and through its portfolio business activities within the South African agricultural sector.</p>

TCFD Theme	Progress to date	Focus area 2021-2023	Medium- to long-term vision on managing climate change risk – 2025 and beyond
STRATEGY	<ul style="list-style-type: none"> - The bank has held a number of internal workshops to build a preliminary understanding of its climate-related risks and opportunities, and of how to develop the bank's response strategy. - Land Bank's current business strategy is aligned to fostering a resilient and sustainable agri-sector in South Africa that supports the UNEP FI Principles for Responsible Banking and the UN Sustainable Development Goals. - Climate change risk identification references are included within the bank's lending policies applied for direct and indirect lending; and in the bank's investment guidelines applied to the investment portfolio. - Participation in a United Nations Environment Programme Finance Initiative (UNEP FI) Positive Impact Working Group. - Ongoing partnering with CSIR/GCI, NAMC, and ARC. 	<ul style="list-style-type: none"> - Land Bank's repurposed strategy will take cognisance of the need to foster support for achievement of South Africa's National Targets under the Paris Agreement, with reference to transition strategies and activities applied within the agricultural sector. - Complete Land Bank's scenario analysis to inform its climate change transition strategy, incorporating the main existing climate change-related risks such as drought, flood and other emerging climate-change related risks relating to our clients and customers; and to enable identification of opportunities for Land Bank's product portfolio. - Complete the bank's Risks and Opportunities Assessment Framework. - Land Bank client services personnel apply their specialist skills in lending, investing and advisory to support our customers, clients and other stakeholder groupings in the South African agriculture sector; to move towards a low-carbon economy as soon as possible, including through adoption of a range of climate change risk adaptations available to the sector. - Green/low-carbon products and services focused on climate-related opportunities will be developed and made available for the bank's clients and customers. - Identify and test-pilot a set of indicators that can be applied to gauge the financial resilience of our clients and customers with respect to key types of climate change risks. 	<p>Land Bank's short-, medium- and long-term business strategy, as reflected in its approved corporate plan includes the strategic objective of addressing climate change in the South African agricultural sector; and is geared to achieving measurable positive impact with clear targets in place for achieving this objective each year (i.e. embedded in the bank's approved annual performance scorecard).</p>

OUR PRINCIPAL RISKS

TCFD Theme	Progress to date	Focus area 2021-2023	Medium- to long-term vision on managing climate change risk – 2025 and beyond
RISK MANAGEMENT	<ul style="list-style-type: none"> - Integrate assessment of climate-related risks into our Group Risk Management Framework. - Ongoing analysis of drought-related risks for our lending portfolio for all regions of the country. - Ongoing training and development of policies, procedures and guidelines on climate change risk identification, and for customer climate change transition plan discussions. - Encouraging enhanced financial analysis and stronger credit approval terms applied to clients and customers operating in regions of low/very low average rainfall or measured variability. - Education initiatives with the bank's frontline personnel on qualifying criteria for climate change-related projects – i.e. visual representation of eligibility criteria. 	<ul style="list-style-type: none"> - Ongoing guidelines and training provided to the SLAs on customer climate change transition plan discussions. Standard discussions include climate-related risks and opportunities and guidance on climate smart agriculture. - Routine ongoing assessment of our exposure to climate change risk through routine pre- and post-transaction monitoring of change risk as part of adherence to policy statements on responsible lending and investing concerning the most prevalent types of climate change risk exposure within the sector. - New clients and customers are routinely assessed for financial resilience and understanding of rainfall and climate trends in their area to ensure that their responses to the identified risks form an integral part of their business operations. - Encouraging enhanced financial analysis and stronger credit approval terms applied to clients and customers operating in regions of low/very low average rainfall or measured variability. - Updating the business model to focus more on non-financial support services focused on direct engagement with our clients and customers to advise on approach for customer or sector-specific transition or physical risks. - Assessment of customer climate change transition plans forms part of standard lending decisions and portfolio analysis. Encourage customers to develop and disclose their transition plans as part of our credit risk monitoring processes, including (for example) to enable monitoring of specific behaviours with respect to climate change risks exposures identified per region (e.g. use of water budgets in respect of irrigation activity). 	<p>Land Bank's material climate-related risk considerations are integrated into the bank's enterprise-wide risk management processes and are actively managed and monitored against the bank's communicated climate change-related risk appetite and risk tolerances within the bank's credit and lending portfolios.</p> <p>The bank routinely assesses/ estimates financial impact of climate-related risk as part of its periodic reporting of the bank's financial performance and financial position.</p>

TCFD Theme	Progress to date	Focus area 2021-2023	Medium- to long-term vision on managing climate change risk – 2025 and beyond
TARGETS AND METRICS	<p>Aligned to its implementation of the Principle for Responsible Banking, the bank is currently considering its approach to target-setting aligned to its business, and to ensure that Land Bank is contributing to:</p> <ul style="list-style-type: none"> - the objectives and targets set out in the Paris Climate Agreement, - the bank's prioritised SDGs; and - the South African Government's National Development Plan. 	<ul style="list-style-type: none"> - Once confirmed, these targets will be designed for the Bank itself, through decarbonisation targets to be applied to the bank's operations, and for the bank's customers and clients. This includes a focus on prioritisation of low-carbon/decarbonisation opportunities as part of the bank's development impact. - In the shorter term, the bank envisages implementation of plans focused on achieving its adopted targets and metrics in two phases: <ul style="list-style-type: none"> - A pilot phase, expected to commence in FY2021 - A fully fledged implementation phase focused on monitoring progress towards a set of prioritised targets aimed at reducing climate change risk impact within our business (i.e. Land Bank itself and through the bank's portfolio activities). - A post-implementation review of Land Bank's targets and progress against targets will be undertaken after initial implementation, to introduce adjustments as needed. 	<p>Land Bank routinely discloses its performance against an agreed set of targets and metrics applied to measure the bank's positive impact achieved in respect of management of climate change risk, both within its own business and within its portfolio of business activities. Those metrics and targets form part of the bank's performance scorecard used to measure executive performance on an annual basis.</p>

OUR PRINCIPAL RISKS

Policies and investments to deliver a low carbon emissions economy:

- Reduced market demand for higher carbon products/commodities
- Increased demand for energy efficient, lower carbon products and services
- New technology disrupt markets



Market and technology shifts

Growing expectations for responsible conduct from stakeholders, including investors, lenders and customers

- Opportunity to enhance reputation and brand value
- Risk of loss of trust and confidence in management



Reputation

Policy and legal



Evolving requirements at international, national and local government level:

- Increased input/operating costs for high carbon activities
- Threats to secure licence to operate for high carbon activities
- Carbon taxes and climate regulations

Physical impacts



Chronic changes and more frequent and severe extremes of climate

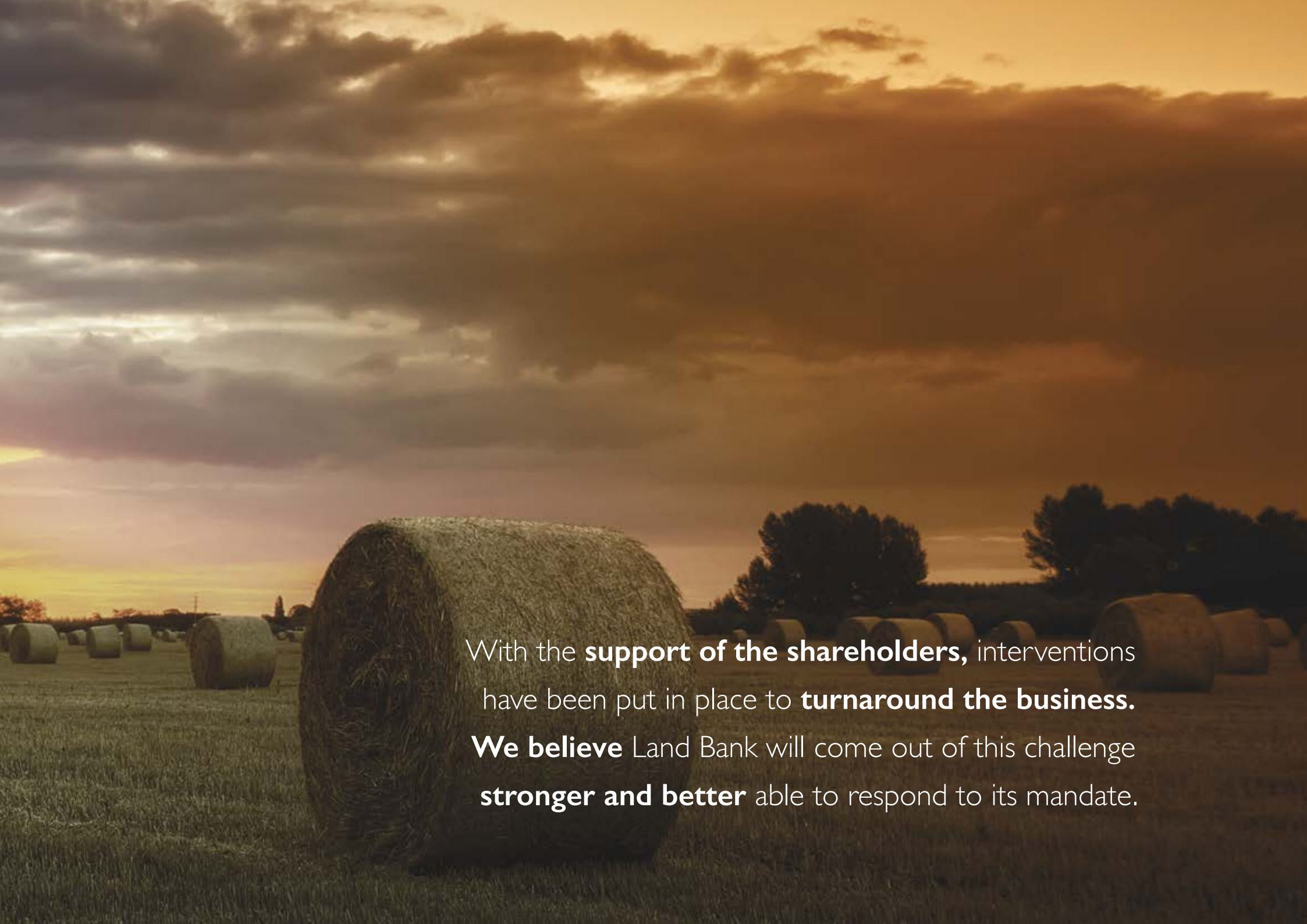
- Increased business interruption and damage across operations and supply chains with consequences for input costs, revenue, assets values and insurance claims







OUR **PERFORMANCE**

A large, cylindrical hay bale sits in the foreground of a grassy field. In the background, several other hay bales are scattered across the field, and a line of trees is visible on the horizon. The sky is filled with dramatic, dark clouds, and the sun is setting, creating a warm, golden-orange glow that illuminates the scene. The overall mood is serene yet powerful, suggesting resilience and hope.

With the **support of the shareholders**, interventions have been put in place to **turnaround the business**. **We believe** Land Bank will come out of this challenge **stronger and better** able to respond to its mandate.

OUR PERFORMANCE

R Financial capital

Material issue: Financial sustainability 

Land Bank deploys its financial capital to provide loan and equity financing solutions to deepen investment across the sector. Providing financial capital to the sector directly and indirectly contributes to the following SDGs:



MESSAGE FROM THE CFO

Ms KH Mukhari
Chief Financial Officer



The 2020 Financial Year (FY2020) has been a challenging year for Land Bank. The operating environment, both externally and internally has led to the deterioration of the loan book performance. Persistent droughts in several parts of the country, changing weather patterns as well as several livestock diseases experienced during the financial year significantly curtailed our ability to grow the loan book and has affected non-performing loans. The COVID-19 pandemic has also had an impact on the sector.

In addition, Land Bank received a “Disclaimer of Opinion” audit outcome from the Auditor General of South Africa on the FY2020 audit, sighting her inability to provide an opinion on the going concern basis of preparation of the FY2020 Annual Financial Statements as well as the valuation of the loan book, owing to ECL models not having been recalibrated since 2016 when they were developed and implemented, and the inability to validate inputs thereto, due to the weakened control environment.

The Board has approved a remediation plan, that is currently being implemented, to address deficiencies that led to the disclaimed audit opinion.

The inability to address the going concern status resulted from the delay that was experienced in finalising the restructuring process to term out funding liabilities as negotiations aimed at taking Land Bank out of its event of default are still in progress between Land Bank and its funders.

We are responsible for raising sufficient funding to support inclusive growth in the agricultural sector. Land Bank raises its funding largely in the market. The South African economic environment including sovereign credit downgrades over the past few years have resulted in increased cost of funding. A combination of the credit rating downgrade of Land Bank during January 2020,

as well as deteriorating financial performance made it extremely difficult for the bank to secure much needed funding from the market. In the meantime, owing to its funding profile, the bank needed to continuously refinance maturing funding liabilities that are made up of largely short term facilities. This triggered a sequence of events that culminated in significant liquidity shortfalls for the bank, particularly towards the end of quarter 4 of the 2020 Financial Year.

This led to the bank defaulting, during the first quarter of the 2021 Financial Year, on its obligations and suspending both interest and capital repayments to its funders as they fell due. This significantly impacted Land Bank’s ability to fully support agricultural funding requirements.

A review of the bank’s funding model, had to be fast tracked as a result. The objective is to optimise the balance sheet to align to the bank’s Vision 25 strategy. The process is currently underway with continuing engagements with key stakeholders in this regard. Despite the challenges, Land Bank continued to balance financial and development mandates in FY2020 albeit with some difficulty owing to liquidity constraints, particularly towards the end of the financial year.

We have positive ongoing engagements with our shareholder. The announcement from government of a R3bn capital injection during June 2020 and the subsequent transfer shows continued support for the bank amidst the current fiscal constraints. With the support of the shareholder, interventions have been put in place to turn around the business, including measures to address the challenges that resulted in a disclaimed audit opinion for the FY2020 audit.

We believe Land Bank will come out of this challenge stronger and better able to respond to its mandate.

Key development	Comment
Investor response to challenges faced by the bank	- The bank's shareholders and funders are working with the organisation to remediate and turn its fortunes around.
Balance sheet position	<p>Decreasing net loan book and increasing NPLs</p> <p>The ratios below outline the financial strain in the balance sheet:</p> <ul style="list-style-type: none"> - Capital adequacy ratio of 9.3% (FY2019: 14.3%) - Liquidity coverage ratio of 36.7% (FY2019: 698.4%) - Net stable funding ratio of 95.5% (FY2019: 101.4%) - NPL ratio – 18.1% (FY2019 9.6%)
Deteriorating financial performance	<p>Financial performance has deteriorated significantly in the current financial year, driven mainly by a combination of legacy issues that were written off in the current financial year, margin compression as well as loss of a significant revenue stream.</p> <ul style="list-style-type: none"> - Flat loan book (from R45.2bn to R45.1bn in 2020) - Increasing NPLs (from R4.4bn to R8.2bn in 2020) - Cost to Income Ratio (from 73% to 114% in 2020) - Net Interest Margin (from 2.5% to 1.5% in 2020) - R2.8bn loss((FY 2019: R902m loss)
Credit rating downgrade to Baa2.za/P-2.za	<p>On 31 March the credit rating of Land Bank was Aa3.za</p> <p>The bank was further downgraded to Baa2.za/ during April 2020, with a negative outlook. This makes it difficult to raise new debt especially given the current funding model of Land Bank.</p>
Debt redemption plan/sinking fund	<p>Following Moody's downgrade on 21 January 2020, the bank's cash reserves became severely constrained due to investors disinvesting or reducing their exposure to Land Bank. The bank took a decision to liquidate the sinking fund to repay maturing debt. On 31 March 2020, the fund consists of illiquid assets only totalling R33.7 million.</p>
Reduced reliance on short-term funding	<p>We reduced our reliance on short-term funding significantly from 69.4% (excl. drawn facilities) in FY2015 to 43.3% (excl. drawn facilities) as at 31 March 2020, which is in line with the bank's target range. This however proved not to be enough as due to prevailing economic conditions and factors affecting the organisation including deteriorating financial performance, Land Bank was downgraded. This resulted in the bank being unable to raise sufficient new funding to refinance maturing liabilities, and the bank defaulting in FY2021 quarter 1.</p>
Interest rate risk management	<p>We accelerated the implementation of our interest rate risk management strategy, whereby our Prime vs. JIBAR basis risk is managed. The Bank borrows in JIBAR, but our loans to clients are made at the prime lending rate. Our interest rate swap portfolio does not qualify for hedging and we recognised our hedging gain as a profit. The default position of the Bank resulted in one commercial bank cancelling the swap facility thus reducing the hedged portfolio, and the remaining facilities suspended pending curing of the default position post which hedging will resume.</p>

OUR PERFORMANCE

Gross loan book

We use our financial capital to provide loans to farmers and agribusinesses, enabling them to produce food, earn an income and create employment opportunities.

Total gross loans marginally decreased to R45.1bn as at 31 March 2020, from the R45.2bn reported at 31 March 2019 mainly due to the loan book run off and the slow uptake in the season.

Non-performing loans remain a matter of concern as the book continues to deteriorate with clients struggling to make repayments on time under the poor prevailing economic conditions. FY2020 saw the SLA book deteriorate significantly; contributing R5.8 billion of the total R8.2 billion in non-performing loans.

The bank will endeavour to assess the NPLs for the coming quarters and include, amongst others, analysis of roll rates (i.e. predicting the percentage of debtors with the likelihood of moving into and out of NPL), identifying and rehabilitating distressed exposures, identifying and extending forbearance programmes to qualifying non-performing debtors to maximising repayments, covenant monitoring to detect and manage early defaulters, business performance stress testing to pro-actively identify and assist potentially new inflows into NPL's etc.

Investments

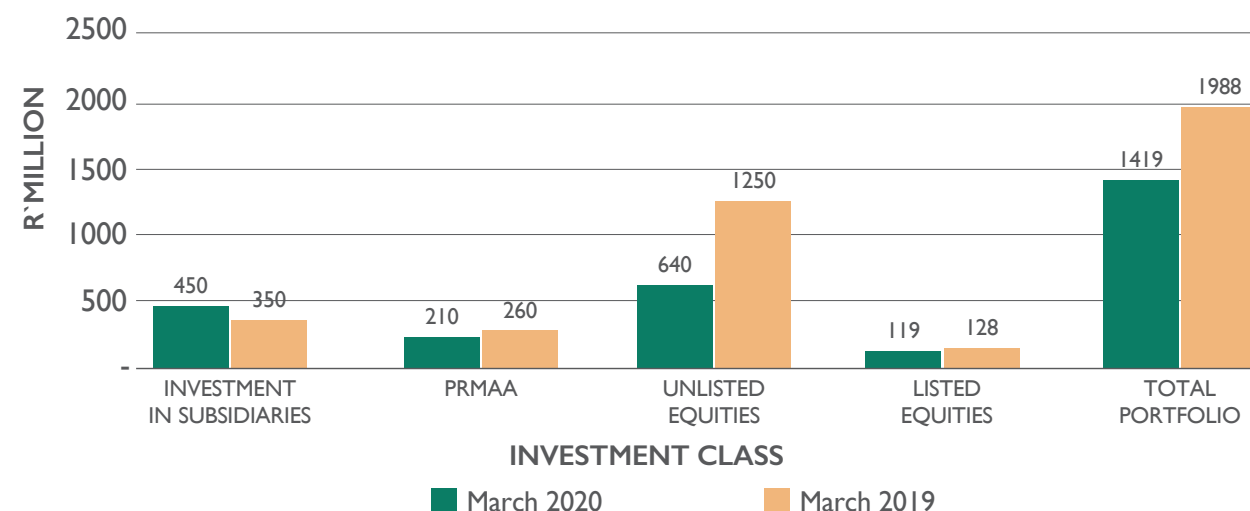
In FY2018 we undertook to support transformation in larger enterprises in the agricultural value-chain by holding equity for the purpose of transferring the shares to investors from historically disadvantaged groups over the medium term. The majority of these are unlisted enterprises and details are found in note 8 to the financial statements. We have also undertaken some investments in the course of restructuring of distressed assets which we will sell for transformation purposes when the assets are performing at a sufficient level to attract new investors.

The Bank's R1.4 billion investment portfolio consisted of R210.3 million in Post-Retirement Medical Aid

(PRMA) assets, R450.0 million investments in the insurance subsidiaries, R640.2 million in unlisted equity investments and R118 million in listed investments.

The bank impaired unlisted equity holdings (refer to Profert) to the value of R527 million during the financial year and disposed of others as well. The significant write down related to Bosveld, which the bank acquired as part of a work out and restructure of the Profert loan. The reason for the write down was due to the fact that the Bosveld plant is currently not operational, and needed a significant cash injection from the bank to make it operational. The bank could not provide this financial support due to its own liquidity challenges.

MOVEMENT IN INVESTMENT PORTFOLIO



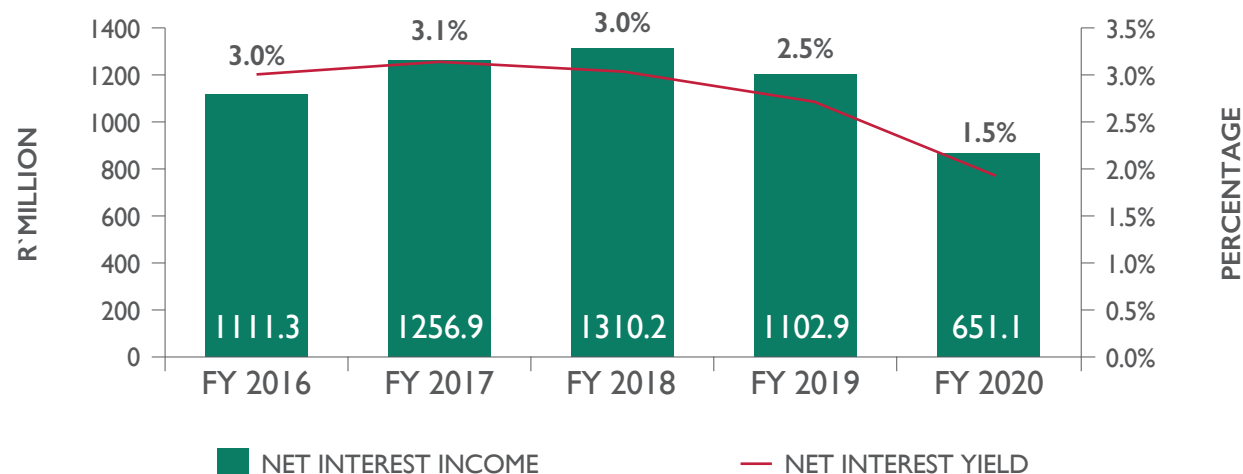
Interest income

The Bank's main source of income is derived from the interest earned on the money that is provided to clients through lending activities. During FY2020, interest income earned decreased to R4.7 billion (FY2019: R4.9 billion). The gross loan book decreased marginally from R45.2 billion to 45.1 billion with the bank focusing more towards supporting developmental mandate. The book is currently split 80% commercial versus 20% development.

The bank's credit rating was downgraded by Moody's in January 2020. This has had a negative impact on the bank as it had to immediately settle some of the facilities leading to a liquidity constrained situation. This together with the lengthening of funding liabilities tenure drove the cost of funding up, which Land Bank was unable to recover, thereby resulting in significant margin compression. FY2021 will be a challenging year owing to liquidity constraints of Land Bank and the inability to meet customer demand. This is expected to impact FY2021 financial performance from a revenue and NPL perspective.

The strategy of the bank is to reduce its loan book size in a focused manner in the short to medium term as part of the balance sheet optimisation process.

NET INTEREST MARGIN



The Net Interest Margin for the year has decreased to 1.5% from the 2.5% reported at 31 March 2019. This was largely due to the increase in the cost of funding as the bank lengthened the tenure of the funding liabilities. The credit rating downgrade in January 2020 also increased the cost of funding for Land Bank.

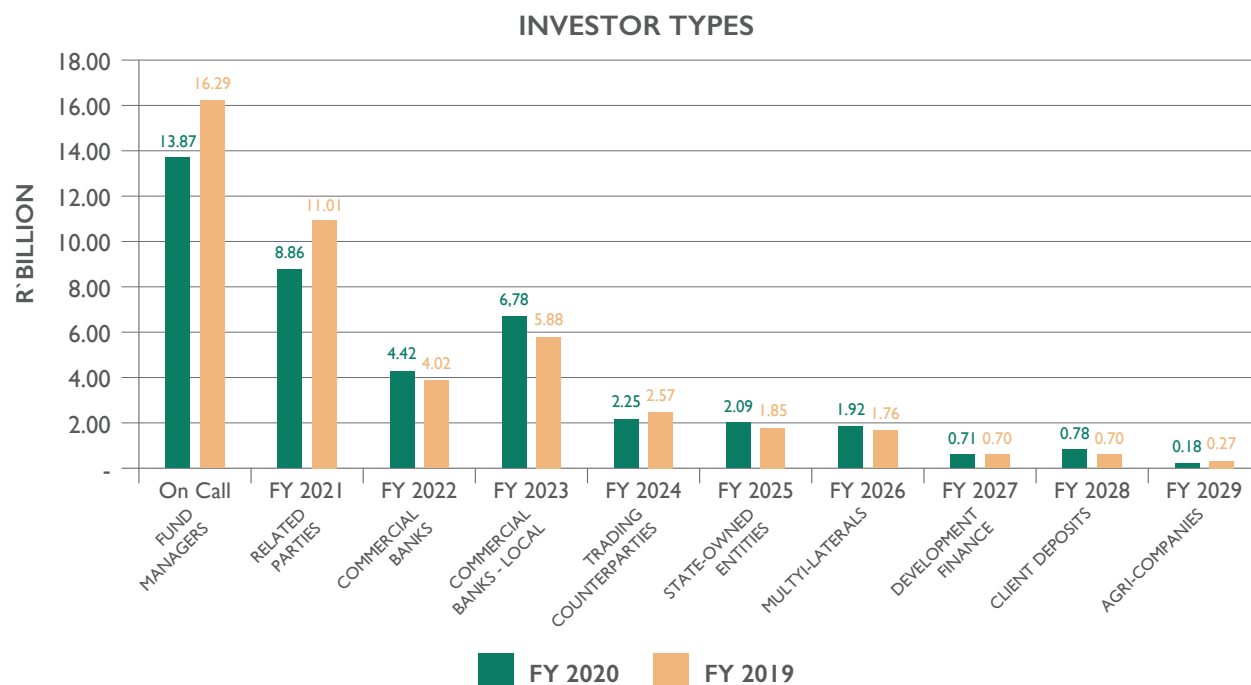
Decrease in the Net Interest Income is mainly a result of the 100bps reduction in the repo rate from January 2020 as well as the increase in the interest expense.

OUR PERFORMANCE

Funding liabilities

The bank receives no direct government funding by way of annual fiscal appropriation. We are therefore completely reliant on the local debt and capital markets as well as multi-lateral development finance institutions to fund the bank's operations. In 2015, a vast amount of our funding was short term and depended on a small pool of investors. Since then, we have proceeded with a proactive enhanced investor relations strategy aimed at lengthening the tenor of our funding profile and diversifying the composition of our investors.

The bank currently has a broad base of investors which spans a wide range of investor types. A summary of our investor types is set out in the table below.

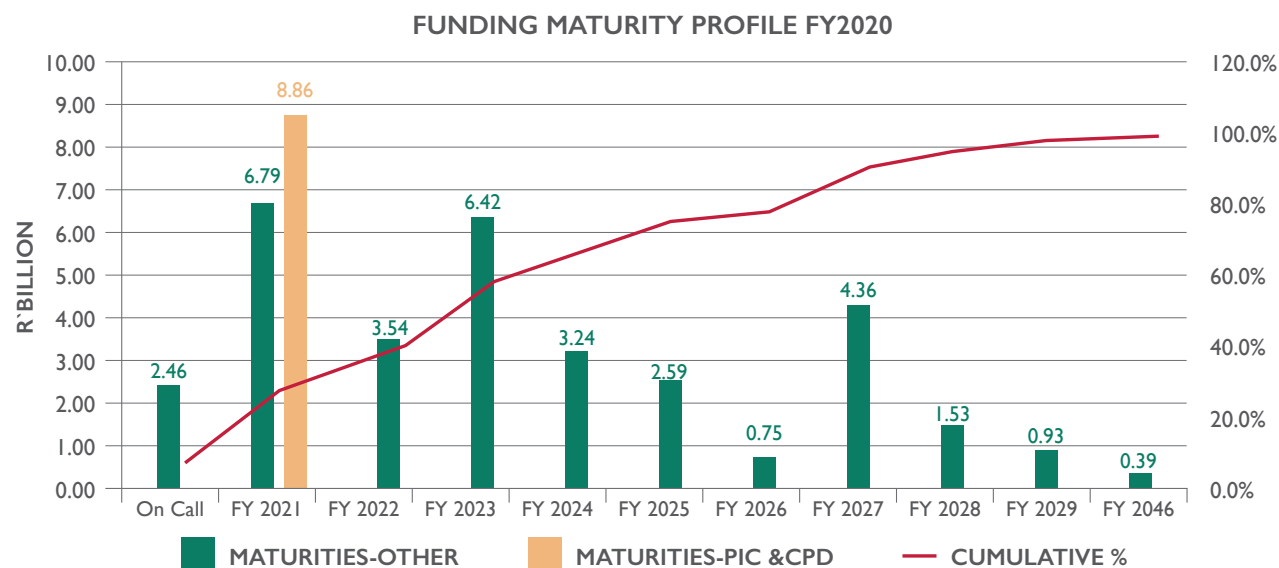


Investor profile	Sovereign support: required	Investor expectations	Funding tenors
Commercial investors			
Includes: <ul style="list-style-type: none"> - Commercial banks - Foreign banks - Institutional Investors such as: <ul style="list-style-type: none"> Asset managers Brokerages Medical aid/pension 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.	Includes: <ul style="list-style-type: none"> - Strong corporate governance - Profitability and financial sustainability - Financial covenants (only on bilateral basis) - Market-related returns commensurate with risk undertaken by investor - Responsible business including strengthened focus on environmental and social governance and sustainability matters 	<u>Commercial paper</u> <ul style="list-style-type: none"> - Call - 0 – 1 years <u>Bonds</u> <ul style="list-style-type: none"> - 1 – 10 years <u>Loans</u> <ul style="list-style-type: none"> - Overnight facilities - 1 – 10 years
Government entities			
<ul style="list-style-type: none"> - Corporation for Public Deposits (CPD) - Public Investment Corporation (PIC) - Development Bank of South Africa (DBSA) - Industrial Development Corporation (IDC) - Other 	No support required	Includes: <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - Call - 0 – 1 years Specific purpose funds such as disaster relief funds could have tenors in excess of 1 year.
Multi-lateral investors			
Includes: <ul style="list-style-type: none"> - African Development Bank (AfDB) - World Bank - KfW 	Sovereign to sovereign guarantee in most instances	Includes: <ul style="list-style-type: none"> - 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 	<ul style="list-style-type: none"> - Longer dated funds often accompanied by capital payment holidays - 10 – 25 years

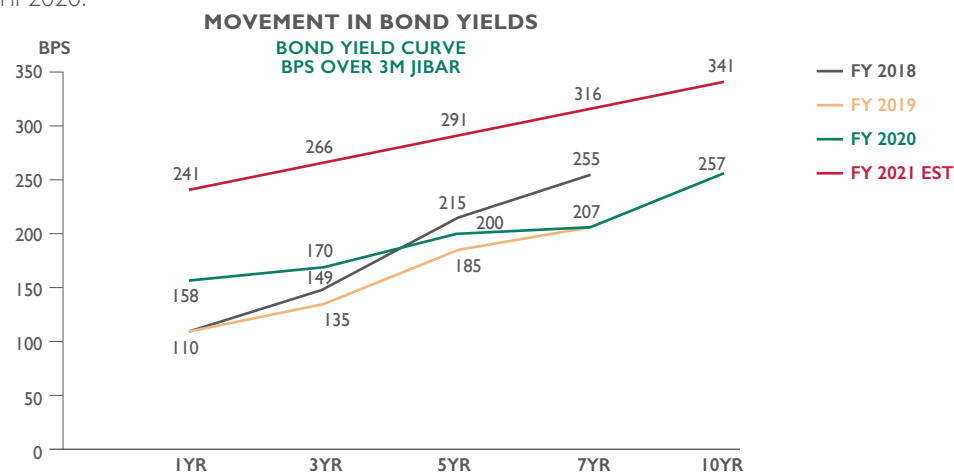
OUR PERFORMANCE

During FY2020 funding liabilities reduced by R3 billion from R44.3 billion prior year to R41.3 billion.

The bank has managed to maintain the reduced value of investments maturing within a one-year term which approximates 43% of total investments compared to more than 80% in FY2016. The following graph demonstrates the maturity profile of financial liabilities as at 31 March 2020. It shows that debt totalling R15.7 billion matures during FY2021. Related party maturities during FY2021 amounts to R8.86 billion.



Funding spread to three months Jibar is expected to increase significantly following the bank's default on maturing debt since April 2020.



The majority of outstanding government guarantees are linked to R1.1 billion in multi-lateral loans from the World Bank and African Development Bank (AfDB). We also have a R0.846 billion outstanding unguaranteed facility from KfW.

Purpose of guarantee	Units	Issue date	Capital amount	Utilised amount	Available amount	Status
Guarantees						
Multi-lateral funding						
Multi-lateral funding	R'bn	Oct 2012	1.0	1.0	-	Guarantee in support of R1.0 bn AfDB Loan
Multi-lateral funding	R'bn	March 2015	1.3	0.1	1.2	Guarantee in support of R1.3 bn World Bank Loan; to date drawdowns have been only R90 million
			2.3	1.1	1.2	
Commercial funding						
Financial sustainability	R'bn	Oct 2016	3.0	-	3.0	R4.5bn funding guarantee in support of terming out the bank's funding profile R1.5bn partial drawdown in May 2017 leaving R3.0bn available for funding purposes
			3.0	-	3.0	
Balance sheet support						
Financial sustainability	R'bn	May 2017	1.5	-	1.5	Guarantee will only be used in if the bank becomes insolvent
			1.5	-	1.5	
Total support			6.8	1.1	5.7	



OUR PERFORMANCE

Non-interest expenses

In addition to its direct branch network, Land Bank's operating model also include intermediaries (SLA model).

Non-interest expenses mainly consist of SLA administration and margin fee expenses of R357.2 million (FY2019: R340.7 million). The fees increased marginally by 4.9% year-on-year due to a higher average loan balance on the SLA loan portfolio of R25.6 billion (FY2019: R24.0 billion) as a result of growth within the portfolio. The interest received on this portfolio of R2.8 billion (FY2019: R 2.7 billion) is included in net interest income.

The fees payable to the SLA partners were partially offset by administration fees, rental and sundry income of R99.4million (FY2019: R114million).

Compared to commercial banks, fee income is a small portion of our overall income as Land Bank does not provide transactional products and other services unrelated to our mandate.

Other comprehensive income

	FY2020	FY2019	
	R million	R million	Variance
Non-interest income	99.4	114.0	(12.8%)
Account admin fee and commission income	71.4	72.3	(1.2%)
Investment property rentals and income from properties in possession	18.0	17.6	2.3%
Sundry income	10.0	24.1	(58.6%)
Non-interest expense	(125.2)	(262.7)	(52.3%)
Account admin fee expenses	(357.2)	(340.7)	(4.9%)

Impairments and non-performing loans

Non-performing loans remain a concern as the book continues to deteriorate with clients struggling to make repayments on time. Prior years' droughts and a sluggish economy have continued to adversely affect both the banking and insurance operations resulting in increased non-performing loans and a high claims ratio in the respective operations.

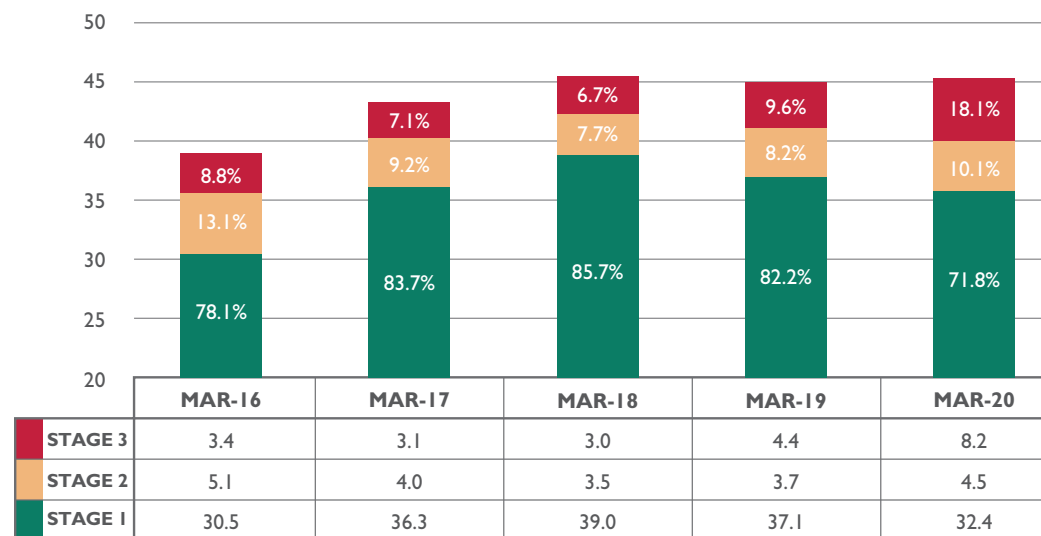
The impairment charge for the 2020 financial year is R1.8billion compared to R1.2billion for the 2019 financial year. The increase in the impairments is attributable to a number of factors. The main factors include changing of staging rules for SLA from 120 days in arrears to 90 days in arrears, applying the PD factor due to changes in staging, applying the minimum of the bond amount vs forced sale market values (which increases LGD), applying of 20% LGD floors on SLA book and applying

of LGD for direct book on SLA's. Further deterioration in the loan book quality from other clients could see additional increases in impairments as clients struggle under the prevailing economic conditions exacerbated by COVID-19 uncertainties. As a Development Finance Institution, we will continue to proactively monitor our portfolio performance and implement the required corrective measures to assist distressed clients.

The table below illustrates the increase in NPLs over the past five years from 8.8% in 2016 to 18.1% in FY2020. The increase in the NPL coincided with the drought experienced in the past five years.

As a Development Finance Institution, we will continue to proactively monitor our portfolio performance and implement the required corrective measures to assist distressed clients.

GROSS LOAN BOOK CLASSIFICATION (R'bn)





OUR PERFORMANCE

Operating expenses

Total operating expenses amounted to R712.7 million when compared to R697 million in the prior year. This was mostly as a result of provisions made for legal fees. Although costs will inevitably increase in the short to medium term due to inflation, professional fees and critical vacancies, the bank will continue with cost containment initiatives in order to manage its cost-to-income ratio.

Profit

The Land Bank Group's performance has remained under pressure as reflected in the financial results for the period ended 31 March 2020. The slow growth in the loan book coupled with the increase in the cost of funding resulted in margin compression for the bank and thus impacting profitability for the Group. The volatility in the stock market adversely affected the returns of the insurance business's investment portfolio further affecting the Group's overall performance.

For future positive results, growth in quality assets, cost containment initiatives and affordable sources of funding will help alleviate pressure on the performance of the Group. Further capital injections will also go a long way in addressing Land Bank's refinancing risk and liquidity squeeze.

Cash and cash equivalents

The bank's level of cash and cash equivalents requirements are driven by the collections and disbursements as well as operational demands. Total

cash and cash equivalents amounted to R722.7 million (March 2019: R3.2 billion). The downgrading of Land Bank's credit rating has had an impact on its ability to raise funding from potential investors. This has resulted in Land Bank experiencing severe liquidity constraints towards the end of the 2020 financial year and into the 1st quarter of the 2021 financial year. The bank is running a formal process together with a corporate finance advisor to remediate the situation.

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.

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 FY2020 the bank achieved an LCR of 36.7% (FY2019: 698.4%) against a target of 90% while total cash and cash equivalents amounted to R0.7 billion (FY2019: R3.2 billion). To further strengthen its emergency liquidity position, the bank has access to R1.65 billion in facilities of which all is committed.



Figure 1: Cash and Liquidity

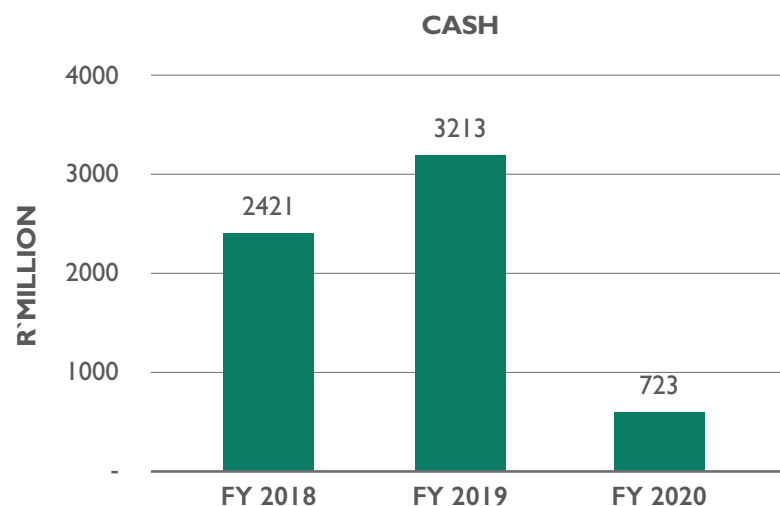
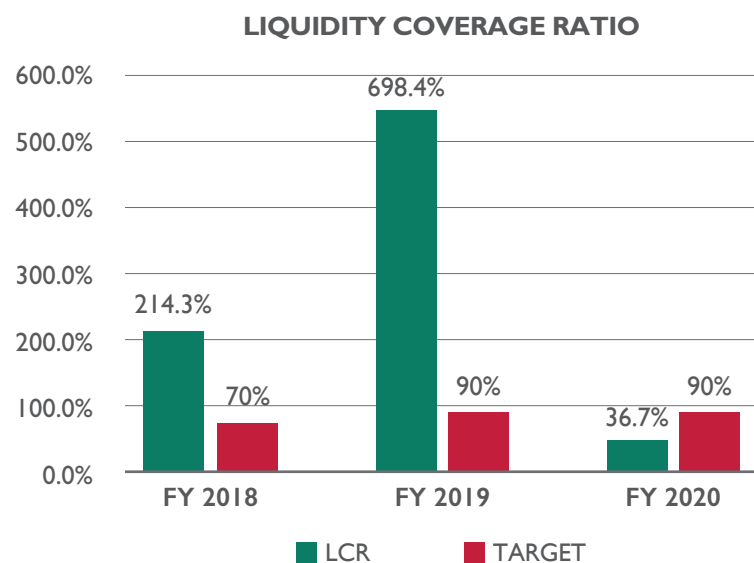
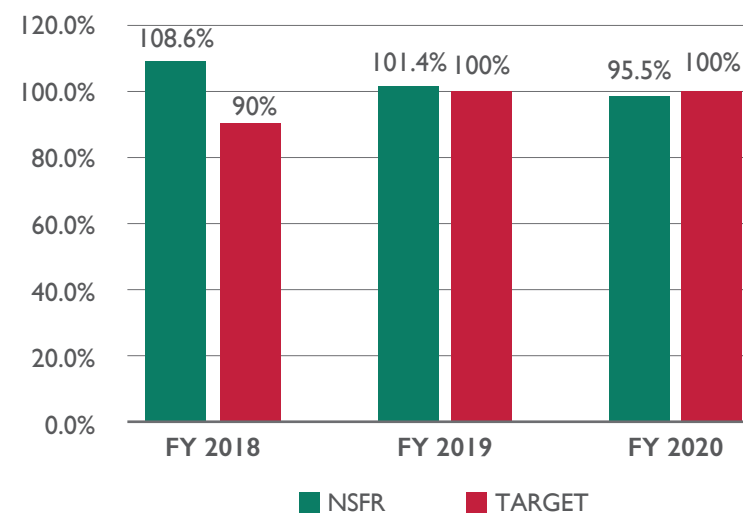


Figure 3: Liquidity Cover Ratio



NET STABLE FUNDING RATIO



TOTAL CAPITAL ADEQUACY RATIO

	2020	2019
Total Capital	R'000	R'000
Total available capital excluding guarantees	1 981	4 628
National Treasury guarantee	2 410	2 710
Total available capital including guarantees	4 391	7 338
Credit risk	42 626	45 471
Operational risk	2 320	2 471
Other risk	2 374	3 553
Total	47 320	51 495
CAR ratio		
Total capital adequacy ratio (Including guaranties)	9.3%	14.3%
Total capital adequacy ratio (Excluding guaranties)	4.2%	9.0%

OUR PERFORMANCE

Divisional overview

Land Bank has two operating divisions, Commercial Development and Business Banking, and Corporate Banking and Structured Investments. Our Land Bank Insurance companies operate as separate subsidiaries.

Commercial Development and Business Banking (CDBB)

The CDBB division provides financial solutions to the large, medium and smallholder farmer client segments in the primary and secondary agricultural value chain through its provincial lending network consisting of 23 points of presence comprising of nine provincial offices and 14 satellite offices. Further to these direct lending channels, the division has an indirect lending channel where funding and credit management services are extended to clients through intermediary partners. The indirect lending channel comprises Service Level Agreement (SLA) and Wholesale Financing Facility (WFF) intermediary partners, which are discussed separately below. The CDBB loan book makes up about 17.4% of the bank's gross loan book.

During FY2020, 482 loans to the value of R1.5 billion were approved, an increase of about 10% from the previous R1.37 billion. Our non-performing loans have increased due to a combination of climate stress, drought and difficult economic conditions experienced by the farmers.

Performance highlights

The developmental component of the loan book has increased over the past three years due to ongoing focus on this area. This growth has been supported by the introduction of a new data capturing process on the Systems Applications and Products in Data Processing (SAP) the reporting system which enables the bank to report accurately with supporting evidence on the composition of new business.

The provincial network significantly increased its pipeline of developmental transactions. The pipeline of development transactions is already more than R900 million and still growing. This is due to a programme-based approach, as opposed to a focus on isolated individual projects. The adopted approach will also improve the support system around the development farmers for sustainability.

The Bank achieved an above average Net Promoter Score of 28% from a client response rate of 34%. Clients are expressing appreciation of the professional customer service and vast financial & agricultural knowledge of the staff who are solution-oriented and continue to display deep understanding of the sector. In the year under review, the focus was on improving loan turnaround times on the application processes and ensuring regular and timeous feedback to clients.

Our Vision 2025 brings about a refreshed approach to our business practices to ensure that the bank stays on track with its objective to be a High Performance Organisation (HPO).

Challenges

Development transactions take longer to complete as clients need additional support in the form of pre and post funding support which is not always available timeously. This often requires additional time resources to be dedicated towards assisting structuring these transactions which may still not result in profitable returns or successful bankability being generated on a continuous basis.

Many developmental transactions depend on grant funding and the Black Producers Commercialisation Programme Blended Finance Facility (BPCP BF) enabled a number of transactions to be structured. However, the uncertainty of funding availability flowing from the midway review by DALRRD and changes in the policy have affected our ability to disburse these loans and has hardened the client relationships due to uncertainty and minimal communication during this period of policy review by the department.

Investments in IT systems have lagged changes in the operating model, consequently many processes are still ineffective and paper or manual bound. The new IT architecture and resource plan is a high priority to improve the effectiveness of our operations and improve cost management.

Climate events such as the ongoing drought and the higher credit risk of developmental transactions have resulted in an increase in NPLs which requires additional monitoring and enhanced credit screening of transactions to ensure proper risk mitigation interventions are effected to this category of our clients.

The impact of the COVID-19 pandemic is expected to start showing during the FY2021 financial year. However, the bank has mitigating measures (financial and non-financial) in place to deal with the effect.

Looking ahead

Liquidity constraints during the last quarter of FY2020 resulted in us making lower disbursements than the previous comparative period. We have been prioritising disbursements to production loans and working capital facilities to ensure that we support the sector where it matters most. This prioritisation will continue until our liquidity challenges are resolved. We have not significantly lost any clients at the time of the release of this report, but our funding constraints may result in loss of clients if the liquidity challenge is not addressed swiftly.

The focus for the short term will be on servicing our existing clients while building the pipeline. We have managed to establish a strong pipeline of transformation transactions that will benefit from the new expected funding. We are also using the time as an opportunity to develop new funding models, establish innovative ways to do business efficiently, and establish new partnerships.

We actively sought to grow the development pipeline and redeployed resources towards the establishment of a farmers development program seeking to support 180 farmers over the next 3 years. This program is in addition to initiatives already in place with the Department of Agriculture Land Reform and Rural Development ("DALRRD"), the Jobs Fund and some private sector partners and is expected to be rolled out in FY2021.

Corporate Banking and Structured Investments

The CB & SI division provides debt, structured finance and equity solutions to the agri-corporate as well as mega- and large-farmer client segments. The division contributes 23% to the bank's loan book.

Performance

CB & SI KPIs 31 March 2019 31 March 2020

R'm			
Gross loan book	10 575	10 297	
-Transformation	5 010	47%	5 738 56%
- Commercial	5 562	53%	4 559 44%

NPL%	3%	3%
NIM%	3.1%	1.4%

Net impairments	156	6
Non-interest income	46	44
Opex (excl. Group costs)	34	(28)

The division disbursed R1.423 billion in FY2019/2020, of which over R1 billion related to development and transformation transactions. The size of transactions within this division are large and 'mega', so its contribution to development impact lies within transformation rather than smallholder farmer development.

In FY2019/2020 we increased the development and transformation portion of the CB & SI book by 14.5% to R5.7 billion (March 2019: R5.0 billion). Clients with a BBBEE rating of 4 and higher now contribute 56% of the CB & SI loan book (FY2019: 47%).

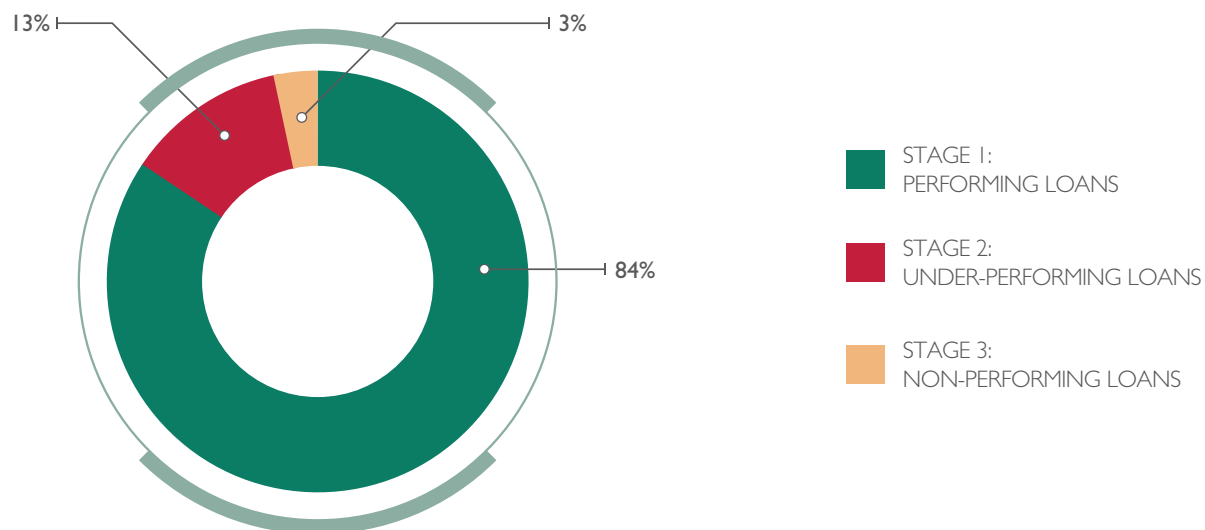
The CB & SI division's loan book declined by 2.6% to R10.3 billion as at 31 March 2020. The repayment of two non-performing facilities contributed to the decline.

The NPL ratio remained constant at 3% in March 2019 and March 2020. This is a low rate for the industry, and is low in comparison to the Bank's other loan books.



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CB & SI



The equity portion of the CB & SI book has declined to R487 998 million from R606 783 million in FY2019. There were no new investments made this year; we closed the year with the six investments that were held last year. The decline was driven by a combination of a partial disposal of one of the investments plus in aggregate lower fair value of these investments when compared to the prior year. The partial disposal relates to an investment which the bank owned a 17.4% stake in and our agreement provided for a put option with a BEE partner. During FY2020, the partner exercised its right to purchase 7.4% of our holding, thereby reducing the bank's shareholding to 10%. However, the bank realised an impressive return on the disposal which were significantly above its hurdle rate.

In FY2019 we launched the R600 million Hortfin Fund in partnership with the Jobs Fund and Deciduous Fruit Producers Trust, which provides loans to majority black-owned smallholder and medium-scale commercial

farmers in the deciduous fruit sector. During FY2020, three Hortfin Fund transactions were approved and as at 31 March 2020, two were partially disbursed.

The Minister approved a R600 million mezzanine fund that is intended to provide funding to majority Black owned enterprises. For this fund, the Jobs Fund has approved a R200 million grant, of which R150m is for mezzanine lending and the remaining R50m for business support and insurance funding. Land Bank will blend this with R150 million to be provided as mezzanine debt and an additional R300 million of senior debt, to create a total fund of R600 million.

After the financial year close, the bank took the decision to consolidate these blended funds under one umbrella and centralise their management. The assets will therefore move out of the CB & SI division in the coming year to a centralised management function.

Looking ahead

The outlook for CB & SI is muted due to the liquidity constraints and the impact of COVID-19. The consequence of the funding constraints during the first quarter of FY2021 is that we have not been able to make disbursements, including to clients that had already been approved. Therefore, not only is our pipeline affected, but unfortunately, our current clients as well. We have been prioritising any disbursements to production loans and working capital facilities to ensure that we support the sector where it needs it the most. But we are not meeting our clients' full requirements.

We have not lost any clients at the time of the release of this report, but our funding constraints may result in lost clients if the clients are able to source funding from commercial banks. If we lose our best clients not only will our book decline, but our NPLs will rise. It is therefore, very important for us to remedy this situation to avoid losing clients.

The focus for the short term will be on servicing our existing clients before moving to the pipeline. The bank acknowledges its legal obligation to fulfil our clients' funding requirements. We currently have a strong pipeline of transformation transactions should we have the funding to secure new clients. However, the current uncertainty makes it difficult to know how long we can maintain the pipeline.

Assuming we remedy our funding shortage, our plans have not changed significantly. Our targeted pipeline is moving towards high value crops and entities and secondary agriculture, with the intention to diversify the book.

Service Level Agreement Intermediary Partners

Seven SLA partners assist the bank with the end-to-end credit 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. These loans are carried on Land Bank's balance sheet, allowing the SLA partners to use their assets to expand their own operations and the bank's gains coverage and operational support at a lower cost. Six intermediaries account for 60% of the bank's book.

SLA improvement plan

Implementation of the SLA improvement plan needs to be expedited to increase the commercial returns for the bank. This includes improvement in the margins earned by the bank from SLA partners. While the plan was adopted over a year ago, it has not been implemented to date due to protracted negotiations. This is a possible source of revenue leakage as the bank continues to earn marginal returns while some SLA partners make significant returns. In addition, the further we delay the implementation of revised risk matrix and counterparty limits the less control we have on credit risk management. Management has agreed to track this on a monthly basis and fast track adoption by SLAs. The ultimate goal is to establish mutually beneficial commercial arrangements with all our SLA partners.

While the process is still in its initial phase, the bank has achieved some notable successes. Intermediaries have adopted our proposed policies and procedures to integrate climate change risk management into their

operations. Going forward, key priorities will centre on strengthening procedures for conducting Environmental and Social (E&S) due diligence; developing opportunities for Sustainable Agriculture Practices (SAP) to build climate change resilience, enhancing E&S risks and opportunities research; and promoting material use efficiency and sustainable waste disposal.

Wholesale Financing Facility

The Wholesale Financing Facility aims to address three issues that impact on smallholder farmers' ability to expand production and profitability, namely affordability of finance, reliable access to markets for production and quality technical skills.

We provide wholesale funding to nine intermediaries who on-lend to smallholder farmers, and further provide technical and market access to assist these farmers to increase the commercial scale of their operations.

A R150 million grant received between 2012 and 2016 from DALRRD enabled us to offer these loans at a deeply subsidised rate and compensate the intermediaries for their support.

This has been a cornerstone in our programme to support the commercialisation of smallholder farmers, but in the absence of continued grant funding to support the programme, it has become financially unsustainable as the bank has to carry the cost of the subsidies on its own.

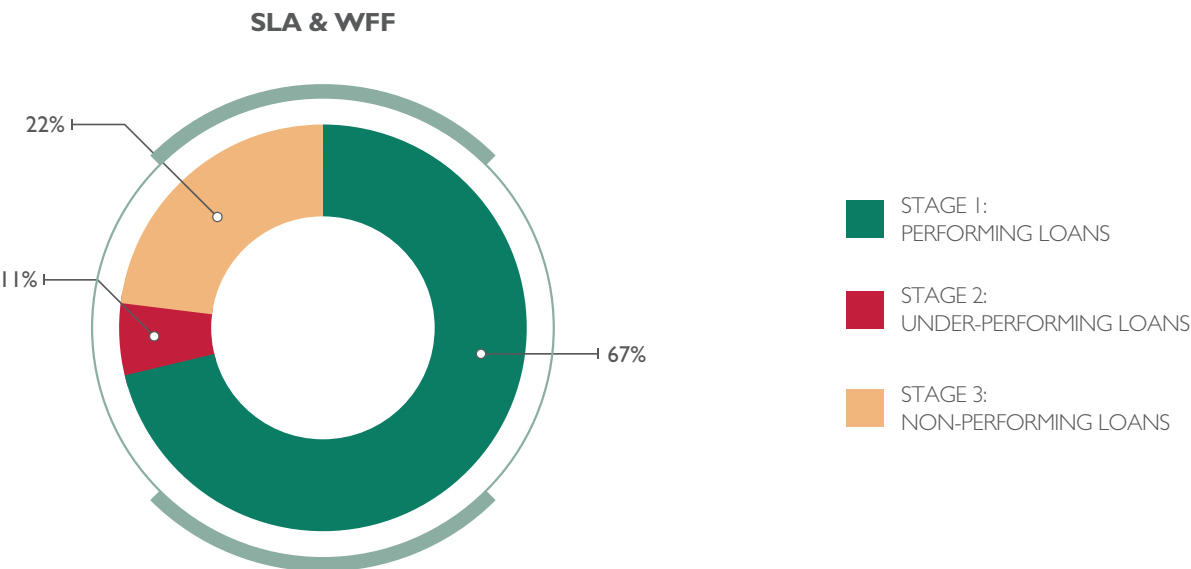


OUR PERFORMANCE

Performance highlights

In the absence of interest subsidies from DALRRD, we negotiated a revised pricing dispensation with some of the partners to allow access to funding for smallholder farmers, albeit at a higher cost, which reduces the impact on our income statement.

Improved monitoring of these facilities resulted in a better understanding of the types of smallholder farmers, their dependents and project employees supported.



Increased oversight based on an audit conducted in the previous financial year resulted in improved credit management of the facilities.

Challenges

The WFF loan book of R980.2 million decreased to R599.6 due to the write off of accrued interest of R165 million that was supposed to be paid by DAFF as well as the net repayments of R216 million. New facilities are no longer granted under the product. The product was premised on ongoing support through a government grant which would have allowed the Bank subsidise interest rates and pay intermediaries for technical support provided to these clients.



Intellectual Capital

Material matter: Technical advancement 

Our accumulated knowledge and experience applied to our development finance and corporate banking business activities, enable us to be an adaptive organisation and to spur innovation to create a transformed and resilient sector.

Our application of these resources contribute to the following SDGs:



Overview

Enterprise risk management, financial and credit models, ethics policies, organisational procedures and culture make up a significant portion of the bank's intellectual capital in what is a niche sector with volatile risks. Risk management lies at the heart of all our operations. We continue to strengthen this capability as a means of ensuring an acceptable balance between pursuing opportunities aligned to our strategy and mitigating any adverse outcomes associated with uncertainty in our operating environment. The Board of Directors bear ultimate responsibility for risk management in the business. The Board has delegated risk management to its sub-committees with the Risk and Governance Committee holding specific responsibilities in line with the committee's Terms of Reference.

Enterprise risk management

We continue to strengthen our risk management practices to ensure that we achieve an acceptable balance between pursuing opportunities in line with our strategy and mitigating adverse outcomes associated with the identified risks. We began maturing our risk environment in FY2016 and have continued on this trajectory towards international and local best practice. We will continue with the risk champion model, as we perceive it to be the best for our organisational structure.

Land Bank's Enterprise Risk Management Framework (ERMF) ensures that information derived from the risk assessment process is adequately reported and used as a basis for decision-making and accountability. The risk matrix is one of the central elements of our ERM methodology and is utilised in our assessment of the key risks facing the Bank. The risk matrix presented in our principal risks section reflects the strategic and escalated risks identified by the Group during FY2020.

During the year we reviewed some of our policies and risk terminology, as we do on an annual basis. We updated the regulatory risk universe and risk profile to prioritise some of the legislation that is key to Land Bank.

The Board Delegation of Powers (DOPs) and charters have been updated. We have one ethical breach to report, which lead to dismissal of the employee in August 2019.

Anti-Money Laundering and Politically Exposed Persons (PEPS) monitoring

The AML office is a second-line of defence function with some operational duties. It was established in 2016 and has faced various challenges and successes. The AML office aims to be an enabler to the bank to maintain sound corporate governance and a focus on ethical conduct, thereby ensuring that the bank is able to maintain investor confidence and access to capital markets to raise funding.

While we have more work to do to ensure compliance relating to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) and Sanction programme but have made improvements in several areas. AML PEP Risk classifications have been developed and will be aligned with the relevant governance committee approval process. We also amended our delegation of power to enable EXCO approval of low/medium-risk PEPs while retaining the approval of high-risk PEPs to the Social and Ethics Committee and full Board.

We launched an AML e-learning module in March 2020. All employees are required to complete the training every two (2) years.

The bank has implemented an approved AML Framework, Policy, Risk Management and Compliance Programme (RMCP), and Client Risk Rating Tool for screening clients and vendors. These together with the Dow Jones Screening System are used to fulfil AML

OUR PERFORMANCE

obligations, with the Dow Jones Screening System specifically used for client screening purposes.

Our future plans include the acquisition of an AML system and the request for proposal process for this is in progress.

During the year under review 3 739 entities (FY2019: 3 548) related to new loan applications/review of facilities and procurement transactions were screened using the Dow Jones Risk Management screening tool.

Beneficial owners, shareholders and directors screened

Total number of entities screened	3 739
Number of clients screened	3 635
Number of suppliers screened	104
Total number of PEPs	24
Number of client PEPs	13
Number of supplier PEPs	11
Total number of high-risk entities	28
Number of high-risk clients	12
Number of high-risk suppliers	16
Number of high-risk client PEPs where business has been concluded	12
Number of high-risk supplier PEPs where business has been concluded	8

Our ERM performance

The bank is experiencing severe pressure resulting from a number of factors including liquidity challenges, poor financial performance resulting in losses, deteriorating book quality and concentration risk. Additional factors contributing to our current position include deteriorating interest margins, low market intelligence and high staff turnover, particularly at leadership level. The credit downgrade by ratings agency Moody's and economic fallout resulting from the COVID-19 pandemic have also contributed to the challenges faced by the bank. This combination of factors described here has created an imperative for us to review our pricing model, strengthen our risk management practices in particular as it relates to SLA partners and increase our ability to pass costs onto our clients and SLA partners as appropriate.

Our enterprise risk management tracking towards maturity shows progress on our action plans. A number of matters have been addressed and progress continues. The bank's profitability position has impacted on certain matters. For example, the procurement of new systems was deferred to the next financial year as well as its associated deliverables. The position has also affected headcount and as a result, we continue to use the Risk Champion Model. The Risk Champions are an important dynamic in the execution of risk deliverables and maturing risk identification in the business.

Risk awareness and formal training initiatives are continuously conducted by all the risk functions to contribute towards the improvement of the bank's risk culture and its risk maturity. During the year we conducted general awareness programmes and

awareness engagement specific to the Risk Champions. We conducted formal risk training through workshops, forums and other contact sessions to assist divisions to embed and comply with specific processes and policies. Risk Champions, Ethics Ambassadors and risk teams were upskilled through training, workshops and attendance of conferences to ensure continuous professional development.

We analysed and consolidated the FY2020 top risks lists from various international and local risk professional body's annual publications in order to 'assess risk transparency and benchmark the list of risks the bank has identified and reports to both internal and external stakeholders'. Having the bank's current risks aligned to the global and local risk trends assist in creating a more robust risk culture.

A risk note outlining interventions and scenarios that can be applied to mitigate the risk factors impacting the bank was presented to the Board, to assist with engaging the shareholders and other relevant stakeholders. This resulted in the relaxation of guarantee conditions to enable capital raising efforts by the bank. The bank further highlighted the need for an urgent capital injection to survive the upcoming financial year and achieve future sustainability.

In addition, management is in the process of updating the bank's credit risk appetite, credit strategy and NPL strategy for adoption. This is aimed at enhancing the credit risk management approach where gaps were identified by risk management. Management further updated and reviewed various policies, frameworks and standard operating procedures, for effective risk management and oversight.

Post-Investment Monitoring (PIMS)

The Land Bank loan portfolio is the largest asset and main source of revenue for the bank. As such, it is one of the greatest sources of risk to the bank's safety and soundness. The Post-Investment Portfolio Management Services Division is responsible for the end-to-end loan management processes by which risks that are inherent in the credit process are managed and controlled. This includes the identification and management of risk among groups of loans and the risk inherent in individual loans.

The division provides a wide array of centralised business support services to various divisions within the bank. These services include, debtor establishment, loan disbursement, facility performance monitoring, collateral management, cash management, default management, debt restructuring and portfolio loss mitigation. In this way, the division acts as one of the guardians of the bank's risk interests and provides effective and independent risk mitigation oversight and management. It accomplishes this by challenging and proactively engaging and shaping borrower risk profile, strengthening the bank's various lines of defence and aligning its strategy execution with the bank's enterprise risk management framework and risk appetite requirements.

The division maintains a comprehensive bank-wide risk mitigation profile framework and manages well-controlled risk processes while providing stakeholders with transparency on all portfolio loan quality risk-related matters and ensuring timely assessment and escalation. The division delivers independent, integrated

loan portfolio performance reporting backed by sound policy and governance.

The most important objective of the PIMS division is managing and mitigating credit default risk across the Loan Book Portfolio of Land Bank. Credit default risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of default credit risk management is to maximise the bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Processes deployed by PIMS to manage credit default risk

The bank's credit and operational risk is a function of its business model and arises from the origination of wholesale and direct lending loans and advances, underwriting and guarantee commitments as well as from the counterparty credit risk arising from financing contracts entered into with our customers and intermediary counterparties.

The management of risk is aligned to the bank's three lines of defence framework. The business function owns the credit risk assumed by the bank as the first line of defence and is primarily responsible for its management, control and optimisation in the course of business generation.

The credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of businesses, to ensure the process

of procuring revenue, while assuming optimal risk, is undertaken with integrity.

The Post-Investment Portfolio Management Services Division(PIMS), mandated by the bank to manage and mitigate default risk which entails the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due.

PIMS ensure effective default risk is managed through independent oversight and management, ensuring:

- That the bank maintains a culture of responsible lending and a robust risk policy and control framework;
- Proactive identifying, assessing, monitoring, measuring, managing and mitigating default credit risk across the total loan portfolio, from an individual facility level through to an aggregate portfolio level;
- Effective implementation and continually re-evaluating risk appetite under actual and stressed conditions;
- Effective monitoring of the bank's credit and default risk exposure relative to approved limits; and
- That there is scrutiny and approval of credit risk and its mitigation independently of the business functions.

The PIMS divisions attempts to mitigate credit default risk, including single or group counterparty default credit risk, transaction default risk sector linked default risk, or geographic region linked default risk, so as to achieve the optimal balance between risk, cost, capital utilisation and reward.

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Default risk mitigation may include, among others, the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees, the management of limits, the call up of facilities and finally the perfection of security to limit any losses to the bank.

Other credit default protection terms may be stipulated by PIMS, such as limitations on the amount of credit exposure acceptable, collateralisation if the mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's credit rating.

PIMS performance

The principal sources of default risk within the bank arise from loans and advances, contingent liabilities, commitments, debt securities to customers and financial institutions. Most commercial term commitments are also contingent upon customers maintaining specific credit standards. Credit default risk exposures are managed in accordance with the Group's existing credit risk policies, processes and controls.

Where heightened default risk exists, exposures are minimised through intensive account management and, where appropriate, are impaired and/or classed as forborne.

Divisional capacity

The PIMS division integrates Land Bank's loan portfolio management capabilities including branch network resources into one division to deliver a consistent,

creative and high-value client experience. Our national teams provide depth, breadth, and experience to help distressed clients to access leading risk mitigation solutions to their problems.

Our capability expertise and services include:

- National /regional presence to effectively engage clients;
- Dynamic detection and assessment of financial distress;
- Deployment of wide-ranging risk and loss mitigation techniques, solutions and services;
- Ensure regular counterparty farm / enterprise visits to understand and manage risk areas;
- Quick decisions on when to proceed with work-out to increase the level of recovery; and
- Specialised skills and systems to effectively manage and mitigate loss.

The management of default risk is performed within the division through a variety of actions performed nationally across front, middle, back office and work-out functions. These functions are performed within a centralised system and their responsibilities entail:

- The front office implements the strategy and manages the loan portfolio against benchmarks;
- The middle office is responsible for analysis and advice on the debt management strategy, which enables senior management to choose the suitable strategy, and also monitors the front office performance by designing limits on deviations from benchmarks and implementing risk controls. The middle office also performs sustainability analysis on

regular basis, and within this context, undertakes consistency analysis of the debt variables with the real economy variables. The middle office monitors other implicit contingent liabilities;

- The back office is responsible for debt registration, and handles transactions confirmations, settlements, payments, as well as for maintaining records of all debt contracts, disbursements, payments, debt restructuring, on-lending, issued guarantees, settlement of transactions, etc.; and
- The work-out function is a specialised division that manages problem loans. The work-out unit is staffed with specialised work-teams. Routine collection activities are handled by the collections department but when collection problems persist or credit weaknesses become more pronounced, we transfer problem loans to specialists within the work-out unit. The resources and closer management supervision of a work-out department normally improve results.

The collections and work-out units are responsible for returning troubled borrowers to financial health. The establishment of the PIMS division coupled with the segmentation of the different functions has enabled the bank's target operating model to align to industry best and has improved our regulatory compliance framework.

IT governance and management

The Board approved an IT strategy in April 2019. The strategy outlines the direction of the IT division to support the delivery of the broader Land Bank strategy and mandate, as well as deliver business efficiencies. The main recommendation out of this process is that an IT Governance Committee should

be convened to oversee the development of digital, IT and data management systems to reduce operational requirements throughout the credit loan lifecycle.

There were some concerns around data integrity given the manual nature of the IT platform. The IT strategy has considered how our IT infrastructure can be transformed to support the long-term goals of the bank. It prioritises enhancing and automating back-end systems to minimise manual touch points, a project that we expect to conclude in FY2021. The bank's Vision 25 strategy includes developing IT platforms for customer applications. This will help to track and improve turnaround times.

Implementation of the IT strategy commenced with some quick wins already delivered. First, a new Customer Relationship Management system was deployed in November 2019. The system provides an integrated approach to effectively manage the entire customer journey. We are working towards entrenching the adoption of the system across business units. This system is complemented by the "Excalibur" implementation during the year.

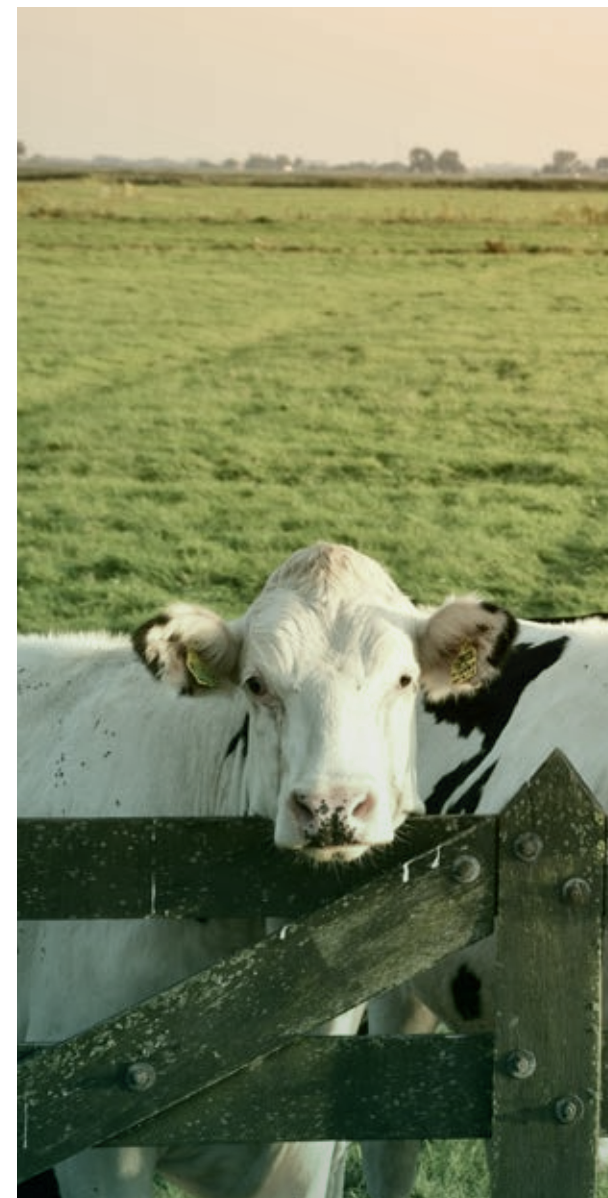
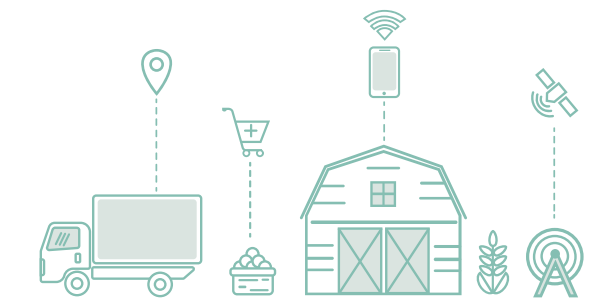
The GIS system was implemented during the year, enabling us to draw better geographic information for the various farms through satellite and drone technology.

Enterprise operational data area was implemented to integrate internal and external data. This system will facilitate a single client view and sharing of common data across systems. Some data sharing has already been implemented with further projects to be completed in the next financial year.

We commenced the concept development phase to enable a Land Bank eServices customer portal. The portal will enable the bank to compete in the increasingly digital economy that is platform-powered and ecosystem-enabled.

Looking ahead

- Continued improvements to our risk mitigation process and systems to ensure better management of risks that are within our control;
- Enhancing our ability to forecast foreseeable risks before they materialise;
- IT governance;
- Increasing our ability to influence and mitigate risks that are external to the bank's direct control, but which are critical to our long-term performance and sustainability;
- Enhancing the credit risk and risk modelling environment; and
- Structuring the strategic direction of the bank in light of our material strategic risks including development effectiveness, climate change and financial sustainability..





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Social and Relationship Capital

Material matter:

- Development impact and transformation 
- Poorly executed land expropriation without compensation 

Land Bank's mandate established in the Land Bank Act, which is derived from South Africa's Constitution, imparts a dual responsibility on the organisation. We are responsible for sustaining a financially viable organisation while supporting and impacting the social and economic development of the agricultural sector. Specifically, we are required to contribute to the achievement of transformation and inclusion in the sector.

Development outcomes

We work with all stakeholders to build an adaptive agricultural sector that drives economic, environmental and social development. Our development impact contributes to multiple SDGs:



The Land Bank is a DFI whose principal role is to address areas of market failure in the agricultural sector. Market failure refers to a situation in which goods and services are not allocated efficiently in a free market. This can be the result of multiple issues including monopoly power, incomplete markets resulting in inadequate infrastructure or negative externalities such as climate change and the outbreak of disease or pandemics.

Various aspects of market failure continue to affect the ability of smallholder farmers to become productive and

financially sustainable commercial agri-businesses. We remain committed to addressing these challenges. We achieve this through the provision of financial solutions and through our targeted corporate social investments (CSI). In the period under review, we delivered a range of programmes aimed at supporting small, medium and micro enterprises within the sector. We also supported women-owned and youth-owned initiatives through our CSI programme.

Areas of market failure impacting smallholder farmers and agri-entrepreneurs

Lack of:

- equity or opportunities to raise capital;
- affordable finance;
- collateral;
- climate/environmental models for targeted risk management;
- coordination of private sector funds to support smallholder farmers and agri-entrepreneurs; and
- access to value chains and market-related prices.

Smallholder farmers and agri-entrepreneurs are also faced with inadequate skills and limited access to technical knowledge which affects productivity and the likelihood of adoption of effective farming and agri-entrepreneurship practices.

In response to the challenges faced by smallholder farmers and agri-entrepreneurs, we have reviewed our role as a DFI. As part of this effort, the repurposing strategy of the bank proposes the establishment of distinct business units within the bank with one unit being focused on primarily the smallholder segment. This will primarily deal with issues of market failure in order to make a meaningful contribution to the development of smallholder farmers and agri-

entrepreneurs in South Africa. The other unit will be focused on increasing commercial returns from the medium to large commercial segments. The process to establish these units will be undertaken over the short to medium term.

We have continued our ongoing efforts to grow the development loan book and mitigate risks associated with non-performing loans. To this end, we have improved our risk modelling to enable us to better quantify and manage portfolio risk. We have also developed Post-Investment Management tools with the goal of improving our ability to anticipate and proactively support clients who are at risk. Further, we have taken a long-term view on climate risk as part of efforts to understand how we can increase resilience. Further information is provided in the risk section on page 64.

Land reform and expropriation without compensation

The reversal of the legacy of past racial, gender and generational discrimination in the agricultural sector is a key objective of the bank. We have a specific responsibility to contribute to the redressing of historical injustices related to land ownership. This requires us to transform the agricultural sector by increasing land ownership among historically disadvantaged persons.

As the land reform and expropriation without compensation legislation is finalised through the appropriate parliamentary process the bank is expectant of an outcome that will ensure that the execution of the constitutional amendment is done in a

manner that will avoid negative impacts on agricultural production or result in job losses and food insecurity. Given the fact the bank is largely funded through local debt, international multilateral institutions and capital markets, a poorly executed land reform programme will also result in the drying up of funding. Another area of impact would be on our customers, whose income would likely be affected, negatively impacting their ability to service debt. This would exert pressure on our narrow interest margins, and ultimately compromise our financial sustainability.

The South African agricultural sector presents endless opportunities for transformation by virtue of having a robust value chain and access into both regional and international export markets. We believe transformation can take place across the value chain and at any client segmentation level. Additional opportunities exist around the use of unproductive land. This can be enhanced through investments in comprehensive farmer support to ensure restituted communal land and parcels of land owned by the state are utilised productively.

As part of this effort, the bank continued to participate in various forums, discussions and bilateral engagements on land reform and expropriation without compensation. This included a programme in cooperation with the German Federal Ministry of Agriculture and Forestry (BMEL). The programme will run for an initiation period of 18 months (March 2019 – August 2020). Through the partnership, we have been able to draw on the land reform German experience in developing technical recommendations for specific aspects of agricultural land management and land reform. We have also continued to model and

assess various aspects of the expropriation without compensation process on our loan book and funding arrangements.

Application process and turnaround times

We are currently giving prioritised attention to various key initiatives to streamline the bank's loan origination and loan application processes, to better align with our customer and client expectations and as part of a wider effort to improve the bank's cost-to-income ratio.

Technological strength is a key pillar of our Vision 25 strategy and a priority initiative within this pillar is to improve customer experience. This will involve a move to online capability and decentralised delegations of authority where our provincial offices are able to approve loans to certain amounts resulting in quicker decisions, and better investment monitoring and oversight.

Our development and transformation performance

We have premised our definition of development and transformation as those transactions undertaken by historically disadvantaged persons and/or smallholder black-owned entities (development segment) as well as transformation segment which is made up of wholly black-owned large entities and entities with Black shareholding of between 30 and 50% and BBBEE Level of 1 – 4. In line with this definition, the absolute value of the development and transformational loans on our book has decreased to R2.78bn, which represents 6% of the loan book, R5,07bn which represents 11% from FY2019.

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Following the enhancements made in FY2018 that resulted in us being better able to report on transactions for black-owned, women-owned and youth-owned enterprises, we continued tracking the alignment of our activities with relevant SDGs.

We disbursed loans for development and transformation to the value of R2.78 billion. This includes financing provided to 44 women-owned enterprises through our CDBB division through 84 transactions to the value of R78 million. The effort contributed to SDG 5: Gender equality and SDG 10: Reduced inequality. The reduction of inequality forms part of our broader developmental mandate, where transformation is also geared towards gender inclusivity and facilitating transactions that enable women to become shareholders.

We remain committed to address the inclusion of youth in agriculture. This aligns with SDG 2: Zero hunger; SDG 5: Gender equality and SDG 10: Reduced inequality. The inclusion of youth in the agricultural sector is also envisaged in the NDP, in line with the government's developmental and job creation imperatives. We provided financing to 14 youth-owned enterprises through 49 transactions valued at R102 million.

The agricultural sector continued to be impacted by the sustained drought. This has reflected in our loan book under non-performing loans as clients continue to struggle with losses. In response, we continued to provide drought relief to farmers. This was done through a facility established in partnership with the IDC with whom we have established a R400 million drought relief fund for affected farmers. The

facility provides loans at reduced interest rates. As at March 2020, R393 million had been approved for 274 applicants. Applications to the value of R23 million were under consideration.

Looking ahead

The lack of growth in the direct loan book for CB & SI and CDBB continues to be an area of concern. The recent lack of funding continues to worsen this situation and had a severe impact in the last quarter of FY2020. We expect that it will impact the first two quarters of FY2021.

The bank recognises the need to attract appropriate development funding in order to help narrow the mismatch between its own commercially sourced and priced funding and its development mandate. Currently the bank is participating in a few funds with the Jobs Fund, DALRRD and commodity organisations, wherein concessionary funding or grants are blended with the bank's own funds to achieve more appropriately priced and higher risk bearing funding to support the development segment. The concessionary funding available through such programmes is insufficient to fully address the mismatch in the bank's overall funding model, in that each fund typically comprises a relatively small amount of funds. However, these funds are a very important contributor and enabler for the enhancement of the bank's reach into the development segment.

These funding arrangements typically also allow for further enablement in the form of business and related post-finance technical support to assist developing farmers to become commercially self-sufficient. Invariably, the providers of such concessionary funding

have specific objectives, target sectors, funding criteria, and implementation model requirements, among other key programme partnership considerations. This calls for bespoke structuring for each of the funds, so as to accommodate these requirements. To date, the establishment and management of such funds has been handled within the business operating divisions (CBSI and CDBB). The need for greater internal co-ordination as well as enhanced focus through the separation of this specialist function from regular frontline transactional business has been recognised.

To this end the bank has consolidated these activities within a newly constituted Partnership Management Funds Unit (PMFU) as at 1 June 2020. This unit is removed from regular business operating divisions. The purpose of the PMFU is to manage the various relationships with fund partners, ensure uptake of fund initiatives through training and supporting business operating divisions, to manage contractual arrangements with partners, reporting requirements, as well as to drive the establishment of new funds and partnerships.





Corporate Social Investment

Our CSI initiatives take into consideration the Corporate Plan, Environmental and Social Sustainability (ESS) strategy and the Broad-Based Black Economic Empowerment (BBBEE) strategy in support of the strategic development objectives of the bank and multiple SDGs.

Our projects focus on training, youth development and support for smallholder farmers. Through this, we contribute to SDG 1: No poverty and SDG 2: End hunger, achieve food security, and improved nutrition and promote sustainable agriculture.

Our education programmes contribute to SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Our focus on youth and women promotes SDG 10: Reduced inequalities.



The bank's CSI programme focuses primarily on the development of subsistence farmers and the community-based farming sector with emphasis on supporting women and youth in the agricultural sector. This takes the form of a long-term and development approach towards inclusive development, with a small number of focused projects. The CSI programme complements the bank's mandate to build an adaptive and competitive agricultural sector that drives environmental, social and economic development. It also contributes to food security through investments in community-based agriculture.

Key elements of our CSI initiatives include delivery of awareness campaigns aimed at young and community-based organisations. The goal is to increase awareness and interest in the agricultural sector among disadvantaged sectors of the community, and also to enhance the capacity of subsistence farmers to participate in sustainable agriculture and job creation. Our interventions are strategically biased towards growth, inclusivity and transformation of the sector.

Our performance

Land Bank spent R4 520 076.71 on CSI initiatives during the year, a similar amount to FY2019. We received full points on our BEE scorecard for CSI. A summary of our activities is shown in CSI projects table on page 106.

We actively pursue project partnerships and co-funding opportunities for our CSI projects. We also pursue initiatives that have future potential for Land Bank's lending and investment business and those that position Land Bank as a good corporate citizen. We emphasise

governance and robust monitoring and evaluation in all our CSI projects. This facilitates alignment with our core business and strategic objectives as well as efficient implementation.

We supported a number of projects in the FY2020 period. These included a programme aimed at supporting subsistence farmers involved in the production of grains, livestock, vegetables and poultry. Participants received training covering a range of topics including practical courses on production practices, financial management, record keeping and understanding contracts. Participants also received grants towards their agri-businesses. The intervention was implemented in partnership with the NYDA and IDC.

We also delivered a nutrition and HIV & AIDS project in partnership with the Department of Social Development and DAFF. The goal of the intervention was to reduce hunger, improve nutrition and develop sustainable food production and food gardens for income generation in the informal settlements of Refilwe, Overwacht and Cullinan. The project was delivered under the theme: Healthy Food, Healthy Minds and Health Kids. A total of 5 schools participated in the afore mentioned projects.

Other interventions implemented in the period include the provision of training to subsistence farmers involved in wool production in the Eastern Cape and the AgriTeen Symposium aimed at sparking interest in the agricultural sector among the youth. The two projects were implemented in partnership with the National Wool Growers Association and Youth Development

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Initiative, respectively. Our support programme on Community Agricultural Cooperatives is still under development.

SDGs Impacted	CSI projects	Partners
SDG 1 SDG 2 SDG 10	Subsistence farmer support programme	<ul style="list-style-type: none"> • Buhle Farmers Academy • NYDA • IDC
SDG 2 SDG 4	Nutrition and HIV & AIDS education project	<ul style="list-style-type: none"> • Department of Education • Department of Social Dev.
SDG 4 SDG 10	Training for wool farmers	<ul style="list-style-type: none"> • National Wool Growers Association
SDG 4 SDG 10	Community agricultural cooperatives	<ul style="list-style-type: none"> • Gauteng Department of Agriculture and Rural Dev
SDG 4 SDG 10	Youth in agriculture information campaign	<ul style="list-style-type: none"> • AgriTeen Symposium • DALRRD • WISPA • NYDA • Department of Education
SDG 1	Staff volunteerism	<ul style="list-style-type: none"> • Food & Trees For Africa
SDG 1 SDG 10	Land reform farms (community property associations)	<ul style="list-style-type: none"> • DRDLR

Case study: Subsistence farmer support

The Farmer Incubation Project is a three-year intervention initiated in May 2019 through a partnership between Land Bank and the IDC. The project is aimed at growing 10 smallholder farmers into successful agricultural enterprises. It is implemented by Buhle Farmers' Academy.

With over 20 years' experience in supporting emerging farmers, Buhle implements its activities through tried-and-tested methods. This includes a phased programme spread over three years, designed to cater to the specific and unique challenges faced by emerging farmers. The programme design allows for intensive support at project inception, and increased independence for each participant as they gain new skills and confidence as a farmer.

Key activities implemented in Year 1 of the Farmer Incubation Project include the recruitment and selection of farmers, skills audit as well as the disbursement of grants of R200 000 to each agricultural enterprise. Further, farmers received training and support on crop and livestock production, enterprise risk management and financial record keeping.

Access to markets is a major stumbling block for many emerging farmers. Challenges faced by emerging

farmers are mainly centred on three issues: quality, quantity and consistency. In response to this, the training and support provided to farmers focused on the selection of commodities for production, distribution channels and packaging. The programme also provided training aimed at ensuring farmers have the knowledge, equipment and infrastructure they need to supply quality produce to the right markets.

A key lesson learnt through the implementation of the project is that owner-managed agricultural enterprises perform better. Another important lesson is that emerging farmers require long-term and sustainable solutions. This makes it imperative for institutions such as Land Bank to continue supporting farmers through structured programmes, and to do so in partnership with well-established and experienced institutions such as Buhle Farmers' Academy.

Going forward, the Farmer Incubation Project will refine the training and support provided to farmers to focus on marketing and strategic pricing. It will also disburse grants for production input costs and begin working towards facilitating partnerships between the 10 participating farmers and financial institutions such as Land Bank and the IDC.

Looking ahead

Our CSI programmes need to embed alignment to the values and principles of our development mandate and contribute to the growth of the agricultural sector. We will therefore emphasise sustainability as the foundation of our CSI programmes. In the past, we supported subsistence farming and school programmes, whereas in future, we will focus on projects that can grow into sustainable enterprises. Whether they are youth programmes, school projects or cooperatives, our programmes will support growth opportunities and commercial principles. Below we discuss this shift in focus with respect to some specific initiatives:

- Develop agricultural hubs at township schools.
- Develop sustainable agricultural enterprises at community level.
- Expose young people to agribusiness in areas such as logistics, packaging, agro technology, fertiliser, and to expose young people to real farming experiences.
- Explore collaborative development opportunities with mining companies that are considering agriculture as an option for their sustainable community development support. Engagements with two mining corporations have already commenced.
- Enhance our capacity to measure the impact of our social investments. We have appointed an internal resource for monitoring and evaluation. This will be a critical part of all our CSI programmes going forward.



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Supply chain management

Our procurement processes and supplier development programme are focused on supporting SDG 10: 10.2 “By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status”.

We aim to procure from local black-owned SMEs and provide supplier development support to a selection of our suppliers.



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 procurement 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 operates based on a Board-approved DOP. The Procurement Committee, chaired by the Executive Manager: Strategy and Communications, consists of members of the executive committee with continuous oversight from the internal audit function. The Committee operates independently from the Board and regular reports on procurement activities are submitted to the Risk and Governance Committee.

As a financial institution, we have a limited chain of suppliers who provide inputs to our business. Our approach is simply to ensure that we remain compliant with changing procurement legislation and National Treasury regulations applicable to the financial sector. It is a compliance-heavy function with very strict governance. As a DFI and SOE, cost containment underpins our procurement approach. We track and monitor our expenditure through contract management and supplier performance management initiatives.

The 2018 financial year was the first year that we have implemented a formal supplier development programme, aimed at closing the growth and developmental gaps of our small qualifying suppliers. 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.

Our performance

Our priorities for the year were containing costs and ensuring good governance. We commenced the roll-out of a code of conduct for external suppliers, which we expect to fully implement in the next one to two years. Supply chain management policy was approved and Process Manual is being revised. There has been a marked behavioural change among the staff, such as proactive requests for information on procurement in advance of decisions.

Finally, in FY2019 the Bank declared an amount of R456 948 as irregular expenditure due to an incident relating to prior years, for contravention of supply chain regulation. In FY2020 the balance increased to

R769 057 due irregular expenditure of R312 109 current year.

We spent a total of R68 million on procurement, of which R66.5 million was on suppliers with level 1-4 B-BBEE ratings, thereby contributing towards SDG 10: reduced inequalities

Total procurement spend	R68 004 701.71
Total BEE compliance spend	R82 874 799.72
Spend on suppliers with BBBEE 1-4	R66 658 947.69
Total exempted micro enterprise spend	R12 153 516.63
Total qualifying small entity spend	R6 883 975.61
Total 51% and greater black-owned spend	R31 068 510.77
Total 30% and greater black women-owned spend	R21 112 437.66

Footnote: these are sub-categories of procurement spend and do not balance to the total spend. Total BEE compliance spend exceeds total procurement spend based on the BEE code formulas.

Two percent of NPAT or a value of R4.163 million was spent on nine small suppliers, who benefited from a range of projects. This year, the selection process remained unchanged and utilised a set of criteria in line with relevant BEE legislation and Codes of Good Practice. There is no single approach to enterprise and supplier development, so entities select the most appropriate approach to suit their needs. This year we allocated the funds in accordance with black ownership percentage, whereby we allocated 80% of the total 2% NPAT to the seven entities that were 100% black owned and 20% to the two remaining entities who

were not 100% black owned. We are pleased to contribute to SDG 4 through the lifelong learning and quality education opportunities our enterprise and supplier development programmes offer.

Looking ahead

Our procurement priority for the coming year will be on cost containment, including further reductions to spending and more closely monitoring expenditures.

We also plan to continue to invest 2% of our NPAT on supplier development programmes in the future. Next year's initiatives will align to the bank's Supplier Code of Conduct which includes elements of the Environmental and Social Sustainability (ESS) programme, which aims to address the environmental sustainability of land and related natural resources, as well as social development through employment creation and poverty reduction. The bank is concentrating on 'greening' its value chain. To this end we prioritise procurement from service providers who use clean production mechanisms or adhere to sustainability principles in producing and supplying their services. By so doing, the bank aims to directly influence the sustainability behaviours of its service providers and, in turn, indirectly contribute to environmental conservation.



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Natural Capital

Land Bank uses relatively little natural capital in its own business operations, but factors associated with climate change pose a fundamental risk to the Bank's business to the extent that these factors affect our clients' ability to repay their debt and even their business viability. The heightened risk profile of our lending and investment value chain therefore requires close management to mitigate risk to Land Bank's medium- and long-term viability.

The impact on the natural environment of the Bank's application of financial capital to support activity in the agricultural sector is also considerable, through the downstream impact of our clients' farming enterprises and practices. We therefore contribute to the following SDGs through our activities:



Our approach to climate risk

Climate change poses a serious threat to sustained economic growth, poverty reduction and the quality of life in South Africa. This is particularly true for the bank and its stakeholders, many of whom are wholly concentrated in the agricultural sector. According to the Intergovernmental Panel on Climate Change (IPCC), South Africa is one of the countries that is most vulnerable to climate change and climate variability. The situation is aggravated by the interaction of multiple stresses occurring at various levels, compounded by low adaptive capacity.

Climate change experts project that South Africa will experience a temperature rise larger than the global mean annual warming. The country is also expected to experience reduced average annual rainfall and increased aridity and droughts. The combination of reduced rainfall and hotter temperatures is expected to result in a net drying and increased aridity over time.

Such adverse weather events will affect crop yields and livestock productivity. This will in turn have a direct impact on the income and earning potential of farmers and ultimately, increase the risk of loan defaults and non-performing loans for the bank. Climate change also poses a threat to LBIC, given that the quantum and value of claims received may influence the value of the bank's equity investments.

It is against this backdrop that the bank considers climate change an important risk. The Risk and Governance Committee (RGC) provides oversight on the assessment and response to climate risks. Management has developed the climate change response framework

for the Group and is responsible for its development into a climate change strategy and implementation across the bank's functional areas and business units. In the reporting period under review, the bank continued its engagement with institutions such as the Council for Scientific and Industrial Research (CSIR) and the Agricultural Research Council (ARC). This was part of an effort to increase our knowledge and understanding of climate risk assessments and how best to integrate them into our activities. The main climate risks identified for the bank can be summarised as follows:

- More frequent and longer lasting droughts in certain parts of the country
- High variability in rainfall patterns which affect soil moisture and therefore growing periods
- More instances of heat-wave days and fire-danger days
- Unpredictable outbreaks of diseases in location and commodity

Our performance

During the past year we concluded the development of a comprehensive climate response framework. We also conducted assessments on how we can develop specialised products and access suitable funding to assist clients to manage the transition risk posed by climate risks. An outcome of that process is that we are now working on a framework to establish green products. We also identified additional measures and improvements to the monitoring and reporting of climate risks.

Looking ahead

Over the next year we will:

- Continue to develop tools to measure, monitor and report climate risk at a portfolio level
- Introduce specialised products for farmers to manage transition risks
- Develop a methodology to assess Scope 3 emissions which result from our lending activities
- Develop metrics to monitor climate risks and Scope 3 emissions
- Incorporate TCFD reporting in our financial disclosures

Our approach to environmental and social sustainability

The bank has in place an Environmental and Social Management System (ESMS) geared towards identifying and managing its exposure to environmental and climate change risks, while identifying opportunities to promote the sustainable use of land and efficient utilisation of natural resources. We also apply an Environmental and Social Risk Assessment (ESRA) to all projects we finance. These actions are driven by a comprehensive Environmental and Social Sustainability (ESS) strategy driven by four objectives, as outlined below:

- Strengthen procedures for conducting ESS due diligence;
- Develop opportunities for Sustainable Agriculture Practices (SAP) to build climate change resilience;
- Enhance our ESS risks and opportunities research; and
- Promote material-use efficiency and sustainable waste disposal in the agricultural sector.

Our performance

During the year under review, the bank identified a need to increase its focus on climate-smart agriculture (CSA). This will be part of an integrated approach to developing technical, policy and investment conditions that will contribute to the achievement of sustainable agricultural development. The Bank placed greater emphasis on projects that embed climate adaptation and manage their resources in a sustainable manner. As part of this effort, Land Bank will conduct an environmental impact baseline assessment on farms financed by the bank. In addition, frontline staff received training on the assessment and management of ESS risks and opportunities.

We continued to invest considerable effort towards changing the relationship with SLA partners and improving the performance of the SLA book. To this end, we have incorporated new areas of obligation for our SLA partners that include ESS commitments. Further, we have provided some of our SLA partners with training required to equip them with the skills and information they need to effectively roll out environmental and social risk analysis and manage climate-related risks.

Another area of development in the period was the bank's continued use of geographic information system (GIS) intelligence to improve its loan origination and credit processes. GIS can help create more efficient farming techniques, analyse soil data and to determine the best crop to plant in certain locations.

The bank is now able to supplement the environmental and social risk assessment (ESRA) process by generating

GIS maps which show environmental sensitivities for individual transactions. However, currently, GIS is not actively used within the ESRA process. Our focus for the year was to migrate to a web-based capability, which enables real-time and remote reporting as opposed to the manual data upload process used previously.

Climate change case study in partnership with CSIR

The case study is aimed at assessing the impact of climate change on the credit risk faced by Land Bank. This will involve the development of a climate change screening tool that will be tailored to fit into the criteria set out by Land Bank. The assessment will also include a cost-benefit analysis component of the tool, which can be used to evaluate the cost of no-use and/or using inadequate data to support decision-making and operational long-term planning and design.

The project was approved in December 2019 and is expected to commence in September 2020.

Challenges

The overall goal of our climate risk management and adaptation response framework is to reduce vulnerability to climate variability and promote climate resilience in past and future bank financed transactions and initiatives, making them more effective. The bank has faced a number of challenges in trying to achieve this objective. To begin with, climate change is a relatively new area of focus. This creates a need for the development of policies that will address climate

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change-related risks as well as strengthen legal and regulatory reforms. This could play an important role in creating an enabling environment for the implementation of climate risk management and adaptation.

The absence of relevant information and the limited capacity within the country and the continent at large to mainstream climate change presents an additional constraint to managing climate risks. The bank will continue collaborating with other institutions as part of efforts to increase its own capabilities and embed climate risk issues across all its operations, as appropriate. The bank is also committed to engaging with relevant stakeholders by promoting open communication and by providing education, training and development on climate change risks impacting the bank's operations.

"Climate proofing" investments including actions to ensure that development efforts are protected from negative impacts of climate change, climate variability, and extreme weather events is another key challenge experienced by the bank. This is particularly true where behavioural change with regards to land and water use are concerned. The bank has therefore continued to promote land stewardship through the efficient use of resources, prevention and pollution reduction and enhancement of biodiversity protection.

A number of issues regarding environmental and social compliance by our clients have also been flagged. These include poor staff housing conditions and handling of pesticides among farmworkers without protective equipment. In response to this, the bank has continued with investments aimed at ensuring its activities and

operations are conducted in an ethical manner that supports fundamental human rights and respects traditional rights, values and cultural heritage.

By implementing an evidence-based and stakeholder-inclusive approach to managing climate risks, the bank has driven behavioural change. We believe our clients are becoming more aware of environmental and social risks and have begun taking mitigating actions. We are committed to continuing on this journey as we work towards building a more resilient agricultural sector.

Looking ahead

We plan to continue with our rollout of GIS technology. We also intend to link GIS capability to environmental and social sustainability data in support of the environmental and social risk assessment (ESRA) efforts. Further integration with other technical tools such as enterprise budgets and cash flow models are being developed and a common user-platform will harvest maximum benefit. We are monitoring developments in this tech area to identify possible improvement areas.

The Bank will finalise an implementation plan aimed at addressing various gaps identified in line with our PRB commitments, namely:

- Developing a better understanding of our E&S risks including climate-related risks;
- Strengthening governance and creating coherence on sustainability matters;
- Setting targets in line with SDGs and Paris Agreement; and
- Client and stakeholder engagements.



Human Capital

Material matter: Employee development, retention and remuneration 

The employees, clients and other key stakeholders of Land Bank contribute to inclusive growth and transforming the agricultural sector through the application of their skills, knowledge and time. The bank has recently embarked on implementing the UNEP Principles for Responsible Banking. Human capital has embraced these principles and aligned policies and reporting on those principles as well as incorporate the Sustainable Development goals, with a focus on goal 3, 4, 5, 8 and 10.






Our ability to deliver value ultimately depends on the people who lead the business and direct our operations. We support SDG 8 through our adoption of a 'people first' approach aimed at attracting, retaining and developing talent through the provision of appropriate remuneration and personal development programmes.

In FY2020, we reviewed our divisional strategy and developed a roadmap for FY2020 – FY2022. The strategy builds on our FY2017 – FY2019 strategy and is designed to add value to the business in a number of key areas including talent management and succession planning, culture and ethics, as well as skills development and internal capacity building.

Our performance

The bank is continuously striving towards embedding a high-performance culture and establishing itself as a world class institution with the ability to attract the best talent. To achieve this, it is important to develop a thorough understanding of current organisation culture and engagement levels. As part of this effort, the bank conducted a climate and culture survey in

2018. Insights obtained from this process were used in developing initiatives to address the areas that require improvement. In the past financial year, the bank implemented 100% of the initiatives it had planned for the period. Key areas of focus included diversity and transformation, climate and culture and succession planning.

 MALE EMPLOYEES	 FEMALE EMPLOYEES	 TOTAL EMPLOYEES
Nationality South African: 240 Foreign: 7	Nationality South African: 221 Foreign: 2	Nationality South African: 461 Foreign: 9
Employee group Permanent: 237 Contractor: 6 Learner: 4	Employee group Permanent: 194 Contractor: 7 Learner: 22	Employee group Permanent: 431 Contractor: 13 Learner: 26
Age (years) 21-30: 13 31-54: 201 55-65: 33	Age (years) 21-30: 38 31-54: 170 55-65: 15	Age (years) 21-30: 51 31-54: 371 55-65: 48
Ethnic origin African: 130 Coloured: 27 Indian: 12 White: 78	Ethnic origin African: 157 Coloured: 14 Indian: 15 White: 37	Ethnic origin African: 287 Coloured: 41 Indian: 27 White: 115

OUR PERFORMANCE

Diversity and transformation

We support SDGs 5 and 10 through our investment in diversity and transformation. Our key deliverables in this regard include facilitating inclusivity and diversity within our labour force, with a particular focus on advancing the number of black women in senior and executive management. The bank has made significant progress in increasing the representation of black females across all four management categories. The top management showed the biggest increase over time; however, the representation did decrease due to the exit of the Chief Risk Officer and the Executive Manager: CDBB (both African females). On a positive note, the newly appointed Chief Financial Officer is an African female, replacing a white male. This places the ACI figure at financial year end at 71.46%, against a target of 68%. The Land Bank workforce mainly consists of permanent staff with minimal fixed-term contractors.

Acquisition and attrition

We are committed to contributing towards the general economic growth in the country through job opportunities. Employment Equity targets, with concentration on black females, are integral to this effort. However, while Land Bank applies principles of affirmative action in its recruitment processes, suitability forms part of key criteria in decision-making. This ensures that the bank has the right skills mix and experience. The bank made appointments in 41 vacancies during the financial year. Ninety-six percent (96%) of external filling of vacant positions were within ACI, with 73% being black females. Total headcount (including permanent, fixed-term contracts and

learners) as at 31 March 2020 was 470, down from 486 in March 2019.

We aspire to provide career growth opportunities for all employees. During the financial year, 15 internal appointments were made. One employee moved from middle management to senior management. Three employees moved from junior to middle management while the remainder continued in the same occupational category level.

The bank operates in a highly competitive environment, particularly where critical skills in the agriculture sector are concerned. As a result, voluntary attrition remains an ongoing challenge. During the reporting period, the attrition rate for the Land Bank Group was 7.5% (38 permanent employee resignations). This represents a slight increase compared to the 27 resignations in FY2019.

Talent management

Our ability to attract and retain talent is critical to our future sustainability. Notwithstanding the number of resignations received at top and senior management in the period, we continued to execute our mandate through the placement of key people in the vacant leadership roles in acting capacities. The capacity risk at these levels were mitigated by the appointment of the CEO and CFO.

During FY2020, a service provider was engaged to conduct an assessment of the bank's talent pool. Following the exercise, the human capital division met with executive managers (EXCO) and their

management teams to discuss outcomes. Talent was categorised into three segments:

- Leadership talent: High-potential employees with the ability to lead a business unit. An employee is identified as a business leader with exceptional leadership skills or attributes.
- Critical skills talent: Individuals who possess highly developed scarce skills and a deep understanding and knowledge of not just the work itself, but how to make things happen in the business.
- High potential: Employees that are ambitious, career centred, conceptually talented and with well-developed emotional intelligence.

EXCO further interrogated the outcome of the assessments to determine the way forward and ensure that the insights gained from this process are integrated into the bank's human capital. We are satisfied with the progress made toward the management of future talent and future planning for succession and will place a key focus for implementation during FY2021. The talent management process will inform future succession management for the bank.

Learning and development

We contribute to SDG 4 through our investment in the development of our workforce through various training and development interventions. In FY2020, the bank spent R3.8 million on training for all staff. Of this amount, 84.16% was spent on ACI staff. Further, 36 employees enrolled for formal qualifications. These qualifications ranged from undergraduate to masters level. The bank also sponsored the studies for 28

employees' children across various fields of study. The breakdown of the training spend was as follows:

- Average training cost per employee: R3 814.00
- Average training cost per ACI female: R3 269.00
- Average training cost per ACI male: R5 137.00 – male training cost was higher as a result of high-cost formal qualification studies
- Average training hours per employee: 7.43
- Average training days per employee: one Day

Climate and culture

In FY2018, the bank engaged the services of an external service provider to conduct an assessment of the organisation's climate and culture. Findings showed problems in the areas, for example:

- Work-life balance
- The organisational culture
- Teamwork

From August 2018 to March 2019, the bank embarked on a series of initiatives that were aimed at short-term improvements. A number of these initiatives were carried into the FY2020 financial year. These included EXCO alignment sessions, the introduction of internal information-sharing platforms and quarterly business review sessions. These actions were aimed at fostering a high-performance culture driven by collaboration and organisational values.

Bursary programme

The bursary scheme for university students is an ongoing initiative implemented by the bank to develop

its future pipeline of talent. At the end of the 2019 academic year, seven students had been sponsored by the bank for tertiary studies, through various undergraduate study programmes which have been identified as scarce and critical skills programmes for the agricultural banking sector; primarily the Bachelor of Science in Agricultural Economics qualification. All of the students are black African individuals at various stages of study in their qualification programmes. Out of these seven students, five have subsequently completed their qualifications and progressed for consideration into the Land Bank Graduate Learner Programme.

Employee wellness

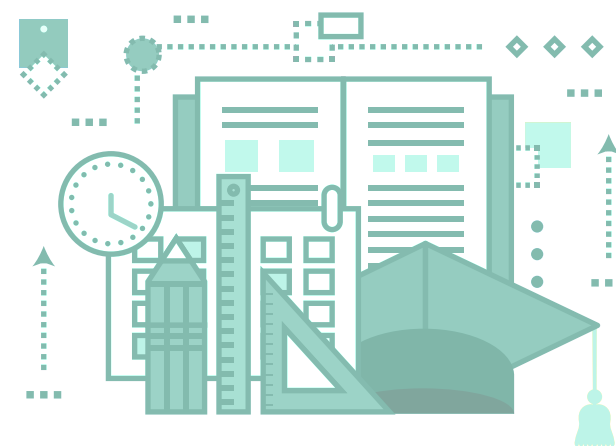
The bank believes the well-being of its employees is an important matter which extends beyond health. All permanent employees qualify for medical aid which includes their dependants. An increase in staff that are off sick due to stress-related issues was noted during FY2020. There are a few employees that have been boarded on temporary disability. In response to this, ICAS, the Land Bank Group wellness provider provides services which includes counselling, health-related updates and advice through various communication channels to all employees.

We have also taken a proactive approach to managing the impact of the COVID-19 pandemic. A dedicated task team was appointed to manage the business environment and implement precautionary measures to mitigate the spread of the virus. We continue to monitor our operating environment and a business continuity and pandemic management plan is in place.

Looking ahead

While our human capital strategy remains largely unchanged for FY2021, we will continue to monitor our performance and to embed a value-driven performance culture in the organisation. We will also continue to identify ways in which our human capital division can support the corporate plan and overall mandate of the bank. Key deliverables for the financial year include:

- Continued implementation of our talent management and succession plans;
- Continue driving a high-performance culture; and
- Continue implementation of organisational climate and culture initiatives.



OUR PERFORMANCE

Performance overview – Land Bank Insurance Company

Land Bank Insurance Company (LBIC) is a wholly owned subsidiary of Land Bank created to drive the bank's objective of providing financial services that will enable the bank to satisfy its objectives and its broad development mandate. LBIC is registered with the Prudential Authority (PA) as a non-life insurer and is the second largest crop insurer in the country, providing cover to farmers for hail, fire and yield losses due to weather conditions, among others.

Financial performance:

LBIC reported a net combined operating ratio of 135% in the current reporting period (FY2019: 136.4%) reflecting a net loss of R39.1 million (FY2019: R37.7 million loss).

There was a definite shift in the rain patterns over the past year. Rainfall was suitable and conducive for farming conditions. There is an overall decline in Hail Winter business resulting from corrective action in terms of pricing and risk; that is derisking in risk prone areas, adjusting premiums of multiclaimants.

There were less hail events as compared to the FY2018 and FY2019. The business also reduced its exposure to drought risk and a combination of these factors resulted in a lower loss ratio.

Gross written premium increased by 12% to R563.3 million (FY2019: R504.4 million) while operating expenses decreased to R19.7 million (FY2019: R19.9 million).

Performance highlights

- Maintained our market share and increased our premium income slightly more than last year.
- Adapted our risk underwriting processes to weather volatility
- Achieved our objectives to expand our Black Broker Programme. All 20 new intermediaries were identified, trained and accredited. Training was done in all regions in the country. Since the beginning of the programme in 2017, LBIC has trained and accredited over 45 Financial Service Providers
- Launched a Black Assessors Programme in partnership with the Walter Sisulu University. Twenty candidates have been registered and are being trained



Challenges

- Volatile weather conditions continue to present a challenge to overall profitability. This includes persistent droughts resulting in an increase in claims.
- Farmers cannot afford premiums despite the bank charging lower premiums.
- Competitive market environment.
- Volatile markets continue to have a negative impact on the investment income of the business.

LBIC	FY2020 R million	FY2019 R million	Variance
Gross premiums	563.3	504.4	12%
Net premium income	140.4	153.5	9%
Operating expenses	19.7	19.9	1%
Underwriting loss	48.9	55	11%
Net loss	39.1	37.7	(3.7%)
Combined operating ratio	135	136	1%

Performance overview – Land Bank Life Insurance Company

Land Bank Life Insurance Company (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.

Its 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.

Financial performance

- Net loss for LBLIC is a 158.8% decrease from the profit reported in the prior year, to R44.3 million (FY2019: R75.3 million) owing mainly to the decrease in investment income which decreased by 164% to R48 million.
- Gross written premiums declined by 08.3% to R5.4 million (FY2019: R5.8 million) owing to the cancellation of some of the group life schemes.
- Operating expenses decreased marginally by 15.63% to R5.8 million (FY2019: R6.9 million).
- Total excess assets over liabilities decreased to R901 million (FY2019: R1.2 billion), as a direct result of the investment decrease by 17%.

Performance highlights

- Our profits decreased by 158.8% under difficult market conditions.

Challenges

- LBLIC's product offering is limited by its ministerial mandate which severely affects its ability to remain relevant within the sector.
- Due to weak performance by markets, profits related to its asset under management were negatively affected.

LBLIC	FY2020 R million	FY2019 R million	Variance
Gross Premiums	5.4	5.9	8%
Net premium income	2.8	3.4	18%
Operating expenses	(5.8)	(6.9)	16%
Underwriting (loss)	2.8	1.2	377.00%
Investment loss	(48.2)	75.3	164%
Net loss	(44.3)	75.3	158.8%
Excess assets over liabilities	902	1.245	28%
Investments	1,118	1.347	17%





GOVERNING OUR BUSINESS

A large center pivot irrigation system is shown in a field at sunset. The system consists of multiple long metal arms supported by a series of wheels, extending across the landscape. The sky is filled with warm, golden light from the setting sun, with scattered clouds. The overall scene conveys a sense of agricultural scale and modern farming technology.

The bank is **guided by King IV**, which advocates **implementing a governance structure** which supports **leadership, sustainability** and **corporate citizenship**.

Material matter: Corporate governance 

Our commitment to corporate governance

Our governance policy

The Land Bank Group is committed to good governance. It subscribes to the values of human dignity, the achievement of equality, the advancement of human rights and freedoms, and the rule of law which are entrenched in our Constitution, and to the principles of ethical leadership exemplified by integrity, competence, responsibility, accountability, fairness and transparency which are advocated by the King Report on Corporate Governance for South Africa 2016 ("King IV"). It considers these values and principles as fundamental to the sustainability of the Group.

The Board of Directors of the Land Bank Group are collectively responsible for promoting the success of Land Bank by directing and supervising its affairs. Its role is among others to:

- (i) provide entrepreneurial leadership to the bank within a framework of prudent and effective controls which enables risks to be assessed and managed;
- (ii) determine the bank's strategic objectives, ensure that the necessary financial and human resources are in place for the bank to meet its objectives, and review management performance; and
- (iii) determine the values and standards of the bank and ensure that its obligations to the shareholders and all other stakeholders are understood and met.

Our values and approach to ethics

The Board has adopted Code of Ethics and Business Conduct which seeks to assist members in fulfilling their duties to the Land Bank Group. The Code enjoins Board members to, at all times, act in good faith and to exercise the powers vested in them and fulfil the duties imposed by their office honestly. Each director has a duty to act in what he/she considers to be the best interests of the bank, and all such action must be for a proper corporate purpose. The Board ensures that this approach to doing business permeates throughout the bank and holds management accountable to ensure this commitment manifests itself throughout the organisation.

Board responsibilities

The Board directs and supervises the management of the business and affairs of the Group including:

- Ensuring that the goals of the bank are correctly interpreted, clearly understood and strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from management);
- Establishing policies for strengthening the performance of the bank including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital;
- Monitoring the performance of management;

- Recommending to the Minister the appointment and terms and conditions of service of the CEO and, where necessary, the termination of the CEO's employment with the bank;
- Managing matters of discipline pertaining to the executive directors;
- Deciding on whatever steps are necessary to protect the Group's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken;
- Ensuring that the bank's financial statements are true and fair and otherwise conform with law;
- Ensuring that the bank adheres to high standards of ethics and corporate behaviour; and
- Ensuring that the bank has appropriate risk management/regulatory compliance policies in place.

In the normal course of events, the day-to-day management of the bank will be in the hands of management.

The Board will satisfy itself that the bank is achieving its goals.

Our governance framework

Our Board

The business and affairs of the Land Bank Group are managed and directed by or under the direction of the Board of Directors of the bank who are appointed by the Minister. The Board has the authority to exercise all the powers and perform any of the functions of the bank, save to the extent that the Land Bank Act or any other applicable law otherwise provides. Members of the Board are individually and collectively accountable to the Minister of Finance for the performance and sustainability of the bank. They act as a Board and not as individuals.

Board committees

The Board is supported by Board committees established in terms of section 15 of the Land Bank Act. Each committee is constituted in terms of a formal terms of reference, criteria for appointment, life span, role and function. Board committees constitute an important element of the governance process and are established with clearly agreed reporting procedures and a written scope of authority.

Land Bank's governance structure is guided by King IV, which advocates selecting a governance structure appropriate to Land Bank's governance environment that supports leadership, sustainability and corporate citizenship.

In general terms, the committees of the Board consist of standing committees, ad hoc committees and

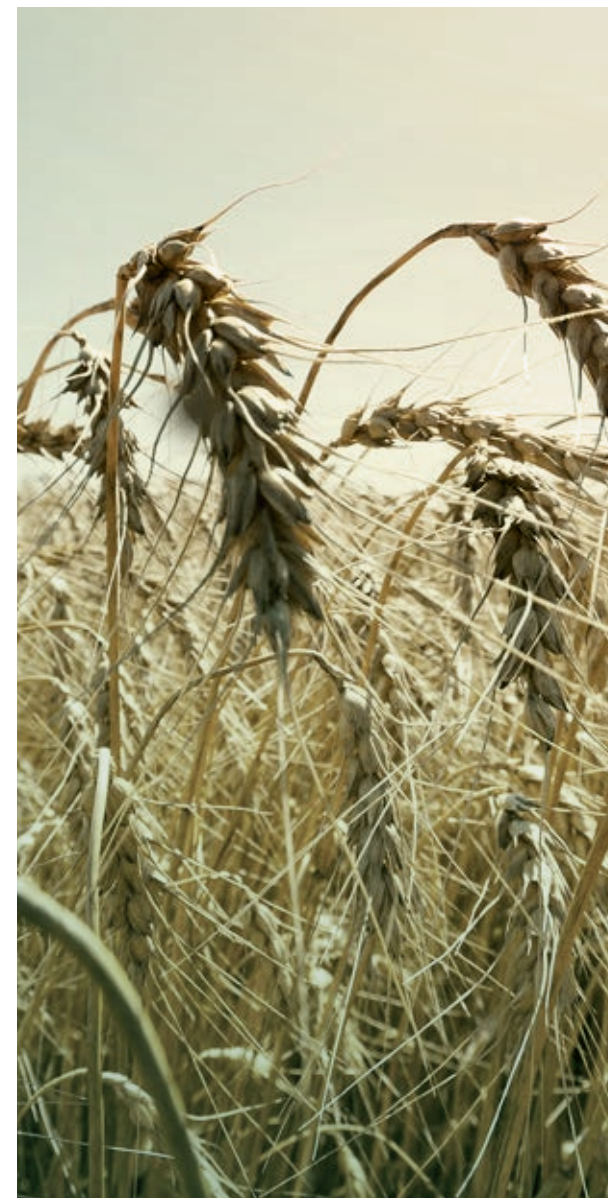
advisory panels established by the Board from time-to-time to facilitate matters before the Board.

The Board is supported by Board committees established in terms of section 15 of the Land Bank Act, and currently has five standing Board committees that have delegated responsibility to assist in specific matters and report to the Board on a quarterly basis: the Audit and Finance Committee, the Human Resource Committee, a Risk and Governance Committee, a Credit and Investment Committee and a Social and Ethics Committee. Other committees are formed for specific purposes and are disbanded as required.

The delegated responsibility and the powers, limits and authorities attached to Board committees are approved by the Land Bank Board. Each committee has its own charter or terms of reference, which sets forth its purpose, composition and duties. The charters are available on <https://landbank.co.za/About-Us/Pages/Corporate-Governance.aspx>

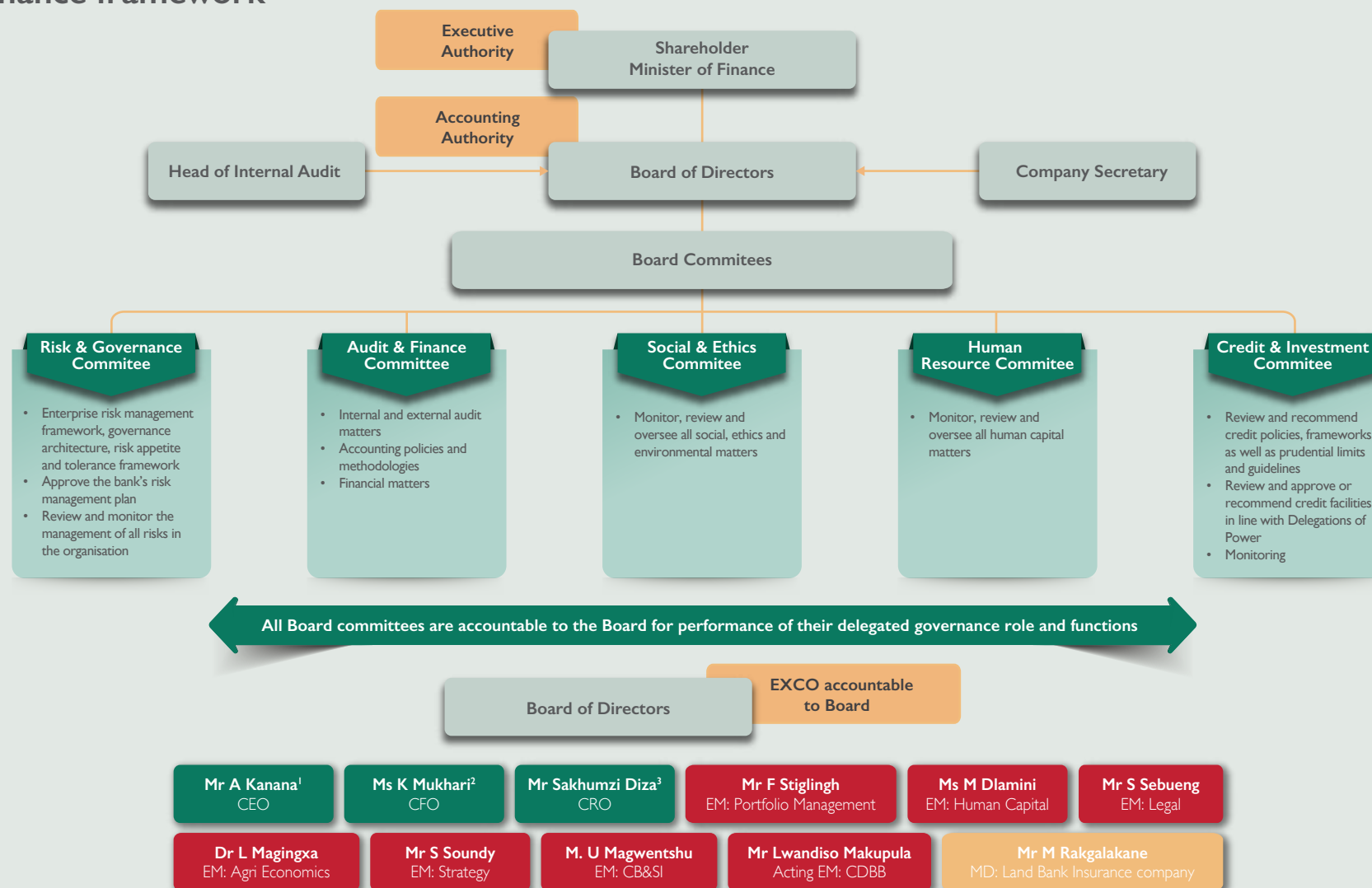
Framework

The bank is guided by King IV, which advocates implementing a governance structure which supports leadership, sustainability and corporate citizenship. This includes the establishment of appropriate Board committees.



GOVERNING OUR BUSINESS

Governance framework



Note: The Company Secretary and Head of Internal Audit are standing invitees in the Executive Committee

1. CEO from 1 March 2020, 2. CFO from 1 Feb 2020, 3. CRO from 1 Sep 2020

Board effectiveness

Board composition

The Board consists of no fewer than seven and no more than 12 persons. Members of the Board are appointed for a period of no more than five years. The majority of members serve in a non-executive capacity.

The chief executive officer is a member of the Board by virtue of his or her office and the Minister can appoint any other employee of the bank - usually the chief financial officer - as an executive director for as long as he or she remains in the employment of the bank.

The Minister designates one of the non-executive members of the Board as chairperson and another a deputy chairperson who acts as chairperson when the chairperson is unable to do so.

A Board member who has not been disqualified is eligible for reappointment. Such reappointment is subject to any recommendation by the Board or decision by the Minister for the Board member to retire by rotation or otherwise. Vacancies on the Board must be filled within a reasonable period of time.

The composition of the Board seeks to reflect the duties and responsibilities which it is to discharge and perform as representative of the interests of the South African public, and in setting the bank's strategy and seeing that it is implemented. Generally, the qualifications for Board membership are the ability and intelligence to make sensible business decisions and recommendations, an entrepreneurial talent for

contributing to the creation of shareholder value, the ability to see the wider picture, the ability to ask the hard questions, preferably some experience in the agricultural sector, high ethical standards, sound practical sense, and a total commitment to furthering the objectives of the Act and the achievement of institutional goals.

Non-executive members of the Board of Directors are active in areas which enable them to relate to the strategies of the bank and to make a meaningful contribution to the Board's deliberations. They are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The composition of the Board is such that the common purpose, involvement, participation, harmony and sense of responsibility of the members is not jeopardised.

Board changes

Retired/Resigned

Director	Designation	Effective date
Ms N Mtetwa	Non-executive member	31 August 2019
Mr B van Rooy	Executive director	30 June 2019

Appointments

Director	Designation	Effective date
Mr A Kanana	Executive member	1 March 2020
Ms K Mukhari	Executive member	1 February 2020

Board diversity

The Board has an adequate range of knowledge, views and experience. There is however a need to strengthen its banking and corporate finance skills and capabilities through the appointment of a banker and a Chartered Accountant. Proposals have been made to the Minister in this regard. The Board is also reflective of the demographic composition of the country with regard to race, colour, age and gender.

Board performance

The Board is committed to the continued improvement of own its performance and effectiveness. It believes that a highly effective Board is essential if Land Bank is to produce sustainable returns for the shareholders, its broad range of stakeholders and wider society.

The Board believes that periodic independent appraisal of its performance helps clarify the individual and collective roles and responsibilities of individual directors, and better knowledge of what is expected of directors helps the Board become more effective. Done properly, Board appraisals help improve the relationship between the Board and Management and ensure that there is a healthy balance of power between the Board and the chief executive officer. In short, improved Board performance translates into better corporate governance outcomes and the quality of the Land Bank Board is an important evaluation factor for funders and institutional investors.

During July 2019 an evaluation of the Board, its committees and individual members was commissioned by the shareholders in respect of the FY2019 reporting











GOVERNING OUR BUSINESS

period. The initial results of that Board assessment became available in the course of the FY2020 reporting period and were tabled for Board discussion during FY2021.

The results of the Board assessment were discussed by the Board and areas of collective development were identified. Plans were agreed upon and implemented to ensure that skills gaps and other deficiencies were addressed. Individual assessments were only shared with the Board member concerned. Members have welcomed access to their own scores as this enabled them to identify the areas that they might have to work on to improve their performance or to change incorrect perceptions that their colleagues might have about them.

The result of the evaluation overall was that the Board appeared to be well composed at the time of the evaluation. Its collective qualifications and experience compared favourably with the disciplines and competence that were required on the Board of an institution such as Land Bank.

Land Bank's FY2020 King IV application disclosures contain further information about the process applied for independent evaluation of the Land Bank Board [insert relevant URL/Land Bank Webpages where King IV disclosures will be available].

Diversity of governance bodies and employees													
Land Bank Board	Gender		Board age groups			Black		Indian		Coloured		White	
			<30 years	30-50 years	>50 years								
NED's	3	7	0	3	7	2	5	0	0	1	0	1	2
Executives - CEO/CFO	1	0	0	1	0	1	0	0	0	0	0	0	0
1x female NED resigned August 2019 and 1x female NED resigned April 2020. They were counted in for the period ending March 2020.													

Total

NED's + ED	11	
Historically disadvantaged	9	82%
Male	4	36%
Female	7	64%

Non-executive directors



Mr MA Moloto, 52
Non-executive chairperson

Master of Science (Finance and Financial Law); Postgraduate Diploma in Economic Principles; BA (Hons) Development Studies; BA Education

Period of service:

01 January 2015 – 31 May 2021

Board committees:

Human Resources Committee
Social and Ethics Committee
Credit and Investment Committee



Ms DR Hlatshwayo, 56
Non-executive deputy chairperson

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

Period of service:

06 January 2015 – 31 May 2021

Board committees:

Human Resources Committee
Social and Ethics Committee
Credit and Investment Committee



Advocate SJ Coetzee, 58
Non-executive director

Bachelor of Legum Civilium; Bachelor of Laws (Postgraduate)

Period of service:

3 August 2015 – 30 September 2021

Resigned 29 April 2020

Board committees:

Human Resources Committee
Social and Ethics Committee
Risk and Governance Committee



Dr ST Cornelius, 63
Non-executive director

Bachelor of Science (Hons) (Wits); BVMCh (Medunsa); BVSc (Hons) (University of Pretoria); SEP (Harvard / Wits); MRSB (London); and MInstDir(SA)

Period of service:

01 June 2018 – 31 May 2021

Board committees:

Human Resources Committee
Audit and Finance Committee
Credit and Investment Committee



Ms SA Lund, 58
Non-executive director

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

Period of service:

5 September 2011 – 31 May 2021

Board committee:

Risk and Governance Committee (Chairperson)
Audit and Finance Committee

GOVERNING OUR BUSINESS



Ms ME Makgatho, 49
Non-executive director

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

Period of service:

3 August 2015 – 30 September 2021

Board committees:

Audit and Finance Committee
Credit and Investment Committee



Mr MS Makgoba, 46
Non-executive director

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)

Period of service:

01 June 2018 – 31 May 2021

Board committees:

Credit and Investment Committee
Risk and Governance Committee



Ms DN Motau, 56
Non-executive director

Bachelor of Commerce; Certificate in Business Project Management; Diploma in Advanced Banking

Period of service:

1 October 2013 – 29 February 2020

Extended to 31 August 2020

Board committees:

Credit and Investment Committee (Chairperson)



Ms TT Ngcobo, 71

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

Period of service:

1 October 2013 – 29 February 2020

Extended to 31 August 2020

Board committees:

Human Resources Committee (Chairperson)
Social and Ethics Committee (Chairperson)
Risk and Governance Committee



Ms NV Mtetwa, 41

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

Period of service:

1 March 2017 – 29 February 2020
Resigned 31 August 2019

Board committees:

Audit and Finance (Chairperson)
Risk and Governance

Executive directors



Mr A Kanana, 38
CEO – Executive director
CA (SA), BCom Financial Accounting
(H), BCom Financial Accounting

Appointed:
1 March 2020



Ms Khensani Mukhari, 47
CFO – Executive director
MBL, CA, BCompt (H), BCom

Appointed:
1 February 2020

Company secretary



Mr M K Mzaidume, 64
BA(Politics & Law), LLB, H Dip
Company Law, Programme
in Strategic Management &
Corporate Governance

Appointed:
9 October 2017



GOVERNING OUR BUSINESS

Board report

Board governance instruments

The following instruments are employed to promote good governance on the Board over and above what the law and regulation prescribe:

1. A Governance Framework which is work in progress
2. A Group Governance Framework which has been approved by the Group Board and is pending before the Board of the Subsidiary Companies
3. A Board Charter
4. A Board Code of Ethics and Business Conduct
5. A Board Conflict of Interest Policy
6. A Board Manual
7. Reserved Powers of the Board and Board Delegations of Power
8. Various Committee Charters

All these instruments are reviewed on an annual basis or as and when considered necessary.

Board meeting attendance

The Board of Land Bank held 19 meetings in the FY2020 period while the LBIC Board held five meetings in the same period.

Key focus areas FY2020

- Stakeholder engagement and guidance to ensure the financial sustainability of the Bank
- Appointment of CEO and CFO
- Ensuring appropriate succession planning is in place for executives and critical roles
- Achieving strategic clarity with shareholders on dual mandate
- Overseeing the capacitation of branch network and implementation of the channel strategy proposed in the corporate plan
- Oversight on the alignment to, and implementation of, the UNEP-FI Principles for Responsible Banking

Looking ahead

- Implementation of new strategy to ensure the bank remains financially sustainable while fulfilling its development mandate
- Shareholder engagement to improve the liquidity of the bank
- Guidance and oversight of the plans to improve the management of SLA Book
- Oversight on implementation of ethics strategy and culture
- Oversight of IT governance with a view to ensuring management implements actions to improve its management
- Ensuring appropriate succession planning is in place for executives and critical roles
- Review of treasury governance policies





GOVERNING OUR BUSINESS

Board Committee Reports

Our Board has established five committees to assist it in the discharge of its duties and responsibilities but remains ultimately responsible for the committees' performance of their respective governance roles and functions. Delegation to committees is recorded by means of a formal terms of reference that the Board approves and reviews annually. The Board is satisfied that all committees fulfilled their responsibilities in accordance with their terms of reference. The CEO and CFO have a standing invite to all committee meetings. The Board committee charters are available on the Land Bank website: <https://landbank.co.za/About-Us/Pages/Corporate-Governance.aspx>

Audit and Finance Committee report

Members



Ms ME Makgatho
(Acting Chairperson)



Ms SA Lund



Dr S Cornelius

Mandate

The Audit and Finance Committee is an independent committee that deals with matters such as recommending approval of the Land Bank group financial results, review of the Integrated Report, approval of the risk-based internal audit plan; the combined assurance model; review of the groups' Internal Financial Controls (IFC). The Committee discharges its responsibilities with support of the audit, finance and fraud management functions within the Bank, which report to the Committee on a quarterly basis. The committee's approach is strongly influenced by its commitment to the principles of good governance contained in the KING IV code. It consists of at least three independent, non-executive directors who are duly elected to membership of the committee by the shareholder at the AGM.

The Committee is responsible for the following:

- Ensure 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;
- The Bank 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;
- The integrity and reliability of the published financial and statutory reporting of Land Bank, and oversees integrated reporting;
- Funding and liquidity position of the bank
- Transparency, accountability and good corporate governance as required by the Land Bank Act, KING IV, PFMA and Companies Act;
- Ensures that requisite risk management culture, practices, policies, resources and systems are in place and functioning effectively; and
- Oversees the internal and external audit functions, monitoring that it is effective and independent.

Our performance

- Assisted the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the Bank in its day-to-day operations
- Appointed Acting Head of Internal Audit, as well as re-appointing AGSA as our independent auditors and approved external audit fees
- Approved the 3-year rolling strategic internal audit plan, including progress on, and amendments to the 2020 audit plan
- Monitored and recommended to the Board National Treasury Reports on Performance against Predetermined Objectives
- Assisted the Board in monitoring and evaluating the National Treasury Quarterly scorecard
- Reviewed the bank's liquidity and funding position
- Reviewed the Bank's risk management procedures and tools
- Provided oversight on the IT function in relation to its impact on financial controls and audit outcomes thereof
- Confirmed that the finance function meets the King IV requirements to fulfil all financial reporting and control functions
- Reviewed and recommended the annual financial statements and integrated report for Board approval as well as matters raised by AGSA
- In addition, the Committee monitored financial performance and liquidity, forensic and technical investigations.
- To address the prior year's focus areas, the Committee's terms of reference were reviewed.

The Chairperson, with the assistance of the Company Secretary, provided regular written reports to the Board summarising the Committee's considerations and recommendations. The Board was satisfied with the Committee's reporting in this regard.

Looking ahead

- To address the disclaimer issued by our independent auditors, the Committee will monitor the outcomes of the project that was constituted to rectify key audit findings related to loans
- Focus on curing the event of default and restructuring of Land Bank's debt portfolio
- Contribute to the repurposing of the Bank's strategy and operating model with a view to financial sustainability and increased focus on development issues
- Continue to raise the maturity of governance oversight of the matters within the responsibility of the audit and finance committee
- IT Governance
- Formalising the Bank's combined assurance model
- Liaise with the Auditor-General's office to ensure continuous improvement in effectiveness of external audit services.
- Continued monitoring of key actions to improve the performance, liquidity and sustainability of the Bank

GOVERNING OUR BUSINESS

Risk and Governance Committee

Members



Ms SA Lund
(Chairperson)



Ms NV Mtetwa
(Resigned 31 August 2019)



Ms TT Ngcobo



Adv S Coetzee
(Resigned 30 April 2020)



Mr M Makgoba

Mandate

The Risk and Governance Committee assists the Board in discharging its responsibility for the total process of risk management and compliance within the bank. The committee deals with various matters relating to risk and risk management systems, 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 performance

- Improved our risk mitigation effectiveness to better manage risks that are within our control. We also enhanced our ability to forecast foreseeable risks before they materialise.
- Increased our ability to influence and mitigate risks that are external to the bank's direct control, but which are critical to our long-term performance and sustainability.
- Structured the strategic direction of the bank in the light of our material strategic risks including development effectiveness, climate change and financial sustainability.
- The committee reviewed the governance and risk management framework; underwriting risk management; concentration risk management, information and communication framework; enterprise-wide BCM approach; and risk escalation frameworks.
- The impact of agricultural sector conditions on the bank's clients, particularly in respect of climate change risks and protracted drought conditions, remained an ongoing area of focus.
- The committee continued to provide guidance on the process of the bank's ethics maturity throughout the year. The bank's maturity, policies and procedures regarding anti- money laundering and politically exposed persons were also reviewed.

Looking ahead

- Improve our risk management framework effectiveness to better manage and respond to risks within our control



GOVERNING OUR BUSINESS

Human Resources Committee report

Members



Ms TT Ngcobo
(Chairperson)



Mr MA Moloto



Ms D Hlatshwayo



Adv S Coetzee
(Resigned 30 April 2020)



Dr S Cornelius

Mandate

The Human Resources Committee's duty is to oversee the establishment of appropriate human resources policies and strategies that provide Land Bank with the capability to achieve its short- and long-term business objectives.

The committee is mandated and authorised by the Board, to fulfil the following roles:

- Transformation, focusing on Black Economic Empowerment and Employment Equity.
- Compliance with relevant labour-related legal requirements of the bank as well as best practice codes.
- Oversee, among other things, recruiting, developing and retaining critical skills.
- Oversee remuneration processes as well as consider and approve remuneration-related issues and proposals.
- Assist the Board in identifying suitable members that will address the Board's requirements in terms of knowledge and skills.
- Assist the Board with appointments, dismissal, succession planning, reviewing committee structures and reviewing the performance of the Board and its committees.

Our performance

- The HR committee continued to drive the succession planning for executives, including conducting the search for appropriate candidates for the roles of CFO and CEO; and recommending candidates for the CEO role to the Minister for approval.
- Reviewed the bank's human resources policies. This included setting the remuneration and reward structures required to attract and retain executive leadership and management resources in a competitive labour environment.
- Reviewed the corporate scorecard and CEO scorecard.
- Provided ongoing input on the risk appetite framework with particular notice to the human capital components.
- Reviewed the outcomes of the implementation of the remuneration policy for whether the set objectives are being achieved.
- Undertook committee performance evaluations.

Looking ahead

- Consider reports to the HRC and standard HR committee matters.
- Review the bank's human resources policies due for revision.
- Undertake committee performance evaluations.
- Conclusion of pending HR legal and disciplinary matters.
- One of our biggest strategic initiatives for the upcoming year is to support the successful repurposing of the bank by providing skills analysis and input on organisational design. In the interim, we are focused on our human capital plan, which has the aim of recruiting and retaining top staff, developing human capital and improving our culture.



GOVERNING OUR BUSINESS

Social and Ethics Committee report

Members



Ms TT Ngcobo
(Chairperson)



Mr MA Moloto



Ms D Hlatshwayo



Adv S Coetzee
(Resigned 30 April 2020)

Mandate

The Social and Ethics Committee is appointed in terms of section 72 of the Companies Act and is responsible on behalf of the bank for this function. The committee provides oversight of the bank's compliance with relevant social, ethical and legal requirements as well as best practice codes. The committee is also responsible for providing oversight of the bank's activities in the field of ethics, corporate social responsibility, stakeholder engagement and environmental sustainability, including the management of non-financial issues, reputational risk, as listed and defined in the bank's enterprise risk management framework.

Our performance

- We provided governance oversight on matters relating to Land Bank as a good corporate citizen including alignment to the Principles for Responsible Banking.
- Regularly reviewed the status of litigation within the bank.
- We reviewed the bank's ethics-related policies and frameworks including anti-money laundering and PEP monitoring.
- We provided oversight on matters of social and environmental concern for the organisation and the implementation of the Environmental and Social Management System.
- We provided oversight on the implementation of the bank's CSI strategy, ensuring alignment with our development mandate and focus on the agricultural sector.
- We provided ongoing oversight into the embedding of the SDGs into the bank's stakeholder engagement and CSI strategy.

Looking ahead

- Continued governance oversight on matters relating to Land Bank as a good corporate citizen including Land Bank's responsible business strategy and alignment to the Principles for Responsible Banking.
- Continued oversight on matters of social and environmental concern and the implementation of the bank's ESS strategy.
- Provision of guidance and oversight with the goal of enhancing the bank's ESG reporting.
- Ongoing provision of strategic direction for stakeholder engagement beyond the shareholder relationship and oversight of management's implementation of stakeholder engagement activities with key stakeholders during the year.



GOVERNING OUR BUSINESS

Credit and Investment Committee

Members



Ms D Motau
(Chairperson)



Mr MA Moloto



Ms D Hlatshwayo



Mr M Makgoba



Dr S Cornelius

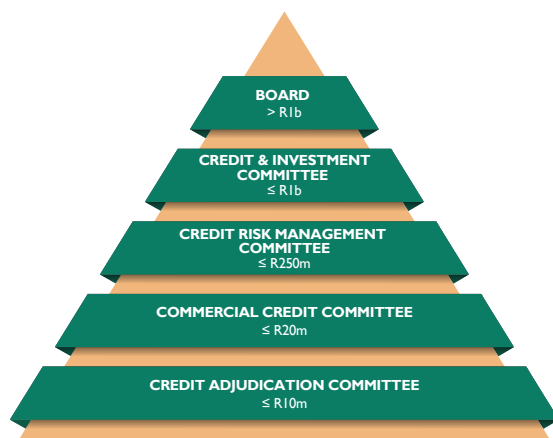


Ms ME Makgatho

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. The committee periodically reviews the bank's credit policies, investment policy and strategies together with risk management and significant credit risk management policies. This also includes tolerance and appetite for credit risk and level of profitability the Board expects to achieve from assuming various credit risks. The committee ensures appropriate credit and investment approval mandates structure, composition and quorum of the credit risk committees.

This figure 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.



The responsibilities of the committee include:

- 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 a 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.

Our performance

- Advised management regarding the pilot project on pre- and post-investment support for development farmers.

- Provided oversight on the alignment of our delivery channels to ensure improved service quality to the agricultural sector. This entailed aligning our credit processes, customer focus and service delivery so that these partners continue to support Land Bank in a mutually beneficial manner.
- Facilitated a number of transformation transactions for investors such as, among others, purchasing equity stakes in companies, and partnering with PIC to create a fund that will have a specific focus on transformation and development.
- Provided oversight on the bank's credit policies to accommodate development farmer needs. This entailed removing regulatory impediments to enable credit policies that account for development farmer challenges without jeopardising the integrity of the loans.

Looking ahead

- Ongoing support to management on issues pertaining to the liquidity challenge and weakening investor confidence.
- Ongoing engagement with the shareholders regarding the bank's recapitalisation and repurposing strategy.
- Continued guidance to management around the SLA improvement plan.
- Together with the insurance subsidiaries, we expect further emphasis on providing risk mitigation strategies for all farmers. These opportunities will contribute towards better offerings for our clients whilst protecting the quality of loans.



Remuneration report

The Land Bank Group's remuneration philosophy and strategy aims to attract the right talent, motivate and retain high performing talent and ensure fair, transparent and responsible remuneration.

Background statement

The bank's remuneration strategy is specifically designed to cater for our unique needs as an employer with requirements for a rare combination of skills. We are continuously revising our retention policies with a view to retaining employees not just through guaranteed pay packages but also through other mechanisms. The Land Bank Group focuses on a total remuneration approach, which considers monetary and non-monetary rewards within the Land Bank Group employee value proposition aligned with the corporate strategy.

The bank has commenced a review of our remuneration policy to ensure it enables attraction, engagement and retention of employees with required critical skills, promotes internal equity and encourages behaviour that aligns with our values. However, the bank's remuneration policy is regulated by the SOE Remuneration Guidelines (SOERG), which are currently in the process of being updated by National Treasury. Thus, there have been no changes to the remuneration policy over the last reporting period as we anticipate an update to the SOERG in the near future.

Human capital completed the procurement process for the appointment of an SAP certified service provider for the reconfiguration of the SAP payroll to ensure full integration and functionality effectiveness of the system.

The project was completed by March 2020. From an employee perspective, the only impact is on the reconfiguration of the payslip whereby the layout was made more user friendly.

Our approach

Our remuneration governance process is aligned with the King IV Code of Corporate Governance, including its principles relevant to the governance of remuneration and reward. The integrated annual report provides transparency in the disclosure of our remuneration policies, practices and implementation thereof. We acknowledge however, that there are inevitable deviations from the King IV recommended practice on remuneration in some areas as Land Bank is an SOE. Remuneration guidelines are regulated by the SOERG requirements, PFMA and the Land Bank Act, relating to the remuneration of the Board and executives.

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

In accordance with the Act, the Minister of Finance determines the remuneration, allowances and associated benefits of the CEO, and approves the bonuses of the CEO, CFO and executive management. This policy has been adopted by the Board since 2015 and the bank will continue to honour this directive until such time that National Treasury revokes the condition.

During the preparation of the corporate plan – our annual strategic plan which is submitted to our

shareholders and tabled in Parliament upon approval – corporate performance indicators (Key Performance Indicators) are identified and agreed between management and Board. These indicators are submitted for approval by the Minister and contained in the shareholder compact.

The approved indicators constitute the corporate scorecard that forms the basis of the CEO's performance management agreement, which is then cascaded and adjusted to match the responsibilities of executive managers. On a quarterly basis, progress against each KPI is reported to the Board and shareholders. The scorecard is audited against performance quarterly by Internal Audit and twice a year by the Auditor-General. Bonuses also depend on achievement of an agreed overall minimum score.

Following the performance management process of the bank, the Board approves a mandate for management to implement bank staff annual salary increases based on individual performance. All employees enter into performance agreements at the start of each financial year, which are reviewed twice during the year. The individual performance agreements are aligned to the corporate performance scorecard and adjusted to consider individual roles and responsibilities. The CEO evaluates the executives' performance using the agreed scorecards and recommends their salary increases. This is included in a proposal submitted to the Human Resources Committee and the Board for approval. Remuneration for executives and employees is determined through benchmarking, using best practice principles under the guidance of the Human Resources Committee.

Our performance

The Land Bank Group short-term incentive payment approval governance structure is based on two levels. The Land Bank Board (with adoption by the Land Bank Insurance Company Board) has overall authority to approve performance-based incentives for all staff below the top (executive) and senior management level. The Minister of Finance, based on the Land Bank Government Guarantee facility conditions outlined in 2015, approves performance-based incentives for executive and senior management level. The conditions of the guarantees with regard to incentives payment have been adopted by the Board since 2015 and will continue to honour this directive until such time that National Treasury revokes the condition.

The Land Bank Board therefore approved the payment of performance incentives for staff in Peromnes level 6 to 15 (middle management to unskilled employees). The overall performance of Land Bank was taken into consideration in the allocation of the performance incentive amounts and were less than the previous financial year.

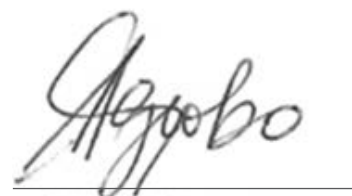
The Minister of Finance reviewed the Board request to allocate and pay performance incentives to the executive and senior management level. The Minister, after careful consideration of the overall performance of Land Bank and based on the decline in performance from the previous financial year, did not approve the payment of incentives for Land Bank executives and senior management. The Minister did approve the payment request for the managing director of the Land Bank Insurance Company and the executive managers based on the overall performance of the insurance company.

The Land Bank Board has taken note of the Ministers decision.

Notwithstanding the number of resignations received at top and senior management, the Land Bank Group continued to execute the mandate of the bank through the placement of key people in the vacant leadership roles in an acting capacity. The skillset at top and senior management remained occupied with skilled and experienced individuals and left no unnecessary gap. Capacity risks at these levels were mitigated through the filling of the CFO and the CEO positions.

A key component of the human capital strategy post the organisational review deals with the bank's approach towards talent management as a mechanism for retaining and developing key members of staff who are identified as "talent". The Land Bank Group talent management framework was approved in 2017. During FY2019/2020, the human capital division met with executive managers and their management teams to identify the talent pool at general manager level (P4 & P5).

We believe it is important to build a capable organisation therefore as a committee we will focus on retention and succession planning at all levels during the next financial year.



**SIGNED BY CHAIRPERSON
OF HR COMMITTEE**



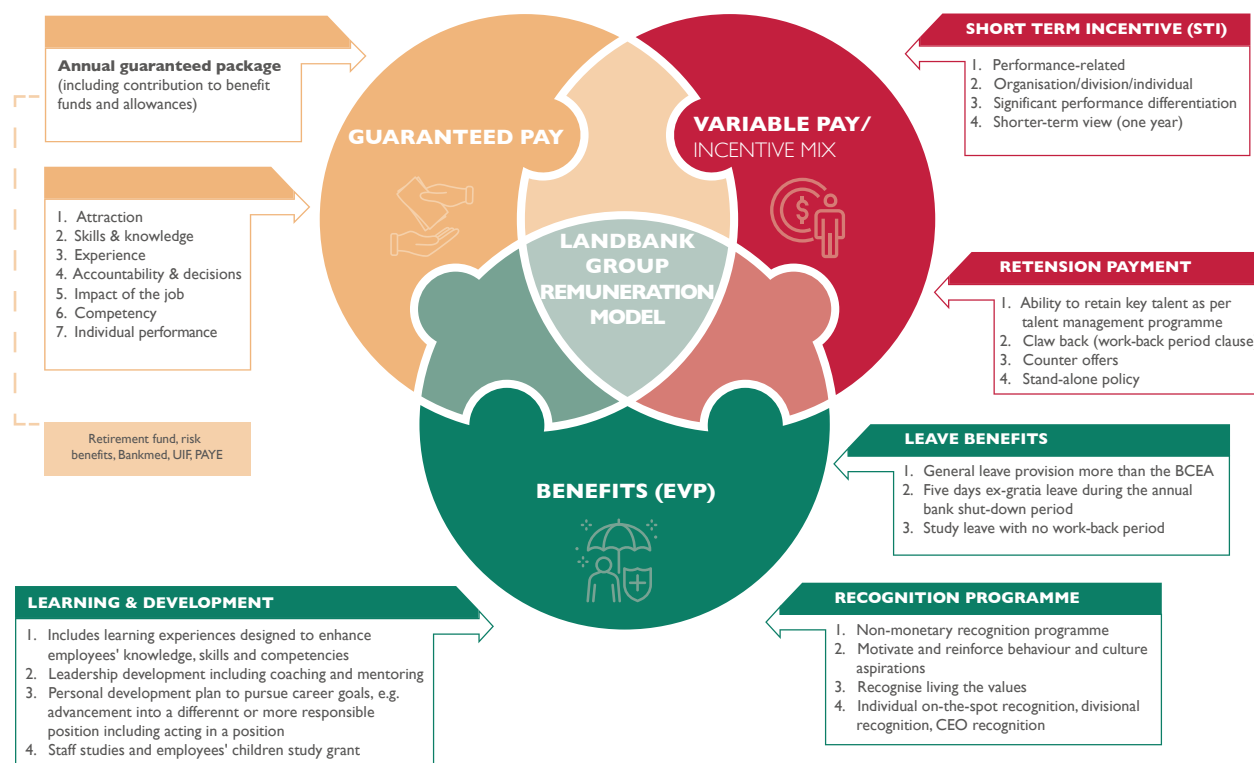
GOVERNING OUR BUSINESS

Remuneration policy overview

The ultimate goal of the bank's remuneration policy is to reward engaged employees for value created, contribution and performance while recognising the concept of equal pay for work of equal value. Our remuneration strategy and structure align themselves with the corporate plan, its values and the successful execution of the plan.

Our remuneration philosophy aims to set annual guaranteed packages at a competitive level and to provide incentives that are designed to drive performance and contribute towards staff retention. The policy strives to establish appropriately positioned remuneration practices thereby contributing to a performance-centred culture that will serve to motivate employees and ensure the bank's long-term sustainability.

Our total remuneration approach, which considers monetary and non-monetary rewards within a Land Bank Group employee value proposition aligned with corporate strategy, is shown in the diagram below. The model comprises a combination of guaranteed pay, variable pay and benefits.



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 bank utilises annual salary survey reports from various survey houses for benchmarking purposes.
- The benchmarking information is used to compare the Land Bank remuneration range and offering against market, which in turn is used to inform the annual pay scales per level.
- Pay scales provide a guideline to enable the business to attract and retain required talent for the organisation and manage labour costs.
- A premium pay scale for roles identified in the critical positions are available. Benchmarks are set using the survey data for the following industries: financial services, SOEs, banking and insurance. The

DOP authorises the Board to approve the annually reviewed pay scales for critical and non-critical 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.
- The executives evaluate the performance and determine the salary increases of the non-bargaining unit employees in accordance with the Board-approved mandate, while the salary increases for bargaining unit employees are negotiated with the union. (72.85% of the bank's permanent employees are covered by collective bargaining agreements of SASBO union).
- The Board approves a bonus pool and the

distribution model for management to determine employee bonuses, based upon relative individual performance.

Our policy does not specify that executive management contracts contain any obligations that in the future may result in payments upon termination of employment or office.

In line with King IV requirements for integrated reporting, following the FY2019 analysis on equal pay, the table below is intended to disclose on remuneration by job levels and gender. A key component of remuneration is to strive towards equal pay for equal work and fairness.

The bank takes a holistic view when making offers to new staff which takes into account the candidate's current annual guaranteed package, the approved pay scale points per level and the internal parity.

MALE TOTAL AGP		
	Total AGP	Average AGP
ACI	R146 751 587.30	R922 965.96
White	R67 125 235.44	R860 579.94
Total		

MALE TOTAL AGP PER LEVEL		
Level	All Rand Value	Average AGP
Top management	R17 688 461.76	R2 948 076.94
Senior management	R32 022 859.80	R1 601 142.99
Middle management	R123 313 693.80	R862 333.22
Junior management	R35 690 158.56	R673 399.22
Semi-skilled	R4 106 334.00	R410 633.40
Unskilled	R1 055 314.80	R211 062.96
Total	R213 876 822.72	

FEMALE TOTAL AGP		
	Total AGP	Average AGP
ACI	R115 764 256.30	R737 351.95
White	R31 604 672.52	R854 180.34
Total		

FEMALE TOTAL AGP PER LEVEL		
Level	All Rand Value	Average AGP
Top management	R8 937 889.92	R2 948 076.94
Senior management	R18 074 518.08	R1 601 142.99
Middle management	R66 127 925.76	R881 705.88
Junior management	R37 040 903.76	R607 227.93
Semi-skilled	R16 439 634.60	R410 990.87
Unskilled	R748 056.72	R249 342.24
Total	R147 368 928.84	

ALL TOTAL AGP			
	Total AGP	Average AGP	Difference between average salary
ACI	R146 751 587.30	R922 965.96	
White	R67 125 235.44	R860 579.94	
Total	R361 245 751.56		

ALL TOTAL AGP PER LEVEL			
Level	All Rand Value	Average AGP	Difference between average salary
Top management	R26 626 351.68	R2 958 483.52	
Senior management	R50 097 377.88	R1 565 543.06	
Middle management	R189 441 619.56	R868 998.25	
Junior management	R72 731 062.32	R637 991.77	
Semi-skilled	R20 545 968.60	R410 919.37	
Unskilled	R1 803 371.52	R225 421.44	
Total	R361 245 751.56		

GOVERNING OUR BUSINESS

In general, there is equality regarding the average annual guaranteed packages per level and gender. However, within the senior management category, on average males are paid more per annum than females. The gap between highest and lowest paid employee is 19.57 times. There are no permanent employees paid below the National minimum wage.

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 (see material matters page 45). This set of indicators is agreed with the shareholders on an annual basis, included in the corporate plan and shareholder compact, and accordingly considered to be the foundation of FY2020 remuneration decisions. Decision-making concerning the distribution of bonus pool is based on these measurable scorecards.

Guaranteed pay

The Land Bank Group pays an annual salary increase, which is based on individual performance. An employee must achieve an individual performance rating of 3 or above to be eligible for a performance-based increase. The annual salary negotiations with the union commenced in June 2019. The initial round of negotiations led to non-agreement. Human capital engaged EXCO on a revised annual increase % model between the bargaining and non-bargaining unit. The revised model was approved by EXCO and settled with the union during a second round of negotiation, and

the annual salary increases were implemented in the July 2019 payrun. Executive managers' salary increases were paid in August 2019. The Board-approved overall mandate increase of 6% was adhered to.

The salary increases for bargaining unit employees ranged from 4.4-6.2% and for non-bargaining unit and executive management.

Short-term incentive (STI)

The Land Bank short-term incentive payment governance structure is based on two levels. The Land Bank Board has overall authority to approve performance-based incentives for all staff below the executive and senior management levels. The Minister of Finance, based on the Land Bank Government Guarantee facility conditions outlined in 2015, approves performance-based incentives for executive and senior management level. The conditions of the guarantees regarding incentive payments have been adopted by the Board since 2015 and will continue to honour this directive until such time that National Treasury revokes the condition. The Minister considers the Board's recommended bonus allocation in view of the previous year's audited financial statements and performance of the bank, with the result that bonuses paid in the current financial year pertain to performance from the previous financial year.

The Minister of Finance reviewed the Board's request to allocate and pay performance incentives to the executive and senior management level. The Minister, after careful consideration of the overall performance Land Bank and based on the decline in performance from the previous financial year, did not approve the

payment of incentives for Land Bank executives and senior management. The Minister did approve the payment request for the managing director of the Land Bank Insurance Company and the executive managers based on the overall performance of the insurance company. The Land Bank Board has taken note of the Minister's decision.

The Land Bank Board approved the payment of performance incentives for staff in Peromnes level 6 to 15 (middle management to unskilled employees). The overall performance of Land Bank was taken into consideration in the allocation of the performance incentive amounts and were less than the previous financial year.

Non-monetary award programme

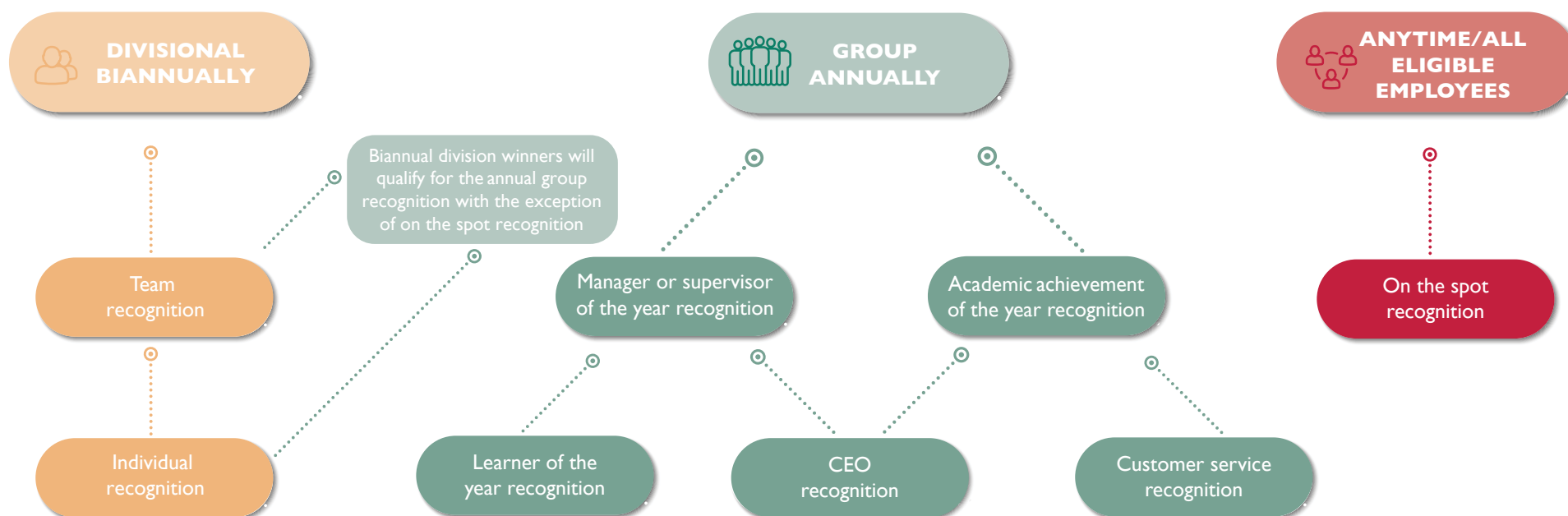
Human capital paid specific attention to the outcome of the culture and climate survey conducted during FY2018 whereby employees placed emphasis on recognition. Due the Land Bank being a SOE, the bank is limited by cost-containment guidelines from National Treasury regarding monetary awards to staff. Human capital therefore developed a non-monetary recognition programme to implement recognition without monetary value. The programme was approved during FY2020 for implementation in the new financial year.

The principles of the programme are to:

- Motivate and reinforce Land Bank's behavioural and cultural aspirations
- Support and entrench Land Bank's values
- Recognise exceptional teamwork between business

- units and divisions
- Recognise exceptional individual behaviour
- Recognise exceptional behaviour through non-pecuniary nature recognition
- On the spot recognition – recognise immediately after an employee has delivered on a task or demonstrated exceptional behaviour

The programme is based on the below categories.



GOVERNING OUR BUSINESS

Group remuneration

Total non-executive director remuneration increased by 5.3% in FY2020. This was due to an increase in directors' fees as approved by the Minister at the AGM held in November 2019, as well as an increase in special meetings in the period.

Remuneration of Land Bank non-executive directors and executive directors for 2020 (R 000)

	Board	AGM	Audit & Finance	Risk	Credit risk	HR	SEC	Ad-hoc meetings	Other benefits, fees and expenses	2020 Total
Non-executive directors										
MA Moloto	924	10	-	-	192	63	63	73	-	1 325
DR Hlatshwayo	347	10	-	-	160	63	32	82	5	699
SA Lund (1)	347	10	79	113	-	-	-	64	5	618
NV Mtetwa (2)	103	10	79	31	-	-	-	27	1	251
TT Ngcobo	366	10	-	63	-	113	97	91	4	744
DN Motau	366	10	-	-	226	-	-	73	4	679
SJ Coetzee(3)	308	10	-	31	-	47	48	19	1	464
ME Makgatho	366	10	136	-	160	-	-	64	4	740
ME Makgobo	366		16	63	176	-	-	73	50	744
ST Cornelius	347	10	95	-	160	78	-	73	15	778
Subtotal	3 840	90	405	301	1 074	364	240	639	89	7 042

1. 50% was paid to Transnet Foundation in terms of Ms Lund's employer policy on non-executive directorship

2. Resigned - 30 August 2019

3. Resigned - 30 April 2020

Remuneration: Land Bank non-executive directors for FY2019 (R 000)

	Board	AGM	AFC	RGC	CIC	HRC	SEC	Ad-hoc meetings	Fees and expenses	2019 Total
Non-executive directors										
MA Moloto	831	8	-	-	260	91	61	36	-	1 287
DR Hlatshwayo	274	8	-	-	214	61	76	35	6	674
N Zwane	53	-	44	-	-	15	15	-	-	127
SA Lund ¹	292	8	107	93	-	-	-	44	6	550
NV Mtetwa	273	8	197	61	-	-	-	45	2	586
TT Ngcobo	311	8	-	61	-	123	109	62	4	678
DN Motau	311	8	-	-	308	-	-	45	8	680
SJ Coetzee	311	8	-	61	-	76	61	45	2	564
ME Makgatho	311	8	121	-	229	-	-	28	5	702
MS Makgobo	258	8	-	46	202	-	-	70	63	621
ST Cornelius	258	8	77	16	94	61	-	70	13	580
Subtotal	3 483	80	546	338	1 307	427	322	480	109	7 049

¹ 50% was paid to Transnet Foundation in terms of Ms Lund's employer policy on non-exective directorship

GOVERNING OUR BUSINESS

	Board	AGM	Audit & Finance	Risk	Credit risk	HR	SEC	Ad-hoc meetings	Other benefits, fees and expenses	2020 Total
Executive directors										
Bennie van Rooy (4) Chief Financial Officer & Acting Chief Executive Officer	-	-	-	-	-	-	-	-	7	849
Konehali Gugushe (5) Chief Risk Officer & Acting Chief Executive Officer	-	-	-	-	-	-	-	-	49	2 803
Ayanda Kanana (6) Chief Executive Officer	-	-	-	-	-	-	-	-	8	316
Khensani Mukhari (7) Chief Financial Officer	-	-	-	-	-	-	-	-	4	568
Total Land Bank	3 840	90	405	301	1 074	364	240	639	157	11 578
4. Resigned - 30 June 2019 5. Resigned Acting Chief Executive Officer - 31 December 2019 6. Chief Executive Officer from 1 March 2020 7. Chief Financial Officer from 1 February 2020										

Remuneration of Land Bank executive directors for FY2019 (R 000)

Executive directors	Board	AGM	Audit & Finance	Risk	Credit risk	HR	SEC	Ad-hoc meetings	Guaranteed package	Performance bonuses	Other benefits ¹ , fees and expenses	2019 Total
TP Nchocho												
Chief Executive Officer	-	-	-	-	-	-	-	-	3 141	1 092	83	4 316
BJ van Rooy												
Chief Financial Officer	-	-	-	-	-	-	-	-	3 489	668	28	4 185
Total Land Bank	3 483	80	546	338	1 307	427	322	437	6 630	1 760	111	15 550

¹Other benefits include vitality benefits

GOVERNING OUR BUSINESS

Remuneration of Land Bank Insurance Services non-executive directors and executive directors for 2020 (R 000)

	Board	AGM	Audit & Finance	Investment and actuarial	Ad-hoc meetings	Other benefits (3), fees and expenses	2020 Total
DN Motau	71	9	51	30	9	-	170
TT Ngcobo	71	9	-	-	9	-	89
DR Hlatshwayo	492	9	-	-	9	-	510
SJ Coetzee (1)	28	-	-	-	-	-	28
ME Makgatho	70	9	-	41	9	-	129
M Scharneck (2)	70	-	20	30	-	2	122
S Masuku	156	-	115	11	-	1	283
K Sukdev (4)	0	0	0	0	0	-	0
Subtotal	958	36	186	112	36	3	1 331

1. Resigned - 30 April 2020

2. Resigned - 30 September 2019

3. Other benefits include vitality benefits

4. Mr K Sukdev is the CEO of GPEF – Government Employees Pension Fund and therefore, cannot be remunerated

	Board	AGM	Audit & Finance	Investment and actuarial	Ad-hoc meetings	Other benefits (3), fees and expenses	2020 Total
Adam Rakgalakane Managing director	-	-	-	-	-	4	3 320
Total LBIS	958	36	186	112	36	32	4 651

Remuneration: Land Bank Insurance Services non-executive directors for FY2019 (R 000)

Non-Executive Directors	Board	AGM	Audit & Risk	Invest. & Actuarial	Adhoc Meetings	Guaranteed Package	Performance Bonuses	Other Benefits ¹ , Fees & Expenses	2019 Total
D Motau	68	8	58	40	35	-	-	-	209
T Ngobo	68	8	-	-	27	-	-	-	103
N Zwane ¹	-	-	-	-	-	-	-	-	-
D Hlatshwayo	496	8	-	-	36	-	-	-	540
S Coetzee ²	68	-	-	-	9	-	-	-	77
M Makgatho	55	8	24	39	36	-	-	-	162
M Scharneck ³	136	8	30	49	9	-	-	4	236
S Masuku	150	8	100	9	9	-	-	2	278
M Makgoba	-	8	-	-	18	-	-	-	26
S Cornelius	-	8	-	-	9	-	-	-	17
Subtotal	1 041	64	212	137	188	-	-	6	1 648

Executive Director	Board	AGM	Audit & Risk	Invest. & Actuarial	Adhoc Meetings	Guaranteed Package	Performance Bonuses	Other Benefits ¹ , Fees & Expenses	2019 Total
Adam Rakgalakane Managing director	-	-	-	-	-	3 176	767	28	3 971
Total LBIS	1 041	64	212	137	188	3 176	767	34	5 619

GOVERNING OUR BUSINESS

Remuneration - Land Bank executive officers in FY2020 (R'000)

Title	Guaranteed package	Bonus	Cellphone allowances	Other benefits (1)	Total
Ms ETM Dlamini Executive Manager: Human Capital	2 834	-	24	3	2 861
Ms L Ndlovu Executive Manager: Commercial Development and Business Banking	1 124	-	10	2	1 136
Mr SCE Soundy² Executive Manager: Strategy and Communications	2 898	-	24	5	2 927
Mr F Stiglingh Executive Manager: Portfolio Management Services	2 883	-	24	4	2 911
Mr SN Sebueng Executive Manager: Legal	2 281	-	24	-	2 305
Dr LL Magingxa Executive Manager: Agricultural Economics & Advisory	2 623	-	24	4	2 651
Mrs U Magwentshu Executive Manager: Corporate Banking and Structured Investments	2 700	-	24	-	2 724
Total	17 343	-	154	18	17 515

1. Other benefits include vitality benefits

2. Acting Chief Executive Officer from 15.01.2020 till 29.02.2020

Remuneration: Land Bank executive officers for FY2019 (R 000)

Title	Guaranteed package	Bonus	Cellphone allowances	Other benefits ¹	Total
Ms ETM Dlamini Executive Manager: Human Capital	2 729	520	24	3	3 276
Ms L Ndlovu Executive Manager: Commercial Development and Business Banking	2 594	430	24	-	3 048
Mr SCE Soundy Executive Manager: Strategy and Communications	2 797	502	24	4	3 327
Mr GJM Conway² Executive Manager: Corporate Banking and Structured Investments	748	-	8	1	757
Ms K Gugushe Chief Risk Officer	2 915	576	24	3	3 518
Mr F Stiglingh Executive Manager: Portfolio Management Services	2 777	519	24	4	3 324
Mr SN Sebueng Executive Manager: Legal	2 200	452	24	-	2 676
Dr LL Magingxa Executive Manager: Agricultural Economics & Advisory	2 500	-	24	4	2 528
Mrs U Magwentshu³ Executive Manager: Corporate Banking and Structured Investments	225	-	2	-	227
Total	19 485	2 999	178	19	22 681

¹Other benefits include vitality benefits

² Resigned as at 13 July 2018

³ Appointed as at 01 March 2019

GOVERNING OUR BUSINESS

King IV™ Code disclosures for the year ended 31 March 2020

These draft King IV Disclosures are drafted by the report-writing team based on information obtained from the Land Bank management and staff, and/or from interviews with selected Board Members and/or from EY observations derived from EY's high-level King IV application gap analysis performed in respect of the relevant period.

For finalisation, the draft disclosures require:

- **review by the Land Bank Group Secretariat and by the relevant Land Bank Executives to ensure that the content of the draft disclosures is complete, accurate and valid including with respect to their knowledge and understanding of the prevailing circumstances in respect of the relevant period (i.e. the reporting period ended on 31 March 2020), and in respect of disclosure of the Board's areas of future focus; and**
- **review by the Land Bank Board, aligned to the King IV Recommended Practice on board oversight and approval of its external reporting and external reports.**

The Land Bank Board is committed to aligning with the corporate governance philosophies and principles contained in the King IV Report on Corporate Governance for South Africa (2016) (King IV Report) and achievement of the 17 Principles set out in the King IV Code of Corporate Governance (King IV Code) contained in the King IV Report, and achieving their associated good governance outcomes.

The Bank has reviewed its current corporate governance practices to assess its degree of alignment with each of the 17 Principles, and with the Recommended Practices associated with each Principle.

The Board's assessment of the Land Bank's application of each of the King IV Principles towards achievement of the King IV governance outcomes is summarised in the disclosure reference table below.

These Disclosures include cross-references to where additional or other corporate governance disclosures are available within the Land Bank's suite of external reports published for the 2020 reporting period, specifically in the 2020 Land Bank Integrated Annual Report.



King IV Code Principles



LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

PRINCIPLE 1: The Board should lead ethically and effectively

The conduct of the Board is governed with reference to various board-approved establishment and policy documents that set out the required standards of board conduct, including the Board Charter, a Board Code of Ethics and Business Conduct, a Board Conflict of Interest Policy and a Board Manual.

In addition, the Board subscribes to the principles of good governance advocated in the King Report on Corporate Governance for South Africa, 2016.

Board members have an individual and collective responsibility of setting the tone for an ethical organisational culture, both at board level and across the group. Board members hold each other to account for their actions in particular those actions which may be viewed in conflict with their fiduciary responsibilities as directors.

The Board engages at least once a year with employees regarding the goals and strategic objectives of the Bank which are driven by the Board unapologetic approach and the adherence to high ethical standards. The Board will not hesitate to act against employees regardless of their designation or level where it is considered that these standards have been breached.

The Land Bank prides itself on the governance processes in place and that in the face of any corporate governance lapses, the Board does not hesitate to take disciplinary action and dismiss individuals where necessary.

Refer also to the disclosures contained in the Integrated Report (page 120) in relation to the Board's ethical and effective leadership of the Bank in respect of the Board's performance of the governance functions for the Bank.

PRINCIPLE 2: The Board should govern the Land Bank's ethics in a way that supports the establishment of an ethical culture.

The Board has approved a Code of Ethics and Business Conduct to which all members of staff are required to adhere. These are clearly articulated ethical standards and the Board through its Social and Ethics Committee ensures that they are adhered to in all aspects of the business, thus achieving a sustainable ethical corporate culture.

Through the Social and Ethics Committee the Board also ensures that Management develops and implements programmes, guidelines and practices congruent with Land Bank's social and ethics policies, reviews the material risks and liabilities relating to the provisions of the Code of Ethics and Business Conduct and ensures that such risks are managed as part of Land Bank's risk management programme which is overseen by the Risk and Governance Committee. Towards that end, the Social and Ethics Committee receives and reviews a quarterly AML (Anti-money Laundering) Report which deals with among others PIPs (Politically Influential Persons) and PEPs (Politically Exposed Persons). The Committee also receives, reviews and advises on an Ethics Report which covers the status of ethical conduct within the Bank.

Refer also to the disclosures contained in the Integrated Report (page 136) in relation to the Social and Ethics Board sub-committee's performance of governance oversight functions in relation to the Bank's management and monitoring of organisational ethics.

PRINCIPLE 3: The Board should ensure that the Land Bank is and is seen to be a responsible corporate citizen.

The Board has finally approved the Bank's adoption of the United Nations Environmental Programme Finance Initiative's Principles for Responsible Banking (PRB) programme.

The Board has approved an ESS Policy and Programme which recognise that it has an opportunity to play an important role in promoting land stewardship, protection of the environment and communities impacted by its activities and to help secure the long-term sustainability of natural resources, communities and society at large.

The Board also recognises its dependence on the environment and the resources it provides for achievement of its objectives. As such the Board aims to be a responsible steward in the protection of the environment and human rights to strengthen its social license to operate.

Refer to the disclosures contained in the Integrated Report (pages 123 and 124) in relation to the Board and Executive Management's team's leadership of the Bank's various initiatives demonstrating its commitment to responsible corporate citizenship.



STRATEGY, PERFORMANCE AND REPORTING

PRINCIPLE 4: The Board should appreciate that the 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 strategic planning processes of the Bank are governed by the National Treasury Framework for Strategic and Annual Performance Plans (2010) which seek to ensure that strategic and annual performance planning is aligned to the outcomes oriented monitoring and evaluation approach led by the Presidency in particular the National Development Plan.

It is the responsibility of the Management to develop a Corporate Strategy for the Bank, which is then reviewed by each standing Committee of the Board to ensure that it is in line with the mandate and goals of the Bank with regard to the empowerment of previously disadvantaged communities, the promotion of emergent farmers, the sustainability of commercial agriculture and food security. The Strategy is then considered and approved by the Board which seeks to ensure that it resonates with the identified risks and opportunities, performance parameters, the future outlook and governance arrangements of the Bank, and establishes a strategic platform for the Bank to create value over the short, medium and long-term aligned to identified needs and expectations of the Bank's key stakeholder base.

The Board is however, cognisant of the fact that it is entitled to discharge such responsibility by way of express delegation of its authority to control, manage and direct its own affairs. The Board has therefore approved a primary and secondary Delegations of Power.

Refer to the disclosures contained in the Integrated Report (pages 123 and 124) in relation to the Board and Executive Management team's role in relation to directing and executing the Bank's approved business strategy aligned to its approved Corporate Plan.

PRINCIPLE 5: The Board should ensure that the reports issued by the Land Bank enable its stakeholders to make informed assessments of the Land Bank's performance and its short, medium and long-term prospects.

Reporting is governed by the Land Bank Act, the PFMA, National Treasury Regulations, National Treasury Guidelines for Annual and Quarterly Reporting and the Rules of the Johannesburg Securities Exchange (JSE). All external reports are first reviewed by the Committees of the Board for accuracy, usefulness, timeliness and completeness before they are tabled before the Board for approval and for release to third parties. Where applicable, such reports are first validated by internal audit before they are tabled before the Board and its Committees for consideration and approval.

The Board and its Committees therefore review and have oversight over the integrity of the Bank's external reporting which includes reliance on effective application of the Bank's combined assurance arrangements. Internal and external assurance is applied to the various components of the external reporting suite under the oversight and direction of the relevant Board Committees and with reference to any legal requirements for independent, external audit and/or assurance contained in any relevant law and/or regulations (as applicable for instance to certain types of external reports, such as the Bank's statutory Annual Financial Statements).

The Auditor General has issued a Disclaimer of Opinion for the year under review. This follows Unqualified Audit Opinions for at least the last decade. The primary reason for the disclaimer pertains to matters that the Bank was alerted to by the Auditor General in the past 2 years, viz. the management of the Expected Credit Losses (ECLs) model, as well as the maintenance of reliable ECL input data. This disclaimer comes at a time when the Board had already initiated measures to address them, but the loss of skills in the affected areas led to a capability vacuum that the Bank was unable to immediately fill, resulting into very little progress during the financial year. The key vacant positions were those of Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head of Treasury, and the General Manager: Finance, Strategy and Planning. All these positions have since been filled and it is anticipated that all the issues pertaining to the disclaimer will be resolved by the end of the current financial year.

Refer to the Integrated Report (page 137) in relation to the Board's performance of its governance oversight role in relation to the Integrated Annual Report, and to the audited statutory annual financial statements (pages 6-7) in relation to the Board's approval of those financial statements.

PRINCIPLE 6: The Board should serve as the focal point and custodian of corporate governance in the Land Bank.

The Board is the custodian corporate governance and ultimately responsible for corporate governance of the Land Bank Group. Board actions are governed by the law and regulation, a Board Charter and Manual, Treasury Guidelines and Practice Notes, and corporate governance best practice including the King Report on Corporate Governance for South Africa.

The business and affairs of the Land Bank are managed by or under the direction of the Board, which has the authority to exercise all of the powers and perform any of the functions of the Land Bank, except to the extent that a Land Bank Act otherwise provides. The Board acknowledges its authority and responsibility to control, manage and direct its own affairs. The Board is however, cognisant of the fact that it is entitled to discharge such responsibility by way of express delegation of its authority to control, manage and direct its own affairs.

Towards that end, the Board has delegated some of its powers, duties and functions to the CEO of the Land Bank, to certain Directors, to Board Committees, to employees of the Land Bank, and to the holders of certain specific positions or bodies.

CONTINUED ON NEXT PAGE

The Board does delegate some of its powers to one or more of its number. Such delegation is only valid if it is made at a duly convened and assembled Board meeting. Verbal authority given in the course of informal discussion is not valid.

The Board has approved primary and secondary delegations of power which comprehensively set out the powers that it has reserved for itself, and the powers that have been delegated to Board Committees and other structures and functionaries.

In delegating its powers, function or duties, the Board has not divested itself of its responsibility concerning the exercise of the delegated powers or the performance of the delegated functions or duties. The holders of delegated power are accountable to the Board for the exercise of delegated power and must report to the Board on how the delegated power has been exercised. All material facts or information regarding the exercise of delegated power has to be disclosed.

The Board can confirm, vary or set aside any decision made under any delegation subject to any rights that may have become vested as a consequence of the decision. All delegations by the Board are subject to any statutory limitations and conditions that the Board may impose.

All delegations are supported by a system of checks and balances to ensure good governance and the mitigation of the undue concentration of powers. The Board has to amend or withdraw any delegation at any time. The Board must agree to the levels of sub-delegation immediately below the CEO. The Board will not delegate its authority to delegate

The Board has delegated the some of its responsibilities to various structures and functionaries. These include the Audit and Finance Committee, the Social and Ethics Committee, the Risk and Governance Committee, the Credit and Investment Committee and the Human Resource Committee, individual directors and members of Management.

All delegations of authority are in terms of the Land Bank Act, the PFMA, Treasury Regulations and best practice, and are made in writing and reviewed and approved by the Board on an annual basis.

The Board exercises oversight over the functions and activities of the all Board Committees and Management in terms of its own Work plan which it develops and approves on an annual basis. The Board Work plan can be reviewed and amended in-year if and when circumstances dictate.

To the extent that the power and authority of the Board has not been delegated to individuals or committees, directors must act at duly convened and properly constituted Board meetings. It is not sufficient to procure the separate agreement of a sufficient number of directors to form a quorum.

The Board is satisfied that is has fulfilled its responsibilities in accordance with its Charter for relevant reporting period.

[<https://landbank.co.za/About-Us/Pages/Our-Board.aspx>].

Refer to the disclosures contained in the Integrated Report (page 120) in relation to the Board's performance of its role as custodian of corporate governance for the Bank, including information about the meetings of the Board that occurred during the relevant reporting period.

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.

Section 8(6) of the Land Bank Act provides that the Land Bank Board must, when viewed collectively, represent a broad cross section of the South African population; be suited to serve on the Board by virtue of qualifications, expertise and experience; and be committed to the objectives of the Land Bank. Towards that end, a Board Skills Matrix was prepared and considered by the Board. The purpose of the Matrix was to:

1. Determining board and board committee optimal structures
2. Identifying the current skills, knowledge, experience and competencies of the board and board committees
3. Identifying the skills gaps at board and board committee level
4. Designing programmes to close skills gaps
5. Informing programmes for the continuing development of directors
6. Integrating board evaluation with succession planning
7. Providing guidance for:
 - (i) The recruitment of directors for subsidiary entities
 - (ii) The assignment of directors of the parent entity to the boards of subsidiaries
 - (iii) Recommending directors to the Minister for appointment, reappointment and termination
 - (iv) The assignment of directors to among others Board Committees, Board task teams and Board working groups
 - (v) Nominating directors for appointment to third party entities where the Bank has equity interests
 - (vi) Selecting advisers to the Board, Board Committees and Management; and
 - (vii) Identifying and developing potential director talent in and outside the Bank.

A skills audit of the Board was then conducted and used to inform all of the above. It was used in particular to determine skills gaps and development areas on the Board, and to inform recommendations to the Minister regarding the filling of Board vacancies.

It should be noted that regardless of all of the above, in terms of the Land Bank Act, the exclusive authority to appoint Board members ultimately resides in the Minister.

Refer to the disclosures contained in the Integrated Report (page 120) in relation to the Board's performance of its role as custodian of corporate governance for the Bank, including information about the meetings of the Board that occurred during the relevant reporting period.

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.

All Board Committees function in terms of a comprehensive written terms of reference (Charter) which is reviewed and annually approved by the Board.

The Committees of the Board operate in terms of Work plans which are approved by each Committee on an annual basis and revised in-year if and when circumstances dictate.

The focus areas of each Board Committee are agreed upon by each Committee on an annual basis.

Board Committees approve such matters as may have been delegated to them by the Board.

At least once every quarter or as often as is considered necessary, Board Committees receive reports from Management regarding the matters set out in the Committee Charters and Committee Work plans.

Committees can make such recommendations and give such directions to Management on matters that fall within the ambit of their authority as they may consider appropriate. At least once every quarter or as often as is considered necessary Committees report to the Board on their activities and on how they have discharged their responsibilities.

Committees also make recommendations to the Board on matters that are reserved for the Board and on such others as it may consider appropriate.

Refer to the disclosures contained in the Integrated Report (page 121) in relation to the Board's governance structures, and the various Board sub-committee reports setting out each committee's performance and focus areas during the relevant reporting period.

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 Board believes that appraising its performance helps clarify the individual and collective roles and responsibilities of individual directors, and better knowledge of what is expected of directors helps the Board become more effective. It assists in identifying skills and capacity gaps which when filled enables the Board to be better positioned to deliver on its mandate, goals and strategic objectives.

Done properly, board appraisals help improve the relationship between the Board and Management and ensure that there is a healthy balance of power between the Board and the Chief Executive Officer. In short, improved board performance translates into better corporate governance outcomes and the quality of the Land Bank Board is an important evaluation factor for funders and institutional investors.

In this context, the Board is committed to the continued improvement of own its performance and effectiveness. It believes that a highly effective Board is essential if the Land Bank is to produce sustainable returns for the Shareholder, its broad range of stakeholders and wider society.

During July 2019 an evaluation of the Board, its Committees and individual members was commissioned by the Shareholder in respect of the FY19 reporting period. The initial results of that Board assessment became available in the course of the FY20 reporting period and were tabled for Board discussion during FY21.

The results of the Board assessment were discussed by the Board and areas of collective development were identified. Plans were agreed upon and implemented to ensure that skills gaps and other deficiencies were addressed. Individual assessments were only shared with the board member concerned. Members have welcomed access to their own scores as this enabled them to identify the areas that they might have to work on to improve their performance or to change incorrect perceptions that their colleagues might have about them.

The result of the evaluation overall was that the Board appeared to be well composed at the time of the evaluation. Its collective qualifications and experience compared favourably with the disciplines and competence that were required on the Board of an institution such as the Land Bank.

Refer to the disclosures contained in the Integrated Report (pages 123-124) in relation to the Board's process for periodic independent evaluation of its performance and effectiveness in respect of discharging its statutory functions and the other governance functions as set out in the Board Charter.

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.

The Board has an approved Delegation of Powers framework to enable appropriate delegation of authority and responsibility to the executive functions that comprise the Land Bank's appointed executive team, and role clarity to promote effective arrangements for the management of the Bank.

The Board delegates authority to the Executive Directors to manage the day-to-day business and affairs of the business, and in that context the Executive Directors are entitled to exercise the powers vested in them in terms of the law and by virtue of valid delegations. However the Board as a whole maintains overall responsibility for governance-level leadership of the Bank.

The delegations of power are supported by a system of checks and balances to ensure good governance and pre-empt undue concentration of powers. The approved Delegation of Powers promote role clarity and effective arrangements for the management of the Bank.

Refer to the disclosures contained in the Integrated Report (pages xx) in relation to the Board's performance of its governance oversight functions in relation to the Bank's Executive and management functions under the approved Delegation of Powers.

PRINCIPLE 11: The Board should govern risk in a way that supports the Land Bank in setting and achieving its strategic objectives.

Risk oversight is a primary Board responsibility, and the Board develops and continuously improves practices to establish a well-defined and effective oversight function. The Board plays a critical role in influencing Management's processes for monitoring risks, and clearly defines which risks the full Board should discuss regularly, versus risks that can generally be delegated to a Board Committees. Management maintains a list of all enterprise-wide risks, which are mapped for the specific oversight of Board committees, particularly the Risk and Governance Committee.

The Board is cognisant of the need to monitor effectiveness of risk management and will consider an appropriate approach for this in the coming reporting period.

Refer to the disclosures contained in the Integrated Report (pages xx) in relation to the Board's governance oversight of the Executive's performance of the risk management functions for the Bank.

PRINCIPLE 12: The Board should govern technology and information in a way that supports the Land Bank setting and achieving its strategic objectives.

Information and technology governance is the responsibility of the Board and management. It is an integral part of the overall governance structures of the Land Bank, and directors take an active role in information and technology strategy and governance through the Risk and Governance Committee.

The Board ensures the proper value delivery of information and technology, that the expected return on investment from information and technology projects is delivered and that the information and intellectual property contained in the information systems is protected.

The Board governs technology and information in a way that supports the setting and achieving the strategic objectives of the Land Bank. It also ensures that the information and technology of the Land Bank sustains and extends the strategy and objectives of the Bank.

The Board specifies the decision rights and accountability framework designed to encourage the desirable culture in the use of information and technology.

The Board specifies the decision rights and accountability framework designed to encourage the desirable culture in the use of information and technology.

The Board is cognisant of the need to monitor effectiveness of the Bank's information and technology arrangements and will consider an appropriate approach for this in the coming reporting period.

Refer to the disclosures contained in the Integrated Report (pages xx) in relation to the Board's governance oversight of the Executive's performance of the information and technology management functions for the Bank.

PRINCIPLE 13: The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the Land Bank being ethical and a good corporate citizen.

The Board insists on compliance with the law and applicable regulation including the JSE Debt Issuer Listing Rules.

The Board insists that exceptions permitted in law and shortcomings in the law are handled in a responsible manner.

The Board defines the approach and approves the policy for the management of compliance.

The Board considers if adhering to applicable non-binding rules and standards achieves good governance, and adheres to them if that would result in best practice.

The Board discloses the applicable non-binding rules and standards to which it adheres on a voluntary basis.

The Board timeously identifies the laws, regulations and non-binding rules and standards applicable to it.

Directors sufficiently familiarise themselves with the content of applicable laws and regulations, and those non-binding rules and standards that the Land Bank voluntarily abides by, to ensure that they have a sufficient understanding of the applicable content and effect of such laws, regulations, rules and standards on the Land Bank and the business of the Land Bank.

The Board is cognisant of the need to monitor effectiveness of compliance management and will consider an appropriate approach for this in the coming reporting period.

Refer to the disclosures contained in the Integrated Report (pages xx) in relation to the Board's governance oversight of the Executive's performance of the compliance management functions for the Bank.

PRINCIPLE 14: The Board should ensure that the Land Bank remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

The Board regularly review and approves a remuneration policy for all members of staff of the Land Bank.

The Board regularly reviews and approves the remuneration arrangements of Executives including fixed and variable remuneration components, performance measures and targets for incentives, having regard to the outcome of the annual performance review of the Executives.

The Board regularly reviews and approves the terms and conditions of the employment contract of the Chief Executive Officer including remuneration arrangements of the Chief Executive for approval by the Minister.

The Board considers, and if deemed appropriate, approves the terms and conditions of the contracts of employment of other members of the Executive and Senior Management.

The Board considers, and if deemed appropriate, approves the remuneration arrangements for other members of the Executive and Senior Management, as recommended by the Chief Executive Officer.

The Board satisfies itself that all governance, accounting, legal, approval and disclosure requirements in relation to remuneration are complied with.

The Board satisfies itself that any new or varied contracts with the Chief Executive Officer are disclosed in accordance with any governance, accounting and legal requirements.

The Board oversees management's preparation of the Remuneration Report for inclusion in the Land Bank's Integrated Report, reviews the Remuneration Report to ensure it is consistent with the information known to the Board, and appropriately reflects the decisions of the Board and the outcomes of those decisions.

The Board manages the Land Bank's engagement and communications with key stakeholders in relation to the content of the Remuneration Report.

Refer to the disclosures contained in the Integrated Report (pages xx) in relation to the Board's governance oversight of the Executive's performance of the compliance management functions for the Bank.

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 the Land Bank's external reports.

The Board has adopted a Combined Assurance Model which consists of four lines of defence, viz.

1. people, systems and controls
2. risk management and compliance function
3. internal audit function and
4. independent external assurance (AG)

The combined assurance model ensures that there is a co-ordinated approach to all assurance activities. The Combined Assurance model is based on

1. identified risks
2. how assurance is achieved for the particular risk
3. an identified assurance provider for the risk
4. where this assurance is reported

The Board seeks to ensure that the assurance which is provided by the four lines of defence is credible. This is achieved by ensuring that the skill and experience levels of the assurance providers are appropriate for the work to be performed, and that the extent of the work performed will address the potential and actual exposures.

The Board also ensures that there is a comprehensive plan for combined assurance, which includes the risk-based assurance coverage, analysed per assurance provider and the management/governance committee responsible.

The Audit and Finance Committee approves and oversees the combined assurance initiative. From an operational point of view, internal audit acting in consultation with risk management reviews the continued relevance of the combined assurance plan and makes recommendations to the Audit and Finance Committee about improvements. Internal Audit champions Combined Assurance.

The Board is cognisant of the need to monitor effectiveness of the Bank's combined assurance arrangements, and will consider an appropriate approach for this in the coming reporting period.

Refer to the disclosures contained in the Integrated Report (pages xx) in relation to the Board's governance oversight of the quality and effectiveness of the Bank's internal audit function and its combined assurance arrangements.



STAKEHOLDER RELATIONSHIPS

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 the Land Bank over time.

Summary explanation of the Land Bank's application of the Principle

The Board has adopted an inclusive approach to stakeholder management.

The Board has approved a Communication Policy which governs all its interactions with stakeholders, internal and external.

The Board exercises oversight over the Group Communication function including stakeholder engagement through the Social and Ethics Committee which receives and reviews the following quarterly reports:

1. Labour and Employment Practices Report
2. Marketing and Communications Report
3. Stakeholder Management Report
4. Development and Transformation Report
5. Environmental and Social Sustainability Report
6. Corporate Social Investment (CSI) Report
7. Research Report
8. Organisational Integration & Project Support Report

The Board is cognisant of the need to monitor effectiveness of stakeholder management and will consider an appropriate approach for this in the coming reporting period.

Group Governance Arrangements

The Land Bank Board has adopted a federal approach to governance arrangements applied within the group comprising the Land Bank and its insurance subsidiaries, to enable its subsidiary entities to function/adopt policies that are best suited to the nature of their business operations within the overall boundaries of what are considered good governance practices across the group.

In this context, the Land Bank's Group Governance Framework sets out the:

1. The principles of good group governance
2. The Group Governance Philosophy
3. Ethical Leadership
4. Group Governance Processes and Structures
5. The Roles and Responsibilities of role players

6. Key Group Governance Policies
7. Reporting
8. Contracting
9. Dispute Resolution
10. Implementation and monitoring

The Group Governance Framework was a work in progress in the relevant reporting period (FY20), and has subsequently been approved by the Board in August 2020. The Group Governance Framework has been prepared strictly in accordance with the guidelines provided by the IoD in January 2019.

Refer to the disclosures contained in the Integrated Report (pages xx) in relation to the Board's governance oversight of the quality and effectiveness of the Bank's stakeholder engagement, and related policies and practices, and its group governance framework applied to co-ordinate the corporate governance arrangements of the entities within the Land Bank Group.

PRINCIPLE 17: The Board should ensure that responsible investment is practiced by the Land Bank to promote the good governance and the creation of value by the companies in which it invests.

The Land Bank Board performs oversight of the Banks investment management activities through its nominated asset managers and investment managers, including by ensuring that they support the principles of 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).

The Bank's management responsible for monitoring investment performance proactively engages its asset managers on their responsible stewardship practices and to request the incorporation of environmental, social and governance factors in the investment selection process.

The Board has requested that management develop a formal Responsible Investment Policy that, once approved by the Board, will require adjustments to the Bank's investment mandates for the Bank's outsourced investment management activities. The policy will apply to all business units in the Bank in respect of investment and investment management activities of the Land Bank and its subsidiary companies.

Refer to the disclosures contained in the Integrated Report (pages xx) in relation to the Board's governance oversight of the Bank's responsible investment policies and practices

NOTES

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