LAND BANK
We stand by you

# INTEGRATED ANNUAL REPORT 2023

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# LIST OF ACRONYMS

| | |
|---|---|
| **AAMP** | Agricultural and Agro-processing Master Plan |
| **ACI** | Agribusiness Confidence Index |
| **AFC** | Audit and Finance Committee |
| **AGOA** | African Growth and Opportunity Act |
| **AGSA** | Auditor-General of South Africa |
| **AGP** | Annual Guaranteed Package |
| **AML** | Anti-Money Laundering |
| **ARC** | Audit and Risk Committee |
| **ASUF** | Agri-Sector Unity Forum |
| **BCP** | Business Continuity Plan |
| **CA** | Conservation Agriculture |
| **CCMA** | Commission for Conciliation, Mediation and Arbitration |
| **CDBB** | Commercial Development and Business Banking |
| **CEO** | Chief Executive Officer |
| **CFO** | Chief Financial Officer |
| **CPI** | Consumer Price Index |
| **CRISA** | Code for Responsible Investing in South Africa |
| **DALRRD** | Department of Agriculture, Land Reform, and Rural Development |
| **DFI** | Development Finance Institution |
| **CFT** | Combating the financing of terrorism |
| **CRM** | Customer Relationship Management |
| **DoP** | Delegation of Powers |
| **EAD** | Exposure at Default |
| **ERM** | Enterprise Risk Management |
| **ESG** | Environmental, Social, and Governance |
| **ESMS** | Environmental and Social Management System |
| **ESRA** | Environmental and Social Risk Assessment |
| **ESS** | Environmental and Social Sustainability |
| **EU** | European Union |

| | |
|---|---|
| **EVP** | Employee value proposition |
| **EXCO** | Executive Committee |
| **FMD** | Foot and Mouth Disease |
| **FN** | Foreign Nationals |
| **FSCA** | Financial Sector Conduct Authority |
| **FSI** | Financial Soundness Standards for Insurers |
| **FSP** | Financial Services Providers |
| **GDP** | Gross Domestic Product |
| **GHG** | Green House Gases |
| **GIS** | Geographic Information Systems |
| **GOI** | Governance and Operations standards for Insurers |
| **GRI** | Global Reporting Initiative |
| **HAF** | Heads of Actuarial Functions |
| **HRRC** | Human Resources and Remuneration Committee |
| **IMF** | International Monetary Fund |
| **IR** | Integrated Reporting |
| **ISF** | InsuResilience Solutions Fund |
| **IT** | Information Technology |
| **JSE** | Johannesburg Stock Exchange |
| **KPI** | Key Performance Indicators |
| **KZN** | KwaZulu-Natal |
| **LBI** | Land Bank Insurance |
| **LBIC** | Land Bank Insurance Company |
| **LBLIC** | Land Bank Life Insurance Company |
| **MCR** | Minimum Capital Requirement |
| **MoA** | Memorandum of Agreement |
| **MoF** | Minister of Finance |
| **MoU** | Memoranda of Understanding |
| **MPCI** | Multi-Peril Crop Insurance |
| **PDII** | Pasture Drought Index Insurance |
| **NDP** | National Development Plan |
| **NED** | Non-Executive Director |
| **NII** | Net Interest Income |
| **NIM** | Net Interest Margin |
| **NPL** | Non-Performing Loans |
| **NT** | National Treasury |
| **OHS** | Occupational Health and Safety |
| **ORSA** | Own risk and solvency assessment |
| **PA** | Prudential Authority |
| **PFMA** | Public Finance Management Act |
| **PRB** | Principles for Responsible Banking |
| **PRMAF** | Pension Fund Retirement Medical Aid Fund |
| **RA** | Regenerative Agriculture |
| **RGC** | Risk and Governance Committee |
| **SADC** | South African Development Community |
| **SAM** | Solvency Assessment and Management |
| **SAWS** | South African Weather Services |
| **SCR** | Solvency Capital Requirement |
| **SDG** | Sustainable Development Goals |
| **SLA** | Service Level Agreement |
| **SOC** | State-Owned Companies |
| **SOCRIG** | State-Owned Companies Remuneration and Incentives Guidelines |
| **SOE** | State-Owned Enterprises |
| **TAT** | Turn Around Times |
| **TCFD** | Task Force on Climate-Related Financial Disclosures |
| **UMA** | Underwriting Management Agency |
| **UNPRI** | United Nations Principles for Responsible Investments |
| **YTD** | Year to Date |

# PART I

## ABOUT THIS REPORT

# ABOUT THIS REPORT

*This report is an integrated narrative of the Land and Agricultural Development Bank of South Africa (Land Bank) for the period 1 April 2022 to 31 March 2023 by expanding upon the value creation of the Bank for its stakeholders. The report aims to combine the financial (quantitative) and sustainability (qualitative) information, as well as the intangible value created. It is produced in accordance with the principles of King IV and the Integrated Reporting framework. The reader will gain insight into the effects of the Bank's business on its internal and external environments.*

The Land and Agricultural Development Bank of South Africa (Land Bank), along with its Insurance Subsidiaries, Land Bank Insurance SOC Limited (LBIC), and Land Bank Life Insurance SOC Limited (LBLIC) (collectively, Land Bank Group), is pleased to present its Integrated Annual Report for the financial year ending 31 March 2023. This report offers a comprehensive overview of our performance, value creation, and societal contributions for the year, with a focus on matters relevant to shareholders, capital providers, regulators, and clients. It provides a balanced assessment of our ability to create sustainable value through our business model and the execution of our statutory mandate under the Land Bank Act.

The report encompasses the financial and operational activities of Land Bank Group, including Land Bank, Land Bank Insurance SOC Limited (LBIC), and Land Bank Life Insurance SOC Limited (LBLIC). While these entities are legally and governance-wise distinct, they are collectively referred to as Land Bank Group. The report outlines our financial and non-financial performance, strategy, opportunities, material risks, governance, and social and environmental issues, all of which significantly influence our value creation. There have been no significant changes in our scope, size, structure, or shareholding during the reporting period that would affect comparability with the previous year's report.

Matters considered to be of material value, as well as those that may significantly impact the Bank's stakeholders in relation to sustainability, have been reported herein. Value creation is the consequence of the way in which Land Bank Group applies and leverages its resources, strategy, and business model toward delivering holistic value for its stakeholders – including financial performance. The current strategy and business model are aligned to the needs and expectations of a wide and diverse range of stakeholders.

This report highlights matters of material value and potential significant impacts on our stakeholders in relation to sustainability. It demonstrates how Land Bank Group utilises its resources, strategy, and business model to deliver holistic value for stakeholders, including financial performance. Our current strategy and business model are tailored to meet the diverse needs and expectations of our stakeholders.

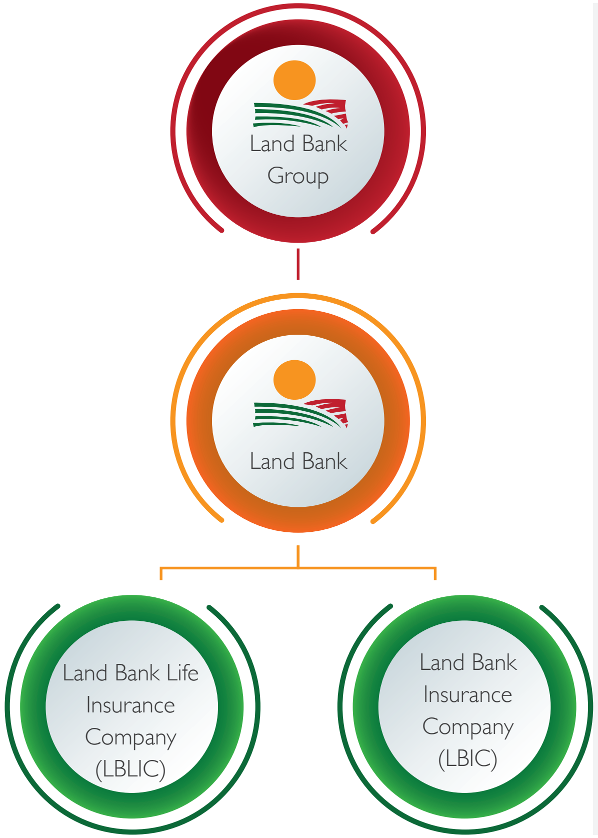
Compiled in accordance with the King IV Code™ of governance, Integrated Report <IR> framework, and Global Reporting Initiative (GRI) standard, this report ensures all material matters are communicated to shareholders. Updates have been provided where necessary, considering details from previous integrated reports.

The Board, with the support of the Audit and Finance Committee (AFC), is accountable for the effectiveness of the Bank's combined assurance, which supports the integrity of the information in the Integrated Annual Report. This includes the design and operation of our internal control system to prevent material misstatement and loss. The Bank's management and internal audit function play a crucial role in assessing the effectiveness of this internal control environment. The assurance applied to this report covers both figures and factual statements.

## BASIS OF PREPARATION

This report showcases Land Bank's adoption of integrated thinking and its application. It focuses on issues that significantly affect the Bank's capacity to create and sustain value for stakeholders. The content is sourced from the Bank's records, including quarterly reports submitted to the National Treasury, and encompasses details of the operational context, strategic performance, risks and mitigation measures, stakeholder engagement, and identified business opportunities. Contributions from the Executive Management team are incorporated, with all information reviewed by various committees and ultimately approved by the Board.

The Land Bank Board strives to provide an accurate and transparent account of the Bank's performance for the period.


*We however stress that these are separate entities from a legal and governance point of view – as recognised by the Prudential authority.*

## DETERMINING MATERIALITY

The Bank has formulated the Delegation of Powers (DoP) Framework, the Materiality Framework, and the Risk Appetite Framework, in which the materiality determination process is defined in line with Section 54(2) of Public Finance Management Act (PFMA) and Treasury Regulation 28.3.

The reference to material, major, significant, and substantial events is determined through a consideration of the event's strategic relevance, intrinsic value, magnitude, impact, and implications.

In line with Section 54(2) of the PFMA, the following is deemed material:

a. Establishment or participation in the establishment of a company;
b. Participation in a significant partnership, trust, unincorporated joint venture, or similar arrangement;
c. Acquisition or disposal of a significant shareholding in a company;
d. Acquisition or disposal of a significant asset;
e. Commencement or cessation of significant business activity;
f. A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture, or similar arrangement;
g. All instances of theft, fraud, and corruption (regardless of amount);
h. Transaction's positive and negative effects of 0,5% on total revenue; and
i. Transaction's positive and negative effects of 1% on total assets.

## FORWARD-LOOKING STATEMENTS

This report contains various forward-looking statements concerning potential future financial positions, business operations, strategies, and management plans. These statements are not factual at present, as they are based on current estimates, assumptions, and expectations for the Bank, contingent on future circumstances. Land Bank does not commit to publicly updating or revising these statements to reflect new information, future events, or otherwise.

## ASSURANCE

The Land Bank Integrated Annual Report for FY22/23 is compiled in line with the Bank's ethical values, statutory legislative frameworks, and best reporting practices. The Board of Directors has reviewed the report and believes, to the best of its knowledge, that it accurately and truthfully represents the organisation's position. The financial statements included have been assured through an audit conducted by the Auditor-General of South Africa (AGSA).

## STATEMENT OF RESPONSIBILITY

The Board promotes integrated thinking, which supports good corporate citizenship, stakeholder inclusivity, sustainable development, and integrated reporting. It has a comprehensive understanding of the Bank's strategy, resources, control system, reporting processes, and stakeholders. The Board guides the Bank in overseeing material and potential risks and opportunities, ensuring the Bank remains sustainable, responsive, and relevant. It strives to steer the Bank towards success while managing its status to optimise sustainable operations.

The Board has evaluated the content of the FY22/23 report, confirming that it addresses all material matters, the Bank's integrated performance, its strategy, and its short-, medium-, and long-term value creation and opportunities. Consequently, the FY22/23 Integrated Annual Report was unanimously approved by the Board on 23 August 2023.

**Approval Framework**

| External reporting suite | Applicable Legislation/ Regulation/ Framework/Standard | Assurance applied to validate the integrity of reporting | Outcome |
|---|---|---|---|
| 2023 Integrated Annual Report | • International Integrated Reporting Council's Integrated Reporting Framework<br>• The Johannesburg Stock Exchange (JSE) Debt Listing Requirements | • Land Bank Board<br>• Land Bank Insurance Board<br>• Audit and Finance Committee<br>• Risk and Governance Committee<br>• Executive Committee<br>• Combined Assurance – application of Land Bank's three lines of defence, including risk-based internal audit | Directors' approval |
| Annual Financial Statements for the year ended 31 March 2023 | • PFMA 1999<br>• Companies Act, 2008<br>• Companies Regulations 2011<br>• International Financial Reporting Standards (IFRS) | • Auditor-General<br>• Land Bank Board<br>• Audit and Finance Committee<br>• Executive Committee<br>• Combined assurance – application of Land Bank's three lines of defence, including risk-based internal audit | Directors' approval |
| 2023 King IV Disclosures | • Land and Agricultural Development Bank Act, 2002<br>• Companies Act, 2008<br>• Public Finance Management Act, 1999<br>• Insurance Act, 2017<br>• Prudential Standards of the Prudential Authority: Governance and Operational Standards<br>• King IV Report™ on Corporate Governance for South Africa 2016 (King IV)<br>• JSE Debt Listing Requirements | • Land Bank Board<br>• Audit and Finance Committee<br>• Risk and Governance Committee<br>• Executive Committee | Directors' approval |

## NAVIGATING THIS REPORT

This report contains feedback pertaining to the six capitals as prescribed in the various reporting frameworks. Each of these capitals is indicated as follows:

- Natural Capital
- Intellectual Capital
- Human Capital
- Social and Environmental Capital
- Manufacturing Capital
- Financial Capital

## COMBINED ASSURANCE MODEL

**Combined Assurance Model**

**1st Line of Defence**: Divisional senior management including Executives and Seniors

**2nd Line of Defence**: ERM, EXCO and EXCO Sub-Committees

**3rd Line of Defence**: **Independent Assurance providers:**

- Internal Audit
- External Audit
- Board and Sub-Committees
- Rating Agencies, etc.

Strategic Risk Register

## BOARD APPROVAL

This report was approved by the Land Bank Board of Directors (Board) and authorised for release on 23 August 2023. The Board acknowledges its responsibility to ensure the integrity of the FY22/23 Integrated Annual Report and supplementary information referenced therein. The Board has reviewed the report's contents and believes it provides a fair representation of the Bank's material issues, performance, and prospects. The Bank's AFC reviewed the report and recommended it to the Board for approval. The Risk and Governance Committee (RGC) reviewed the 2023 King IV Code disclosures and recommended them to the Board for approval. The Board has thoroughly considered the Integrated Annual Report, considering the operating context, strategy, and value creation model. It has evaluated the completeness of the material aspects addressed in the report and the relevance and reliability of the reported performance information.

As a result, the Board is satisfied that the FY22/23 Integrated Annual Report addresses material matters that have, or potentially have, a significant effect on the Bank's ability to create value, and that the information in the report accurately represents the Bank's strategy and integrated performance. To the best of the Board's knowledge and belief, it confirms that all information and amounts disclosed in this report are consistent with the Annual Financial Statements for the financial year ended 31 March 2023, which have been audited by the office of the Auditor General of South Africa and approved by the Board on 31 July 2023. The Board approved the 2023 Integrated Annual Report, incorporating the 2023 King IV Code disclosures, on 23 August 2023.

**Ms. Rethabile Nkosi**
Chairman of the Board
23 August 2023

# PART 2

## PERFORMANCE OVERVIEW


# PERFORMANCE OVERVIEW

## HIGHLIGHTS FOR THE PERIOD

During the review period, significant progress was made in several areas, some of which are further explained hereafter.

**Resumption of lending activities:** Our lending activity resumed with a renewed focus on attracting new development clients while also prioritising the preservation of the quality of the Bank's existing client portfolio. We implemented a comprehensive strategy to remediate the Bank's non-performing loan portfolio, which has yielded significant results. One notable highlight of our lending activity was the launch of the blended finance facility in October 2022, in partnership with the DALRRD. The Blended Finance Scheme aims to support the commercialisation and expansion of agri-businesses owned by Black and majority Black entities. The scheme combines grant funding support from the Department with loans provided by the Bank. However, due to a delayed launch, we were unable to meet our disbursement target for FY22/23.

To support the deployment of the Blended Finance Scheme the Bank has designed and commenced with the implementation of pre- and post-finance support offering to applicants, reflecting our dedication to providing holistic support to our valued clients. We have carefully selected our technical partners who will play a vital role in delivering this service.

**Reduced NPL:** Our strategy to remediate the non-performing loan portfolio proved to be effective, resulting in a reduction of R2,6 billion (20,8% year-on-year) in non-performing loans during FY22/23. This accomplishment is commendable; however, it is important to note that our non-performing loan ratio currently stands at 51,9%, which remains high because of the overall reduction in our loan book. Considering this, we are continuing the implementation of our remediation intervention programme into FY23/24 to further address this issue.

**Sustained bottom-line performance:** During the FY22/23, the Bank and its subsidiaries achieved a total comprehensive income of R492 million, following a restated total comprehensive income of R1,2 billion in FY21/22. This notable financial performance can be attributed, largely, to our intensified efforts in building a new loan portfolio focused on development clients as well as the impairment releases of R368 million achieved in the current year, articulated in detail on the CFO statement below. Our total operating expenses amounted to R553,4 million, representing a positive variance of R131 million compared to the budgeted amount of R630 million. It is also noteworthy that our operating expenses were R9,3 million lower than the previous year's figure of R562,7 million.

**Operational efficiency gains:** One area where we have made significant progress is in reducing our turnaround times for new loan applications. We have successfully decreased the average processing time from 90 days to 60 days, from due diligence to committee decision, despite relatively low transaction volumes. We do, however, anticipate that an increase in transaction volumes in the first quarter of F24 may exert pressure on this key performance indicator.

**Insourcing of SLA Loan Book:** As mentioned in the FY21/22 Integrated Annual Report, the Bank successfully concluded the termination of its intermediary SLA contracts in FY20/21. As part of this transition, clients previously managed by intermediary partners were insourced, with their funding now consolidated on the Bank's balance sheet. Notably, the Suidwes, GroCapital, and Obaro Loan Books were insourced during FY20/21. In the subsequent fiscal year, clients from Unigro, who represented the largest SLA exposure with Land Bank, were also insourced. We are pleased to report that progress on this matter has been consistent and substantial.

In addition to the tightening of credit management controls through the Bank's direct management of the portfolio, the insourcing of the portfolio has contributed to the reduction of our cost base with approximately R30 million of annual SLA management fees being removed from our operating costs.

**Improved reputational coverage:** The Bank has implemented a comprehensive reputation management plan which involves bespoke stakeholder engagement interventions to address key expectations of the Bank's stakeholders. We have evidenced significant traction in improved relationships with our key stakeholders in the last couple of years, and the resumption of lending activities in the financial year is positively contributing to rebuilding the Bank's reputation with our clients. Whilst the Bank still has significant work to be done in regaining the positive reputation that we enjoyed prior to the debt default, we are encouraged that the media reporting on the Bank presents positive developments that have led to an improvement to the Bank's net reputation score – increasing from 3% in FY21/22 to 7% in FY22/23.

**Establishment of foundational reporting frameworks for development effectiveness:** We have successfully developed the Development Indicator Framework, which serves as a crucial tool for measuring our progress and impact. Addressing data gaps for reporting purposes has been a key focus, and considerable strides have been made in this regard.

**Alignment with the Agricultural and Agro-processing Master Plan (AAMP):** In line with our strategic plan, the Bank has aligned 95% of our new lending approvals with the priority commodities identified in the AAMP. This strategic alignment ensures that our lending activities contribute to the growth and development of the agricultural sector in a targeted and impactful manner.

**Internal controls and governance:** Our continued implementation of a rigorous remediation plan to address the credit management and internal control deficiencies has resulted in the Bank achieving an unqualified audit outcome for FY22/23.

## CHALLENGES EXPERIENCED

The reporting period presented the Bank with various challenges, and we acknowledge the importance of addressing these issues. As we embark on interventions and mitigation plans, we remain vigilant in monitoring these matters to ensure that they are addressed and progressed. Key challenges experienced are unpacked hereafter.

**Conclusion of the liability solution:** Since the April 2020 default, the Bank, with Shareholder support, has actively engaged with Lenders to navigate the intricate debt restructuring process, referred to as the Liability Solution. Due to the intricate nature of this process, involving multiple lenders and diverse financial instruments, its conclusion has extended beyond initial expectations. This delay is regrettable as it hampers the Bank's ability to provide vital sector funding. Ongoing negotiations with lenders show signs of progress, and the Bank acknowledges and values the patience and support exhibited by lenders post-default.

Throughout this journey, the Shareholder's commitment to the Bank remains evident. A noteworthy R10 billion recapitalisation has been allocated to the Bank, with R9 billion transferred so far, and the remaining R1 billion slated for FY23/24. Notably, R5,1 billion of these recapitalisation funds currently reside in an ESCROW account, awaiting the finalisation of the liability solution. The 2021 Ministry of Finance's appropriation of R7 billion to Land Bank underpins the objective to rectify the default and reinstate the Bank's development and transformation mandate.

While the Liability Solution discussions persist, the Bank has managed to maintain interest payments and has successfully repaid 58% (R23,5 billion) of the debt outstanding at the time of default. Regrettably, this has led to a significant contraction of the loan book. Despite these challenges, the Bank is actively rejuvenating itself by resuming loan origination. Despite the hindrance of the default status, the Bank's resilience prevails as it strives to rebuild and bolster its support to the sector.

**Gross Loan Book:** The Gross Loan Book decreased by 27.2% year-on-year driven largely by customer settlements. This has in turn significantly improved the cash position of the bank, as well as enable further funding debt reduction. This together with improved non-performing loans owing to the NPL remediation programme implemented by the Bank has resulted in a decreased Expected credit loss provision. The Bank has also continued to implement focused efforts in reducing overall operating expenditure. This resulted in the Bank realising profits, albeit this has reduced year-on-year owing to the loan book starting to stabilise post the event of default.

**Non-Performing Loans (NPLs):** Nominally the NPL book has decreased by 20.8% year-on-year, to R 9,8 billion (March 2022: R12,4 billion). The NPL ratio increased from 47,8% (restated) at the end of March 2022, to 51,9% at the end of March 2023. This increase can be attributed to a reduction of R7,0 billion in the gross loan book. We recognise the significance of addressing this issue to ensure the health and stability of our loan portfolio.

**Blended Finance Scheme:** The Bank launched its Blended Finance Scheme, in collaboration with the Department of Agriculture, Land Reform and Rural Development. The Blended Finance Scheme constitutes an extensive funding initiative characterised by the fusion of grants and loans which seeks to bolster the commercial feasibility of agricultural transactions for emerging and historically disadvantaged farmers. However, disbursement has been slower than expected and disbursement targets not achieved owing to a combination of factors. These include the launch and implementation of the programme having happened later in the financial year than was originally envisaged; the capacity gap in the origination network has hindered the level of transaction throughput in an operating environment where processes and digitalisation solutions have not yet reached optimal efficiencies; and the slower fulfilment of pre-disbursement conditions by clients. A remediation plan to address these areas has been adopted by the Bank and is being implemented.

**Organisational culture:** Improving our organisational culture remains a priority, particularly in addressing matters impacting staff retention and enhancing employee engagement initiatives, in light of the Bank's position. We are committed to expediting these efforts to foster a positive and inclusive culture across the organisation. Leveraging our talent management strategy we strive to promote comprehensive professional development programmes, provide clear growth pathways, and enhance work-life balance for our employees to ensure wellness. Additionally, initiatives fostering diversity, equity, and inclusion will be woven into our cultural fabric, making Land Bank an even more welcoming and supportive workplace.

# PERFORMANCE OVERVIEW

| Organisation | Indicator | Targets | FY21/22 Actual (Restated) | RAG Colour | | Targets | FY22/23 Actual | RAG Colour |
|---|---|---|---|---|---|---|---|---|
| Bank | Net Profit | -R407m | 1.1bn | | | -R275m | R473.3m | |
| | Net interest Margin | 1.2% | 1.4% | | | 2.3% | 2.1% | |
| | Cost to Income | 180.1% | 95.7% | | | 82.9% | 76.7% | |
| | LCR | > 90% | 66.1% | | | > 90% | 68.7% | |
| | NSFR | > 100% | 95.7% | | | > 100% | 94.6% | |
| | Gross Loan Book | 32,9bn | 25,875bn | | | 24,8bn | 18,831bn | |
| | NPL Percentage | < 10% | 47.8% | | | < 10% | 51.9% | |
| LBIC | Gross Premiums | R540m | R607m | | | R631m | R793m | |
| LBLIC | Net Profit | R27m | R81,19m | | | R91m | R18,95m | |

Legend

| Achieved | Not Achieved |
|---|---|

## PERFORMANCE OUTLOOK

Looking to the upcoming year, Land Bank is committed to further stabilising its operations and improving performance. The Board approved a transformative strategy in 2022. This strategy is to realign and fortify the institution's trajectory hinging balancing financial sustainability and development effectiveness. These ambitions are distilled into three pivotal phases:

**Stabilisation (FY23 to FY24):** Immediate priorities will be addressed to establish stability. Initiatives taken will prevent further decline, setting the stage for improved alignment with the mandate and better financial and operational performance.
**Consolidation (FY25 to FY27):** Assuming successful resolution of funding liabilities and default, this phase solidifies gains and repositions the bank. Operational adjustments will aid progress towards the desired state. The funding model will be revised for sustainable development delivery.
**Growth (FY28 onwards):** Building on achievements, the bank will expand through partnerships, diverse funding, and broader ecosystem focus, contributing to a resilient and inclusive agricultural sector.

**Accelerating efforts to deploy an effective Liability Solution:** In the upcoming financial year, we will continue stakeholder engagements to socialise and build confidence in the liability solution. The Bank's objective is to resolve contested matters with lenders, and obtain alignment with National Treasury to finalise the agreement within FY23/24. A dedicated multi-disciplinary internal team, led by the Board, will continue to drive this important initiative.

**Optimising the Bank's funding model:** Land Bank is in the final stages of preparing a proposed funding model, which will undergo consultation with the Shareholder and relevant stakeholders to secure their support. The funding model combines different sources of funds, including Shareholder capital, grants, and borrowings. This approach will ensure that the Bank is properly funded and able to fulfil its policy mandate while being responsive to the development financing needs of the agricultural sector. The Bank will require the continued support from its Shareholder, key sector role players, lenders, policymakers, and lawmakers in its turnaround efforts. By adopting a more diversified funding model, we will provide financial services to clients through a blended finance approach (debt and grant/equity). This model has proven effective in enhancing affordability, managing risks, and facilitating non-financial support to farmers. This reduces failures associated with new entrants in the market.

**Revenue diversification:** In line with its financial sustainability goals, the Bank will explore new revenue generation streams to diversify its income. Leveraging its expertise and network, the Bank will work towards the provision of value-added services and innovative financial products that cater to the evolving needs of its clients. By embracing emerging trends such as sustainable finance and digital transformation, the Bank will position itself as a leader in the agricultural finance sector, contributing to the growth of a more resilient and inclusive economy.

**Operating Model transformation:** To enhance operational effectiveness and create a distinct client value proposition aligned with the Bank's DFI role, Land Bank has initiated an overhaul of its Operating Model, adopting a "Farmer First" approach. This client-centric approach involves decentralising operations and increasing the use of digital channels to enhance the clients' experience and access. While personal contact will remain a primary approach to foster good relations clients, digital channels will complement face-to-face engagements. The Bank aims to finalise the operating model and organisational structure so that implementation may commence in FY23/24.

**Operating performance and execution capability:** The Bank will continue to implement improvement initiatives to strengthen its origination capability and enhance the credit assessment processes, enabling increased disbursements and accelerated growth of the new blended finance portfolio.

By focusing on these strategic initiatives, the Bank is determined to drive positive change, enhance its impact, and contribute to the sustainable development of the agricultural sector. We appreciate the continued support and collaboration of our stakeholders as we work towards achieving these goals.

# PART 3

## ABOUT LAND BANK

# FOREWORD BY THE MINISTER

**Mr Enoch Godongwana**
Minister of Finance

*I commend the entity for its financial discipline in FY22/23, **as evidenced by its reported group profit of R492,3 million** and the reduction of funding liabilities by 58% since the debt default.*

Despite robust economic recovery following the scarring caused by the COVID-19 pandemic, South Africa's medium-term economic growth outlook remains subdued. Notwithstanding this anaemic growth environment, National Treasury, in formulating its fiscal strategy, has remained committed to the eradication of poverty, unemployment and inequality. While significant strides have been made in each of these areas since the dawn of our democracy, continued progress will require a renewed commitment to the implementation of growth-enhancing reforms complemented by a prudent fiscal stance which will ensure the continued sustainability of public finances over the long term.

To address the key inhibitors of economic growth, President Ramaphosa informed a joint sitting of Parliament on 15 October 2020, of the implementation of Operation Vulindlela as a joint initiative of The Presidency and National Treasury. Since its inception, Operation Vulindlela has accelerated reforms in the priority areas of electricity, water, telecommunications, transport and immigration. Not only will these reforms position South Africa's economy on a higher growth trajectory, they will further serve to enhance the competitiveness and output of the agricultural sector, a sector which remains pivotal to South Africa's economic growth strategy due to its labour intensity and unique ability to revitalise rural economies.

In addition to progress made on the economy-wide reforms introduced by Operation Vulindlela, I have been encouraged by progress made on a number of sector-specific initiatives detailed in the Agriculture and Agro-processing Master Plan, spearheaded by the Hon Thoko Didiza and the Department of Agriculture, Land Reform and Rural Development. The Agriculture and Agro-processing Master Plan details a clear path to bolster agricultural growth and to bring underutilised arable land into production while also prioritising market access and transformation.

While structural reforms and a conducive policy environment are important for macroeconomic and sector growth, the existence of capable state institutions to drive execution is crucial. Land Bank, as one such state institution, remains a key driver of agricultural growth, development and transformation. Following its debt default in 2020, the entity has commenced with the execution of its turnaround plan and has undertaken measures to enhance its long-term financial sustainability. The Board has also worked to refine the Bank's strategic focus to more closely align with the developmental objectives of the Land Bank Act. The Bank's launch of its Blended Finance Scheme, in collaboration with the Department of Agriculture, Land Reform and Rural Development, in 2022 marked an important step in this direction.

While the Bank is yet to cure its state of default with its lenders, I commend the entity for its financial discipline in FY22/23, as evidenced by its reported group profit of R492,3 million and the reduction of funding liabilities by 58% since the debt default. I further note the Bank's diligent efforts to improve the quality of its loan book and to uphold good governance and internal controls which lead another unqualified audit outcome in the financial year.

Notwithstanding the Bank's notable achievements under exceptionally challenging circumstances, the sustained recovery of Land Bank relies greatly on its ability to successfully restructure its debt and to cure its current state of default. National Treasury continues to support Land Bank in this process and has allocated R10 billion to the Bank since financial year 2021 to assist in its debt restructuring and to support its developmental funding activities, subject to specific conditions being met.

I wish to express my appreciation to the Board of directors and management team of Land Bank for their dedicated service and commitment. I further wish to thank the Hon Thoko Didiza and her team for the policy direction and support provided to the Bank. Work continues to further strengthen Bank and over the next years, the organisational reforms introduced in recent times will serve to solidify the Bank's significant role in the agricultural sector and the South African economy at large.

**Mr Enoch Godongwana**
Minister of Finance

# FOREWORD BY THE CHAIRMAN OF THE BOARD

**Ms Rethabile Nkosi**
Chairman

*60% of the beneficiaries of the approved Blended Finance Scheme transactions were made up of Women and Youth. Through these high impact transactions the Bank will contribute to an estimated 104 permanent jobs and 484 seasonal jobs.*

## Strategic repositioning

Since its founding in 1912, Land Bank has undergone numerous periods of transition, some necessitated by policy and sector-wide dynamics, and others brought about by challenges within the entity itself. Throughout these transitions, Land Bank has remained critical to the effective functioning of South Africa's agricultural sector and as a financier, the Bank has vastly contributed to the growth and commercialisation of South Africa's agricultural value chain.

Following a number of years of stable financial results, Land Bank in 2020 defaulted on its funding liabilities and encountered significant financial challenges. While there were long-standing factors which contributed to these challenges to varying degrees, extensive analysis conducted by the Bank since 2020 revealed that two main overarching factors lay at the core of the Bank's difficulties: its funding model and its operating model. It was evident that despite reportedly healthy financial performance, Land Bank had become increasingly fragile as its funding and operating models had led to the entity's inability to properly fulfil its mandate. The Bank's funding structure and origination activities also led to a significant mismatch between its loan assets and its liabilities.

A number of initiatives aimed at remedying the abovementioned challenges were undertaken in the last decade. These recent interventions included the insourcing of a large proportion of the debt book, the reduction of operating costs and the recalibration of its credit models and finance systems. While these interventions have proven effective in curbing the further deterioration of the entity, it was evident that in order for the Bank to realign with its strategic mandate and position itself for long term sustainability, a more holistic restructuring of the entity, at its core, was required.

To this end, the Board in June 2022, approved a revised strategy that will serve to position the Bank as an effective development finance institution that balances development effectiveness and financial sustainability. This strategy entails a Bank-wide phased recovery plan focused on stabilisation, consolidation and sustained growth over the long term. The Bank's strategy also details the operational, structural, funding and policy-related changes to be undertaken by the Bank over the next five years to achieve optimal performance. The bold plans set out in the new strategy aim to create a Land Bank that is appropriately funded and enabled to fulfil its policy mandate, responsive to the developmental financing needs of the agricultural sector and financially sustainable over the long-term.

## Operating performance

While South Africa's agricultural sector showed remarkable resilience in the face of past economic challenges, the past year proved a challenging one for the sector. Persistent energy shortages, escalating input costs, logistical challenges, geopolitical tensions and the proliferation of animal diseases tested the resilience of farmers across the agricultural spectrum.

Although the Land Bank Board has made significant strides in stabilising the entity since its event of default in 2020, the Bank has not been immune to the challenges posed by the subdued operating environment. Sector-wide challenges and constraints to loan book growth in the first half of the financial year negatively affected the Bank's financial performance in the period under review. The Group reported a net profit of R492,3 million in FY22/23 compared to R1,21bn in the preceding financial year. While the rand value of the Bank's Non-Performing Loans (NPLs) decreased by R2,6 billion, the NPL ratio worsened to 51.9% during this period compared to 47.8% in the previous year. To address this challenge, the Bank has initiated targeted initiatives to remediate loan book performance and to optimise loan book growth over time through the introduction of new lending products and the successful restructuring of its outstanding debt.

The Land Bank Insurance businesses, Land Bank Insurance Company (LBIC) and Land Bank Life Insurance Company (LBLIC), which complement the Bank's financial services by providing insurance and risk management solutions to the agricultural sector within the borders of South Africa, posted a combined profit of R19m in FY22/23 compared to R81m in FY21/22. This decrease was largely driven by poor investment returns experienced in the bonds and equities portfolios – these form part of the R1.3bn investment assets held by the Life business. Following subdued growth in FY21/22, the Gross Written Premiums for both LBIC and LBLIC increased by 31% and 11% respectively in FY22/23, mainly resulting from a surge in commodity prices and more competitive pricing in the Life business.

## Resumption of lending activities

Having halted new lending activities in 2020 in order to address the immediate challenges posed by the debt default, the Bank resumed its lending activities in October 2022 with the launch of the Blended Finance Scheme in collaboration with the Department of Agriculture, Land Reform and Rural Development. The Blended Finance Scheme is a broad funding programme that entails the use of a blend of grants and loans to enhance the commercial viability of agricultural transactions for emerging and previously-disadvantaged farmers. Through the Scheme, the Bank also reduces lending risk by providing comprehensive farmer support in partnership with commodity organisations and other strategic partners to leverage their capability and tailored resources to support the Bank's clients.

From the launch of the Blended Finance Scheme in October 2022 to the end of the 2023 financial year, the Bank approved Blended Finance transactions to the value of R255.4m made up of R121.7m in loans and R133,7m in grants. Approvals were provided to a total of 30 Blended Finance applicants during this period, with women and youth making up 60% of the beneficiaries of the total approved transactions. In addition, it is projected that through these high-impact Blended Finance transactions, the Bank will contribute to the creation of an estimated 104 permanent jobs and 484 seasonal jobs across the country. Over the coming years, the Bank will continue to offer comprehensive post-funding support to its Blended Finance clients to minimise sector and business risks.

While the financing of clients through Blended Finance initiatives forms a significant part of the Bank's new strategy going forward, Land Bank maintains its commitment to its commercial client base and continues to work to enhance its offering to this critical segment of the market. The Bank's latest offering, targeted at both commercial and developing clients, is the Agro-Energy Fund which will be launched in the second quarter of FY23/24. The Agro-Energy Fund, which will be introduced in collaboration with the Department of Agriculture, Land Reform and Rural Development, is a blended finance fund made up of R500m of grants provided by the Department, complemented by R710m of loan facilities. This fund is established to provide support to farmers in response to the energy challenges facing the country. The focus of the Agro-Energy Fund will be on energy intensive agricultural activities, including irrigation, intensive agricultural production systems and cold chain related activities.

## Conclusion of the Liability Solution

Successfully restructuring the Bank's outstanding debt and the curing of the Bank's current state of default remain key priorities of the Board. The conclusion of a suitable Liability Solution is central to the Bank's financial sustainability and its ability to effectively service the agricultural sector. As such, we continue to work closely with the Bank's lenders to find a Liability Solution that will enjoy the support of all lenders while also minimising financial risk for the Bank. The Board is appreciative of the ongoing support of the Minister of Finance and National Treasury in this process and is confident that agreement will be reached with lenders in the coming months.

Notwithstanding the continued state of default, the Bank's current financial position remains healthy. This allowed the entity to make a further capital repayment to its lenders in June 2023, resulting in a 58% reduction in outstanding debt since the default in 2020.

## Strengthening of the executive leadership team

Following the departure of the Bank's previous CEO in 2022, the Board successfully filled the role of CEO and welcomed Mr Themba Rikhotso as Chief Executive on 1 April 2023. Mr Rikhotso brings to the Bank a wealth of experience in the financial services sector and enjoys the full support of the Board as he leads the Bank in its strategic repositioning. Additionally, the appointment of the Chief Audit Executive has been finalised, with the incumbent assuming the role on 1 July 2023. Land Bank Insurance also welcomed its new Managing Director, Mr Pascal Siphugu, who is a seasoned insurance practitioner with industry experience spanning almost two decades. These appointments will strengthen the capacity of the Bank's management team and enhance operating performance and risk management across the Bank.

## Acknowledgements

On behalf of the Board, I wish to express our appreciation to the Bank's executive team and the broader Land Bank team for their dedicated service through what has been a very challenging period for the Bank. The commitment of Land Bankers to the success of the Bank and the agricultural sector is truly inspiring and I am proud of what we have been able to achieve over the past year. I particularly also wish to thank Ms Khensani Mukhari who acted as Chief Executive Officer in FY22/23. Her leadership over the past year has greatly contributed to the stabilisation of Land Bank.

The Board's sincere gratitude also goes to the Minister of Finance, Hon Enoch Godongwana, and the National Treasury team for their guidance, collaboration and unwavering support throughout the year. The Bank has also received immense support from the Department of Agriculture, Land Reform and Rural Development led by Hon Thoko Didiza and DG Mooketsa Ramasodi. For that, the Board is thankful.

We are also grateful for the meaningful input and support provided by our lenders, clients, and partners. Your continued support is invaluable as we strive to rebuild the Bank into a developmentally effective and sustainable agricultural DFI.

Lastly, I also wish to thank the members of the Boards of the Bank and its subsidiaries for their wise counsel and the courageous manner in which they navigated the various challenges faced by the Group. Their cohesion, robust engagement and commitment to good governance are an embodiment of the culture of Land Bank and will serve the entity well on its path to revitalisation.

**Ms Rethabile Nkosi**
Chairman of the Board, Land Bank South Africa

# ORGANISATIONAL OVERVIEW

The Land Bank, a government-owned Development Finance Institution (DFI), fosters inclusive agricultural and rural development to enhance food security and economic growth. Its Insurance Subsidiaries, LBIC and LBLIC, both State-Owned Companies (SOCs), supplement the Bank's financial services by offering insurance and risk management solutions to the agricultural sector. Operating within the primary agriculture and agribusiness sectors, the Bank is regulated by the Land and Agricultural Development Bank Act of 2002 and the Public Finance Management Act of 1999.

LAND BANK
We stand by you

### LAND BANK INSURANCE COMPANY

Land Bank Insurance Company (a short-term insurance company) is registered with the Financial Sector Conduct Authority (FSCA) and is the second largest crop insurer in the country; providing cover to farmers for hail, fire, and yield losses due to weather conditions.

### LAND BANK LIFE INSURANCE COMPANY

Land Bank Life Insurance Company 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.

### CORPORATE BANKING AND STRUCTURED INVESTMENTS

Provides debt, structured finance and equity solutions to agri-corporate and mega- and large-farmer client segments.

### COMMERCIAL DEVELOPMENT AND BUSINESS BANKING

### INDIRECT LENDING WFF

Financial solutions to large-, medium-, and small holder farmer client segments via provincial lending network. Further segmented into direct and indirect lending channels.

### INDIRECT LENDING SLA PARTNERS

Loans obtained from SLA partner balance sheets, appoint them to originate loans on Bank's behalf. SLA partners assist with end-to-end credit process from loan disbursement, monitoring, collection, and legal recoveries. Partners are paid a management fee. Risk and profit sharing ensure quality assets.

### DIRECT LENDING

Financial solutions to large-, medium-, and small holder farmer client segments via provincial lending network. Further segmented into direct and indirect lending channels.

*N.B: Note that the Bank's lending activities through SLA and WFF Partners currently account for less than 10% of the Bank's total lending portfolio.*

## LAND BANK'S PURPOSE

The Land Bank, guided by the Land and Agricultural Development Bank Act, No. 15 of 2002, serves as a responsible DFI with the purpose of providing suitable financial services to:

- Increase agricultural land ownership among previously disadvantaged individuals, transforming the agricultural sector.
- Encourage a more inclusive agricultural sector by promoting the participation of previously disadvantaged individuals.
- Advocate for sustainable agrarian reform.
- Develop land and other agricultural resources sustainably.
- Promote a competitive and profitable agricultural sector.

## LAND BANK'S MANDATE

As a specialist agricultural DFI, Land Bank uses financial services and products to address a crucial market failure in the economy, fostering the development and transformation of agriculture. This includes promoting the inclusion of historically disadvantaged individuals in the agricultural economy and enhancing agricultural land ownership and use. The Bank aims to provide:

- Affordable finance;
- Products to bridge the equity contributions and collateral gaps of clients;
- Facilitation of access to productive agricultural land and high socio-economic impact commodities, contributing significantly to socio-economic outcomes; and
- Support programmes pre- and post-finance to minimise the risk of entrepreneurial failures for new market entrants.

The Bank's mandate aims to achieve the following outcomes:

- Inclusion of historically disadvantaged individuals;
- Contribution to the Gross Domestic Product (GDP);
- Job creation and an increased economically active population;
- Food security; and
- Environmental stewardship.

The Bank continues to strive for financial sustainability by expanding the development loan book, aiming for it to become a dominant portfolio within the total loan book.

**LAND BANK'S VISION**

To be a world-class agricultural development bank that stimulates development, growth, and transformation; one that drives solid performance and spurs innovation.

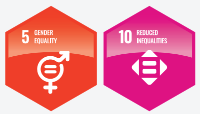
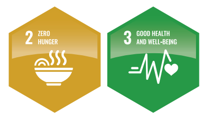
**LAND BANK'S MISSION**

To collaborate with all stakeholders to build an adaptive, transformed, sustainable, and competitive agricultural sector that drives environmental, social, and economic development, and contributes to food security.

LAND BANK
We stand by you


# NATIONAL DEVELOPMENT PLAN AND SUSTAINABLE DEVELOPMENT GOALS ALIGNMENT

There is a clear alignment between the objectives of the Land Bank Act, the Sustainable Development Goals (SDG), and the National Development Plan (NDP).

| The objectives of the Land Bank Act are the promotion, facilitation, and support of: | National Development Plan | Sustainable Development Goals |
|---|---|---|
| • Equitable ownership of agricultural land, particularly increasing the ownership of agricultural land by historically disadvantaged persons<br>• Agrarian reform, land redistribution or development programmes aimed at historically disadvantaged persons for the development of farming enterprises and agricultural purposes<br>• Removal of the legacy of past racial, gender and generational discrimination in agriculture | • Making land reform work to unlock the potential for a dynamic, growing and employment creating agricultural sector |  |
| • Programmes that contribute to agricultural aspects of rural development and job creation<br>• Agricultural entrepreneurship<br>• Enhancement of productivity, profitability, investment, and innovation in the agricultural and rural financial systems | • Support job creation in the upstream and downstream industries<br>• Develop strategies that give new entrants access to product value chains and support from better resourced players |  |
| • Commercial agriculture<br>• Land access for agricultural purposes<br>• Better use of land | • Commercialise some underused land in communal areas and land reform projects<br>• Pick and support the commercial agriculture sector and regions that have the highest potential for growth and employment |  |
| • Food security | • Everyone should, at all times, have access to sufficient, nutritious, and safe food |  |
| • Promote and develop the environmental sustainability of land and related natural resources | • Expand irrigated agriculture and find creative partnerships between opportunities |  |

# OUR LEADERSHIP
## Board Members

### Ms Rethabile Nkosi

**Qualifications**
- Master in Business Administration (MBA)
- BSc in Agricultural Economics;
- Postgraduate Diploma from GIBS

**Committee Membership**
Board Sub Committees: Chair Nominations Committee, Human Resources and Remuneration Committee Member, Joint Land Bank and Land Bank Insurance and Land Bank Life Insurance Social and Ethics Committee

### Mr Lehlohonolo Andrew Makenete

**Qualifications**
- MSc in Agricultural Management;
- BSc in Agricultural Economics

**Committee Membership**
Board Sub Committees: Chair Joint Land Bank, Land Bank Insurance and Land Bank Life Insurance Social and Ethics Committee Nominations Committee Member

### Ms Mathane Makgatho

**Qualifications**
- Master's Degree in Development Finance,
- BCom (Hon) Economis;
- BCom Accounting, Economics and Business

**Committee Membership**
Board Sub Committees: Chair Credit and Investment Committee; Audit and Finance Committee Member

### Ms Dineo Maithufi

**Qualifications**
- BCom (Hon.) Accounting;
- CA (SA)

**Committee Membership**
Board Sub Committees: Chair Risk and Governance, Credit and Investment Committee Member

### Ms Thulisile Njapa Mashanda

**Qualifications**
- BA (Hon.) Accounting;
- BA Accounting;
- Certified Director;
- CA (SA)

**Committee Membership**
Board Committees: Risk and Governance Committee Member, Audit and Finance Committee Member

**Prof Johann Kirsten**

**Qualifications**

- PhD Agricultural Economics;
- MSc Agric;
- BSc Agric (Hon);
- BSc Agric.

**Committee Membership**

Board Committees: Credit and Investment Committee Member

**Dr Monde Tom**

**Qualifications**

- PhD Technology and Innovation management;
- Masters in Financial Economics;
- PG Dip Economic Principles
- BSc Applied Mathematics and Physics
- ND in Cost and Management Accounting

**Committee Membership**

Board Sub Committees: Chair Human Resources and Remuneration Committee Member, Nominations Committee Member

**Ms Nonthuthuzelo Motshegoa**

**Qualifications**

- Agripreneur

**Committee Membership**

Board Sub Committees: Previous chair Joint Land Bank and Land Bank Insurance and Land Bank Life Insurance Social and Ethics Committee (up to Nov 22), Credit and Investment Committee Member (Up to Nov 22)

**Ms Egashnee Pillay**

**Qualifications**

- BCom (Hon) Accounting
- BCom Accounting
- CA (SA)

**Committee Membership**

Board Committees: Chair: Audit and Finance Committee and LBI Board Chair

**Adv Dimitri Wilhelm van der Westhuizen**

**Qualifications**

- LLB PMB
- Admitted Advocate of the High Court of South Africa

**Committee Membership**

Board Sub Committees: Human Resources and Remuneration Committee Member, Risk and Governance Committee Member

# OUR LEADERSHIP
## Executive Committee

**Mr Themba Rikhotso**
Chief Executive Officer

**Qualifications**
- Master of Business Leadership: Strategy, and Leadership
- Bachelor of Commerce: Accounting and Information Systems
- Executive Development Programme
- International Executive Development Programme

**Personnel Area**
Office of the Chief Executive

**Ms Khensani Mukhari**
Chief Financial Officer

**Qualifications**
- Master of Business Leadership
- CA (SA)

**Personnel Area**
Finance, Treasury and IT

**Mr Sydney Soundy**
Executive Manager: Strategy and Communications and Acting Executive Manager: Commercial Development and Business Banking

**Qualifications**
- Master of Business Administration
- Bachelor of Administration Honours in Industrial Psychology
- Graduate Diploma in Marketing Management
- Global Executive Development Programme

**Personnel Area**
Strategy and Communications

**Ms Elizabeth Dlamini**
Executive Manager: Human Capital

**Qualifications**
- Bachelor of Arts (Social Science)
- Masters Diploma in Human Resources Management
- Advanced Diploma in Business Management
- Programme in Advanced Marketing Management
- Leadership Development Programme for Senior Managers (Land Bank)
- International Executive Development Programme

**Personnel Area**
Human Capital

**Mr Faride Stiglingh**
Executive Manager: Post Investment Management Services

**Qualifications**
- Executive Management Development Programme
- Senior Management Development Programme
- Senior Retail Development Programme
- Product Development Programme
- Corporate Governance Programme

**Personnel Area**
Post Investment Management Service

**Mr Theunis Coetzee**
Acting Executive Manager: Corporate Banking and Structured Investment

**Qualifications**
- Bachelor of Economic Science
- Bachelor of Accounting Science
- Post Graduate Diploma in Financial Accounting
- Management Development Programme
- Leadership Development Programme for Senior Managers
- Financial Management in Rural Development

**Personnel Area**
Corporate Banking & Structure Finance

**Mr Sakhumzi May**
Acting Executive Manager: Agricultural Economics & Advisory

**Qualifications**
- MPHIL in Development Finance
- International Executive Development Programme
- Bachelor of Science Honours in Agricultural Economics
- Bachelor of Science in Agricultural Economics

**Personnel Area**
Agriculture Economics & Advisory

**Mr Sakhumzi Diza**
Chief Risk Officer

**Qualifications**
- Bachelor of Science Honours in Agricultural Economics
- Master of Science in Agricultural Economics

**Personnel Area**
Risk Management

**Mr Stephen Sebueng**
Executive Manager: Legal Services

**Qualifications**
- LLB
- Admitted Attorney of the High Court of South Africa
- Advanced Company Law Certificate

**Personnel Area**
Legal Services

Our accomplished Executive Leadership team at Land Bank is committed to guiding our institution towards greater resilience, growth, and positive impact. With their diverse expertise, strategic acumen, and unwavering dedication, they drive our mission to support agricultural development, stimulate economic progress, and contribute to a sustainable future for South Africa.

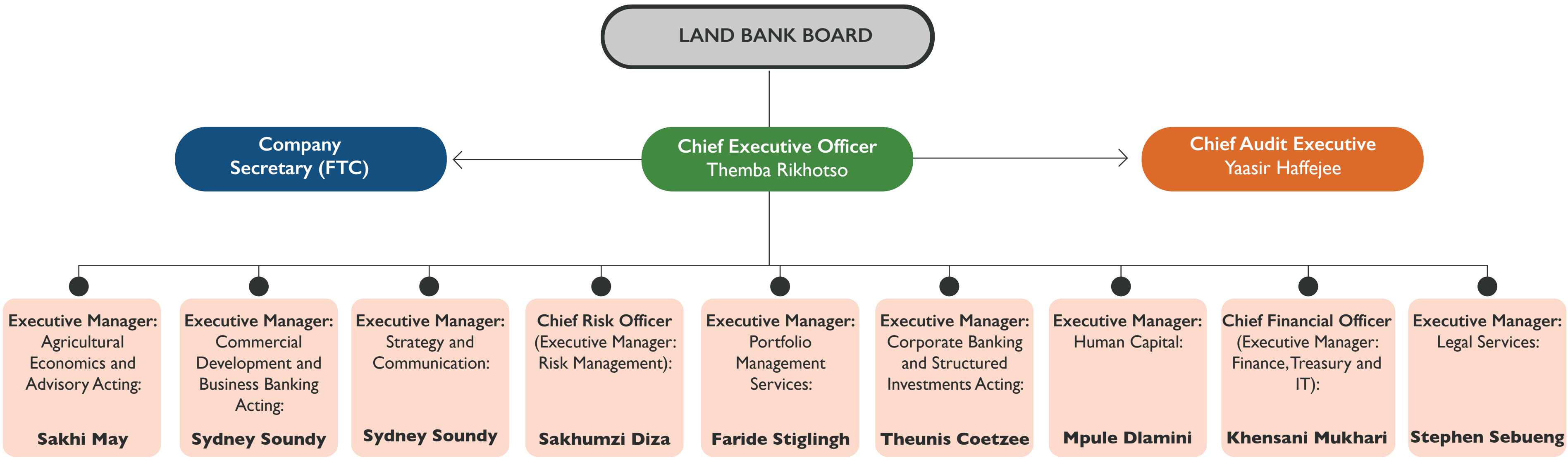



*Figure 1: Executive Structure [As at the time of compiling the report]*

Below is Executive Managers overview.

| Name | Designation | Appointed in role |
|---|---|---|
| | | |
| Mr TR Rikhotso | Chief Executive Officer | 01 April 2023 |
| Ms K Mukhari | Chief Financial Officer | 03 February 2020 |
| | *Acting Chief Executive Officer | 01 May 2022 till 31 March 2023 |
| Mr S Diza | Chief Risk Officer: Risk | 17 August 2020 |
| Mr SN Sebueng | Executive Manager: Legal Services | 1 January 2018 |
| Mr SCE Soundy | Executive Manager: Strategy & Communications | 17 August 2015 |
| | *Acting Executive Manager: Commercial Development and Business Banking | 01 February 2023 |
| Ms ETM Dlamini | Executive Manager: Human Capital | 15 August 2013 |
| Mr F Stiglingh | Executive: Post Investment Management Services | 01 June 2016 |
| | *Acting Executive Manager: Intermediary / Channel Partnerships | 15 February 2019 |
| Mr T Coetzee | *Acting Executive Manager: Corporate Banking and Structured Investments | 14 February 2023 |
| Mr M Mzaidume | Company Secretary (FTC) | 09 October 2017 |
| Mr Y Haffejee | Chief Audit Executive | 01 July 2023 |
| *Acting arrangement and Consultant appointment were in place for 2022/2023 financial year.* | | June 2022 to June 2023 |

Resignations

| Name | Designation | Appointed | Termination Date |
|---|---|---|---|
| Mr A Kanana | Chief Executive Officer | 1 March 2020 | 30 April 2022 |
| Ms U Magwentshu | Executive Manager: Corporate Banking and Structured Investments | 1 March 2019 | 13 February 2023 |
| Mr Lwandiso Makupula | Acting: Executive Manager: Commercial Development and Business Banking | *Acting: 07 January 2020 | 31 January 2023 |

# VALUE CREATION MODEL

Land Bank follows a value creation model, that holds its mission at the core, to facilitate agricultural and rural development while maintaining financial sustainability. The key elements of the Bank's value creation model are expressed hereafter.


The Bank provides specialised financial products and services tailored to the agricultural sector. By offering loans, credit facilities, and other financial instruments, the Bank enables farmers, agri-businesses, and rural communities to access the capital needed for agricultural production, expansion, and modernisation.

Land Bank plays a crucial role in improving access to finance for the agricultural sector, particularly for smallholder farmers and previously disadvantaged individuals. By offering inclusive financial solutions, the Bank supports the growth and transformation of the agricultural industry, helping to address historical disparities and promote economic empowerment.

The Bank's value creation model goes beyond financial services. It actively contributes to the socio-economic development of rural areas and the agricultural sector. Land Bank aims to foster sustainable agriculture, rural livelihoods, job creation, poverty reduction, and food security through its financing initiatives and associated programmes.

Land Bank manages and mitigates the inherent risks associated with agricultural finance. By leveraging its expertise in the sector, the Bank assesses the viability, and risk profiles of agricultural projects and accordingly structures financing solutions. Through risk sharing mechanisms, insurance products, and technical assistance, the Bank aims to minimise the risks for borrowers and lenders alike.

Land Bank recognises the importance of collaboration with various stakeholders to maximise its impact. It forms partnerships with government agencies, agricultural associations, DFIs, private investors, and other key players in the agricultural value chain. These collaborations enable the Bank to leverage resources, share knowledge, and develop innovative solutions that drive sustainable agricultural development.

The Bank places emphasis on long-term sustainability in its value creation model. It seeks to balance its social and developmental objectives with financial viability. By promoting sustainable agricultural practices, environmental stewardship, and climate resilience, the Bank contributes to a more sustainable and inclusive agricultural sector.

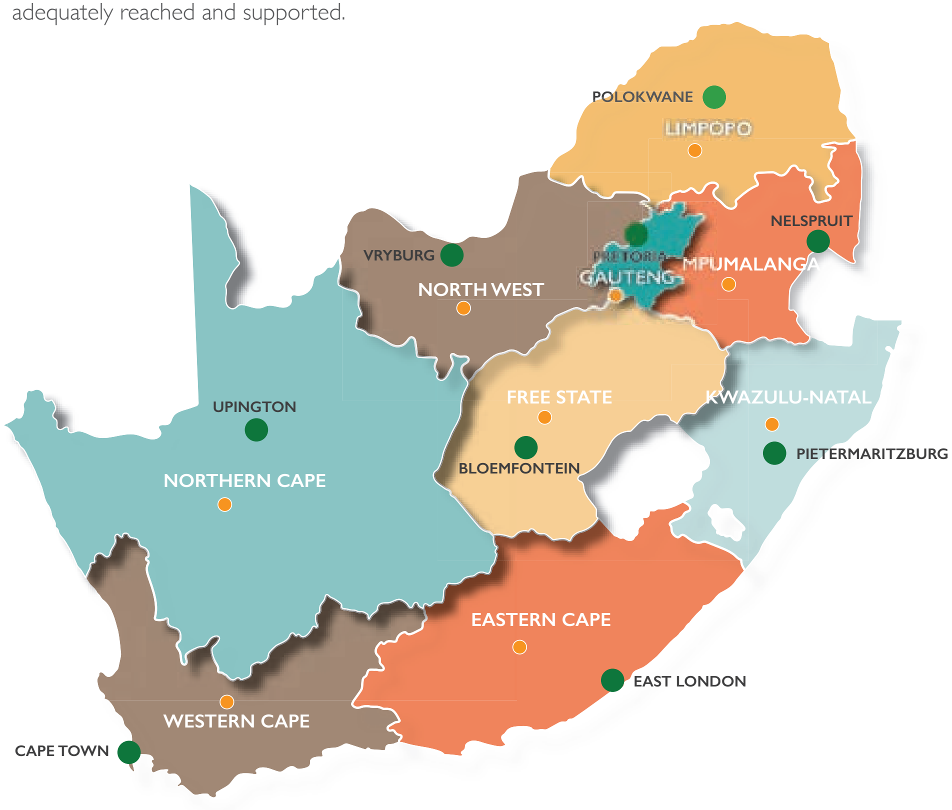
The Bank embraces innovation and technology to enhance its value creation. It leverages digital solutions, data analytics, and automation to streamline its operations, improve efficiency, and provide convenient access to financial services for its customers. By staying at the forefront of technological advancements, the Bank aims to remain relevant and responsive to the evolving needs of the agricultural sector.

| Inputs | Production/ Processing | Outputs | Outcomes |
|---|---|---|---|
| • Capital<br>• Borrowings<br>• Grants<br>• Human and Intellectual Capital | • Credit and Investment Assessment<br>• Lending to clients at acceptable risk appetite | • Loan Book<br>• Revenue and Income from client repayments at risk-rated margins | • Socio-economic impact for society<br>• Financial Sustainability for the enterprise |

Outcomes will be measured across selected capitals to evidence development effectiveness going forward.

# LAND BANK'S FOOTPRINT

The Land Bank Group headquarters are based in Centurion, Pretoria. The Bank operates in all provinces where it has nine provincial offices, and 12 satellite offices to ensure that its clients are adequately reached and supported.




**OPERATES**

**Nine Provinces**

| Permanent Employees | | |
|---|---|---|
| 137 Females | 164 Males | 301 Total |

| Fixed-term Employees | | |
|---|---|---|
| 15 Females | 16 Males | 31 Total |

# LAND BANK DEVELOPMENT EFFECTIVENESS: HIGHLIGHTS

**Establishment of foundational reporting frameworks for development effectiveness:** Enhancing Development Impact: Land Bank's Landmark Indicator Framework.

In 2019, the Land Bank embarked on a transformative journey to enhance transparency and accountability in its operations. Central to this effort was the establishment of a structured development reporting requirements procedure, reflecting the Bank's commitment to excellence. This pivotal initiative gave birth to the Land Bank Development Indicator Framework (LBDIF), a dynamic and comprehensive tool designed to measure progress and impact effectively.

## Key Theme 1: Bridging Data Gaps for Comprehensive Reporting

One of the Bank's key focuses was addressing data gaps for reporting purposes. Through diligent efforts, considerable strides were achieved in this area. The LBDIF serves as a valuable repository, outlining the indicators and data needed for collection and reporting. This ensures a structured and focused development narrative, continuously evolving to include additional indicators for a holistic presentation of the Bank's impact.

## Key Theme 2: Aligning with Global Standards for Performance Management

By adhering to the LBDIF, the Land Bank upholds best practices in performance management and evaluation. The framework adopts the Results-Based Management and Logic Framework model, allowing the Bank to monitor and assess its progress in line with international standards. This alignment with global benchmarks reinforces the Bank's commitment to contributing to the National Development Plan (NDP) and Sustainable Development Goals (SDGs).

## Key Theme 3: Supporting Agricultural Development and Economic Growth

The LBDIF's approval in 2021 marked a significant milestone, signifying the Bank's dedication to measuring and reporting its developmental impact. Currently, the Bank is actively implementing the framework through the Data Management and Information Framework. This strategic implementation enables the Bank to report on the social and natural capital indicators outlined in the LBDIF, providing a comprehensive understanding of its performance from a developmental perspective.

In summary, the Land Bank's Development Indicator Framework is more than just a tool; it exemplifies the Bank's commitment to empowering sustainable transformation. By focusing on agricultural development, food security, and land reform, the Bank addresses barriers to economic growth and competitiveness. The LBDIF allows the Bank to measure and report its developmental impact accurately, contributing meaningfully to the Developmental State as outlined in the NDP and aligned with the SDGs. As the Bank's journey of transformation continues, the LBDIF serves as a crucial platform for monitoring progress and facilitating informed decision-making for a more prosperous future.

## Blended Finance Scheme: Driving development effectiveness

The bank initiated a Blended Finance Scheme, in October 2022, which strategically combines grants and loans to bolster agricultural transactions for emerging and previously-disadvantaged farmers, significantly enhancing commercial viability. This scheme is a pivotal driver in ensuring sustainable commercialisation of black producers' farming enterprises, concurrently promoting food security and wealth generation. It also effectively reduces lending risk by providing comprehensive support to farmers through strategic collaborations with commodity organisations and partners. From its launch until the close of FY22/23, the bank sanctioned blended finance transactions amounting to R255,4 million, distributed as R121,7 million in loans and R133,7 million in grants. Within this timeframe, approvals were extended to 30 applicants, where women and youth comprised 60% of beneficiaries. The prospective impact of these transactions encompasses the creation of approximately 104 permanent jobs and 484 seasonal jobs nationwide. The bank's strategic outlook encompasses continued robust post-funding support to curtail sector and business risks, fostering resilience among its blended finance clients.

### Key highlights:

- **Leveraging grant funding:** The scheme strategically leverages grants to amplify financing accessibility, effectively providing affordable financial solutions to black producers. These grants act as equity contributions on behalf of these producers, significantly bolstering their growth and overall success.
- **Diverse funding scope:** the scheme covers a broad range of funding needs, from acquiring agricultural land parcels to expanding production on existing farms. It supports start-up operations, capital equipment, infrastructure, and working capital, ensuring comprehensive financial assistance.
- **Land bank's implementation role:** as an administrator, the Bank will leverage its ecosystem coordinator role to ensure efficient implementation of the scheme. Lessons learned from the pilot have been valuable in refining the newly launched initiative.
- **Transformation and inclusivity efforts:** the Bank is actively addressing challenges to include financing for land under claims, particularly in provinces like Limpopo and Mpumalanga. Engagements with relevant authorities are underway to address this issue.
- **Enhancing implementation:** the Bank is continuously improving its credit policy to be more development-oriented. Regionalisation of credit committees and simplified origination processes are being piloted, resulting in improved turnaround times. Pre- and post-finance support services and frontline staff capacitation further strengthen implementation efforts.

The Blended Finance Scheme stands as a pivotal driver of development effectiveness in the agricultural sector. By seamlessly merging grants and loans, the scheme has the potential to revitalise agricultural transactions, bolstering the viability of emerging and historically-disadvantaged farmers. The bank's ongoing commitment to refining strategies and addressing challenges reaffirms its dedication to driving transformative change in the sector.

# PART 4

## LAND BANK'S OPERATIONS

# FOREWORD BY THE CHIEF EXECUTIVE OFFICER

**THEMBA RIKHOTSO**
Chief Executive Officer

*Despite these external adversities, and t**he Bank's continued debt default status, Land Bank has demonstrated resilience, successfully resuming** lending activities towards the end of FY22/23*

I am honoured to take up the role of Chief Executive Officer of the Land Bank Group effective from 1 April 2023, which is after the financial year under review.

I thank the Land Bank Board for the confidence they have extended to me as I take up the responsibility to lead and turn around this strategically important institution tasked with a mandate to develop the Agricultural Sector, drive economic growth, and to provide food security to South African citizens, and the citizens of many other countries that are the destiny export markets of our Agricultural produce. Going forward, I expect our role of providing food security to expand and reach more countries as many of our valuable clients (the Farmers) take advantage of export trade opportunities presented by Africa Continental Free Trade Area (AfCFTA) and the BRICS trading block.

Amidst the intricate challenges that the Bank faces, I step into my role with a resolute vision. Land Bank's aspiration is to shape itself into a dynamic Agricultural Development Finance Institution, expertly balancing development effectiveness and financial sustainability and contributing to substantial advancements in South Africa's agricultural sector.

This strategic evolution of the Bank is pivotal to the comprehensive fulfilment of our mandate, as well as to secure the essential capital for our growth and that of the sector. In the pursuit of the Bank's transformation, we are orchestrating a thorough reconstruction of our business model, reimagining client offerings, refining funding and operational frameworks, all within a meticulously phased strategy.

## Our transformation journey unfolds across three pivotal phases:

- **Phase 1** - Stabilisation (FY23 to FY24): Our foremost attention centers on stabilising the Bank's bedrock, arresting any further decline, and constructing a robust platform that aligns seamlessly with our mandate while enhancing our financial and operational prowess.
- **Phase 2** - Consolidation (FY25 to FY27): Assuming the successful restructuring of our funding obligations and resolution of the debt default situation, this phase will amalgamate our achievements, setting the stage for future triumphs. Alterations to our operational structure will prop up our trajectory towards the envisioned state.
- **Phase 3** - Growth (FY28 onwards): Capitalising on proven financial achievements and developmental milestones, the Bank will amplify its scope through strategic alliances, a diverse funding ecosystem, and a broader engagement framework.

These phases form the crux of our transformation roadmap, ensuring a comprehensive, structured approach to navigate the intricate terrain ahead

It is with pleasure that I present the Land Bank of South Africa's Integrated Report for FY22/23, a year that has been filled with both challenges and opportunities. Despite the prevailing uncertainties, I am proud to share our achievements, resilience, and steadfast commitment to our mission of facilitating agricultural and rural development while maintaining financial sustainability.

The year 2022 ushered in considerable disruptions and transformations, both globally and locally. The ongoing Russia-Ukraine war continues to disrupt global supply chains, exacerbating pressure on costs for agricultural inputs through the disruption of Black Sea agricultural exports. Locally, load shedding has constrained economic growth across all sector. The impacts have been most pronounced in the production processes of more intensive industries such as poultry and dairy. The ongoing power interruptions are also negatively impacting the irrigation of crops, orchards, and vineyards. The latter part of the year saw an increase in load shedding, which further intensified the impacts. Consequently, South Africa's agricultural gross value added, on a seasonally adjusted basis, contracted by 3,3% from the third to the fourth calendar quarter of 2022; marking the largest decline amongst the various sectors of the economy.

Despite these external adversities, and the Bank's continued debt default status, Land Bank has demonstrated resilience, successfully resuming lending activities towards the end of FY22/23. This enabled vital financing support to the agricultural sector, while furthering the Bank's development and transformation mandate.

## Progress Made

- **Liability Solution:** Despite delays in the conclusion of the liability solution, the Bank has significantly reduced its funding liabilities in line with the reduction of its loan book. The bank has achieved a 58% repayment of its liabilities since its default in 2020.
- **Audit Outcome:** Our persistent implementation of a robust remediation plan to rectify the credit management and internal control deficiencies that led to the Bank's Disclaimer of Audit Opinion outcome by the Auditor-General in FY19/20 has yielded a unqualified audit outcome for the past two financial years (FY21/22and FY22/23).
- **Financial Discipline:** We have maintained a solvent business, including the containment of operating costs, which yielded a reduction of 16% on last year's operating costs.
- **Loan Repayment Recovery:** The Bank continued to diligently collect scheduled loan repayments and to recover funds from defaulting customers. Effective implementation for the NPL remediation strategies reduced the Rand value of NPLs by R2,6bn for the financial year. Due to the R5.7bn reduction in the gross loan book, the NPL ratio, however, increased from the restated 47,8% at the end of March 2022 to 51,9% at the end of March 2023.
- **Insourced SLA Loan Book:** We successfully insourced the management of the SLA book from SLA intermediary partners. This has resulted in a significant savings on SLA management fees and tightened the credit management of this portfolio.
- **Resumption of Lending Activities:** In October 2022, we launched the Blended Finance Scheme in partnership with DALRRD. However, largely due to delays in launching the Blended Finance Scheme, we did not achieve the target for debt and grant disbursements to development clients. Applications to the value of R255,4m in support of Black producers, comprising R121,7m in loans and R133,7m in grants, were approved by the end of FY22/23. The majority of new lending approvals (95%) align with the AAMP priority commodities (per the strategic plan).
- **Business Pipeline:** The Bank has fostered a healthy pipeline of applications going into FY23/24.
- **Process Streamlining:** We continuously streamline the origination process; making it easier for clients to do business with the Bank. We reduced the turnaround times for new applications from an average of 90 days to 60 days—from due diligence to the decision being made by the relevant credit committees.
- **Organisational Capacity:** Since the debt default in 2020, the Bank experienced an attrition of talent as employees sought alternative employment opportunities in response to the uncertainties that had befallen the Bank. With the support of the Board, we initiated and implemented targeted employee retention strategies to mitigate the risk of continued loss of skills and talent, which has negatively impacted capacity in critical areas of the Bank's human resources structure. The Bank has also shifted its focus to ensuring a fit for purpose organisational structure to ensure delivery on its mandate.

## Way Forward

Reflecting on our accomplishments in FY22/23, we acknowledge that there is yet a great deal of work to be done. The agricultural sector continues to evolve, presenting both opportunities and challenges. We are, however, confident in our ability to adapt and innovate, and we remain committed to driving positive change in the agricultural sector in the years to come.

Despite its current reality, the Bank strives to reinforce its position as a specialist agricultural Development Finance Institution. It uses financial services and products to address a critical market gap in the economy for the development and transformation of agriculture, including agricultural land ownership and use. This is done by promoting the inclusion of Historically Disadvantaged Persons in the agricultural economy. We remain committed to turning the Bank around to ensure it is able to take its rightful place in the country and fulfil its mandate of ensuring food security and transformation of the agricultural sector.

Looking ahead, we will maintain focus on concluding the liability solution with our lenders, we are confident that the work done so far and the commitment shown by all our lenders have moved us closer to reaching an agreement soon. We aim to complete developing a proposal, in consultation with the shareholder, aimed at realising a revitalised funding model for the Bank. This model should support our development effectiveness and enhance our financial resilience. This endeavour will be underpinned by the redesign and restructure of the organisation in order to deploy a new operating model that aligns with our strategic objectives, enabling us to resource the organisation with fit-for-purpose skills and technology; enabling us to better serve our clients.

In line with the objective to increase development effectiveness and build a loan portfolio that will enhance the Bank's financial sustainability, we will pursue the implementation of continuous improvement initiatives. These initiatives will strengthen our origination capability and enhance our credit assessment processes, enabling increased disbursements and accelerated growth of the new Blended Finance portfolio.

We are deeply committed to exploring new avenues for revenue diversification. By leveraging our expertise and network, we will provide value-added services and innovative financial products that cater to our clients' evolving needs. By embracing emerging trends such as sustainable finance and digital transformation, we will position ourselves as leaders in the agricultural finance sector, contributing to the growth of a more resilient and inclusive economy.

To achieve these aspirations, we recognise the importance of strengthening our partnerships within the financial sector and across the entire agricultural value chain. Collaborating with government agencies, industry associations, and development finance institutions will enable us to leverage resources, share knowledge, and maximise our impact.

In conclusion, I extend my deepest gratitude to our dedicated team, whose unwavering commitment and hard work have been instrumental in our success. I also express my appreciation to our valued shareholders, customers, lenders, and all stakeholders for their continued support and trust in Land Bank.

Together, we will continue to drive agricultural development, empower rural communities, and contribute to the prosperity of South Africa.

Sincerely,

**Themba Rikhotso**
Chief Executive Officer
Land Bank

# ACHIEVEMENT AGAINST KEY PERFORMANCE INDICATORS

The Bank's performance was measured against the following Key Performance Indicators (KPIs) for FY22/23.

| KPA | WEIGHT | OBJECTIVE | WEIGHT | KPI | TARGET | ACTUAL | COMMENTS |
|---|---|---|---|---|---|---|---|
| Development Effectiveness | 20% | Establishment and development of small and medium-scale, majority Black-owned farmers | 5% | Disbursements to development clients:<br>1. Debt disbursements | R750m | R53,6m | • The conclusion of the Blended Finance Scheme agreement with DALRRD was delayed. This resulted in a delay to the resumption of lending activities which in turn led to negligible disbursements in FY22/23.<br>• Interventions to improve the origination and processing of applications have been implemented. A relatively good pipeline of transactions has been built for FY23/24. |
| | | | 5% | 2. Grant disbursements (External Dependency: DALRRD, EC and Agri Youth Fund – Grant allocation and agreement to be approved) | R500m | R46m | |
| | | Sustain food security by assisting farmers through disaster relief support | 5% | COVID-19 Grant disbursements to qualifying farmers (development and commercial) | R90m | R6,7m | • The Memorandum of Agreement with DALRRD for the COVID-19 Relief Fund was not extended for the financial year resulting in no further disbursements from this Fund.<br>• An initiative to establish a universal disaster fund is being considered to enable support to affected clients. |
| | | Finance priority commodities in line with the AAMP objectives, to ensure food security | 2,5% | New loan approvals are aligned to the AAMP priority commodities (% of Rand value approved is for producers of priority commodities) | 80% | >95% | Performance:<br>• 97,4% of loan approvals for FY22/23 are aligned to the AAMP priority commodities. |
| | | Enhance development effectiveness reporting | 2,5% | Implement the Land Bank Development Indicator Framework on monitoring systems to enable reporting<br>1. Development effectiveness report submitted to Board by 31 March 2023 | 31 March 2023 | | Progress:<br>• The Development Effectiveness Report served at the Social and Ethics Committee in January 2023 and was recommended to the Board.<br>• The development effectiveness scorecard was updated and tested with the Indicators from the Land Bank Development Indicator Framework.<br>Next steps:<br>• Embed indicator updates in due diligence and monitoring tools and systems to improve data collection.<br>• Finalise reporting and dashboards. |

| KPA | WEIGHT | OBJECTIVE | WEIGHT | KPI | TARGET | ACTUAL | COMMENTS |
|---|---|---|---|---|---|---|---|
| Financial Sustainability | 30% | Conclude the liability solution, to cure the default and enable resumption of lending activities | 10% | Implement the Liability Solution milestones, as per the LS4 tracker and Timeslines<br>1. Independent review by EY completed<br>2. Heads of agreement between the Bank and lenders drafted<br>3. Obtain NT equity conditions approval<br>4. ENS legal drafting completed (External dependency): agreement by local lenders, international lender and National Treasury) | Completed milestones in time, as per timeline tracker by 31 Mar 23 | | Progress:<br>• Engagements are continuing between the Bank, National Treasury, and the lenders.<br>• R5,1bn of equity injection from National Treasury has been secured in an escrow account to be accessed once the Liability Solution agreement is concluded.<br>• Consultation is underway to address outstanding matters pertaining to the Term Sheet.<br>Next Steps:<br>• The focus, in FY23/24, will be on finalising the outstanding items in the Term Sheet to enable the conclusion of the Liability Solution agreement. |
| | | Enable the Bank to fulfil its mandate as a DFI, by resolving the funding model | 7,5% | Finalise the revised funding model strategy:<br>1. Finalised quantification of the cost of development<br>2. New funding model proposal approved by the Bank Board and submitted to National Treasury by 31 March 2023 | 31-Mar-23 | | Progress:<br>• A detailed business case for the proposed Funding Model will be completed in FY23/24 for appropriate consultation with the Shareholder / National Treasury. |
| | | Improve the quality of the existing loan book | 7,5% | Manage non-performing loans (stage 3) in line with the NPL strategy | <R11,5bn | R9.7bn | Performance:<br>• NPL's reduced from R12.3bn (Mar'22) to R9,71bn (March'23) a R2,6bn reduction.<br>• While the stage 3 book has reduced. The NPL % remains high due to the declining loan book.<br>Action Plan:<br>• Implementation of the enhanced NPL Remediation Plan will continue in FY23/24. |
| | | Improve cost to income ratio | 2,5% | Improve net interest income | R727m | R607m | Performance:<br>• A combination of the reduced loan book as well as increased interest expense from the increasing cost of funds resulted in the non-achievement of the NII target. |
| | | | 2,5% | Manage operating expenses | R630m | R499m | Performance:<br>• The Bank's cost containment measures resulted in a positive variance of R131 million when compared to the operating expenses budget of R630 million resulted from staff cost savings. |

| KPA | WEIGHT | OBJECTIVE | WT | KPI | TARGET | ACTUAL | COMMENTS |
|---|---|---|---|---|---|---|---|
| Stakeholder Management & Client Centricity | 15% | Provide effective support to all existing clients | 2,5% | All facilities are reviewed in time (not more than 10% of the number of client facilities are overdue by year end)<br>Extensions and overdue timelines to be documented in SOP | > 90% | 79% | • Total facilities that were due for review – 318<br>• Total reviews completed – 264<br>• Completion % – 83%<br>Action Plan:<br>• Annual reviews form part of the preservation strategy targeted at the Bank's existing clients.<br>• Capacitation of the client coverage business units will assist to catch up with on the outstanding reviews. |
| | | | 2,5% | Loan approvals to existing and new clients | R1,3bn | R295m | • The disbursements to existing clients will remain significantly challenging whilst the Bank's cost of funds remain at the current level. It is critical for the Bank to finalise the liability solution to enable appropriate cost of funds. |
| | | Improved client service to new clients | 3,3% | Improve Turnaround Time for new funding applications: days from initial assessment to last disbursement | < 75 Days | 60 days | Progress:<br>• The average Turnaround Time for the year amounted to 60 working days, from Initial Assessment to first Disbursement.<br>• The Bank's improvement plan for the origination and application process making progress. |
| | | Enhance the client value proposition with pre- and post-finance support | 3,3% | Develop the Pre- and Post-finance technical support offering.<br>1. Approved by Board by 30 September 2022 | 30-Sep-22 | | Progress:<br>• The pre- and post–support offering was approved by Board by 30 September 2022.<br>Action Plan:<br>• Engagements with provincial departments of agriculture and commodity organisations to formalise collaboration for offering the services.<br>• Implementation of the programme. |
| | | Improve stakeholder engagement to restore the reputation of the Bank | 3,3% | Improve the Bank's net reputation score (as measured by the media monitoring company) | 5% | 7% | Performance:<br>• A Net Reputation Score of 7% was achieved FY22/23.<br>Action Plan:<br>• Continued implementation of the Bank's Reputation Management Strategy and Action Plan. |

| KPA | WEIGHT | OBJECTIVE | WEIGHT | KPI | TARGET | ACTUAL | COMMENTS |
|---|---|---|---|---|---|---|---|
| Organisational Capacity & People | | Retention of critical skills and key staff | 5% | <10% vacancies in critical roles and key staff (i.e., >90% of critical roles filled). | <10% | 38,5% | Amongst others, the uncertainties associated with the Bank's protracted state of default and the reducing of the loan book may have contributed to the attrition of critical staff.<br>The Bank is the process to fill critical roles, and has implemented retention measures to reduce attrition. |
| | | Operating model | 5% | Revised organisational operating model approved by the Board by 31 December 2022. | 31-Dec-22 | | Whilst the high-level principles were approved by the Board, the delays in the finalisation of the detailed operating model as well as the organisational structure will be rectified with the work to finalise these being undertaken in FY23/24. |
| | | Design the structure in line with the revised operating model | 5% | Revised Structure approved by Board by 31 March 2023<br>1. Design the Macro and Microstructure<br>2. Finalise the phased implementation plan | 31-Mar-23 | | |
| Governance | 20% | Create an effective control environment | 5% | Classify 0,1% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure | <0,1% | 0,01% | Performance:<br>R5,63m of Irregular Expenditure over Opex of R512m was recorded.<br>Fruitless and Wasteful Expenditure of R6 000 was recorded. |
| | | Improved FY22/23 External Audit outcome | 10% | Audit outcome as per the AGSA Audit Report (External Dependency: LS4– Going concern) | Unqualified audit outcome with no findings (clean outcome) | | The bank achieved an unqualified audit opinion with findings. |
| | | Entrench Enterprise Risk Management | 5% | Enterprise Risk Management controls effectively implemented:<br>1. Enterprise Risk Management tool | ERM Score: 3 | 3 | The ERM maturity has been rated at a level 3. |

## Legend

| Achieved | Not Achieved |
|---|---|

# DEVELOPMENT EFFECTIVENESS - OUR STORIES OF IMPACT

## Case Study 1: Empowering Farmers for a Resilient Food Supply Chain

**Theme: Strategic Partnerships Driving Agricultural Empowerment**

### INTRODUCTION

In its pursuit of fostering inclusive ownership and success in the agricultural sector, Land Bank has formed strategic partnerships with technical support Organisations like Khula APP (Pty) Ltd. These collaborations aim to provide pre and post-investment services, agricultural education, business development, market links, and global gap certification to empower farmers from historically disadvantaged backgrounds. The success story of Koketso Moloko, the owner of Lekung Food Group, exemplifies the transformative impact of the Bank's CSI Market Readiness Programme and how strategic partnerships are driving agricultural empowerment.

### BACKGROUND

Koketso Moloko, a resilient and determined entrepreneur, inherited her family farm in Rustenburg, Bojanala Platinum District, after her father's passing in 2011. Her journey of learning and self-discovery led her to become the successful owner of Lekung Food Group, a thriving 10-hectare farm in Rustenburg, Bojanala Platinum District, renowned for producing fresh produce and livestock. Despite lacking prior farming experience, she took on the challenge of managing the farm and pursuing her dream of becoming a successful farmer. However, like many farmers, Moloko encountered challenges, particularly the lack of funding for essential infrastructure and compliance requirements.

### THE LAND BANK'S SUPPORT

Recognising the potential in Moloko's venture, Land Bank included her in the CSI Market Readiness Programme. This program offered vital support, preparing her business to become market-ready. Through the collaboration with Khula APP (Pty) Ltd, Moloko received agricultural education, business development resources, market connections, and global gap certification. The comprehensive assistance empowered her to supply formalised local and export markets.

## IMPACT AND TRANSFORMATION

### Market Expansion and Increased Production:

Empowered by the Market Readiness Programme, Moloko's business experienced significant growth. The program enabled her to establish crucial connections with pack houses and expand her clientele, which, in turn, resulted in increased production. Her hard work and dedication paid off, as Lekung Food Group is now projecting an impressive 30% increase in turnover for the season, thanks to an offtake agreement secured through the Khula Fresh Produce Marketplace.

## LAND BANK'S SUPPORT AND GLOBAL GAP COMPLIANCE

To further bolster her business, Moloko received vital financial support from the Land Bank for acquiring seedlings, fertilisers, and chemicals necessary to fulfill her offtake agreement. Additionally, through funding from the Land Bank's CSI programme, Moloko achieved global gap compliance. This achievement not only ensured regulatory compliance but also provided her with access to a consistent formal market, paving the way for future exports.

## THE FUTURE VISION

With the backing of the Land Bank, Moloko's business projects a substantial increase in turnover. This projected growth will enable her to enhance infrastructure and processing capabilities, contributing to a more resilient and sustainable food supply chain. Moloko's long-term goals include erecting more tunnels, building a pack house, purchasing a medium-sized truck, and expanding the range of processed goods, such as chillies and tomatoes.

Koketso Moloko's success story exemplifies the transformative power of strategic partnerships and the Land Bank's unwavering commitment to empowering farmers. Through initiatives like the CSI Market Readiness Programme and collaborations with Organisations like Khula APP (Pty) Ltd, the Bank is driving agricultural empowerment and inclusive ownership. The vision is to create a resilient food supply chain that not only empowers individual farmers but also contributes to the overall growth and transformation of the agricultural industry.

## Case Study 2: Empowering Black Women in Agriculture

**Theme: Fostering Gender Empowerment and Agricultural Growth**

## INTRODUCTION

The Land Bank's commitment to empowering entrepreneurs from historically disadvantaged backgrounds is exemplified by its pivotal role in supporting a 100% black women-owned business in agriculture. In 2018, the Bank assisted this business in acquiring its first extensive farming land, and in 2023, the support extended to the purchase of a second irrigation farm for pecan nuts and cash crops. This case study showcases the Bank's dedication to fostering gender empowerment and driving agricultural growth through strategic and sustained support.

## EMPOWERING BLACK WOMEN

Through the Bank's assistance, this 100% black women-owned business was given the opportunity to establish a strong foothold in the agricultural sector. The acquisition of extensive farming land in 2018 marked a significant milestone in their journey. The continued support, leading to the purchase of a second irrigation farm in 2023, reflects the Bank's unwavering commitment to empower black women in agriculture and provide them with equal opportunities for success.

## DRIVING AGRICULTURAL GROWTH

The strategic involvement of Land Bank has been instrumental in the development progression of this business. By dedicating the second irrigation farm to pecan nuts and cash crops, the Bank has facilitated the expansion of their agricultural operations. This strategic focus on specific crops enhances the business's growth potential and contributes to the overall development and growth of the agricultural sector.

## Case Study 3: Fostering Inclusive Ownership and Success

**Theme: Inclusive Entrepreneurship and Transformation**

## INTRODUCTION

The Land Bank's dedication to fostering inclusive ownership and success is evident through its support to a 100% black-owned business owned equally by both male and female entrepreneurs. In 2011, the Bank provided crucial assistance in the purchase of an irrigation farm specialising in raisins, wine grapes, pecan nuts, and cash crops. The continued support from the Bank has been instrumental in the business's remarkable success, leading to prestigious accolades and international expansion.

## INCLUSIVE ENTREPRENEURSHIP

The Bank's commitment to inclusive entrepreneurship is reflected in its support to this black-owned business, where male and female entrepreneurs equally share ownership. By promoting equal participation, the Bank actively contributes to breaking down barriers and advancing transformation in the agricultural sector.

## TRANSFORMATIVE IMPACT

The Bank's involvement has had a transformative impact on this business. With the Bank's support, the business has flourished, becoming a noteworthy player in the agricultural industry. The accolade of being named the Development Farmer of the Year by SA Raisins in 2018 underscores the business's remarkable achievements, further solidifying the transformative impact of the Bank's assistance.

These case studies demonstrate the Land Bank's dedication to promoting empowerment and inclusion in the agricultural sector. Through strategic and sustained support, the Bank empowers black women and promotes equal ownership for both male and female entrepreneurs. The success stories of these businesses exemplify the transformative impact of the Bank's involvement, driving agricultural growth and contributing to the overall development and transformation of the industry. As the Bank continues to foster gender empowerment and inclusive ownership, it plays a pivotal role in building a more inclusive and thriving agricultural landscape.

## Case Study 4: Empowering Youth Agri-preneur for Sustainable Growth

**Client: Andile Bernard Ndzunga**

## BACKGROUND

Andile Bernard Ndzunga, a talented and ambitious young agripreneur, joined the Land Bank's Rural Enterprise and Development (REM) program as a development youth client. Starting his journey at a young age, Andile's dedication and passion for agriculture have been instrumental in his remarkable success. Now 35 years old, Andile continues to be classified as a youth, reflecting the Land Bank's commitment to nurturing and supporting young talent in the agricultural sector.

## GROWTH JOURNEY

Andile began his farming journey by leasing a farm property. The Land Bank played a crucial role in his growth by providing the initial loan in 2014. This financing was used to secure production inputs for 50 hectares of grain. Impressed by Andile's dedication and exceptional progress, the Land Bank continued to support his ventures with production facilities granted for the past eight seasons.

## EXPANDING AGRICULTURAL OPERATIONS

Through strategic financing and support from the Land Bank, Andile's agricultural operations have flourished. Today, he plants an impressive 200 hectares of maize annually, showcasing substantial growth compared to his initial 50-hectare venture. Additionally, Andile has ventured into mechanisation contracting, covering 350 hectares of land. This diversification has contributed to increased productivity and improved agricultural practices in the region.

## ONGOING SUPPORT AND EXPANSION

The Land Bank's commitment to Andile's success remains unwavering. From an initial facility, the financing has now grown substantially per season, reflecting the bank's trust in Andile's capabilities and the significant growth potential of his agribusiness.

## CONCLUSION

Andile Bernard Ndzunga's journey from a young participant in the REM program to a successful and dynamic agripreneur is a remarkable testament to the transformative power of strategic financing and development support. The Land Bank's dedication to empowering youth in agriculture and providing ongoing support for sustainable growth has been instrumental in Andile's achievements. As Andile continues to thrive, his success story serves as an inspiration to other young agripreneurs, highlighting the Land Bank's commitment to driving inclusive and sustainable agricultural development in South Africa.

## Case Study 5: Ditaung Agricultural Co-Operative Limited - Empowering Black Farmers for Sustainable Growth

**Client: Ditaung Agricultural Co-Operative Limited**

## BACKGROUND

Ditaung Agricultural Co-Operative Limited is a 100% black-owned family entity, comprising four brothers and a sister. In 2017, the cooperative approached the Land Bank with a vision to expand their agricultural operations and make a meaningful impact in the Vaalharts Irrigation Scheme.

## GROWTH JOURNEY

The cooperative's existing farm property, covering 25 hectares, was facing profitability challenges. However, an opportunity arose to purchase an additional 201 hectares of irrigation property. Recognising the potential of this expansion, the cooperative sought financial support from the Land Bank to realise their vision.

## SUPPORT FOR GROWTH

The Land Bank provided blended funding to Ditaung Agricultural Co-Operative Limited. This financial backing empowered the cooperative to invest in expanding their land under irrigation, focusing on grain and pecan nuts production.

## CONTRIBUTION TO FOOD SECURITY

With the support of the Land Bank, Ditaung Agricultural Co-Operative Limited successfully expanded their operations. Today, they significantly contribute to food security through their successful cultivation of grains and pecan nuts. Their commitment to sustainable farming practices has made a positive impact on regional food production.

## TRANSITION TO COMMERCIAL FARMING

Ditaung Agricultural Co-Operative Limited's journey exemplifies the Bank's mission to empower development clients to transition into commercial ventures. With sound financial planning and strategic support, the cooperative achieved profitability and emerged as a successful commercial farming enterprise.

## CONCLUSION

The success story of Ditaung Agricultural Co-Operative Limited showcases the transformative power of strategic funding and dedicated support from the Land Bank. Empowering black farmers for sustainable growth, the cooperative has evolved from a family-owned entity facing challenges to a thriving commercial agricultural operation. Their remarkable journey stands as a testament to the Land Bank's commitment to driving inclusive and impactful agricultural development in South Africa. By empowering entities like Ditaung Agricultural Co-Operative Limited, the Land Bank continues to play a crucial role in fostering food security and economic prosperity for the nation.

## Case Study 6: Phophi Raletjana - Empowering Black Commercial Farmer for Agricultural Excellence

**Client: Phophi Raletjana**

## BACKGROUND

Phophi Raletjana is an established black commercial farmer with a passion for farming potatoes and cash crops in the scenic Capricorn District of Limpopo Province. Her farming enterprise spans across a vast 1400 hectares, with 240 hectares under irrigation, creating a significant impact in the agricultural sector. Phophi's farm is managed by a team of highly skilled and experienced individuals, who play a crucial role in the value chain, making her enterprise a reliable player in the market.

## AGRICULTURAL EXCELLENCE

Phophi Raletjana's dedication to excellence and sustainable farming practices has been instrumental in her success. Her farm currently employs 14 permanent workers and provides seasonal employment to 160 workers, contributing to local livelihoods and economic growth.

## DIVERSE MARKET SEGMENTS

Phophi's farm is involved in the cultivation of multiple commodities, catering to various market segments. Her produce includes:

- Potatoes: Sold to agro-processing companies, Mozambican wholesalers, and fresh produce markets in South Africa, ensuring a wide reach and sustainable income streams.
- Peppadew: Planted on contract for Miami Canners, a renowned processing company that exports the product to Germany and other European countries, contributing to international trade and recognition.
- Tomatoes: Cultivated for Miami Canners and Rhodes, two reputable brands, while also supplying fresh produce markets in Gauteng and Limpopo, enhancing food accessibility in local communities.
- Livestock: Sold at local auctioneers like Vleissentraal, benefiting local communities and fellow farmers, strengthening the agricultural ecosystem.

## EMPOWERING BLACK COMMERCIAL FARMING

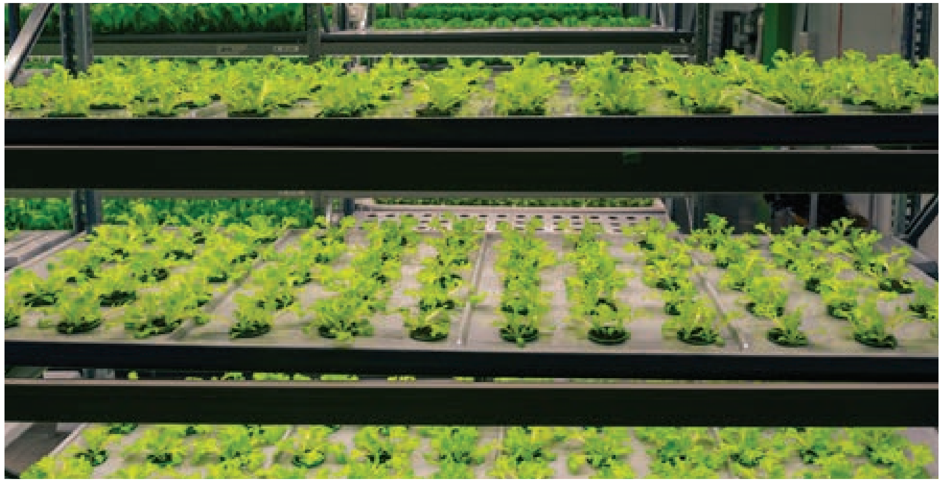
Phophi Raletjana's success story stands as a testament to the Land Bank's commitment to empowering black commercial farmers. Through a working capital funding, the Bank supported Phophi's vision and enabled her to scale her farming enterprise, fostering agricultural excellence.

## CONCLUSION

Phophi Raletjana's journey exemplifies the transformative power of strategic funding and sustainable farming practices. As a black commercial farmer, Phophi has emerged as a role model and a driving force in the agricultural sector. Her farm's diverse market segments and positive social impact through employment showcase the comprehensive support provided by the Land Bank. By empowering talented farmers like Phophi, the Bank plays a pivotal role in driving inclusive growth, food security, and economic prosperity in South Africa.

# PART 5

## OPERATING ENVIRONMENT



# SECTOR OVERVIEW

## THE MACRO-ECONOMIC ENVIRONMENT

The Land Bank's outlook for 2023 is intricately woven into the global economic fabric. While there are faint indications of a soft landing in the global economy, the prevailing high inflation rates and recent upheaval in the financial sector have cast a shadow over this possibility. The burden of high debt levels further constrains the ability of fiscal policymakers to navigate new challenges, adding another layer of complexity to the global economic landscape.

Geopolitical tensions, Russia-Ukraine conflict, continue to permeate the global atmosphere, casting a pall over international trade and affecting commodity prices, thus reverberating through the agricultural sector. As certain economies show signs of convalescence and supply chains gradually regain stability, the land bank must consider its role in facilitating farmers' access to inputs and markets, ensuring they can leverage these improved conditions.

The continued spectre of the COVID-19 pandemic remains a formidable threat, especially as new variants spark renewed outbreaks. Nevertheless, economies that weathered the pandemic's fury are exhibiting signs of rejuvenation, a dynamic that could alleviate supply chain disruptions and thereby benefit the agricultural sector by enhancing input availability and market reach. Policymakers have taken decisive measures to shore up the banking system and address financial stability issues, a proactive stance indispensable for sustaining confidence in the banking sector, and enabling institutions like the land bank to fulfil their mandates effectively.

## THE POLICY ENVIRONMENT

In 2020, under the leadership of Minister Thoko Didiza, the National Agricultural Marketing Council embarked on the formulation of the Agricultural and Agro-processing Master Plan (AAMP). This innovative endeavour sets out to steer the sector toward inclusive growth, sustainable employment, and food security. Rooted in an array of policy reforms spanning market dynamics, financial systems, infrastructure, skills development, natural resource management, research and development, and technology integration, the AAMP finds resonance with national priorities such as the National Development Plan and the Medium-Term Strategic Framework.


This comprehensive plan dovetails with ongoing land and agrarian reform initiatives, complemented by tailored Commodity-driven Master Plans and sector-specific strategies. The overarching mission is to cultivate competitive agricultural and agro-processing sectors that stimulate market-oriented production, foster rural economic development, safeguard food security, and provide platforms for employment and entrepreneurship. This mission inherently aligns with the Land Bank's fundamental objective of nurturing agricultural and rural advancement, thereby reinforcing its pivotal role in realising the objectives of the AAMP.

AAMP Commodity prioritisation–Principles considered include the following:

- Facilitating transformation in agriculture and agro-processing.
- Boosting South Africa's food security.
- Expediting market access and favorable conditions.
- Enhancing competitiveness through technological innovations, infrastructural expansion, and digitisation.
- Escalating farmer support mechanisms and agro-processing incentives.
- Creating inclusive and decent employment opportunities, even amid climate change and technological shifts.
- Strengthening the safety of farming communities and curbing livestock theft.
- Cultivating an adept governmental framework and a conducive policy environment.
- Fostering climate change resilience and optimal natural resource management

By aligning its strategies with these principles and strategic goals of the AAMP, the Land Bank not only moulds its actions but also contributes substantively to the broader national vision, promoting inclusive growth, addressing unemployment and inequality, and fortifying food security through sustainable agricultural and agro-processing expansion.

# THE AGRICULTURAL SECTOR OVERVIEW

The agricultural sector assumes a pivotal role in South Africa's socioeconomic landscape, contributing significantly to food security, employment generation, rural development, and export earnings. In 2022, agriculture, forestry, and fishing collectively contributed 2.57% (R171 billion) to the country's GDP, exerting cascading effects on sectors like food processing, transportation, and retail. However, despite this significance, the sector encountered a 12.3% contraction in Q1 2023, attributed to reduced economic activities in field crops and animal products, a consequence of persistent load shedding that continues to undermine production. Indicators like the Agbiz/IDC Agribusiness Confidence Index reflect waning optimism among industry stakeholders, signalling a challenging path ahead.

**Climatic Conditions:** The South African Weather Services (SAWS) forecasts above-average rainfall for the winter and early spring seasons in June 2023, with particular benefits anticipated for the southern and southwestern regions of the country. Such projections hold considerable implications for both crop and livestock production, potentially amplifying agricultural outputs and enhancing food security.

In tandem with this, SAWS indicates that the El Niño–Southern Oscillation (ENSO) currently rests in a neutral state, though forecasts indicate a possible transition to a weak El Niño phase in late winter and early spring, possibly intensifying into a strong El Niño for the summer season. It's noteworthy, however, that ENSO predictions during this period carry less certainty. As a prudent measure, vigilance in monitoring ENSO forecasts until August/September is advisable, given that predictive accuracy typically improves during this timeframe.

This anticipated shift in weather patterns, transitioning from relatively abundant rainfall to drier and warmer conditions, could significantly influence South Africa's agricultural landscape in the 2023/24 production season. This transition follows a period of favourable rainfall and soil moisture that may have been conducive to planting conditions. Given this, the Land Bank's capacity to comprehend and adapt to these evolving climate dynamics is critical for the formulation of strategies that effectively support farmers and agri-businesses.

**Exchange Rate Impact:** The depreciation of the South African rand, driven by factors like load shedding and geopolitical tensions, carries direct implications for farmers and agri-businesses. This weaker currency augments the costs of imported inputs, including essentials like fuel and machinery, thereby exerting financial pressure on farmers. On the flip side, the devaluation could serve as a catalyst for agricultural exports, potentially bolstering incomes for exporters. The price trajectory of fertilisers in 2023 is projected to display a decline of around 37%, providing a measure of respite for the ongoing and imminent planting seasons. However, challenges could arise if the previous high input costs fail to be offset by concomitant declines in grain prices. It's anticipated that the currency's depreciation could curtail the extent of input cost reductions. In navigating these currents, the Land Bank's role as a supportive partner is to ensure that farmers are equipped to manage associated risks while capitalising on export prospects.

**Load Shedding's Agricultural Impact:** The centrality of electricity to modern agriculture is undisputed, making the scourge of load shedding an acute concern. It substantially disrupts the entire agricultural value chain, most acutely impacting irrigation, intensive farming operations (such as poultry and piggery), dairy production, and cold chain logistics. As a consequence, operational expenses surge, exacerbating the financial strains on farmers. In this intricate milieu, the Land Bank's opportunity lies in proffering alternative energy financing solutions that alleviate the load shedding burden. The establishment of the Agro-Energy Fund, targeting energy-intensive agricultural activities, is an illustrative example, furnishing grants and loans that bolster the sector's resilience against energy challenges and enhance its overall sustainability.

**Input Costs and the Grain Industry:** Forecasts suggest a decline in fertiliser prices in 2023, offering a ray of hope for the impending planting season. The mood is cautiously optimistic for summer grain crops, with maize prices projected to decrease due to augmented domestic supplies and a parallel descent in international prices.

**Livestock Industry:** The sustainability of livestock farming in South Africa grapples with the weight of animal diseases such as Foot and Mouth Disease, Avian Influenza, and Avian Swine Fever. Addressing these afflictions necessitates substantial investment in disease surveillance, prevention, and the establishment of resilient farming systems that underpin the production of healthy animals and grant access to markets. While strides have been made in addressing these challenges, it's noteworthy that, as of May 31, 2023, there were 124 ongoing outbreaks of African Swine Fever (ASF) and 199 outbreaks of Foot and Mouth Disease (FMD), exerting a tangible impact on the sector. Moreover, 5 outbreaks of Highly Pathogenic Avian Influenza (HPAI) were reported in chicken farms. Amid these issues, the availability of livestock vaccines has been hampered by production challenges. Feed grain prices appear to be on a downward trajectory, offering relief and potential profit enhancement. Nevertheless, the prices of cattle and sheep meat remain under pressure due to the broader economic struggles. Load shedding compounds these challenges by constraining consumer spending, while disease outbreaks introduce both adversities and opportunities for the sector. The Land Bank, through its active support of livestock farmers in devising and implementing disease control measures, stands poised to navigate these complexities and provide strategic guidance.

**Horticulture Industry:** The horticulture sector, represented by Fruit SA, grapples with a constellation of challenges encompassing the effects of EU policies, fiscal limitations, consumer income constraints, persistent unrest, load shedding, and water management dilemmas. These factors have collectively pushed growers and industry stakeholders into a survival mode, as reflected in the deliberations of a recent citrus summit. Within this framework, additional vulnerabilities have surfaced, including port issues, escalating labour costs, input price hikes, cold chain disruptions stemming from power cuts, surging transportation outlays, adverse weather conditions, intensified market competition, and geopolitical variables.

**Emerging Risks:** The recently convened citrus summit unveiled a fresh wave of risks. Notably, the viability of citrus exports faces uncertainty due to unresolved EU regulations mandating extended cooling periods for citrus. The imposition of such regulations could potentially strain the financial stability of producers during the critical export season. Furthermore, the unremitting challenge of load shedding has seriously compromised packing operations and, when compounded by port delays, has significantly eroded the quality of exported fruits.

**The European Union's Farm2Fork strategy**, which occupies a pivotal place within its sustainability policy framework, casts a direct impact on South African fruit growers. As South Africa ranks as a prominent fruit exporter to the EU, the industry confronts escalating regulatory demands and compliance requirements that carry palpable financial implications for growers. In light of these multifaceted challenges, vigilance and adaptability emerge as twin imperatives to navigate this intricate terrain effectively.

In the context of these trials, the Land Bank's role gains prominence in offering tailored financing solutions and unwavering support to horticultural stakeholders. By orchestrating its offerings to holistically address these intricate challenges, the Land Bank significantly contributes to the sector's fortitude and sustainable expansion.

**Outlook:** The immediate and medium-term outlook is permeated with notable risks. Load shedding and the impending transition to drier El Niño conditions could potentially dampen production prospects. Though input costs are on a declining trajectory, the pessimistic trajectory of grain prices might dissuade expansive planting, potentially constraining profitability for producers.

**Critical Measures:** The decisive containment of animal diseases through rigorous surveillance, prevention, and control measures, coupled with ensuring the availability of vaccines, remains central to the sustainable and lucrative advancement of South Africa's livestock farming sector.

**AGOA Concerns:** The potential loss of the African Growth and Opportunity Act (AGOA) is a grave concern for South Africa. The nation is actively engaged in safeguarding its access to AGOA benefits, with close attention directed at ongoing negotiations. Notably, the deliberations around AGOA have reverberations within the agricultural sphere, with South African fruit exporters closely monitoring these discussions. The value of agricultural exports from South Africa to the United States reached a considerable sum of 559 million USD in 2022. The outcome of AGOA negotiations holds the potential to dramatically influence trade relations and the economic tapestry between the two nations within the realm of agriculture.

The Bank's substantial exposure, totalling R924 million, to commodities influenced by AGOA underscores the economic linkages and potential reverberations. This amplifies the significance of the Land Bank's role in diligently monitoring developments, conducting comprehensive scenario analyses, and engaging in strategic mitigation to withstand any potential disruptions or capitalise on newfound opportunities.

In light of these dynamics, the Land Bank's function as a pivotal enabler of agricultural transformation, rural development, and financial stability is incontrovertible. By aligning its strategies and interventions with the evolving policy landscape and sector-specific challenges, the Land Bank can effectively advance its overarching mission. This entails bolstering inclusive growth, addressing unemployment and inequality, and fortifying food security through sustainable agricultural and agro-processing expansion. In doing so, the Land Bank not only serves its core objectives but also contributes substantively to the broader national vision. As a beacon of financial support, strategic guidance, and innovative solutions, the Land Bank stands poised to steer South Africa's agricultural landscape toward a resilient and prosperous future.

# PART 6

## STAKEHOLDER RELATIONS

# STAKEHOLDER RELATIONS

Based on the approved Stakeholder Engagement Strategy, Land Bank's engagements with key partners are being implemented, monitored, and reported on a quarterly basis. The engagements are aimed at addressing identified key partnership areas. Regular interactions with prioritised stakeholder segments allow Land Bank to attend to partnership concerns and to explore business opportunities.

**Stakeholder Engagement Strategy**

| KEY STAKEHOLDER/ TARGET AUDIENCE | STAKEHOLDER EXPECTATIONS/NEEDS/ KEY ISSUES TO ADDRESS | HOW THE BANK ENGAGES | HOW THE BANK CREATES VALUE |
|---|---|---|---|
| **Shareholder (NT/Minister of Finance)** | • Sound leadership.<br>• Clear strategy and execution.<br>• Good governance and ethics.<br>• Financial management and operational efficiency.<br>• Advancement of development and transformation of the agricultural sector. | • Quarterly Performance Reports.<br>• Annual General Meetings.<br>• Strategy Engagement Sessions. | • Fulfilment of the mandate |
| **Department of Agriculture Land Reform and Rural Development/ Third Party Funders** | • Fulfilment of the Bank's mandate in support of the sector's programmes.<br>• Administrator and implementer support for the execution of sector programmes.<br>• Strategic alignment and collaboration. | • Engagement meetings.<br>• Reports on programmes administered and implemented by the Bank for the Department and other third-party funders. | • Strategic alignment and fulfilment of mandate.<br>• Support for sector priority programmes. |
| **Legislators/ Parliament** | • Fulfilment of the Bank's mandate.<br>• Appropriate deployment of fiscal support.<br>• Good governance and ethics. | • Reports, presentations, and oversight engagements through the relevant Parliamentary Committees – in particular, committees of Finance and Agriculture, Land Reform and Rural Development. | • Deployment of funds in government and agricultural sectors' development programmes. |
| **Funders/Lenders** | • Financial performance and sustainability.<br>• Good risk management and governance.<br>• Adhere to funding agreements / repayment of debt. | • Lender and investor meetings.<br>• Integrated report.<br>• Results announcement sessions. | • Financial performance.<br>• Lenders' Return on Investment. |
| **Clients** | • Access to value adding financial products and services.<br>• Accessibility, reliability, and responsiveness.<br>• Quality client service and relationship management. | • Client engagement sessions and events.<br>• Sector events.<br>• Client surveys.<br>• Client correspondences.<br>• Provincial offices and points of presence. | • Financial inclusion.<br>• Client experience.<br>• Financial support to contribute to sustainability of clients' businesses. |

| KEY STAKEHOLDER/ TARGET AUDIENCE | STAKEHOLDER EXPECTATIONS/NEEDS/ KEY ISSUES TO ADDRESS | HOW THE BANK ENGAGES | HOW THE BANK CREATES VALUE |
|---|---|---|---|
| **Organised Agriculture** | • Financial support of the sector.<br>• Collaboration and support for organised agriculture's key programmes. | • Organisational engagement sessions.<br>• Sector events. | • Financial support towards sector growth and development, and sector transformation. |
| **Employees/ Labour Representatives** | • Good working environment and employee satisfaction.<br>• Responsiveness to employee needs.<br>• Transparent and honest engagements / sharing of information.<br>• Sustainable organisation to ensure job security. | • Staff engagement sessions.<br>• Union / employee representative engagement structures.<br>• One-on-one employee engagements.<br>• Team and divisional engagements.<br>• Climate and employee surveys. | • Employee well-being.<br>• Employee development and growth.<br>• Productive employees.<br>• Fair remuneration, rewards, and recognition.<br>• Experienced and evident transformation. |
| **Society/ Communities** | • Support for sustainable development goals.<br>• Environmental and social sustainability.<br>• Corporate social investments.<br>• Business opportunities for local suppliers. | • Corporate social investment projects.<br>• Social and environmental assessments as part of due diligence on transactions.<br>• Supply Chain Management advertisements.<br>• Provincial offices and points of presence. | • Social and community programmes.<br>• Opportunities for SMME suppliers / service providers |
| **Media** | • Transparency and responsiveness.<br>• Information and knowledge sharing. | • Media releases.<br>• Media engagements.<br>• Marketing and advertisements.<br>• Updated contents on the Bank's website. | • Media well-resourced with organisational information.<br>• Informed public, clients and stakeholders about the Bank's role and its products and services. |

## BACKGROUND

*Minister Thoko Didiza of the Department of Agriculture, Land Reform and Rural Development (DALRRD), launching the transformative Blended Finance Scheme in collaboration with Land Bank.*

The engagements with stakeholders provide Land Bank partners with a good understanding of the Bank's business and thus help to strengthen and maintain business relations while managing stakeholder expectations. There is a general view from the Bank's stakeholders that Land Bank requires government support (both financial and non-financial) to advance sector transformation.

## Key elements of the stakeholder programme include the following:

### NATIONAL TREASURY

The Land Bank Board, through its Chairman, has maintained a very close and accessible relationship with the Minister of Finance (MoF). A sound and responsive relationship exist between the Executive team, led by the acting Chief Executive Officer (CEO), and the NT team.

The Shareholder has continued to provide support to Land Bank's attempts to get out of the current default position and has actively engaged with the Bank to explore solutions to the areas of contestation between the Bank and its funders as the negotiations for the liability solution continue.

### PARLIAMENT AND THE LEGISLATURE

*Minister Thoko Didiza of the Department of Agriculture, Land Reform and Rural Development (DALRRD), launching the transformative Blended Finance Scheme in collaboration with Land Bank.*


*The CEO of Land Bank (Mr Themba Rikhotso) and DG of DPME (Mr Robert Nkuna) at the conclusion and signing of a collaboration MoU between the two organisations.*

In FY22/23 the Bank participated in engagements with Parliamentary oversight committees including the Select and Standing Committees on Finance, where the Bank provided an update of the state of the Bank and progress on negotiations with lenders for a liability solution.

### LENDERS

Engagements with lenders has continued in an attempt to resolve the areas of the liability solution where agreement has not yet been achieved.

## MINISTRIES AND SOES

### DALRRD

Land Bank and DALRRD have initiated the process to strengthen their collaborative efforts to achieve their individual and collective objectives through a formal collaborative programme of action. The key areas of focus include:

- Legislative and Policy alignment and influencing/lobbying;
- Land Reform Programme;
- Farmer Funding Support; and
- Non-Finance Programmes, such as Extension Services.

Land Bank continues to provide fund management services for DALRRD, including the Blended Finance Scheme, AgriBEE, Emerging Farmer Support Facility, and the COVID-19 Relief Fund.

### PROVINCIAL VALUE CHAIN BLENDED FINANCE SCHEME

The Bank is embarking on a process aimed at the establishment of partnerships to support agricultural development and commercialisation of small to medium farmers in each province.

Draft Memoranda of Understanding (MOUs) and discussions with the provinces are in progress to determine the nature and timing of the implementation of these collaborative arrangements.

### PROVINCIAL DFIS AND ECONOMIC DEVELOPMENT AGENCIES

Land Bank has engaged Provincial DFIs, Agricultural Colleges, universities (faculties of agriculture and environment) and Land Reform beneficiary groups (Community Property Associations and Community Trusts) to explore potential partnerships in eco-tourism, youth employment, Agri business development, etc. These agencies possess several properties that are either not in use or are not in optimal use. These facilities include township education centres (Animal Farms), AgriParks, resorts (youth training facilities), small farms, conference facilities, and similar facilities.

It is envisaged that the Land Bank's Corporate Social Investment programme may utilise the mentioned facilities for the initiatives such as the township and inner-city Agri seminars/workshops and undertake youth and agricultural graduate placements in various facilities to further support community-based young agricultural entrepreneurs. Discussions are still underway.

## REGIONAL COOPERATION AND PARTICIPATION

Land Bank has been a member of the South African Development Community's (SADC) DFI Network, a forum established in 2003 under the SADC Protocol on Finance and Investments. The Bank, with the concurrence of the MoF, has resolved to suspend participation in this forum in the interim, given the Bank's state of default and the inhibiting cost of the membership in the context of the Bank's current financial challenges.

## FARMER ORGANISATIONS

Land Bank has provided secretariat and coordination support to the Agri-Sector Unity Forum (ASUF) since 2018. ASUF is a representative organisation of agricultural unions in South Africa, currently consisting African Farmers Association of South Africa (AFASA), TAU SA, Fruit SA, The Vegetable Roundtable, Agri SA, and the National African Farmers Union of South Africa (NAFU SA). Its main objective is to engage government on both policy and its implementation in areas of land reform, agricultural skills development, farm security, food security, job creation, sector growth, market, and farmers support – among many others.

It aims to develop consensus policy positions on strategic issues in agriculture and to become a mouthpiece for the sector, representing the interests of all farmers. Members of ASUF have committed to work together to develop a national development strategy and a delivery plan for the agricultural sector for South Africa.

The forum had developed an integrated agricultural support package and framework for the agricultural sector through an established Agricultural Sector Planning Committee that will report to the agricultural key stakeholders i.e. the public, sector players, State departments, and the SA Presidency.

Land Bank will continue to provide sector policy inputs, share research material, expose regional and international best practice, while supporting all activities of the forum.

In the course of FY22/23 the Bank engaged with some of the farmer organisation to share the Bank's Strategy, as well as to increase collaboration on sectoral issues in which the Bank has a significant role to fulfil.

## CORPORATE SOCIAL INVESTMENT INITIATIVES

In our commitment to corporate social investment (CSI) initiatives, we have established strategic partnerships with Organisations such as the Agricultural Research Council (ARC) and the Department of Basic Education. Through these collaborations, we have developed our School and Household Food Garden programme, aimed at enhancing community-based food security. Working together, we are devising a sustainable strategic plan to expand outreach, provide advanced nutrition education, increase food production, and support local communities. This initiative plays a pivotal role in supplying school feeding schemes and optimising income generation for schools and households.

In partnership with Fruit and Trees For Africa and AGFRI, we have successfully installed water supply systems in two primary schools in Limpopo. Expansion activities are scheduled to take place in additional schools located in the North West, Gauteng, and Eastern Cape provinces under the guidance of the ARC. Additionally, we have collaborated with the Imbeleko Youth Academy to establish a community food garden and nursery, providing support to subsistence farmers affected by floods in the Valley of 1000 Hills in KwaZulu-Natal. Through our Subsistence Farmer Support Programme, conducted in conjunction with the IDC and implemented by Khula, we have offered assistance to ten young farmers. These farmers have benefited from business development workshops, financial management training, Global Gap certification, agricultural inputs, and access to markets for their products. Some of the participants have successfully advanced their farming enterprises, reaching a level of readiness to apply for commercial finance.

Expanding our reach, we have explored a partnership with the Tshwane University of Technology (TUT) to engage agricultural graduates in agri awareness programmes within townships and provide farmer training within the areas of the university's operation. Additionally, our Flood Relief Support pilot Programme has been initiated to aid growers affected by floods in KwaZulu-Natal, Eastern Cape, and Limpopo provinces, collaborating closely with the respective provincial departments of Agriculture and Rural Development.

Our CSI programme has extended support to Community Property Associations in livestock and youth agri programmes. Furthermore, we aim to enhance our assistance to beneficiaries of the Department of Agriculture, Land Reform, and Rural Development's land reform programme in the future.

Through these impactful initiatives, we remain dedicated to making a positive difference in the lives of communities and contributing to the sustainable development of the agricultural sector.

# PART 7

## OUR CAPITALS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# Intellectual Capital

## LAND BANK'S USE OF TECHNOLOGY

### The Revised IT strategy

Land Bank has embraced a revised IT Strategy aimed at implementing critical enabling technologies within the organisation. This strategy is designed to achieve operational efficiency gains across the business and, ultimately, enhance service delivery to our valued customers. The IT Strategy will be executed in two distinct phases, each with specific objectives and outcomes.

Phase 1, which commenced in 2019 and spanned 24 months, focused on enabling various technologies to deliver immediate benefits by automating internal business operations. This included the implementation of key systems such as CRM for loan origination and customer service management, OnBase for customer-centric document and records management, Excalibur for collections and recoveries management, GIS for farm technical data used in assessments, and enterprise data staging for operational master data management. Additionally, new internet and intranet sites were developed for Land Bank and Land Bank Insurance (LBI).

Building upon the achievements of Phase 1, Phase 2 of the IT Strategy commenced in 2021 and is dedicated to enhancing client-facing capabilities through the adoption of an omni-channel strategy. This phase leverages the existing internal business operations system capabilities and incorporates necessary technology enhancements alongside targeted business process optimisation interventions. The key initiatives include:

- Deployment of the Client E-services Portal, enabling clients to access a range of digital services such as loan inquiries, smart application forms, document uploads, notifications, queries, and complaints. Future sprints are already in the planning phase to introduce additional value-added services.
- Implementation of the Acceleris system, which automates loan technical and financial assessments, streamlining the loan approval process.
- Ongoing project to commercialise GIS reports and offer them to clients through a subscription-based model, providing valuable insights for informed decision-making.
- Conducting a priority review of all planned IT projects, as recommended by the Board, to determine their execution priority and ensure alignment with strategic objectives.

These initiatives demonstrate Land Bank's commitment to harnessing technology to improve efficiency and deliver exceptional digital experiences to our customers. As we progress through Phase 2, we will continue to prioritise the adoption of innovative technologies and optimise our IT infrastructure to support the evolving needs of our clients and the organisation as a whole.

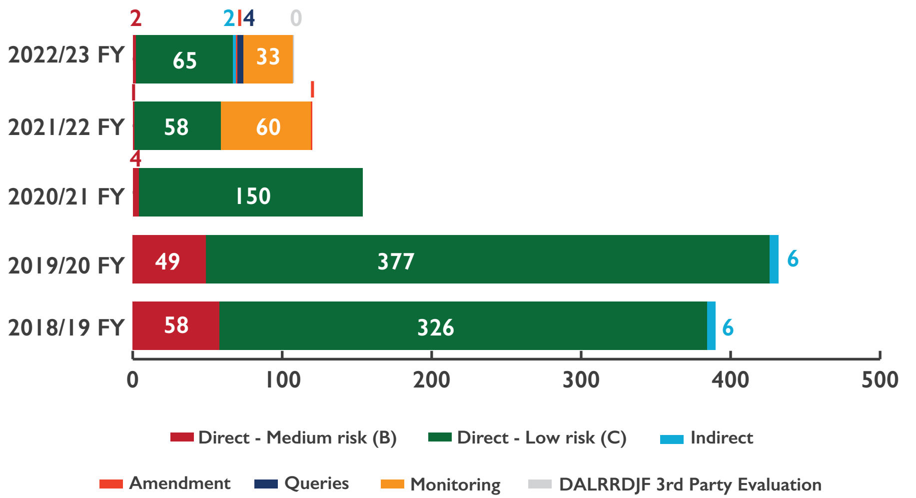
# Natural Capital


The following section explores the Bank's progress in achieving the objectives as set out in its Environmental and Social Sustainability (ESS) Strategy.

The Bank has identified a need, and continually strives to improve the management of environmental and social risks to ensure compliance with environmental and social contractual obligations, as well as in an effort to lead the sector as a responsible corporate citizen.

An important part of the Environmental and Social Management System (ESMS) is the implementation of Environmental and Social Risk Assessment (ESRA) reviews, which provide the Bank with an indication of the potential ESS risks involved in its loan portfolio.

- A total of 114 ESRA reviews were completed (this included 67 new ESRA reviews and 36 monitoring reports). Of this, 100 reviews were categorised as low risk (category C) and one review was categorised as medium risk (category B) with an additional one review being categorised as a high risk (category A).
- Of the 67 new ESRA reviews, six were non-compliant regarding environmental approvals (i.e., failing to obtain/provide proof of environmental authorisations or water rights). In terms of compliance with labour legislative requirements (Occupational, Health and Safety Act, Basic Conditions of Employment Act, Labour Relations Act and Minimum Wage Act), four cases of non-compliance were identified as a result of a lack of adequate Occupational Health and Safety (OHS) measures; eight cases of failing to document employment contracts; and four cases of remuneration not being correctly aligned with minimum wage. Mitigation measures have been included in the ESRA reports that address the identified non-compliances.
- Three ESRA reports were amended/reassessed due to additional information being received or changes to the nature of these applications.
- Five queries were attended to which entailed providing guidance/support on ES due diligence requirements and technical ES issues.



## BUILDING CLIMATE RESILIENCE

As the Bank progresses towards maturity in its response to becoming a responsible and climate resilient bank, the Bank has embarked on ESG governance through the development of a Climate Change Policy. This policy provides enablers for building on existing practices while enhancing governance requirements as per the Principle for Responsible Banking. The policy is in alignment with the SDGs and the Paris Agreement which will provide a firm foundation for the Bank to institutionalise climate resilient practices.

Climate change affects the Bank system through two main channels. The first involves physical risks, arising from damage to property, infrastructure, and land. The second, transition risk, results from changes in climate policy, technology, and consumer and market sentiment during the adjustment to a lower-carbon economy. Identification and Management of these channels are a part of the main features of the Task Force on Climate-Related Financial Disclosures (TCFD) that the Bank continues to work towards. Aligned to the identification and management, the critical function of monitoring must be included in this process. To this end Natural Capital indicators have been developed and approved.

Land Bank has identified climate change as an important impact area for its survival as a business entity and has developed a draft Climate Change Policy to guide it on management of risks and opportunities related to climate change after careful consideration of the risks and opportunities of the changing natural environment. In addition, Development and Transformation has been identified as its most immediate and important key impact area. This is a focus on inclusivity through offering products and services to previously marginalised and excluded farmers based on race, gender, age, a remnant of the apartheid laws in South Africa.

The EU financed FOCUS AFRICA Research between WITS, CSIR and Land Bank relating to climate vulnerability of maize farmers in the North West province. There is preliminary evidence of a statistical relationship between average annual temperature changes, changes in the yield of maize resulting in destressed farmers. This was discussed in June 2022 at the third FOCUS Africa Stakeholder conference drawing in the Regional Department of Agriculture, famers and international stakeholders from the World Meteorological Organisation.

In response to the need to provide improved services to clients towards climate change resilience, the Bank drafted a Green Finance Facility that intends to create opportunities for funding climate-smart practices.

The Bank has embarked on the updating of systems to ensure the inclusion of indicator and data for the Natural Capital Indicators that will facilitate improved reporting on climate resilience.

# Human Capital

## OVERVIEW

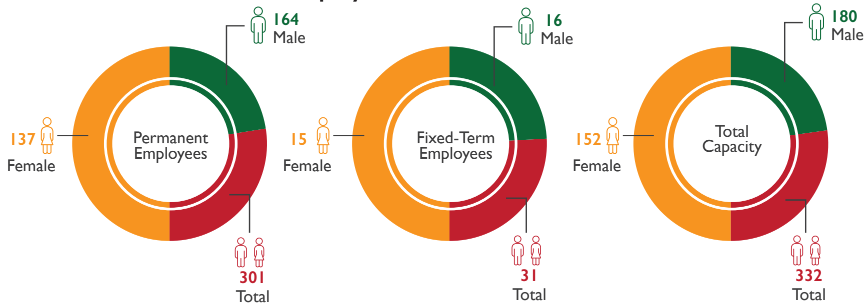

*Land Bank Staff engagement initiatives*

### Organisational capacity

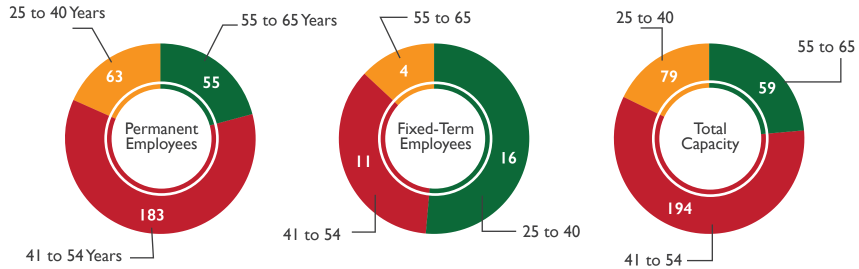
The Human Capital Division remains a strategic partner to the organisation and the employees. The focus is on contributing to Land Bank being sustainable and ensuring that there is adequate capacity and that human resources are optimised. The employee-life cycle underpins the management of talent through– attraction, on-boarding, development, performance management, remuneration, and separation.

Land Bank's organisational capacity comprised 301 permanent staff and 31 fixed-term contractors. A significant portion of the permanent workforce has been with the Bank for over a decade, and this long-term commitment is acknowledged through our long service award policy. Furthermore, we have managed to retain institutional knowledge, with 77.41% of permanent employees having served for more than six years. However, staff attrition remains a challenge, and efforts are underway to bolster organisational capacity. In total, 33 appointments were made to fill vacant positions, including 16 permanent and 17 fixed-term contractors. Out of these, 11 external permanent appointments were made. At Land Bank, we highly appreciate our internal talent, and within the permanent appointments, five internal employees were promoted to higher positions, fostering career advancement.

**Employee Overview: Gender**




**Employee Age Range**



| Internal Permanent Appointments | Female | | | Male | | Total | ACI |
|---|---|---|---|---|---|---|---|
| **Category and Level** | A | I | W | A | W | | |
| Senior Management (P4-P5) | | | 1 | | | 1 | 40,00% |
| Professionally qualified and experienced specialists and mid-management (P6-P7) | 1 | 1 | 1 | | 1 | 4 | |
| **Total** | **1** | **1** | **2** | | **1** | **5** | |

| External Permanent Appointments | Female | | Male | | | Total | ACI |
|---|---|---|---|---|---|---|---|
| **Category and Level** | A | I | A | I | W | | |
| Senior Management (P4-P5) | | | 1 | | | 1 | 100% |
| Professionally qualified and experienced specialists and mid-management (P6-P7) | 3 | | 2 | | | 5 | |
| Skilled and qualified workers, junior management, supervisors, foremen, superintendents (P8-P9) | 2 | | 2 | 1 | | 5 | |
| **Total** | **5** | | **5** | **1** | | **11** | |


*Land Bank Staff engagement initiatives*

| External Fixed Term Contract Appointments | Female | | Male | | | Total | ACI |
|---|---|---|---|---|---|---|---|
| **Category and Level** | A | I | A | I | W | | |
| Professionally qualified and experienced specialists and mid-management (P6-P7) | 3 | | 4 | 1 | 1 | 9 | 94,12% |
| Skilled and qualified workers, junior management, supervisors, foremen, superintendents (P8-P9) | 4 | 1 | 2 | | | 7 | |
| Semi-skilled and discretionary decision making (P10 to P12) | 1 | | | | | 1 | |
| **Total** | **8** | **1** | **6** | **1** | **1** | **17** | |

The Bank in addition ensured that critical vacancies were capacitated through acting arrangements to ensure business and leadership continuity. The acting arrangements served not just as provision of capacity and leadership, but at the same time exposed internal employees to personal career development. Acting positions ranged from semi-skilled level to middle management, Senior Management, and Top Management.

Land Bank remains committed to transformation. The Employment Equity and Skills Committee monitors progress made on the three-year employment equity plan for the Bank. ACI represented 73,19% of the workforce.


*Land Bank Staff engagement initiatives*

| Employment Equity Representation per race, gender and occupational level | Female | | | | Male | | | | % Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ACI | W | FN | ACI Females Total | ACI | W | FN | ACI Males Total | ACI | White | FN |
| Top Management (P1 –P3) | 2 | | | | 4 | | | | | | |
| Senior Management (P4 – P5) | 5 | 2 | | | 3 | 1 | | | | | |
| Professionally qualified and experienced specialists and middle management (P6 – P7) | 40 | 13 | | | 43 | 3 | | | | | |
| Skilled and qualified workers, junior management, supervisors, foremen, superintendents (P8 – P9) | 41 | 7 | 1 | 124 | 10 | 1 | | 119 | 73,19% | 25,00% | 1,81% |
| Semi-skilled and discretionary decision making (P10 to P12) | 34 | 5 | | | | | | | | | |
| Unskilled and defined decision making (P13 – P14) | 2 | | | | | | | | | | |
| **Total** | **124** | **27** | **1** | **37,35%**[1] | **119** | **56** | **5** | **35,84%**[2] | | | |

*[1] ACI Females representation against active headcount = 37.35%*
*[2] ACI Males representation against active headcount = 35.84%*

## Attrition and Retention

The financial year was a particular difficult time for the Bank whereby staff attrition increased compared against previous years. The attrition particularly increased with regard to early retirements. A total of 56 permanent employees exited the Bank. A total of 52 voluntary attrition relating to resignations (40), early retirement (11) and (1) dismissal. The attrition rate for the year ended at 17,28%.

| Permanent Employees Voluntary Attrition | Female | | | | | Male | | | | | % Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Occupational category and level | A | C | I | W | ACI Females Total | A | C | I | W | ACI Males Total | ACI | W |
| Top Management (P1 to P3) | 1 | | | | | 1 | | | | | | |
| Senior Management (P4 – P5) | | | | | | 2 | | | 1 | | | |
| Professional qualified and experienced specialists and middle management (P6 – P7) | 5 | 1 | 2 | 2 | 16 | 5 | 3 | | 8 | 18 | 65,38% | 34,62% |
| Skilled and qualified workers, junior management, supervisor, foremen, superintendents (P8 – P9) | 4 | | 3 | 2 | | 4 | | 2 | 4 | | | |
| Semi-skilled and discretionary decision making (P10 to P12) | | | | | | 1 | | | 1 | | | |
| **Total** | **10** | **1** | **5** | **4** | **30,77%** | **13** | **3** | **2** | **14** | **34,62%** | | |

The Land Bank considered attrition over a two-year period and a strategic decision was implemented on retention of critical skills and key individuals. The retention engagements were supported by the Land Bank Board. A total of 113 employees formed part of the strategic retention Initiative. Employees that received a retention payment entered into a twelve-month work-back agreement. The initiative resulted in the retention of 94,69% of these employees.

## Employee Value Proposition


## Remuneration

Land Bank Remuneration strategy is informed by the State-Owned Entities Remuneration and Incentives Guidelines (2018). Remuneration management within Land Bank is integrated into other people management processes such as the performance management and talent management processes within the ambit of the overall Human Capital policies and will be based on a total rewards philosophy and approach. The Remuneration and Compensation policy was reviewed during the financial year and submitted to the MoF for approval. The Remuneration and Compensation policy provides for the remuneration philosophy and principles for matters related to compensation.

## Fixed Remuneration

The Bank is using an Annual Guaranteed Package approach and offering benefits within the Annual Guaranteed Package parameters set out by the organisation. Participation in the employee benefit arrangements is compulsory for permanent employees and participation is regulated in accordance with the relevant benefit scheme rules and within the constraints of Tax Legislation. The benefits offering for permanent employees includes the closed medical aid scheme of Bankmed, retirement fund and risk benefits cover which includes life, disability, dread disease and funeral cover. An across-the-board annual increase of 4% for qualifying staff were implemented for the financial year.

## Variable Pay

The Bank recognises long service as per the Long service award policy. A total of 40 employees were recipient of these award and a total of R247 500.00.

## Talent Management

At Land Bank, we prioritise the growth and development of our employees by fostering a culture of continuous learning and career advancement. Our commitment to talent management is exemplified by our support for employees pursuing higher education. In the past year alone, we have proudly facilitated the enrolment of 11 employees in tertiary studies that are strategically aligned with the skillsets essential for the Bank's success. Furthermore, 20 employees have been recipients of the Bank's support for tertiary qualifications, commonly referred to as staff studies. This initiative has resulted in a substantial investment of R689,985.02, underlining our dedication to empowering our workforce with the knowledge and skills necessary to excel in their roles and contribute meaningfully to the Bank's growth and success.

These educational pursuits encompass a diverse array of fields that directly correspond to the expertise required within the Bank. Ranging from programs such as Bachelor of Business Administration, Bachelor of Commerce, Bachelor of Laws, to specialised areas like National Diploma in Real Estate, Postgraduate Diploma in Risk Management, and Postgraduate Diploma in Development Finance, these educational pathways contribute to a well-rounded and highly skilled workforce.

Our dedication to enabling career growth through education not only benefits our employees on an individual level but also enhances our organisational capabilities. By supporting employees in their pursuit of academic excellence, we ensure that the Bank remains equipped with the latest knowledge and skills, enabling us to deliver the highest level of service and innovation to our valued clients and stakeholders.

| Permanent Employees Staff Studies | Female | | | Male | | | ACI | % ACI Female Spend | % ACI Male Spend |
|---|---|---|---|---|---|---|---|---|---|
| | A | C | Female Rand Value | A | C | Male Rand Value | Rand Value | | |
| Professional qualified and experienced specialists and middle management (P6 – P7) | | 1 | R17 140,00 | 7 | 5 | R455 733,11 | R472 873.11 | | |
| Skilled and qualified workers, junior management, supervisor, foremen, superintendents (P8 – P9) | | | | | 1 | R76 100,00 | R76 100.00 | 20,46% | 79,54% |
| Semi-skilled and discretionary decision making (P10 to P12) | 6 | | R119 645,00 | | | | R119 645.00 | | |
| **Total** | | **7** | | | **13** | | **R668 618.11** | **100%** | |

The Bank invested a total of R100 517,45 on training intervention related to generic and technical training and workshops/conferences. Most of the investment was made to ACI employees of which Female ACI were 59,33%.

**Employee demographic by training spend**

| Generic Training, Leadership Development, Technical Training, Workshops and Conferences | Female: Number of Interventions | | | | Male: Number of Interventions | | | ACI Rand Value and % | % ACI Female Spend | % ACI Male Spend | Non- ACI |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ACI | W | FN | Female Rand Value | ACI | W | Male Rand Value | | | | |
| Top Management (P1 –P2) | 3 | | | R40 000,00 | | | | | | | R20 682,18 |
| Senior Management (P4 – P5) | | 1 | | R3 980,00 | | 1 | R4 217,39 | | | | |
| Professional qualified and experienced specialists and middle management (P6 – P7) | 4 | 1 | | R18 650,27 | 4 | 1 | R26 489,79 | R80 195,27 | 59,33% | 20,45% | |
| Skilled and qualified workers, junior management, supervisor, foremen, superintendents (P8 – P9) | 1 | | 1 | R7 180,00 | | | | | | | |
| Total (number of interventions) | 8 | 2 | 1 | R69 810,27 | 4 | 2 | R30 707,18 | | 79,78% | | 20,58% |

The Land Bank Induction programme is designed to facilitate the integration of new employees into the organisation. The Induction programme is presented at the Bank for new employees every month.

## Other Benefits

Land Bank assists employees' children to further their education at tertiary level. The children are sponsored for their undergraduate qualification. In the period under review, the Bank assisted 24 employees' children to a total amount of R 698 546, 20 to study at registered tertiary institutions.

Employees are provided with the flexible and remote working arrangements as guided by policy. The Bank supports a work-life balance, and the flexible and remote working policy contributes to strikes the balance between output and employee family obligations.

Land Bank continues to provide employees with employee wellness programmes through a service provider. The programme includes a contact centre whereby employees are encouraged to make use of the service available for counselling. Several mental and financial health seminars were made available to staff during the year.

## Human Capital Governance

Human Capital is an environment that is highly regulated by legislation, policies, and procedures; and it ensures that fairness in the working environment is adhered to. Human Capital has embedded Enterprise Risk Management through the Bank's Strategic Risk register and the Human Capital Operational Risk register. Human Capital included staff attrition as a Strategic Risk. Matters related to performance management, recruitment, employee wellness, and leave management are contained in the Operational risk register.

Mitigating action plans are monitored and implemented and progress reports are provided to the internal governance Committees. The Compliance matrix register outlines all elements related to legislative and regulations compliance for the function.

Human Capital, as a strategic business partner, ensures that policies are in place to guide the organisation. As such, policies and procedures are regularly reviewed. Human Capital reviewed nine policies and standard operating procedures during the year.

| Policy/SOP | Category |
|---|---|
| Performance Management | 1 – Board |
| Harassment Policy | 2 – EXCO |
| Dress Code Standard | 2 – EXCO |
| Flexible and Remote working arrangement | 2 – EXCO |
| Secondment and Rotation | 2 – EXCO |
| Remuneration and Compensation Policy | 1 – Board |
| Recruitment, Attraction and Selection | 1– Board |
| Grievance Policy | 1– Board |
| Post-Retirement Medical Aid | 2 – EXCO |

## Consequence Management

The Human Capital Division, together with the Legal Division, facilitates matters related to discipline and grievances. The Bank deals with consequence management in line with the relevant labour relations legislation, as well as Land Bank policies and procedures. During the financial year seven disciplinary matters were concluded relating to misconduct. One employee was dismissed as a result of absence from work. Two (2) Grievance matters were concluded. There are two matters at the Labour Court of which the Bank is awaiting a date for the proceedings.

## Culture

The Bank implemented initiatives from the climate and culture survey conducted in 2020. These initiatives included the revision of the DoP Section 2 whereby the operational management enables Management decision making to decrease decision making turnaround times. Various staff engagement sessions were completed whereby matters of key strategic focus were shared with employees. In the next financial year, the Bank will commence with the review and establishment of the desired future culture.

# Financial Capital

## FOREWORD BY THE CHIEF FINANCIAL OFFICER

KHENSANI MUKHARI
Chief Financial Officer

Land Bank continued to operate under a state of default for the year under review. Despite this and the difficult micro and macro environment impacting its operations the Bank has witnessed an improvement in the 2023 financial year:

- The Bank continues to operate despite the state of default and to implement the strategy as approved by the Board.
- Lending has resumed as signified by the launch of the Blended Finance Scheme in partnership with the DALRRD during October 2022;
- Filling of critical vacancies to ensure delivery and to strengthen the internal control environment;
- The Bank has successfully insourced the majority (98%) of its loan book that was previously managed by intermediaries also known as Service Level Agreement (SLA) partners, thereby strengthening controls around the management and monitoring of the loan book.

Regarding financial performance and liquidity the following is important to note:

- Improved financial performance with FY21/22 and FY22/23 showing profits;
- During the year under review, the Shareholder transferred R6 billion of the R7 billion appropriated to Land Bank during February 2021, with the remaining R1bn to be transferred during FY23/24. R5,1 billion is held in an ESCROW account pending fulfilment of attached conditions for the release of the funds for utilisation by the Bank. In total R9 billion of the R10 billion appropriated to Land Bank since the default has been received by the Bank to date;
- Improved liquidity position, through collections, settlements, and capital injection with cash sitting at ~R15 billion at 31 March 2023, including the R5,1 billion held in ESCROW;
- The Bank has repaid 58% (R23,5 billion) of debt owing at default, to date and has continued to service interest commitments;
- The NPL remediation strategy has yielded results with the NPL nominal number reducing by R2,6 billion year on year.

The Bank is however not without challenges:

Operating under a state of default means that the Bank's ability to support the sector is significantly constrained due to the inability to raise much needed funding. This is regrettable. Resolution of the event of default has taken way longer than initially anticipated. Negotiations with lenders continue and we are encouraged by the continued support and patience of our lenders regarding this process.

We are working hard and are hopeful that this process will conclude soon.

The Bank is also reviewing its funding model to ensure it is appropriate to support the Bank's mandate of driving development and transformation in agriculture into the future.

Although the audit outcome for FY22/23 remains unqualified the Bank has lost its clean audit status (unqualified without findings) due to adjustments that needed to be made on the FY22/23 Annual Financial statements. This is unfortunate as the Bank has worked hard with an objective to maintain the clean audit status. Improvements are being made in the internal control environment to ensure the Bank regains and maintains its clean audit status going forward.

In conclusion, the Bank continues to rebuild itself and to grow from strength to strength as it strives to deliver on its mandate. This bears testament to the dedication and commitment of the Land Bank team who continues to work tirelessly to rebuild the organisation, to whom I extend my thanks and sincere gratitude.

The continued support of the Shareholder is a source of strength and encouragement for us, for which we are grateful.

**Khensani Mukhari**
Chief Financial Officer
Land Bank South Africa

## GROUP RESULTS

The Group achieved an overall profit for FY22/23. The Bank's margins continue to experience pressure due to the declining loan book, changes in portfolio mix, and high cost of funding. The Group's net profit of R492million (compared to the prior year restated profit of R1,21 billion) was driven mainly by a net impairment release of R368 million, and a decrease in interest expense of R225 million. The Group's Net Interest Income stood at R616 million compared to the restated R508 million reported in March 2022. Interest expense decreased from R2,4 billion to R2,1 billion, a reduction of R225 million, as funding liabilities reduced by R6,7 billion due to capital repayments made to investors. The Group's operating expenses were slightly higher than the previous year, at R553 million, predominantly due to costs incurred on the restructuring of the Bank and the work over the remediation of the loan book.

The Group's assets for the financial year 2023 amounted to R34,6 billion, showing a slight increase from restated R34,3 billion reported at 31 March 2022, primarily due to a net loan book reduction of R5,7 billion and an increase in cash and cash equivalents to R15,4 billion (FY22: R10 billion), mainly due to collections received from clients and capital injection from the shareholder that is currently invested in the ESCROW account pending conclusion of the debt restructuring process.

### Banking Operations

The performance of banking operations continued to improve for the year under review, with a net profit of R473 million, primarily driven by credit impairment provision releases. Excluding the impairment releases, the Bank has made a profit of R105 million.

### Net Interest Income

Net interest income for the year amounted to R607 million, which is R104 million above the prior year's restated figure of R503 million.

### Net Impairment and Recoveries

The net impairment release for the year amounted to R368 million, mainly due to the improvement of under-performing loans, write-offs, and Bad debts recovered from customers; compared to the prior restated net impairment charge of R1,2 billion as at 31 March 2022. The gross impairment release was largely driven by continued client settlements.

### Non-interest Income

Administrative fee expenses incurred amounted to R13,5 million. This was R58 million lower than the R71 million incurred in the prior year, mainly due to the decline in the SLA book as the Bank continued to in-source management of the SLA book. The fee expenses were also lower due to a substantial reduction in the SLA loan book owing to customer attrition.

### Operating Expenses

Total operating expenses stood at R499 million, which is a decrease compared to the prior year figure of R531 million. The main drivers for the decrease in operating costs are lower personnel costs due to vacancies as only critical roles were filled, and lower rentals as the head office moved to more affordable accommodations. The Bank negotiated discounts on services that were not fully required due to the lockdown.

#### *Fruitless and wasteful expenditure (F&WE)*

The F&WE relates to isolated incidences where penalties and interest were levied on late payments of utility accounts.

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | | | | |
| Opening balance | 66,932 | 66,868 | 66,909 | 66,845 |
| Expenditure deemed as F&WE relating to prior year discovered in the current year1 2 | 2,441 | - | 2,441 | - |
| Expenditure deemed as F&WE relating to current year1 2 | 8 | 82 | 8 | 82 |
| Less: amounts recovered in current year | (4) | (18) | (4) | (18) |
| Closing balance | 69,377 | 66,932 | 69,354 | 66,909 |

None of the above fruitless and wasteful expenditure has been condoned in the current year. The closing balance is currently under investigation to conclude on the matter.

**Reconciliation of irregular expenditure**

| Description | 2022/2023 R'000 | 2021/2022 R'000 | 2020/2021 R'000 |
|---|---|---|---|
| Opening balance | 974,962 | 986,082 | 766,380 |
| As Restated | 974,962 | | - |
| Add: Irregular expenditure confirmed | 5,602 | 8,359 | 219,702 |
| Less: Irregular expenditure condoned | - | (19,479) | - |
| Closing balance | 980,564 | 974,962 | 986,082 |

None of the above irregular expenditure has been condoned in the current year. The closing balance is currently under investigation to conclude on the matter.

## Investment Income

Total investment income for the period under review amounted to R18 million, higher than the prior year of R15,4 million. This investment income is primarily driven by the Pension Fund Retirement Medical Aid Fund (PRMAF) assets, which has increased in value, contributing to the current year results.

The Net Interest Margin (NIM) of 2,1% dropped slightly in the year under review due to the reduction in the gross loan book, due to customer settlements. The operating expenses of R496 million for the year against the Net Interest Income (NII) of R607 million and non-interest income of R10,8 million resulted in a Cash Return on Investment ratio of 70%. The NPL ratio at 51,9% (31 March 2022: 47,8% restated), was higher than the previous year due to an overall loan book reduction from R25,9 billion in March 2022 to R18,8 billion in March 2023. The same effect was observed for the ECL coverage ratio, which increased from the restated 20,8% in March 2022 to 21,6% in March 2023.

## Cash and Cash Equivalents

Cash and cash equivalents stood at R15 billion as at the end of March 2023, an increase of R5,5 billion from the R9,8 billion recorded on 31 March 2022. The increase mainly comprises of R8,8 billion collected from clients as well as other income of R1,2 billion (interest swaps, rental, and sundry income). This was partially offset by customer disbursements of R700 million, capital and interest repayments of R7,8 billion, and R1 billion utilised in running the operations of the Bank.

## Investments

The Bank's R1,3 billion investment portfolio consisted of R353 million in PRMAF assets, R650 million investments in the Insurance Subsidiaries, and equity investments in the following entities:

Ideafruit
**(R51 million)**

Rhodes Food Group
**(R68 million)**

Acorn Agri
**(R73 million)**

Afgri Siloco
**(R85 million)**

The investment associated with the PRMAF portfolio was established to hedge against the Bank's post-retirement medical aid liability (a defined contribution fund), which amounted to R279 million. The investment is managed by an independent fund manager on behalf of the Bank, while independent actuaries evaluate the liability annually. Total investments decreased from R1,295 billion as at 31 March 2022 to R1,280 billion due to fair value losses on some of the other remaining investments. This was partially offset by an increase in the value of the Bank's PRMAF investments and other investments. The Bank maintains its strategy of disposing of non-core investments to reinforce liquidity reserves to honour funding maturities.

## Net Loans and Advances

Net loans and advances declined to R14,7 billion from the restated R20,4 billion reported at 31 March 2022. The primary contributor is the reducing loan book due to customer settlements as clients move to other institutions for funding. Gross loans decreased by R7 billion to R18,8 billion from the R25,8 billion reported at 31 March 2022, mainly due to customer settlements.

## Non-Performing Loans

NPLs decreased by R2,6 billion (20,8%) to R9,8 billion for the year under review, from R12,3 billion at 31 March 2022, predominantly due to cures and client settlements which were offset by roll-ins. The NPL ratio increased from 47,8% reported as at 31 March 2022 to 51,9% due to decreased gross loans, even though the absolute value of NPLs has declined. Prioritising the finalisation of the Liability Solution is crucial, as it will allow the Bank to resume some normalcy in conducting its business. The Bank needs to sustain an effective strategy to halt the loan book quality deterioration and to continue improving collections to facilitate faster repayment of funding liabilities. To address further loan book deterioration and achieve a substantial reduction of under-performing loans and NPLs, management has initiated the deployment of the following six strategies/solutions.

### NPL Strategies

| Adopted Strategy | Purpose of the adopted strategy |
|---|---|
| Preservation Strategy | Prevent Roll In and prevent Asset Reduction |
| Rehabilitation Strategy | Provide Soft restructures to Stage 2 (Includes solutions for technical arrears) |
| Forced Attrition Strategy | Exit High-Risk Clients, reprice and refinance |
| Forbearance Strategy | Restructure low risk and solvent Clients (Include solutions for technical arrears) |
| Asset Disposal Strategy | Sell fully provided Legal NPLs |
| Accelerated Foreclosure Strategy | Perfect Collateral on good quality Legal collateral |

## TREASURY REPORT

Land Bank has been in default since April 2020 and negotiations with all lenders and the shareholder to find a solution to cure the default are ongoing. Since the default, the Bank has managed to reduce its liabilities by 45% (R18,1 billion) of the original amount outstanding. As at 31 March 2023, total nominal debt that has reached maturity is R14,19 billion and the total nominal debt stands at R22,14 billion. Further capital reduction totalling R5,4 billion was made to all lenders in June 2023 reducing the outstanding debt to R16,741 billion (42% of the April 2020 debt).

Accumulated cash as at 31 March 2023 amounted to R9,97 billion. Cash is invested in instruments which aim to deliver better rates while preserving capital, such as, call accounts and bank deposit notes offered by banks and asset management companies.

# PART 8

## LAND BANK INSURANCE PERFORMANCE

# LAND BANK INSURANCE PERFORMANCE

## OVERVIEW OF THE LAND BANK INSURANCE

### Overview of our business

Land Bank Insurance (LBI) is the name we use to refer to our two operating insurance entities within the Land Bank. Land Bank Insurance SOC (LBIC) is a Non-life insurance company registered with the regulators (Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) in terms of the Insurance Act 18 of 2017). LBIC is a niche insurer of crop risks in the country, providing cover to farmers for hail and fire (among others), and yield losses due to weather conditions. Land Bank Life Insurance SOC (LBLIC) is a licensed life assurance provider that has provided individual and group credit life insurance products, as well as disability cover to Land Bank clients and other farmers since its inception in 1954. The Insurance Companies complement the Bank's financial services by providing insurance and risk management solutions to the agricultural community within the borders of South Africa.

### Our Mandate

Our mandate is to support an inclusive agricultural sector by promoting greater participation of previously disadvantaged persons (transform the industry) and at the same time provide innovative risk mitigating solutions to commercial farming enterprises in South Africa. As a subsidiary of Land and Agricultural Bank of South Africa, we are a State Owned Entity reporting to the National Treasury.

Mission - LBIC and LBLIC exist to fulfil the objectives of the Land Bank, as envisaged in the Land Bank Act, tasked to provide insurance and risk management solutions to the Agricultural Sector.

Vision - The vision is to be sustainable specialist insurers of agricultural risks in support of the objectives in the Agricultural Sector.

### The Macro environment

To ensure the LBI 's sustainability, we monitor our external environment and consider this context in our annual strategy development processes to ensure we remain agile and adaptable while executing our long-term strategy. We continue to adapt to our changing environment to ensure LBI's relevance into the future.

During the year under review, we saw the rise in central bank rates in an effort to curb rampant inflation. Over and above this, Russia-Ukraine conflict continues to weigh heavily on global economic activity as well as post-COVID-19 economic recovery efforts. Worsening supply-demand imbalances, including those stemming from the war, and further increases in commodity prices, could lead to persistently high inflation.

Global economic activity is experiencing a broad-based and sharper-than-expected slowdown. According to the International Monetary Fund (IMF), global growth is forecast to slow to 3.2 percent in 2022 to 2.7 percent in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. Beyond 2023, global growth is forecast to decline, employment and output will typically remain below pre-pandemic trends through 2026.

Despite the negative shock to global activity in 2022, there is essentially no rebound projected in 2023, as many headwinds, in particular, high commodity prices and continued monetary tightening are expected to persist. Moreover, the outlook is subject to various downside risks, including intensifying geopolitical tensions, growing stagflation, rising financial instability, continuing supply chain strains, and worsening food insecurity.

This and other macro-economic realities are expected to impact the agricultural sector, but at the same time presenting opportunities to innovate and deliver dynamic agricultural insurance and risk management solutions to ensure broader sectoral sustainability.

### Industry trends

South Africa is one of the few agricultural markets in the world where there is no government support in respect of premium subsidies for crop insurance, particularly Multi-Peril Crop Insurance (MPCI), which is comprehensive insurance and includes insurance cover for drought and floods. In the absence of subsidies and against the context of rising insurance premiums, most farmers settle for less comprehensive insurance, typically this being cover for hail and fire.

Over the last decade there has been a noticeable increase in the frequency and severity of weather-related risks. This trend is expected to continue as heat wave conditions are more likely, dry spell durations lengthening and rainfall intensity increasing. It is expected that climate change impacts will reduce the amount of land suitable for arable and pastoral agriculture, in addition to reducing the length of the growing season and decreasing crop yields. Changing rain patterns and increased evaporation will increase the likelihood of extreme droughts. Agriculture is one of the main sectors greatly impacted by climate change and variability because of its size and sensitivity. Therefore, the subject of climate risk and related mitigation and adaptation actions is rapidly becoming a critical point of discussion in local and global discourse.

The heightened climate risk environment elevates and puts into sharp focus the importance of crop insurance as a tool for building climate resilience against climate shocks. However, recent economic realities are among key factors that constrain farmer's profit margins and act as a barrier for crop insurance uptake. The knock-on effect in a contracting agricultural insurance market where benefits of risk pooling are reduced, hence crop insurance premium rates are on the increase, further alienating small-scale farmers from formal risk insurance markets, and inadvertently increasing exposure to vulnerability in an environment of climate risk.

Our view is that different risk transfer alternatives for smallholder farmers are urgently required. This requires the development of new and innovative solutions with broader emphasis on financial inclusion, greater intergovernmental collaboration as well as local and international partnerships to build farmer resilience against the impacts of climate change.

### Regulatory environment

**IFRS 17**

IFRS 17 Insurance Contracts (effective 1 January 2023 and to be applied retrospectively) addresses the establishment of principles for the recognition, measurement, presentation, and disclosure of insurance contracts within the scope of the standard. The LBI portfolio comprises mainly of crop insurance, which are generally short-term insurance contracts and therefore, the Premium Allocation Approach (PAA) will be applied to the bulk of the insurance book for LBIC, whilst for LBLIC it will be predominantly be the General Measurement Model (GMM) for individual credit life products and the PAA for group credit life products.

The standard introduces a new, more granular system of reporting for both insurance revenue and insurance contract liabilities and does not only impact accounting and actuarial reporting but has a significant impact across the LBI's operating model. Due to the fundamental changes required and to ensure successful implementation, an IFRS 17 project team was established in conjunction with an implementation partner. This is supported by LBI's Audit and Risk committee, Investment and Actuarial committee and an IFRS 17 steering committee comprise of senior management from various functions. Accounting policy papers, actuarial methodologies and disclosure requirements have been prepared to be consistently implemented throughout the LBI entities.

The project team remains up to date and closely monitors all technical developments from the Internal Accounting Standards Board (IASB) and industry to evaluate the effects of such developments and, where applicable, aligns the policy and methodology papers accordingly. The tax implications regarding the adoption of IFRS 17 have been considered and will not apply given the LBI is tax-exempt. The full impact of IFRS17 on LBI's operations, balance sheet and income statement is in the process of being established, including transition and parallel calculations.

## LBIC AND LBLIC FINANCIAL PERFORMANCE

### Land Bank Insurance Company

#### Crop Insurance

Agriculture is inherently exposed to pervasive weather vagaries resulting in overexposure to climate risk. Over the years', various formal and informal risk mitigation approaches have been formulated to reduce production-related climate shocks. While both approaches have merit, informal techniques, mainly, the reduction of production in times of uncertainty limits agricultural production and perpetuates cycles of underinvestment in the sector. Consequentially and over the long-term, this reduces and in some instances significantly reverses progressive efforts to strengthen food security systems. On a comparative basis, formal risk management approaches, mainly, risk transfer mechanisms such as crop insurance promote sustained agricultural production, create an improved environment for investment in quality inputs, mechanisations and technology. Therefore, the pronounced role of formal risk management and its relationship to sustainable agriculture cannot be overemphasised, especially in the context of climate change and the role of crop insurance as a climate mitigation tool with a positive impact on income distribution and sustained livelihoods.

As average temperatures rise and acute hazards in the form of drought, hailstorms and flooding increase in frequency and severity, so does the importance of crop insurance as a risk mitigation and transfer tool. Volatile climatic conditions experienced over the past decade have resulted in increased uncertainty and risk. This uncertainly and poor long-term loss experience of the crop insurance market, in particular, Multi-Peril Crop Insurance (MPCI) has resulted in significant increases of insurance premiums over the years to levels that are unsustainable and uneconomical to farmers. South Africa is one of the few agricultural markets in the world that has no government support or subsidies for crop insurance, especially MPCI which covers various risks including drought, excessive rain, as well as pests and disease. In the absence of such subsidies, most farmers settle for named-peril insurance, which is cover taken against specific risks such as hail, fire and frost. Due to high transactional costs and high premiums, LBIC took a decision in 2022 to de-risk and completely exit the MPCI market to focus on named-peril insurance, specifically, hail cover. South Africa is prone to hailstorms; this can cause extensive damage to growing crops. Hail occurrences are higher in the interior of KwaZulu-Natal, the northern and western parts of the Eastern Cape, central and eastern Free State, Mpumalanga, and the Highveld areas of Gauteng. The current hail products offered by LBIC as at 31 March 2023 are as follows:

**LBIC Products as at 31 March 2023**

| Hail Cover | Description | Start | End |
|---|---|---|---|
| Winter | Grown in winter and harvested in late spring/early summer<br>Wheat, Barley, Oats, Canola, Rye etc. | July | January |
| Summer | Grown in summer and harvested in winter<br>Maize, sunflower, beans, sorghum etc. | August | July |
| Fruit | Typically no planting date, depends on pollination<br>Apples, grapes, citrus, pecan and macadamia nuts etc. | July | August |

**Number of crop insurance policies**

| Number of Policies | 2021/22 | | | 2022/23 | | |
|---|---|---|---|---|---|---|
| Crop | Hail | MPCI | Total | Hail | MPCI | Total |
| Winter | 288 | - | 288 | 427 | - | 427 |
| Summer | 4 648 | 2 | 4 650 | 3 797 | - | 3 797 |
| Fruit | 499 | - | 499 | 472 | - | 472 |
| **Total** | **5 435** | **2** | **5 437** | **4 696** | **-** | **4 696** |

Hail insurance can be taken any time during the growing season with cover commencing at 10:00 on the 7th (Seventh) day after the Date of Acceptance, or after Emergence of the insured crop, whichever event occurs last. Only visible Quantitative Damage caused by the direct mechanical action of hail is covered with frost cover as an optional peril.

Significantly higher premiums (27% higher than previous season) have been written in this financial year, attributable to a high number of written policies, increased premium rates and insured hectares for Winter crops (+104%); higher written premium (+25%) in Summer crops driven largely by elevated commodity price thereby increasing the sums insured, even though the number of issued policies has declined. Overall portfolio growth is further attributable to farmers increasingly understanding the value of insurance, coupled with strong intermediary relationships and marketing efforts.

Summer premiums were impacted by a surge in commodity prices due to international market pressures and macroeconomic factors: The global outlook for commodity supplies is negative on the back of expectations of supply shortages originating from Russia-Ukraine war. This directly affected maize and sunflower supply. A weaker rand-dollar exchange rate and elevated inflation have pushed up the price of agricultural commodities.

Management is committed to portfolio management actions that result in a geographically diversified, adequately priced and a well balance crop portfolio, therefore, continuous actions are underway to optimise performance, pool risk more effectively and work with the reinsurance market to optimise capital, reduce volatility to catastrophe risk and enhance product features and benefits to improve the quality of risk transfer.

## Asset product

LBIC is committed to providing comprehensive risk management solutions to the agricultural sector. This includes adequate commercial and personal lines insurance for farm infrastructure, vehicles, including livestock and liability cover. LBIC has a strong presence across South Africa and through its intermediary base and is looking to scale its asset offering and provide much needed insurance cover in an environment of evolving risks.

**LBIC Financial Performance**

| | | FY21/22 | FY22/23 |
|---|---|---|---|
| LBIC | Gross Written Premiums | R607m | R793m |
| | Net Premium Income | R153m | R202m |
| | Operating expenses | R24m | R35m |
| | Underwriting loss | (R59m) | (R34m) |
| | Total comprehensive loss | (R29m) | (R5m) |
| | Loss ratio | 96% | 81% |
| | Investments | R254m | R332m |

- Gross Written Premiums increased by 31% as compared to FY21/22, mainly driven by the surge in commodity prices.
- Operating expenses increased by 45% as a result of investments made in capacity to support growth and professional fees relating to the implementation of IFRS 17.
- The underwriting loss improved as compared to FY21/22, mainly attributable to a lower loss ratio experienced in FY22/23.

## LBIC Investments Performance

LBIC follows a policy of managing its investment portfolio in a diversified manner. We aim to optimise investment income within the approved risk appetite profile. The asset allocation is also managed and monitored from an asset-liability perspective. This ensures that sufficient liquid funds are available to meet LBIC's insurance liabilities and shareholder's funds are not unduly exposed to investment risk. Due to LBIC's Rand denominated business, no foreign currency assets are held to back foreign currency insurance business, thus currency risk is immaterial to LBIC's business.

The LBIC's investment fund comprises of local highly liquid instruments to meet LBIC's liabilities which are comprised of mostly short-term obligations. The LBIC's investment is managed outsourced by an approved asset manager whose performance is monitored and reported to the Investment and Actuarial Committee and Board every quarter.

The overall performance of the fund managers against the mandates is monitored and tracked by management and reported to the LBIC Actuarial and Investment Committee and Board every quarter. As at 31 March 2023, the LBIC's investment fund had a value of R333 million (FY21/22: R254 million):

| Year-End | Opening Market Value | Net Cash flows | Closing Market Value | Net Investment Return | SAA Benchmark | Alpha |
|---|---|---|---|---|---|---|
| 31-Mar-2022 | R430 682 160 | -R201 110 724 | R253 659 832 | 5.40% | 3.90% | 1.50% |
| 31-Mar-2023 | R253 659 832 | R59 311 195 | R332 652 658 | 7.60% | 6.60% | 1.10% |

With inflation having run high since the early part of 2022, the portfolio has struggled to out-perform its CPI based objective however over the long-term it remained fairly close, lagging by about 1%. Based on the total gross investment return which includes capital appreciation and net of investment expenses and average assets of LBIC held over the period, the return achieved on LBIC's assets amounts to 7.6% per annum, against its strategic benchmark which returned 6.6%, showing an outperformance of 1.1% (FY21/22: 1.5%).

LBIC appointed an investment consultant to craft a new investment strategy which is expected to be implemented during FY23/24, and new asset manager appointments in FY24/25.

## LBIC Capital Management and Solvency

Solvency Assessment and Management ("SAM") reporting is required to be conducted quarterly and annually and it follows the most recent Financial Soundness Standards for Insurers ("FSI") provided by the Prudential Authority ("PA") as prescribed by the Insurance Act (18 of 2017). LBIC is to maintain a level of capital well in excess of the minimum regulatory capital requirement. The purpose of these buffers is to minimise any regulatory interventions, but most importantly to ensure that all current and future policyholder claims will be met. LBIC should meet its regulatory minimum capital requirement (MCR) coverage ratio of 100% at all times, whereas the regulatory solvency capital requirement (SCR) coverage ratio is tolerable between 130%-170%. If the Business were to move out of this range, then there are a series of available actions which can be used to restore the solvency to within the optimal range in a reasonable timeframe.

The LBIC actively manages the key drivers of its capital requirements such as mix of business, asset allocation, counterparty exposure and reinsurance programme. The LBIC uses the SCR coverage ratio as a measure of capital adequacy in accordance to the FSI framework issued by the PA. The LBIC remains committed to efficient capital management and predefined threshold levels have remained unchanged from the prior year. The Actuarial Control Function who is external and led by the Head of Actuarial Function provides independent review and assurance as per the Insurance Act (18 of 2017).

As per the previous year, methodologies follow those prescribed by the Prudential Standards. As per the previous year and the own risk and solvency assessment ("ORSA"), the standard formulae per the Prudential Standards assumes that the LBIC is exposed to similar risks as the average non-life insurer in South Africa. The table below shows the high-level summary of the SAM balance sheet since the previous year, showing that LBIC's regulatory SCR coverage ratios remain well in excess of the 130%-170% risk tolerance despite having reduced from 5.71 in March 2022 to 4.18 in March 2023:

| R'000 | SAM Solvency Capital Position | FY21/22 | FY22/23 |
|---|---|---|---|
| LBIC | Total Assets | 1 313 921 | 1 637 851 |
| | Net Technical Provisions | (124 014) | (155 609) |
| | Current Liabilities | (660 913) | (961 146) |
| | Basic Own Funds | 528 994 | 521 096 |
| | Eligible Own Funds to meet SCR and MCR | 528 994 | 521 096 |
| | Solvency Capital Requirement (SCR) | 92 632 | 124 612 |
| | SCR Coverage Ratio | 5,71 | 4,18 |
| | Minimum Capital Requirement (MCR) | 24 763 | 31 153 |
| | MCR Coverage Ratio | 21,36 | 16,73 |

LBIC's stress and scenario testing framework assesses the impact on the capital position of the LBIC under a range of different possible risk events. In the recent ORSA calculations that project the company's capital requirement according to the business strategic plan including stresses and scenarios, the company remains in a healthy acceptable solvency capital position over the next five years.

## LBLIC Financial Performance

| | | FY21/22 | FY22/23 |
|---|---|---|---|
| LBLIC | Gross premiums | R3.8m | R4.3m |
| | Net Premium Income | R1.8m | R2.1m |
| | Operating expenses | R9.7m | R13.9m |
| | Underwriting profit/(loss) | R18m | R39m |
| | Investments Income | R128m | R63m |
| | Net Profit | R109m | R24m |
| | Excess assets of liabilities | R1.1bn | R1.2bn |
| | Investments | R1.2bn | R1.3bn |

- The in – force book is on a downward trajectory and the 13% increase in Gross Written Premiums is driven by pricing rather than volume.
- Operating expenses increase of 43%, as with LBIC, is driven by investments in capacity and the IFRS 17 implementation.
- Investment income has declined in line with the volatile market environment, severe losses has been experienced in the bond and equity portfolios

## LBLIC Investments Performance

LBLIC has a number of asset managers who manage a portfolio of equities, bonds, cash, money market instruments, derivatives and global assets according to stated investment mandates and guidelines. With CPI having run well above long-run averages over the last 12 months, all the managers have struggled to out-perform over that period. The outlook for the next 3 years is that maintaining returns of CPI+4% will be difficult in the context of low economic growth in South Africa, weak currency, rising socio-economic challenges of unemployment and poverty that lead to an unstable political landscape.

The outlook, therefore, warrants a revision of the investment strategy in favour of preserving capital as the principle priority and revising targets for the next 3 years in line with a conservative approach to market risk. An investment consultant was appointed to assists LBLIC in crafting a revised investment strategy during FY24/25. New asset managers will be appointed during FY24/25 following a revised investment strategy.

## LBLIC Capital Management and Solvency

Due to LBLIC's small underwriting risk in relation to the asset base, COVID-19 has had no material impact on the overall profitability and solvency. LBLIC has held a short-term COVID-19 reserve since Sep 2020 to cater for uncertainty in claims experience as a result of the COVID-19 pandemic. However, due to LBLIC's immateriality of COVID-19 on LBLIC's claims experience, this reserve has now been released.

During the measurement phase, the LBLIC actuarial team calculates the capital requirements and compare this to the Risk Tolerance of 150%-200%. The SCR calculations are independently reviewed by the appointed HAFs. Due to LBLIC's small credit risk business relative to large balance sheet assets, the SCR is driven by market risk: Market risk contributes to 99% of the overall SCR due to LBLIC's significant balance sheet assets relative to the small underwriting risk. As a result, LBLIC's liquidity shortfall indicator continues to show a healthy liquidity position.

The table below shows the high-level summary of the SAM balance sheet since the previous year, showing that LBLIC's regulatory SCR coverage ratios remain well in excess of the 150%-200% risk tolerance increasing from 3.15 in March 2022 to 3.84 in March 2023:

| R'000 | SAM Solvency Capital Position | FY21/22 | FY22/23 |
|---|---|---|---|
| LBLIC | Total Assets | 1 245 023 | 1 297 354 |
| | Net Technical Provisions | (68 856) | (93 245) |
| | Current Liabilities | (5 596) | (6 441) |
| | Basic Own Funds | 1 170 571 | 1 197 668 |
| | Eligible Own Funds to meet SCR and MCR | 1 170 571 | 1 197 668 |
| | Solvency Capital Requirement (SCR) | 371 176 | 312 088 |
| | SCR Coverage Ratio | 3,15 | 3,84 |
| | Minimum Capital Requirement (MCR) | 92 794 | 78 022 |
| | MCR Coverage Ratio | 12,61 | 15,35 |

The SCR cover ratio remains stable from year to year as the balance sheet assets are large relative to liabilities. Consequently, LBLIC reports a regulatory SCR cover ratio above internal minimum 150% and well in excess of the regulatory limit of 100%.

In the recent ORSA calculations that project the company's capital requirement according to the business strategic plan including stresses and scenarios, the company remains in a healthy solvency position over the next five years, including in the event that LBLIC issues new policies as a result of the growth from strategic initiatives.

## PERFORMANCE AGAINST STRATEGY

**LBI Company Corporate Scorecard**

| Corporate Scorecard | | | | | |
|---|---|---|---|---|---|
| **KPAs** | **KPI** | **Weighting** | **Measures** | **FY - 2023 Update** | **RAG** |
| Contributing to transformation in the agricultural insurance sector (15) | Black Broker Programme | 10% | Train and accredit a minimum 22 black brokers. | Total of 22 brokers have been trained. However as at March 2023 only 4 brokers were accredited. | |
| | Black Assessor programme | 5% | Appoint a supplier for the practical training and complete the training. | Practical training provider was appointed and the program was successfully completed. | |
| Financial Sustainability (30) | Gross Written Premium (LBIC) | 10% | R631m | R793m as at end of March 2023 | |
| | Total Comprehensive Income (LBLIC) | 10% | R90m | R24.8m Profit as at end of March 2023. | |
| | Diversification of premium income across product lines | 5% | >1% of total gross written premium | With the exponential premium growth in the crop portfolio, the diversification target of greater than >1% of total gross written premium was not achieved. Whilst the Asset Insurance and Credit Life portfolios showed some positive movements it has not generated meaningful premium income as yet. | |
| | LBIC SCR | 5% | 1.3 - 1.7 | The audited LBIC SCR coverage ratio is 4.18 as at the end of March 2023 | |
| Insurance Model Integration (5) | Improved Insurance Model | 5% | Performance against Bancassurance Performance Metrics (incl. Financial and Risk Measures) Tracked, Monitored and Performance-managed. | Management continues to track performance in terms of leads and conversion to insurance policies. Projects to optimise the lead reports generated from CRM have also been initiated to ensure that the blind spots in the original design have been addressed. | |

| Corporate Scorecard | | | | | |
|---|---|---|---|---|---|
| **KPAs** | **KPI** | **Weighting** | **Measures** | **FY - 2023 Update** | **RAG** |
| Corporate Governance (20) | Irregular expenditure | 5% | Annual cumulative incidents relating to procurement, irregular, fruitless, wasteful and unauthorised expenditures 0% of Gross Written Premium | No irregular, fruitless, wasteful and unauthorised expenditure incurred as at 31 March 2023. | |
| | Ethical behaviour | 10% | No findings on unethical behaviour by a staff member | No unethical behaviour reported as at 31 March 2023. | |
| | Audit | 5% | Rating according to the scale of Auditor General:<br>5 = Unqualified opinion with no findings (clean audit)<br>4 = Financially unqualified opinion with findings<br>3 = Qualified opinion<br>1 = Adverse opinion<br>1 = Disclaimed opinion | The AG presented its Audit opinion as well as Management Report to the LBIC/ LBLIC Audit and Risk Committee on the 17 July 2023. In their (AG) Audit opinion, both companies obtained a Clean Unqualified Audit Opinion. Final AFS approval is due to presented to Board on the 24th July 2023 | |
| Insurance Regulatory Compliance (25) | Compliance with Insurance Regulations | 5% | 1. Draft 2022/23 to be obtained annual compliance and monitoring plan and obtain ARC approval by 30 April 2022. | The annual compliance plan for 2022/23 has been approved by Audit and Risk Committee. | |
| | | | 2. Implement the 2022/23 approved Compliance and monitoring Plans. | The 2022/23 approved compliance and monitoring plan has been fully implemented | |
| | Governance and Operations standards for Insurers | 10% | Review GOI policies annually and have them approved by Board (The Q4 tranche will be presented in April Board). | All GOI policies have been approved by Board. | |
| | Own Risk and Solvency Assessment | 10% | Conduct an Own Risk Assessment exercise for FY21/22 and have it approved by board and submitted to the PA on or before 31 December 2022 | The ORSA reports for both entities have been approved Board and subsequently submitted to the Prudential Authority on the 14 December 2022 | |

| Corporate Scorecard | | | | | |
|---|---|---|---|---|---|
| **KPAs** | **KPI** | **Weighting** | **Measures** | **FY - 2023 Update** | **RAG** |
| Talent management (5) | Develop and implement a Fit for purpose structure in support of the Insurance Companies strategy. | 2,5% | • Organisation Structure capacitated<br>• Required training undertaken<br>• Pipe-line developed for critical roles | • The current Board approved business structure is in place and remain to be fit for purpose.<br>• CPD training has been concluded.<br>• The Talent process was concluded in March 2023 and the MD: LBIC has approved the succession plan in March 2023, which will be submitted to HRCC and Board for noting in April 2023.<br>• The succession plan will be reviewed once units within LBIC has been capacitated as per the new approved positions in the structure. | |
| | Embed talent management practices | 2,5% | Implementation of Remediation Plan for Survey Outcomes | The remediation plan was implemented and the overall 94% of the survey outcomes was achieved as at March. | |

# STRATEGY AND VALUE CREATION

## OUR STRATEGY

### Maintaining Financial Sustainability

Both LBIC and LBLIC remain key players in supporting the Agricultural sector and being financially sustainable is vital in achieving this objective.

To this end, management ensures that assets are well managed to achieve optimal returns, underwriting is sound, reinsurance is optimal and appropriate risk engineering techniques are applied to reduce claims, operating costs are well maintained and all necessary governance processes are in place to achieve effective internal financial controls.

The LBIC Gross Written Premium is predominantly derived from crop insurance. We will continue to support crop farmers as part of our mandate to ensure food security is guaranteed. However, the focus for the coming financial year and going forward will be on diversification, specifically into asset insurance and life insurance products. In this regard, we have been engaging with intermediaries in the open market to improve our distribution network and with focus on growing the agricultural asset insurance portfolio.

The second area of focus is on the Bancassurance opportunity. Working with our Shareholder, The Land Bank, we kicked off the plan in the past year. In the pursuit of diversifying the insurance company insurance risk portfolio and generating additional revenue, the insurance companies (LBIC and LBLIC) in collaboration with the Land Bank have entered a Bancassurance model arrangement. A strategic blueprint was developed to outline the business case and the implementation plan of the model. The Bancassurance model received support from the Boards of the insurance companies (LBIC and LBLIC) and the Land Bank.

In essence, Bancassurance is a bi-lateral partnership between a bank and an insurance company allowing the insurance company to insure the insurance risks of the Bank's client base. The insurance company develops and distributes products and the Bank provides access to its customer database. The Bank is typically able to generate non-interest review whilst providing their customers with more than banking products and thereby benefiting from improved customer satisfaction.

The Bancassurance Model has gained traction in the last financial year as the necessary systems to distribute the leads were developed and streamlined. The overall processes were mapped, and the relevant resources were identified across the insurance companies (LBIC and LBLIC) and Land Bank to support the launch. The first phase of the implementation plan was successfully delivered in line with the strategic blueprint.

Thirdly, we would like to improve our product diversification through the introduction of the Whole of Life proposition. The introduction of this product will assist in providing scale to our LBLIC business and also provide the diversification we need and give customers more compelling value propositions.

Management is well aware of the impact of climate change and the risk it poses to financial sustainability. There is a strong focus on developing a climate change toolkit with a view to integrate and incorporate Climate Change Risk Management in all strategies, policies, and decision making, including modelling future impacts on climate risk on business performance.

### Contribution to Development and Transformation

LBI has continued in its efforts to support the Land Bank in its pursuit of the transformation and development strategy. We remain committed to transform the insurance sector and support the development of smallholder and medium-scale farmers. In this regard, we have two key initiatives to support the transformation and these are the Black Broker Development Programme and the Black Assessor Programme. Through these programmes, the organisation identifies and develops previously disadvantaged individuals for inclusion into both the financial and the agricultural sectors.

Crop insurance in South Africa is distributed primarily through intermediaries or brokers who have historically privileged backgrounds. In March 2016, LBIC embarked on an ambitious Black Broker Development Programme in an attempt to transform this critical part of the insurance sector. Thus far, LBIC has trained and accredited over 100 Financial Services Providers (FSP's) from historically disadvantaged backgrounds and has made significant progress to develop women-owned FSP's.

The other area of the agricultural insurance market value chain, which LBIC has targeted for transformation impact is the assessors used to estimate damage to crops after any risk events such as hail. At this stage there are approximately 900 assessors used by the crop insurance providers in South Africa and this has a similar profile to the crop insurance broker sector.

LBIC commenced with the Black Assessor Development Programme in March 2019. The business invested significantly to support the first cohort of trainee black assessors. The first leg of the program which deals with theoretical application was delivered in partnership with Walter Sisulu University, while the second leg was structured in the form of on-field practical training. A total of 16 candidates completed the Agricultural Assessment Insurance Programme. The certification of the assessors will assist in transforming the crop insurance value chain by introducing new assessors to the sector and simultaneously creating job opportunities

## Parametric Insurance for Smallholder and Emerging Farmers

In order to improve access to agricultural insurance for smallholder farmers, LBIC successfully applied for grant funding from KfW Development Bank under its flagship InsuResilence Solutions Fund (ISF). The ISF grant, structured under a co-funding model with LBIC was used to develop innovative parametric drought insurance solutions for crop and livestock to smallholder farmers. An Area-Yield Index Insurance (AYII) is proposed for crops and Pasture Drought Index Insurance (PDII) for livestock. Through the co-funding model, LBIC partnered with CelsiusPro to design the products and systems in order to respond to the need for drought cover. Drought has hampered sustainable growth for smallholder farmers.

The two products are subject to approval by the Minister of Finance and the regulators as parametric insurance is not yet recognised as a class of insurance business in South African legislation.

# HUMAN CAPITAL

## Our values, culture and ethics

We believe an ethical culture is critical to doing business responsibly. Our values are key to building an ethical work environment, and we ensure that we lead with integrity and respect to drive employee, customer and shareholder confidence in our business.

### Our ethics

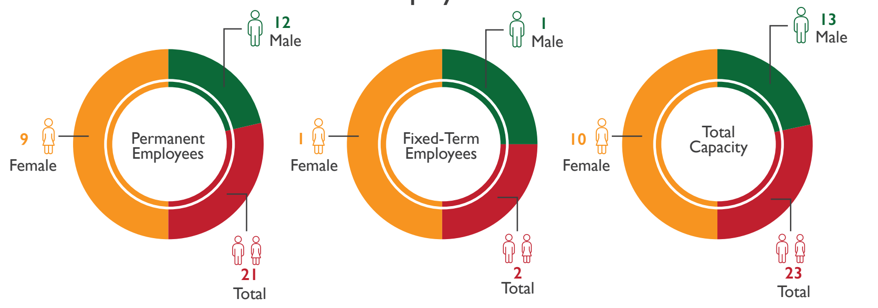
Ethics set the standards for our corporate governance. We strive to conduct our business responsibly and ethically and ensure our behaviour is consistent with our policies and code of ethics and relevant regulations applicable to both our entities.

## Organisational capacity

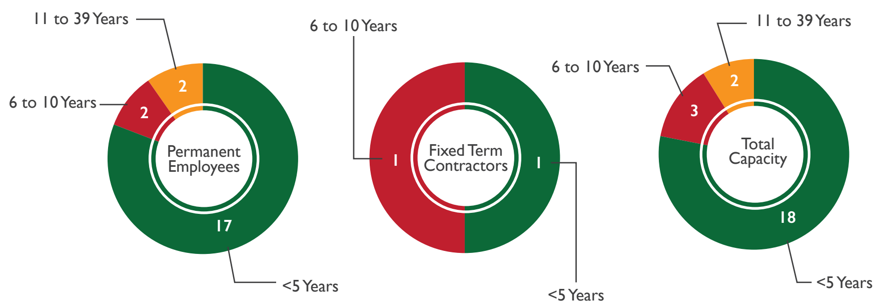
The Human Capital Division remains a strategic partner to the organisation and the employees. The focus is on contributing to LBI being sustainable and ensuring that there is adequate capacity and that human resources are optimised. The employee-life cycle underpins the management of talent through attraction, on-boarding, development, performance management, remuneration, and separation.

The approved LBI permanent headcount is 33. Capacity consisted of 21 permanent and 2 fixed term contractors.

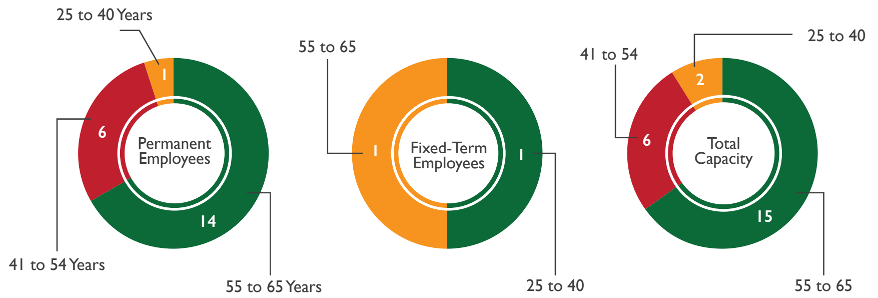
**Employees**




**Tenure**



**Age Range**




The LBI reviewed the organisation structure during the financial year. The review of the structure was presented to Board and approved. The revised structure made provision for the increase of permanent capacity from 21 to 33. Upon the approval of the structure, the development and review of the job profiles commenced. The provision of capacity continued through the year and a total of 7 external appointments were made.

| External Appointments - Permanent | Female | Male | | Total | ACI |
|---|---|---|---|---|---|
| Category and Level | A | A | C | | |
| Senior Management (P4 – P5) | | 1 | 1 | 2 | 100% |
| Professional qualified and experienced specialists and mid-management (P6 – P7) | | 2 | | 2 | |
| Skilled and qualified workers, junior management, supervisors, foremen, superintendents (P8 – P9) | 1 | 1 | | 2 | |
| Semi-skilled and discretionary decision making (P10 – P12) | 1 | | | 1 | |
| **Total** | **2** | **4** | **1** | **7** | |

LBI has maintained transformation during the financial year. The Employment Equity & Skills Committee monitors progress made on the three-year employment equity plan. ACI represented 100% of the workforce.

| Permanent and Fixed Term | Female | | Male | |
|---|---|---|---|---|
| Contractors: Occupational category and level | ACI | ACI Females Total | ACI | ACI Males Total |
| Top Management (P1– P2) | | 43,48% | 1 | 56,52% |
| Senior Management (P4 – P5) | 1 | | 5 | |
| Professional qualified and experienced specialists and middle-management (P6 – P7) | 1 | | 2 | |
| Skilled and qualified workers, junior management, supervisors, foremen, superintendents (P8 – P9) | 6 | | 5 | |
| Semi-skilled and discretionary decision making (P10 – P12) | 2 | | | |
| **Total** | **10** | | **13** | |

## Attrition and Retention

Staff attrition decreased from the previous financial year. There were only 2 resignations during the year. The attrition rate for the year ended at 9.52%

| Permanent Voluntary: Resignation | Female | |
|---|---|---|
| Occupational category and level | A | ACI Females Total |
| Professional qualified and experienced specialists and middle-management (P6 – P7) | 2 | 100% |
| **Total** | **2** | |

LBI values employees and a strategic decision was implemented on retention of critical skills and key individuals. The retention engagements were supported the by the LBI Board.

## Employee Value Proposition


### Remuneration:

LBI Remuneration strategy is informed by the State Owned Entities Remuneration and Incentives Guidelines (2018) and includes the principles of the GOI Standards and principle. Remuneration management within LBI is integrated into various other people management processes such as the performance management, talent management processes and within the ambit of the overall Human Capital policies. The Remuneration and Compensation policy were reviewed during the financial year and approved. The Remuneration and Compensation policy provides for the remuneration philosophy and principles for matters related to compensation. The LBI remuneration philosophy is aligned to remuneration best practices.

Fixed Remuneration: LBI uses an Annual Guaranteed Package (AGP) approach and offers benefits within the AGP parameters set out by the organisation. Participation in the employee benefit arrangements is compulsory for permanent employees and participation is regulated in accordance with the relevant benefit scheme rules and within the constraints of Tax Legislation. The benefits offering for permanent employees includes the closed medical aid scheme of Bankmed, retirement fund and risk benefits cover which includes life, disability, dread disease and funeral cover. An across the board annual increase of 4.40% for qualifying staff were implemented for the financial year.

### Variable Pay

LBI recognises long service as per the Long service award policy. One employee received a long service award for 5 years of service.

FY2021-2022 Performance Incentives: LBI recognises performance and through the relevant policy and governance processes, short-term incentives were awarded to qualifying staff for FY21/22 and implemented during this financial year.

### Talent Management

LBI continued to invest in development of internal capability and enable employees to build their skills. A Senior Manager received the benefit from the payment for tertiary qualifications (staff studies) to the amount of R110 070.00. The fields of studies are towards a Master's in Business Administration.

In addition to that, LBI also invested a total of R28 926.09 on training which included the regulatory compulsory CDP training.

| Generic Training, Leadership Development, Technical Training, Workshops and Conferences | Number of Interventions | |
|---|---|---|
| | ACI | Rand Value |
| Top Management (P1 –P2) | 8 | R10 400,00 |
| Senior Management (P4 – P5) | 29 | R4 226,09 |
| Skilled and qualified workers, junior management, supervisor, foremen, superintendents (P8 – P9) | 11 | R14 300,00 |
| **Total (number of interventions)** | **48** | **R28 926,09** |

## Succession Management

LBI progressed on the identification and assessment of potential successors for Top Management and Senior Management roles. The process was finalised at the end of the financial year and the succession programme will commence in the new financial year. This area is quite key for the transformation of our business

## Human Capital Governance

Human Capital is an environment that is highly regulated by legislation, policies, and procedures; and it ensures that fairness in the working environment is adhered to. Human Capital has embedded Enterprise Risk Management in collaboration with LBI on both Strategic Risks and Operational Risks register. Matters related to performance management, recruitment, employee wellness, and leave management are contained in the Operational risk register.

Mitigating action plans are monitored and implemented and progress reports are provided to the internal governance Committees. The Compliance matrix register outlines all elements related to legislative and regulations compliance for the function.

Human Capital, ensures that policies are in place to guide the organisation. As such, policies and procedures are regularly reviewed. Human Capital reviewed nine policies and standard operating procedures during the year.

| Policy/SOP | Category |
|---|---|
| Performance Management | 1 – Board |
| Harassment Policy | 2 – EXCO |
| Dress Code Standard | 2 – EXCO |
| Flexible and Remote working arrangement | 2 – EXCO |
| Secondment and Rotation | 2 – EXCO |
| Remuneration and Compensation Policy | 1 – Board |
| Recruitment, Attraction and Selection | 1 – Board |

Consequence Management: The Human Capital Division, together with the Legal and Compliance function, facilitates matters related to discipline and grievances. Consequence management is dealt with in line with the relevant labour relations legislation, policies and procedures and other applicable regulations. During the financial year there were no consequence matters reported.

## ENTERPRISE RISK MANAGEMENT APPROACH

The Board, through the Audit and Risk committee (ARC), oversees the LBI'S risk management activities. The ARC reviews and recommends the risk strategy and risk policy suite to the LBI Board for approval. The ARC provides the oversight of the risk management system and risk taking activities across both Non-life and Life entities.

## Our Risk Management Strategy

LBI's strategy is informed by the risk strategy (appetite), thereby establishing an integrated link between our business operations, risks and strategy.

Our risk strategy follows a top-down approach. It guides risk-taking activities and ensures that we sustainably deliver on our strategic objectives. The guiding risk principles that underpin our risk strategy are:

- We focus on risks that align with our business strategy, areas of competitive advantage and evolving skills
- We optimise returns on a risk-adjusted basis
- Our tolerance for uncertainty is informed by the maturity and growth of our businesses
- We use risk mitigation techniques to manage risk exposures
- We recognise the value of diversification and the challenges of risk interconnectedness to avoid excessive risk concentration and ensure sustainability
- We protect our reputation by maintaining trust with all our stakeholders

## Our Risk Strategy Approach

Determining our risk preference for each risk category - The risk classification model forms the basis of our risk management system. We have a documented risk preference for key types.

Quantifying the risk appetite metrics for financial soundness, earnings at risk and liquidity - Risk appetite defines the level of risk exposure we are willing to accept in meeting our strategic objectives. Our financial resources and risk appetite determine the nature and level of growth that can be targeted, as they reflect the impact that assumed risk has on capital requirements and earnings volatility. We use stress and scenario testing to evaluate the earnings and balance sheet resilience in relation to our business plans and risk-taking activities.

Creating target ranges for our earnings at risk and statutory capital requirements - Our risk appetite metrics measure capital requirements, earnings and liquidity risks and ensure compliance with the Prudential Financial Soundness Standards. These are calibrated to allow us to manage an extreme downside scenario with sufficient resources to avoid regulatory intervention.

## Risk Management Process

An effective risk management system supports the sustainability and growth of our business and the ability to create long-term value for all our stakeholders. Our risk management process is designed to continuously monitor the internal and external environment for the purpose of identifying any conditions or changes that may require us to mitigate the related risks. This ensures that we remain within our risk appetite, achieve our corporate plans and realise our strategic objectives.


Business and risk strategy alignment is the process of ensuring that the risks assumed in our corporate plans reflect our risk preferences, considering the interconnectedness of risks and points of leverage within our risk mitigation activities.

Risk identification is focused on the identification of the key obstacles that can prevent us from achieving our business strategy and objectives. We categorise all our risks using our risk classification model to ensure consistent classification of risks.

Risk measurement and response is focused on quantifying risks by considering the likelihood and impact of the risk and deciding on mitigating actions.

Risk monitoring is the ongoing process of assessing the control environment and the effectiveness of mitigating actions being taken to determine a residual risk rating. It considers the impacts of materialised risks, assurance work, indicators and changes in the external and internal environment on both our risks and controls.

Risk reporting is focused on comparing the residual risk exposures to our risk appetite, as articulated in our risk strategy, reporting on risks that are either outside of the targeted range or outside of our risk appetite Risk management process.

Stress and scenario testing is the process of evaluating the impact of specified scenarios on our financial position using several statistically defined probabilities. This facilitates the assessment of the resilience of earnings and our balance sheet based on our business plans and the various risk-taking activities.

## Combined Assurance

Our combined assurance framework is approved by the Audit and Risk Committee. Our philosophy is to build and sustain an integrated and coordinated approach across all three lines of assurance at all levels in the organisation. Our key focus is on collaboration and sharing information while ensuring appropriate coverage and avoiding duplicate work.

## LBIC'S THREE LINES OF ASSURANCE

| LINE 1 – Management | LINE 2 – Internal Assurance Provider | LINE 3 – Independent Assurance Providers |
|---|---|---|
| Management is responsible for implementing an effective system of internal control, risk identification and risk management daily across the business. This line also includes specialist and functions such as legal, information security and quality assurance functions. | Internal assurance providers are responsible for assuring the appropriateness and effectiveness of the risk management system, ensuring that policies and procedures are followed, and that reporting is accurate and complete. This line includes the risk, compliance and actuarial oversight. | Independent assurance providers are responsible for independent assurance of the effectiveness of governance, line one and two functions and the system of internal control. This line includes internal and external audit functions. |

## Top Residual Risk

Top risks are identified based on their likelihood of materialising in a reasonably short timeframe, with a magnitude that materially impacts the Business. Our top risks are assessed and reviewed at least quarterly.

## STRATEGIC RISK

1. **Execution Risk** - The risk of failing to effectively deliver on strategic initiatives/projects in a timely manner to achieve our strategic objectives.

Business Perspective – Business (LBIC) made submissions and received provisional approval from the Prudential Authority to pilot index products subject to approval by the Minister of Finance. Business is still waiting for MoF approval.

**Key Management Actions:**
Once the necessary approval is received, LBIC will commence with the 24- month pilot with a view of submitting enough data to the Prudential Authority thereafter to consider licensing index insurance as a class of agricultural business. Thus addressing market failure and the protection gap for smallholder and medium-scale farmers.

2. **People Risk** - This risk arises from not attracting, developing and retaining the skills necessary to implement our strategic objectives, and the depth and strength of succession planning required to achieve the LBI strategy and objectives.

Business Perspective - Specialist skills are required to deliver our strategic objectives, and improve our employee value proposition (EVP).

**Key Management Actions:**
- Organisational Structure Capacitation – Retain 90% of our critical resources
- Job Profiling and Evaluation – Review all existing job profile and where necessary re-evaluate to ensure alignment with the organisation strategy.
- Develop retention strategy – Align the retention mechanism with the EVP and remuneration and compensation policy
- Employee development – 100% of regulatory and continuous professional development training interventions completed
- LBI Culture: Implement culture remedial plan
- Succession Management – Roll out of the succession management programme

## EXTERNAL RISK

3. **Climate Risk** - The risk that global warming, extreme weather events and the transition to a low carbon economy will adversely impact economic growth and insurance profitability. These, in combination with increased costs of doing business could threaten the resilience and sustainability of our business.

Business Perspective: Increased frequency and intensity of severe weather events could cause business disruption, and adversely impact claims experience and pricing of insurance products, particularly the Crop business. Business operates within a highly volatile crop insurance environment affected by a wide range of adverse climatic conditions. The current season has experienced unprecedented severe weather conditions that has led to large losses suffered within the crop insurance market.

**Key Management Actions:**
- Assessing the impact of climate-related risks and opportunities on our businesses, strategy, financial outcomes, and developing response plans
- Reviewing policy terms and conditions in conjunction with pricing to ensure these accurately reflect the risk exposures
- Continue with the extensive portfolio review focusing on multi claimants, new clients, high value crops and structure of policy excesses;
- Structured proportional re-insurance to allow business to write business at a particular level, in addition to this a stop loss is in place to ensure that business losses are kept at an acceptable level and LBIC protects its whole account.
- Incidence of risk – risk premium is reviewed on an annual basis prior to start of the season, with margins for uncertainty on risky business
- Review pricing in line with the risk exposure.
- Continuous engagement with the relevant stakeholders in the sector i.e. SAIA and National Treasury on the climate risk management initiatives and interventions.

## BUSINESS RISK

4. **Growth Risk (Non-Life)** - The risk of being unable to achieve and maintain sustainable growth in the non-life business.

Business Perspective: Growth remain stagnant on the agri-asset portfolio, which has been developed as a diversification tool for the non-life business. With the exponential premium growth on the crop portfolio, the set diversification set target for FY22/23 has not been achieved.

**Key Management Actions:**

- Growth - portfolio balance between volatile and stable insurance.
- Risk Diversification in terms of client mix (40% Commercial & 60% Medium and Smallholder formers).
- A new Index based insurance is being developed, business is still awaiting feedback from the Minister of Finance.
- Value chain diversification (Black Broker/Assessor Programmes).
- Initiatives like Bancassurance and the Blended Finance Scheme are expected to support efforts in generating premium from product lines other than crop insurance.

5. **Life business sustainability** - The risk relating to inability to generate enough revenue to support the life business cost structure

Business perspective - The life portfolio structure consists of Group life and Individual life. Over the years' growth of the credit life book remain stagnant. This is due to the heavy dependency on Land Bank Bancassurance model. Furthermore, business has developed a new Whole of Life business, which is pending regulatory approval.

**Key Management Action**

- Once the regulatory approval has been obtained, prepare to launch the Whole of Life product to the market
- Bancassurance Model – The objective is to create synergies between Land Bank and Insurance entities efficiencies to provide impactful services and product provisions to clients.
- Identify strategic UMA partner to provide binder function for Whole of Life product.

## COMPLIANCE GOVERNANCE

- The Compliance Control Function is led by the Head of the Compliance Control Function appointed in consultation with the LBI Board as required by Prudential Standard GOI 3.
- The compliance risk is managed through an annual compliance coverage plan and monitoring plan approved by the LBI Audit & Risk Committee.
- The Compliance control function is governed by a Compliance Policy approved by the LBI Board.
- The functions ensure that all key Persons meet the fit and proper requirement as per Prudential Standard GOI 5 and the necessary governance changes are notified to regulators.
- The function also facilitates the necessary training of Key Persons within LBI to ensure that they have the necessary understanding of the insurance regulatory framework.
- The Compliance Control Functions provides quarterly reports to the LBI Audit & Risk Committee, giving the necessary assurance and status updates on the level and status of compliance within the LBI business using its Compliance Risk Management Plans and the Regulatory universe.
- The function is also responsible for ensuring the submission of all regulatory returns and reports to the various regulators in order to maintain the necessary regulatory licenses held with LBI.

## Forward view

LBI is committed to supporting a sustainable and inclusive agricultural sector, and is in this regard positioning itself to bringing to the market innovative and relevant propositions to both the commercial market and the emerging farmer segment. To achieve this requires strong institutional capability and operational capacity supported by wider collaboration with key sector stakeholders. Work is underway to ensure our operating model is fit for purpose and capacity is aligned accordingly. In the coming year, we will on-board a new insurance system to support the growth of our crop insurance business. Parallel this, we will continue to make improvements in our claims management processes and further incorporate data led portfolio management actions to improve profitability. We have plans to increase distributions footprint and specific areas where our data shows opportunity for profitable growth.

The insurance entities remain steadfast in their support for commercial farming by providing effective products to transfer risk. In a broader perspective, this aids the segment to not only maintain competitiveness in global markets, especially in the areas of fruit, vegetable and grain exports but to increase production capacity and investment in improved production methods and technologies supported by an enabling environment for risk transfer and risk sharing.

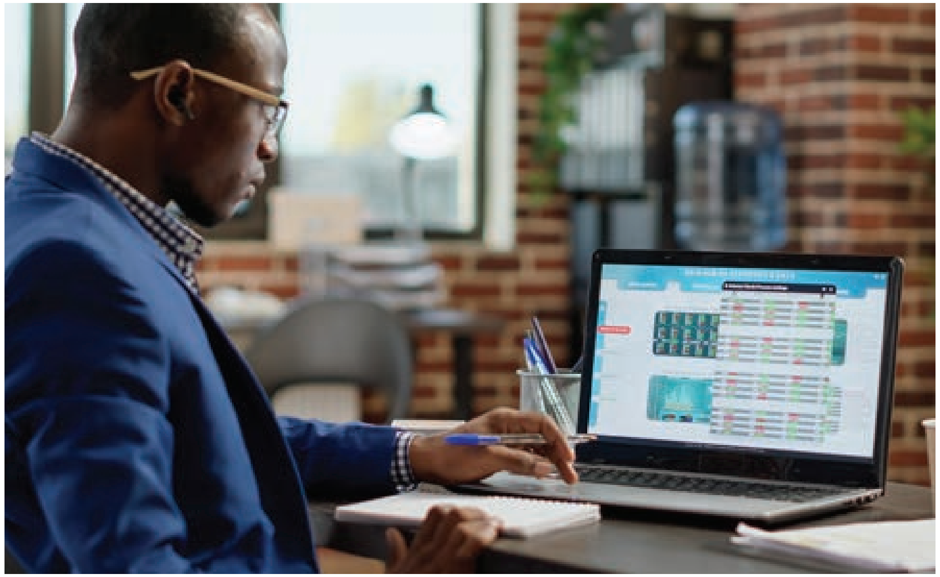
We continue to embed risk management in business processes to ensure that it is being practiced and made part of the culture of LBI.

A key part of our forward plans is about driving up sector inclusivity by introducing affordable solutions such as Index Insurance and tailored whole of life products with the view of building resilience and reducing vulnerability of farmers to losses that undermine the sustainability of the agricultural sector as a whole. These initiatives are underpinned by sound underwriting principles, actuarially fair pricing and prudent capital management to ensure the long term financial sustainability of LBI.

# PART 9

## LAND BANK'S RISK MANAGEMENT

# LAND BANK'S RISK MANAGEMENT



The Bank believes that risk management provides a process of proactively identifying risk issues, opportunities, and events, which if not well managed can adversely impact the achievement of business objectives. By applying the risk management process, the Bank is able to proactively manage risks and issues that may impact the achievement of its goals. The risk management processes continue to enhance the overall control environment and governance in a more structured manner across all areas of business.

# RISK STRATEGY AND PHILOSOPHY

The Bank recognises that a proactive approach to risk management is crucial for identifying risk issues, opportunities, and events that could adversely impact the achievement of business objectives. By implementing this process, the Bank is equipped to proactively manage risks and issues that may affect the realisation of its goals. This ongoing process continually enhances the control environment and governance structure in a systematic way across all business areas.

The Land Bank and its Board are devoted to the principles of good corporate governance, viewing Enterprise Risk Management (ERM) as an integral part of all organisational business processes and decision-making. The Board continues to sustain a robust risk management and control environment through its ERM approach. This integrated risk management method has helped the Bank not only maintain but also continually improve its risk management and control environments. Moreover, present and future activities of ERM, aimed at enhancing risk maturity at the Bank, have been initiated by the Board based on its risk maturity strategy. This strategy outlines a clear and disciplined approach to implementing, monitoring, and maintaining effective risk management practices, propelling the Bank towards achieving its mandate, strategic objectives, and evolving into a risk-intelligent organisation.

## Risk Governance Oversight

The ultimate responsibility for the Bank's risk governance lies with the Board, which is accountable for the Bank's overall risk governance in line with the NT Public Sector Risk Management Framework. Its main duty is to employ its specialist expertise to guide risk management oversight and leverage benefits and opportunities. When opportunities arise, they are evaluated so that the Bank can manage them effectively to improve performance.

## Risk Categories

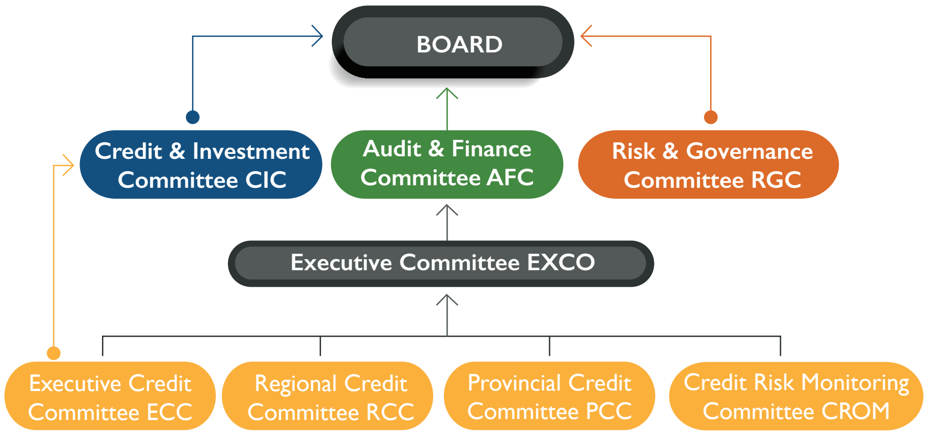
The risk management process is iterative, ensuring continuous alignment with the Bank's strategic goals. Usually, risk assessment and risk management strategy maintain a medium-term (three-year) focus, fostering a culture of building risk foresight. As per the ERM Framework, the Bank's risk universe comprises Credit and Investment risk, Model risk, Financial risk, Operational risk, and Strategic risk.

## Credit and Investment Risks

Credit risk refers to a loss suffered by a party whereby the counterparty fails to meet its financial obligations to the party under the contract. Credit risk may also arise if there is an increased risk of default by the counterparty throughout the contract.

Credit risk management is a process, effected by the Board, Management and other personnel, applied in credit strategy setting and across the credit risk value chain, designed to identify potential events that may affect the Bank and manage risk to be within its credit risk appetite, to provide reasonable assurance regarding the achievement of the Bank's objectives. Credit risk management deals with risks and opportunities affecting value creation or preservation. The credit risk management process ensures that there is regular and continuous identification, measurement, management, monitoring and reporting of credit risks which is aimed at improving the ability to reduce the impact on the Bank should credit risks materialise. Credit risk management also ensures that the credit risk process is continuously embedded into the Bank's culture. All credit applications follow an approved governance structure in line with delegation of authority.

## Credit Governance Structure




Land Bank Board took a decision to decentralise lending activities to regional offices to enable efficiencies and enhance risk management at the point of origination. The Board sub-committee on Credit and Investment is an oversight structure for all credit risk activities.

## Model Risks

Model risk refers to the potential for financial loss or misguided business strategy due to the failure of a financial model to capture a particular phenomenon accurately. To mitigate this risk, Land Bank has comprehensive Model Governance Frameworks and policies in place.

To maintain financial sustainability, Land Bank needs to measure its expected loss accurately to incorporate this into its loans. This Model Governance Framework covers the development, implementation, and use of the IRFS 9 models and tools used to measure expected loss provisions, as per the International Accounting Standards Board for IFRS9. From time to time, unexpected losses occur due to unforeseen circumstances. Land Bank, therefore, needs to measure the amount of capital required to cover this unexpected loss portion. The Model Governance Framework considers the models used in measuring the credit risk inherent in its loan granting activities, as represented in the PD, LGD, and EAD metrics, and the use of rating tools to rate the Bank's clients.

## Model Monitoring

Land Bank follows an established process for model development, validation, and monitoring. Model validation and monitoring are conducted within the risk function and are processed through governance structures. Ongoing model monitoring is necessary to mitigate model risk as a model developed at a certain time will reflect the market, business, and economic conditions at that time, which may not necessarily prevail throughout the model's lifespan. The models within Land Bank are monitored at least semi-annually as a minimum requirement. The results of this monitoring are presented to the Model Technical Committee for review and then further submitted to EXCO for approval and recommendations.

## Financial Risks

The Bank maintains a conservative approach towards market and liquidity management and has a low tolerance for risks from open positions, including market risk and funding risks. Open market positions are only tolerated in connection to the core regular business activity of the Bank. The treasury function manages the Bank's assets and liabilities, balancing its liquidity and market risk exposures accordingly. The Bank's historically high reliance on short-term funding exposes it to the risk of interest rate volatility, and it has a low tolerance for a high reliance on short-term funding.

## Operational Risks

Operational risk is the risk of loss due to inadequate or failed processes, systems, people, or external events, including legal risk. This risk is managed through ERM committees which oversee all activities and operational risk registers and operational incidents reported.

## Strategic Risk profile

The Board conducted a risk assessment to identify potential threats that could hinder the implementation and realisation of strategic goals laid out in the Strategic Plan. This process enabled the organisation to establish control measures and risk mitigations to address existing risk issues, remedy them, and prevent potential or emerging risks from occurring in the future. Consequently, the organisation has implemented several controls, which include the following:

- Approved and implemented revised credit and accounting policies in line with existing standards and industry best practice;
- Improved its credit risk strategy to further guide its lending activities and management of impairments;
- A plan of action to improve the risk management maturity through annual Risk Management Plans;
- An ethics risk management strategy and ongoing focus on prevention of fraud and corruption;
- Anti-Money Laundering Framework (AML) and Combating the financing of terrorism (CFT) and Sanctions Risk Management and Compliance programme (RMCP);
- Embedded the risk management architecture and reporting (Board risk governance oversight and risk systems);
- A description of the risk management modality and user guidelines as part of its Risk Management Policy Framework; and
- Developed and implemented Risk appetite framework and risk tolerance limits.

The above approach and philosophy have assisted the Bank in its process of identifying and preventing of key strategic risks, and continue managing and treating them despite these difficult conditions. The strategic risks are summarised below:

| LB Corporate Objectives | Strategic Risk Name and Description: (risk rating) | Risk Responses |
|---|---|---|
| 1. Financial Sustainability | **1. Financial Sustainability (High Risk).** Solvency and liquidity positions, including the conclusion of the liability solution, event of default, going concern status. | • Appropriation of R5bn of the approved equity and capital injection<br>• Conclusion of agreements on the proposed liability solution 4 (LS4) within the set-timeframes<br>• Voluntary capital reduction by the Bank to manage negative carry (high interest payments on liabilities) and maintain gearing<br>• Development of the funding strategy and model (mixed sources of funding)<br>• Established Risk appetite framework and Risk bearing capacity and risk threshold indicators monitored by Board<br>• Develop Stress testing Framework<br>• Perform stress testing model and scenario planning |
| | **2. Credit Risk (High Risk).** Quality of the loan book, including credit recoveries and disposal of quality loans. | • Increased collections, recoveries, disposals and in line with internal policies<br>• Pre and Post approval monitoring<br>• Revise credit tools and models, and credit/origination systems<br>• Regular review of loans and exposures<br>• Establishing Strategic partnerships with key off-takers and other sister entities to support both development book and non-performing book going forward |
| 2. Organisational Capacity and People | **3. Optimisation of Human Resources (High Risk).** Insufficient Human Resource (HR) capacity and capability to execute organisational strategy, including staff attraction and retention strategy (i.e. EVP). | • Capacitate the approved organisation structure<br>• Tracking of Attrition<br>• Review of Job Profiles and skills assessment and gap analysis<br>• Implementation of remedial plans in line with the Climate and Culture Survey<br>• Benchmark and revise the pay scale and rewards annually<br>• Talent pipeline management |

| LB Corporate Objectives | Strategic Risk Name and Description: (risk rating) | Risk Responses |
|---|---|---|
| | **4. Effectiveness of Organisation Operations (High Risk).** Inadequate business systems and processes undermining ability to execute mandate. | • Process optimisation: (1) Client-facing enablement–omni channel<br>• Workflow optimisation through system integration<br>• Implementation of first phase of the IT infrastructure refreshment programme<br>• Accelerate process optimisation, automation, and digitisation to enable/ improve service delivery through implementation of ITC Moderation Strategy:<br>• Ongoing e-services portal enhancements<br>• Implementation of CRM enhancements<br>• Implementation of Acceleris (Technical and Financial assessment tool) |
| 3. Development Effectiveness | **5. Funding Risk (High Risk).** Misalignment of expectations between Shareholder (i.e. National Treasury) and Land Bank/ stakeholders, including unfunded transformational mandate. | • Initiatives on strategic partnership including negotiated MoA with key players and the Department of Agriculture, Land Reform, and Rural Development (DALRRD) to enable funding, technical support<br>• Creating an effective farmer support and agro-processing incentives; climate change and technology innovation<br>• Embedding and ongoing monitoring of the ESG principles in credit granting |
| | **6. Diminishing Relevance of the Bank (Medium Risk).** Unclear positioning and value proposition in the agricultural market. | • Revision of Land Bank value proposition<br>• A detailed revision of the product and services offering, which will be informed by the Board's adopted strategy<br>• Collaboration with government departments and other DFI in securing grants and partnerships to support development farmers. Blended Finance/ Agro-Energy Fund |
| 4. Stakeholder Management and Client Centricity | **7. Managing Stakeholder Relations (Medium Risk).** Managing of reputational risk, mapping and satisfying expectations of primary, secondary and tertiary stakeholder (Outcome of management of operational/ strategic risk and expectation of business mandate and organisational strategy). | • Ongoing implementation of the Reputation Management Strategy and Action Plan as approved by the Board<br>• Employee strategic alignment and engagement sessions<br>• Management's Strategy Execution Oversight Programme and reporting<br>• Ongoing Board oversight on the execution of specific key components of the Strategic Plan and stakeholder management<br>• Climate change policy.<br>• Strengthen the execution capability and resourcing in the organisational structure<br>• Media monitoring<br>• Ongoing Client survey and engagements |

| LB Corporate Objectives | Strategic Risk Name and Description: (risk rating) | Risk Responses |
|---|---|---|
| 5. Governance | **8. Governance Risks (Medium Risk).** Compliance, risk management, control environment, oversight, and accountability. | • Management of Annul corporate calendar<br>• Regular tracking of statutory returns with business by compliance<br>• Review number of management committees and streamline<br>• Capacitating approved organisational structure<br>• Perform fraud risk assessments<br>• AML, CFT and Sanction screening compliance process<br>• Ongoing engagement with the Regulators<br>• Ongoing review policy and regulatory universe<br>• Application of Combined assurance model. CA Forum. CA reporting to EXCO and AFC/ RGC<br>• ERM Policy Framework implementation<br>• Risk Appetite Framework implementation<br>• Risk training and awareness |

| LB Corporate Objectives | Strategic Risk Name and Description: (risk rating) | Risk Responses |
|---|---|---|
| | **9. ICT Risk (High Risk).**<br>Ineffective IT systems and processes exposing the Bank to both external attacks and internal inefficiencies due to system unreliability and capability. | • Development of ICT Architecture and ICT Strategy aligned to business and organisational strategy<br>• Test BCP and DRP<br>• Develop and implement the Cyber Security strategy, including implementation of High Tech security tools<br>• Information Security Incident Management Response Recovery Plan<br>• Cyber-specific insurance coverage<br>• Implement the approved three (3) year IT Data centre infrastructure and bank wide laptop refresh<br>• Fit-for-purpose review of IT organisational structure<br>• Training and development of staff technical skills<br>• Development and Implementation of the ICT Governance framework and strategy<br>• IT Steerco (Management committee and reporting to EXCO and Board Committees)<br>• Vulnerability scans and initiate remediation<br>• Data and systems backup and restoring capabilities<br>• Cyber scenario testing<br>• Penetration testing/ conduct ethical hacking<br>• IT control performance: Detective and preventive<br>OTHER CONTROLS:<br>• Anti-virus, IPS/IDS, Firewalls, real-time monitoring and alert tools, Access controls, Patch management, and a threat intelligence programme that includes regular user awareness training<br>• Rolling IT strategy and its implementation–including Business re-engineering /optimisation initiatives<br>• Purchase and implementation of Enterprise Resource Planning<br>• Internet line redundancy: Head Offices/Provincial offices<br>• Business process re-engineering |

| LB Corporate Objectives | Strategic Risk Name and Description: (risk rating) | Risk Responses |
|---|---|---|
| 6.External Events | **10. External Events (Medium Risk).** External events affecting the operating environment of the Bank. | • Climate change policy developed<br>• Embedding ESG as part of credit origination–ES assessments quarterly report. To EXCO and the Board<br>• Agriculture Master Plan - adoption of priority commodities<br>• Agricultural Disaster monitoring<br>• Adoption of internal BCM measures<br>• Agricultural conditions report published on a quarterly basis to inform decision making<br>• Ongoing updates on the load shedding report and the impact on the agricultural sector<br>• Issued agri alerts and updates |

# PART 10
## GOVERNANCE

## GOVERNANCE FRAMEWORK

The Land Bank is managed by a Board of Directors appointed by and accountable to the Minister. The majority of Directors are Non-Executive.

The Board consists of no fewer than seven and no more than twelve persons, appointed for a period of no more than five years. The CEO and CFO are members of the Board, the former by virtue of his or her office and the latter in terms of the power of the Minister to appoint any other employee of the Bank as a director. The Chief Executive Officer is appointed by the Minister in consultation with and at the recommendation of the Board. The Minister designates one of the directors as chairperson and another as deputy chairperson to act as chairperson whenever the chairperson is unable to.

The Subsidiary Companies are managed by a Board appointed by the Land Bank as sole Shareholder, and it consists of persons who are, in equal proportion, Directors of the Land Bank and persons who are not members of the Board of Directors of the Land Bank. The Non-executive directors are independent as contemplated in King IV and in the Governance Standards for Insurers (GOI). The Land Bank Board appoints one among its number as the chairperson of the Board of the Insurance Companies. The Managing Director of the Insurance Companies is appointed by the Board of Directors of the Land Bank in consultation with and at the recommendation of the Board of the Insurance Companies.

The Subsidiary Companies are managed by a Board appointed by the Land Bank as sole Shareholder, and it consists of persons who are, in equal proportion, Directors of the Land Bank and persons who are not members of the Board of Directors of the Land Bank. The Non-executive directors are independent as contemplated in King IV and in the Governance Standards for Insurers (GOI). The Land Bank Board appoints one among its number as the chairperson of the Board of the Insurance Companies. The Managing Director of the Insurance Companies is appointed by the Board of Directors of the Land Bank in consultation with and at the recommendation of the Board of the Insurance Companies.

Members of the Boards of Directors of the Bank and the Insurance Companies stand in a fiduciary relationship to the Bank and to the Insurance Companies. They also owe a duty of care, skill and diligence to the Bank and the Insurance Companies.

The relationship between the Bank and its Subsidiary Companies is governed by a Group Governance Framework which recognises the need for the Insurance Subsidiaries to align themselves with the vision and goals of the Bank, while at the same time acknowledging that such subsidiaries are juristic persons distinct from the Bank, and that the Directors of the Subsidiaries stand in a fiduciary relationship and owe a duty of care, skill and diligence not to the Land Bank, but to the Insurance Companies.

The Boards of Directors of the Bank and the Insurance Companies are responsible for providing prescient and ethical leadership, strategic direction, policy approval, oversight and accountability over the entities so that the good governance outcomes of an ethical culture, good performance, effective control and legitimacy with stakeholders are achieved.

The chairpersons of the Boards of Directors are responsible for leading the Board in the objective and effective discharge of its governance role and responsibilities.

The Chief Executive Officer of the Bank and the Managing Director of the Insurance Companies play a critical and strategic role in the operations and success of the Bank and the Insurance Companies. They are responsible for the day-to-day management of the Bank and the Insurance Companies. Both of them consistently strive to achieve the financial and operating goals and objectives of the Bank and the Insurance Companies and to ensure that the day-to-day business of the Bank and the Insurance Companies is appropriately managed.

The members of the Boards of Directors of the Bank and the Insurance Subsidiaries have adopted Board Charters, Directors' Codes of Ethics and Business Conduct, Conflict of Interest Policies and Board Manuals which guide them in fulfilling their duties to the Land Bank and the Insurance Companies. The Charters, Codes, Policies and Manuals apply to all members of the Boards without exception.

The Boards have delegated some of their responsibilities to Board Committees, individual Directors, other ad hoc structures and management in terms of approved delegations of powers frameworks. The Delegations of Power frameworks are founded on the law, on what is appropriate for the Bank and the Insurance Companies, and on what is necessary for achieving the purposes of the delegations.

The Boards, their Committees and Management are assisted by a company secretary who provides independent, professional corporate governance advisories and company secretarial support to them as required by the Companies Act of 2008 and recommended by the King Report on Corporate Governance for South Africa, 2016.

Sound operating procedures have been deployed at all levels of the Bank and its Insurance Subsidiaries. These are continuously monitored and reviewed.

During the year under review, the Boards focused on, among others, the areas described hereafter.

**a. Conclusion of the Liability Solution**

The need to secure the agreement of lenders to a Liability Solution following the April 2020 event of default and its expeditious implementation.

**b. Book Quality and NPLs**

The need to address book quality deterioration and the growth of the NPLs through improved portfolio management and remediation efforts.

**c. Staff Attrition**

The need to reduce the attrition of critical staff. Targeted employee retention strategies were introduced and the EVP was reviewed to speak to the challenging conditions that the Bank was dealing with.

**d. Audit Findings**

The need for the audit findings of the prior year to be remediated, for internal controls to be strengthened, and ensure a clean audit Outcome for FY22/23.

**e. Accountability**

The need to expedite the resolution of outstanding instances of confirmed or potential misconduct and to improve the effectiveness of the consequence management processes.

**f. Strategy Implementation**

The need to formulate, adopt and roll out an organisation-wide strategy which addresses past deficiencies and places an emphasis the on the mandate as set out in enabling legislation.

**g. Culture**

The need to ensure that the culture and values of the Bank are aligned with the Bank's new strategy.

**h. Reputation**

The need to work towards regaining a positive reputation through increased market presence; proactive sector engagement; communication of the new Bank strategy; and improved customer service.

### i. Funding Model

The need to determine a Land Bank "steady state" funding requirements and to define a funding model which is aligned to the Bank's strategy.

### j. Financial Performance

The need to improve the financial and operating performance of the Bank, including execution capability and readiness of the Bank for resumption of lending activities, as well as appropriate cost containment.

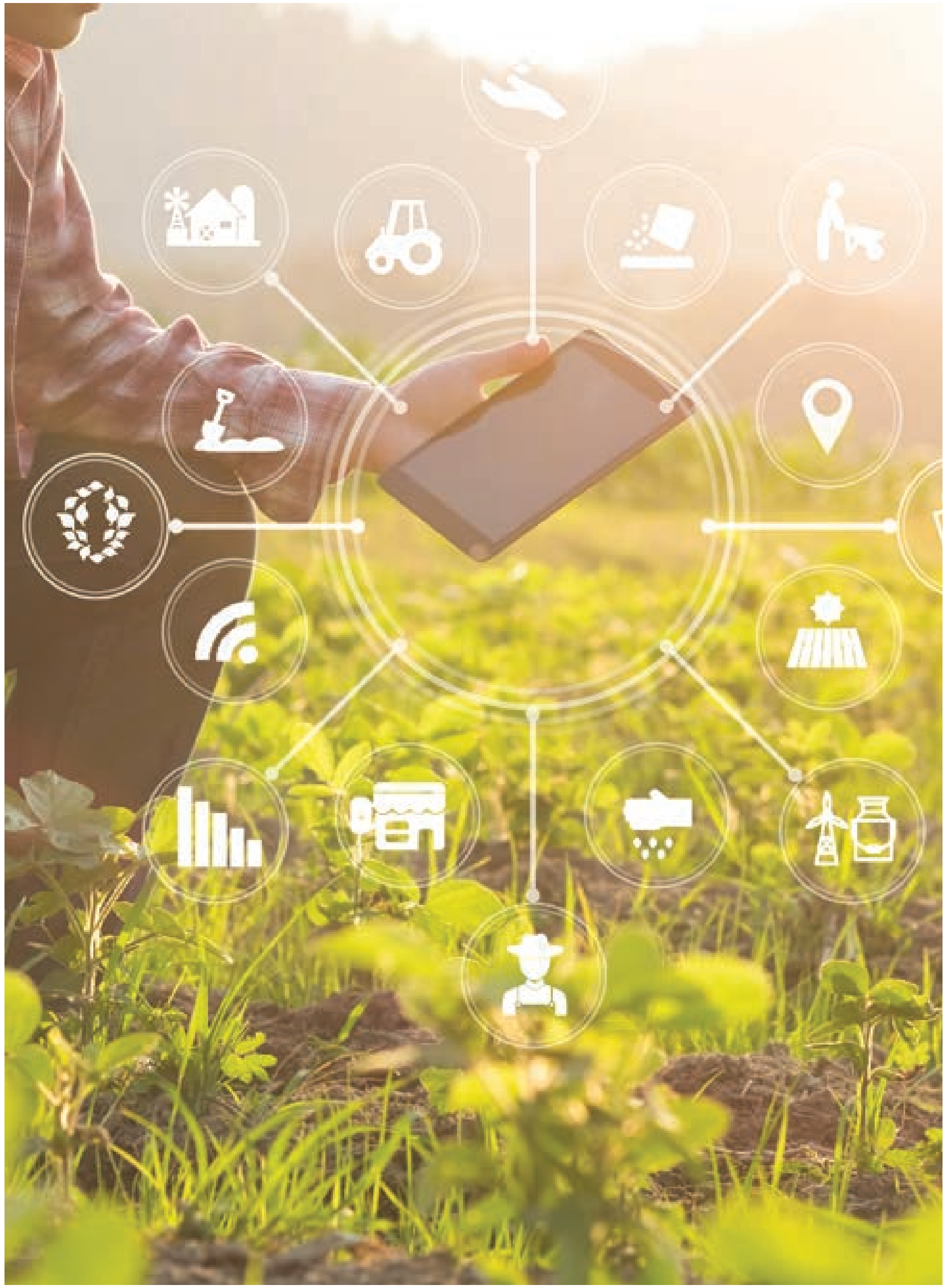
### k. IT Infrastructure

The need for the IT infrastructure to be updated/upgraded to respond to the needs of the organisation and the strategic direction that the Bank has chosen to pursue in particular.

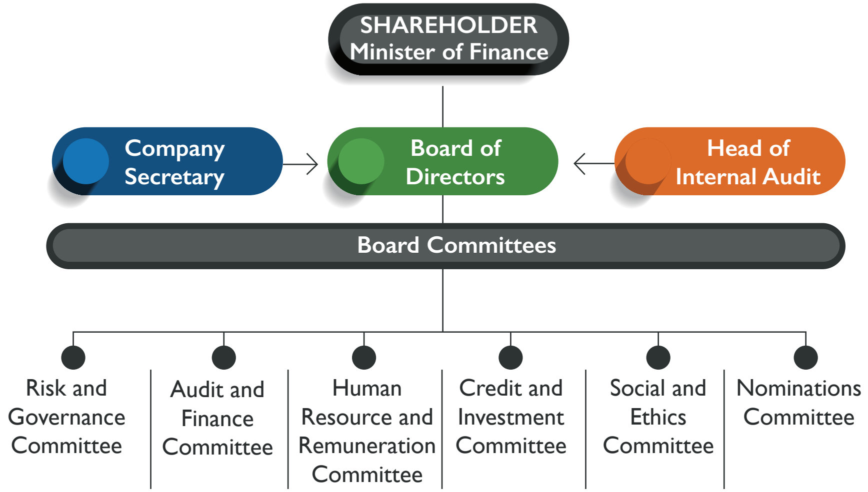
### l. Innovation

The need to develop new and innovative ways of doing business in order to ensure that the strategic objectives that the Board has adopted are achieved.

The Board is committed to the continued improvement of own its performance and effectiveness, and that of its supporting structures. It believes that a highly effective Board is essential if Land Bank and its subsidiaries are to produce sustainable returns for the shareholders, their broad range of stakeholders, as well as the wider society. Corporate governance outcomes and the quality of the Land Bank and Subsidiary Boards is an important evaluation factor for funders and institutional investors. Towards that end, the Boards evaluate their own performance and the performance of their Committees at least one every financial year.



The governance structure of the Land Bank Board is as set out in the diagram below:




Demographic composition of the Board of Directors of the Land Bank :

**Board Demographic**

| Non-Executive Directors | M | F | B | I | C | W |
|---|---|---|---|---|---|---|
| Ms NR Nkosi | | ✓ | ✓ | | | |
| Mr AL Makenete | ✓ | | ✓ | | | |
| Prof JF Kirsten | ✓ | | | | | ✓ |
| Ms ME Makgatho | | ✓ | ✓ | | | |
| Ms D Maithufi | | ✓ | ✓ | | | |
| Ms TN Mashanda | | | ✓ | ✓ | | |
| Ms NP Motshegoa | | ✓ | ✓ | | | |
| Ms EM Pillay | | ✓ | | ✓ | | |
| Dr MM Tom | ✓ | | ✓ | | | |
| Adv DW van der Westhuizen | ✓ | | | | | ✓ |

| Executive Directors | M | F | B | I | C | W |
|---|---|---|---|---|---|---|
| Mr TM Rikhotso | ✓ | | ✓ | | | |
| Ms KH Mukhari | | ✓ | ✓ | | | |
| Mr AC Kanana | ✓ | | ✓ | | | |

## LAND BANK BOARD COMMITTEES

The Board is supported by five standing committees, namely: an Audit and Finance Committee, a Human Resource and Remuneration Committee, a Nominations Committee, a Risk and Governance Committee, a Credit and Investment Committee, and shares a Social and Ethics Committee with the Board of the Insurance Companies. From time to time, the Board also establishes temporary structures such as ad hoc committees, project teams and task teams to deal with specific time bound issues.

The Committees of the Board and the Board's ad hoc structures are governed by Charters or terms of reference approved by the Board. The Charter or terms of reference set out the purpose, authority, responsibilities, composition, constitution of meetings, frequency of meetings, conduct of meetings, decision-making, record keeping, and reporting and communication by a structure on its activities to the Board. The Charters of Board Committees are available at tps://landbank.co.za/ About–Us/ Pages/ Corporate-Governance.aspx.

## AUDIT AND FINANCE COMMITTEE

The primary role of the Committee is to provide oversight over the financial reporting process, the audit process, the Bank's system of internal control, the financial position of the Bank, and the Bank's investments and returns. The Committee has authority to:

a. Review and make recommendations to the Board regarding financial risk management in the Bank within the parameters of the risk appetite approved by the Board to maximise investment returns and earnings for given levels of risk.
b. Review and make recommendations to the Board regarding effective liquidity risk management in the Bank to ensure that the Bank is able to fund increases in assets and meet its cash flow obligations as they become due without incurring unacceptable losses.
c. Review and make recommendations to the Board regarding the capital adequacy of the Bank in order to ensure that the Bank is able to pay its debts as they fall due and able increase its assets through additional lending.
d. Direct and control the system of internal audit which complies with and operates in accordance with Regulations and Instructions prescribed in terms of sections 76 and 77 of the PFMA.
e. Oversee the system of internal controls.

f. Oversee the financial and non-financial reporting process.
g. Oversee the quarterly and integrated reporting process.
h. Manage the relationship with the AG and other external assurance providers.
i. Facilitate combined assurance by overseeing integration between the external audit, internal audit, compliance and risk management functions.
j. Advise the Board on the strategic alignment of information and technology with the business of the Land Bank.
k. Evaluate and advise the Board on the value gained by the Bank through significant investments in technology and information, including the evaluation of projects throughout their life-cycles.

The Committee discharged all its responsibilities, but its primary focus for the year under review was the resolution of adverse audit findings, the enhancement of the Bank's Information and Technology environment, and the review and strengthening of internal controls.

## RISK AND GOVERNANCE COMMITTEE

The primary role of the Committee is to advise the Board of directors of the Land Bank on enterprise-wide risk management and good corporate governance practice. The Committee is responsible among others for the following:

a. Setting the tone and the development of a culture of the enterprise vis-à-vis risk, the promotion of open discussion regarding risk, the integration of risk management into the organisation's goals and compensation structure, and the creation a corporate culture such that people at all levels manage risks rather than reflexively avoid or heedlessly take them on.
b. Overseeing risk governance in relation to opportunities and associated risks that are to be considered when developing organisational strategy, and the potential positive and negative effects of risks and opportunities in the achievement of the organisational strategy.
c. The coordination of the development, implementation and annual review of a Risk Management Policy and Risk Management Plan which promote value creation and is an integral part of organisational processes.
d. The continuous monitoring of risks and risk management capabilities within the Bank, including communication about escalating risk and crisis preparedness and recovery plans.
e. Obtaining reasonable assurance from management that all known and emerging risks have been identified and mitigated or managed.
f. Coordinating the development, implementation, monitoring, evaluation and annual review of the corporate governance instruments of the Bank and making such recommendations to the Board in respect of such instruments as it considers appropriate.
g. Monitoring and advising the Board on the reputation of the Bank.
h. Monitoring, reporting on and making recommendations to the Board on all issues of compliance with legislation, regulation, codes of best practice, Board policy and Board directives.

The Committee discharged all its responsibilities, but its primary focus during the year under review was the development, implementation and monitoring of a Risk Management Policy, Risk Management Plan and Strategic Risk Register which are informed by an assessment of the operating environment the Bank, the challenges and opportunities posed by such an environment, and the Corporate Strategy that the Bank had adopted. Most important were risks posed by the liquidity challenges facing the Bank, and related sustainability and reputational issues.

## HUMAN RESOURCES AND REMUNERATION COMMITTEE

The primary role of the Committee is to assist the Board of directors of the Land Bank in the discharge of its duty to oversee the establishment of appropriate human resources policies and strategies that provide the Bank with the capability to achieve its short-and long-term business objectives. Its responsibilities include:

a. Overseeing the overall human capital management strategy which is linked to the business strategy of the Bank including recommending an appropriate structure to the Board for approval.
b. The development, implementation, monitoring, evaluation and annual review of all human capital management policies and guidelines of the Bank, which are designed to support and facilitate the implementation of the overall business strategy and the human capital management strategy of the Bank.
c. Overseeing and advising the Board on the attraction, recruitment, development to optimal capability, retention and termination of employees in order to ensure a market-competitive approach to the sourcing and retention of requisite levels of talent.
d. Overseeing the development of workforce skills and capabilities such that employees are able to perform their duties and achieve their individual level of potential, and perform the work expected of them to the required standards.
e. Overseeing the creation of a culture and an environment which enhances employee morale and the retention of scarce skills.
f. Ensuring that Management has effective systems and has made adequate provision for ensuring the overall mental, physical, emotional, and economic health of employees.
g. Ensuring that the values of the Bank as defined by the Board are communicated to all employees of the Bank, understood by them, embedded in the fabric of the Bank and that any deviations from the norm are appropriately addressed.
h. Overseeing Management efforts to ensure that employees have a sense of purpose, a sense of belonging, a commitment to the Bank, and the willpower or drive to deliver on that purpose or commitment.

i. Overseeing the development and implementation of effective and efficient systems and practices to ensure the health and safety of all the employees of the Bank and its invitees, and for ensuring compliance with all the law, regulation, and best practice applicable or recommended in this regard.
j. Overseeing the development of a high-performance culture that drives and recognises success, and regularly receives reports, assess and if necessary, make recommendations to the Board on the value generated by employees within defined parameters.
k. Overseeing and ensuring that diversity remains a key component of the Land Bank's human resources strategy.
l. Overseeing programmes for the induction and ongoing leadership and capability development of executives and key senior management.
m. Overseeing the development of succession plans for executives and key senior management to foster an appropriate balance of skills, experience, and expertise to support the ongoing successful management of the Land Bank.
n. Reviewing and recommending to the Board for approval a remuneration framework, philosophy and policy for all members of staff of the Land Bank including fixed and variable remuneration components.
o. Satisfying itself that all governance, accounting, legal, approval and disclosure requirements in relation to remuneration are complied with.
p. Reviewing, and if deemed appropriate, recommending to the Board, the terms, and conditions of the contracts of employment of all members of staff of the Land Bank

The Committee discharged all its responsibilities, but focused in particular on issues pertaining to staff attrition and the remuneration of employees.

## NOMINATIONS COMMITTEE

The primary responsibility of the Committee is to manage the appointment, Committee placement, development, performance management, rotation, suspension and removal of members of the Board of directors of the Land Bank. The responsibilities of the Committee include:

a. The regular review the structure, size and composition (including the skills, knowledge, experience, independence and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
b. Succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Bank, and what skills and expertise are therefore needed on the Board in the future;
c. Ensuring that appropriate succession plans are established, formalised and implemented at Board level as well as at executive and management level;
d. Keeping up to date and fully informed about strategic issues and commercial changes affecting the Bank and its subsidiaries, and the markets in which they operate;
e. Overseeing the process for nominating, electing and appointing members of the Board including conducting independent reference, qualification, criminal and other background checks; and requesting confirmation from candidates of any other professional commitments or directorships held and considering whether they have sufficient time available to fulfil the responsibilities required by the Board;
f. Overseeing the induction, training and continuing development of directors (including regular briefings on legal and corporate governance developments, risks and changes in the external environment of the Bank and its subsidiaries);
g. Ensuring that inexperienced directors are developed through training or mentorship, where considered necessary;
h. Identifying, developing and nominating for the recommendation to the Minister by the Board, candidates to fill Board vacancies as and when they arise;
i. Keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to deliver on its mandate and to compete effectively in the marketplace;
j. Ensuring that each non-executive director receives a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings;
k. Keeping under review all legislative, regulatory and corporate governance developments that might affect the Bank's operations, striving to ensure that the Bank is at the forefront of best practice;
l. Ensuring that the standards and disclosures required by the King Report on Corporate Governance for South Africa (2016) are observed and reflected in disclosures made in the Integrated Report;
m. Overseeing the annual performance assessment of the Board, Board Committees and individual non-executive members and making recommendations to the Board based on the results of these assessments;
n. Making recommendations to the Board concerning:
    i. Plans for succession for both executive and non-executive directors, including for the key roles of Chairman and Chief Executive Office;
    ii. Suitable candidates for the role of Senior Independent Director where required;
    iii. Membership of Board Committees in consultation with the chairpersons of those committees;
    iv. The re-appointment by the Shareholder of any director having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board (particularly in relation to directors being re-elected for a term beyond six years);
    v. Any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Bank subject to the provisions of the law and the executive director's contract of employment;

vi. The remuneration of Board members; and
vii. The appointment of any employee of the Land Bank as an executive director.
viii. The Committee discharged all its responsibilities, but focused in particular on the recruitment of a candidate to fill the vacancy of CEO and ensuring that appropriate acting arrangements were in place during the transition period.

## SOCIAL AND ETHICS COMMITTEE

The Committee's primary role is to review and make recommendations to the Board of Directors of the Bank and its subsidiaries on matters relating to social and ethics policies and strategies amongst other things; and to assist the Boards with creating value in a sustainable manner taking into consideration the triple context of the economy, society and natural environment within which the institutions operates. The responsibilities of the Committee include:

a. Reviewing and making recommendations to the Boards policy, strategy, and structure to manage social and ethics issues in Land Bank and the Insurance Companies;
b. Monitoring the activities of the Land Bank and the Insurance Companies with regard to social and economic development as determined by legislation or prevailing codes of best practice;
c. Monitoring the standing of the Land Bank and the Insurance Companies in terms of the goals and purposes of the ten principles set out in the United Nations Global Compact Principles; the OECD recommendations on corruption; the Employment Equity Act; and the Broad-Based Black Economic Empowerment Act;
d. Monitoring the activities of the Land Bank and the Insurance Companies with regard to good corporate citizenship including:
    i. The promotion of equality, prevention of unfair discrimination, the reduction of corruption; the development of the communities in which they operate; sponsorships, donations and charitable giving; and
    ii. Sustainable development; stakeholder relations; fraud prevention; responsible and transparent tax practices; fair remuneration; climate change; pollution; waste disposal and the protection of biodiversity.
e. Monitor the impact of the activities and products of the Land Bank and the Insurance Companies on the environment, health and public safety;
f. Monitoring the relationships of the Land Bank and the Insurance Companies with consumers, their compliance with consumer protection laws, as well as the nature of their advertising and public relations efforts;
g. Monitoring the practices of the Land Bank and the Insurance Companies with regard to labour and employment;
h. Monitor the standing of the Land Bank and the Insurance Companies with regard to the International Labour Organisation Protocol on decent work and working conditions;
i. Determining for approval by the Boards and from time to time reviewing clearly articulated ethical standards (Code of Ethics) and ensuring that the Land Bank and the Insurance Companies take measures to achieve adherence to these in all aspects of the business, thus achieving a sustainable ethical corporate culture within the Land Bank and the Insurance Companies;
j. Reviewing and making recommendations to the Boards policies, strategies and structures to manage the reputation of the Land Bank and the Insurance Companies, reviewing the reputational risks of the Land Bank and the Insurance Companies and ensuring that such risks are managed as part of the risk management programme of the Land Bank and the Insurance Companies;
k. Annually obtaining external assurance of ethics performance of the Land Bank and the Insurance Companies, and facilitation of the inclusion in the Integrated Report of an assurance statement related to the ethics performance of the Land Bank and the Insurance Companies; and
l. Ensuring that the ethics of the organisation are managed in a way that supports the establishment of an ethical culture.

The Committee discharged all its responsibilities, but focused in particular on issues impacting on the fair treatment of clients and the reputation of the Bank.

## CREDIT INVESTMENT COMMITTEE

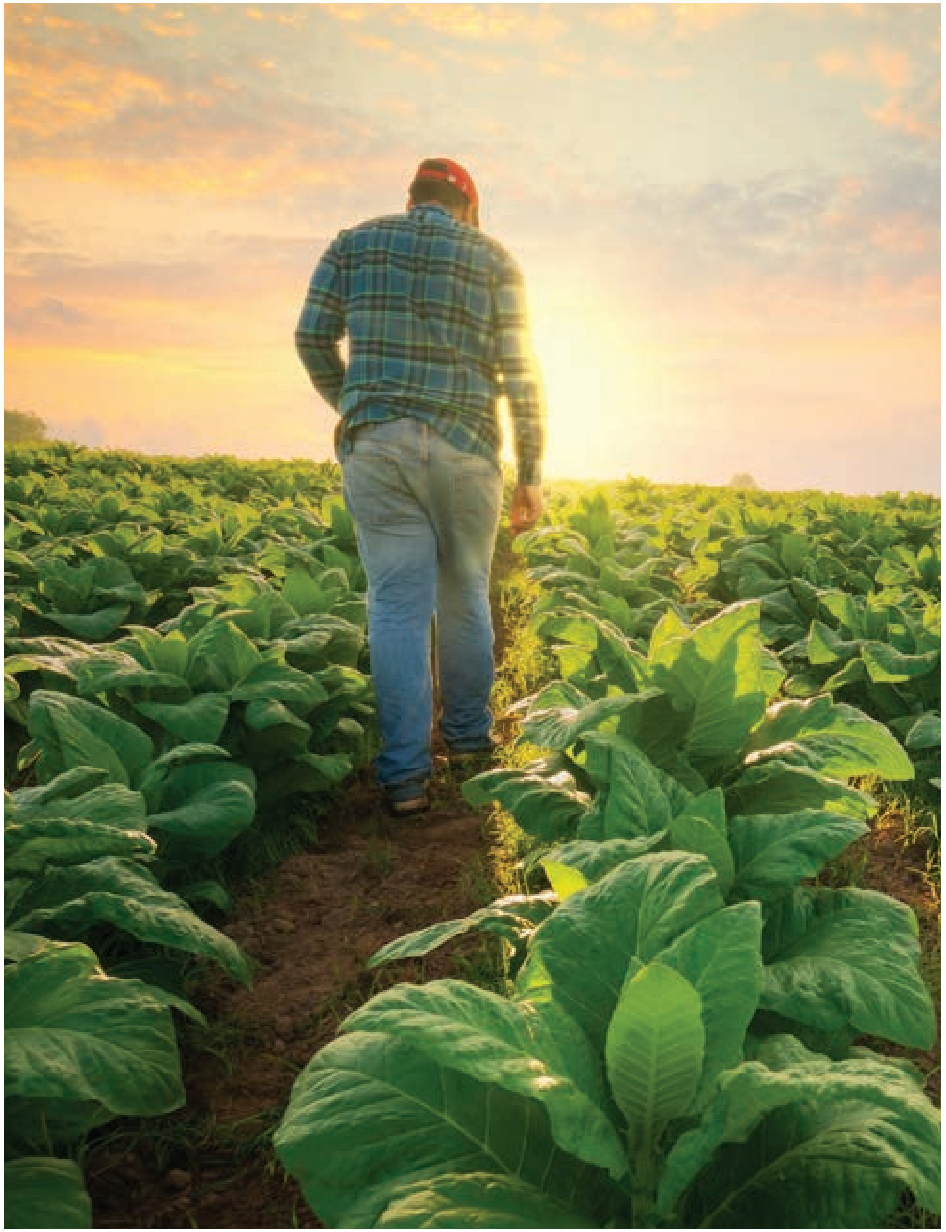
The purpose of the Committee is to assist the Board of Directors discharge its responsibilities regarding the funding of the Bank, the provision of credit by the Bank and investing by the Bank. The Committee ensures that the investment goals of the Bank are met; that the quality of the Bank's credit portfolio and the trends affecting that portfolio are continually reviewed; that credit-related policies are effective and properly administered. The Committee is responsible for:

a. Recommending credit frameworks, strategies, policies, practices including prudential credit limits and guidelines to the Board;
b. Making recommendations to the Board regarding the revision of the Credit Model methodology and the pricing model;
c. Ensuring that the quality and management of the credit portfolio is in accordance with the Credit Policies and Risk Philosophy of the Bank;
d. Ensuring that there are adequate controls and risk management of credit risk;
e. Approving requests for the extension of credit facilities within delegated limits;
f. Approving requests for the restructuring of credit facilities within delegated limits;
g. Making recommendations to the Board on all requests for the extension of credit facilities beyond its delegated limits;
h. Making recommendations to the Board regarding the restructuring of all credit facilities beyond its delegated limits;
i. Approving new loans, credit facilities and credit limits or credit risk exposures within its delegated

limits, and making recommendations to the Board regarding the granting of new loans, credit facilities and credit limits beyond its delegated limits;

j. Approving the write-off of loans within its delegated limits and recommending to the Board the write-off of loans beyond its delegated limits;
k. Regularly reviewing the quality and performance of the Bank's credit portfolio;
l. Regularly reviewing credit risk management and stress testing reports, and making recommendations to the Board as considered necessary;
m. Biannually reviewing all credit decisions of the Bank;
n. Overseeing the implementation of the approved model governance framework including the formulation, implementation and monitoring of the credit models, calibration of models; as well as to review the framework where necessary;
o. Monitoring all credit decisions taken by Management in the exercise of delegated authority;
p. Recommending to the Board the investment frameworks, strategies, policies and practices including prudential investment limits and guidelines;
q. Overseeing the management of the Bank's investment holdings portfolio including devising short- or long-term strategies for acquiring and disposing of portfolio holdings to achieve the Bank's specific investment objectives, and make recommendations to the Board in that regard;
r. Reviewing trends in asset and portfolio composition, quality, and growth, NPLs, concentration risk prudential limits and Watch List (including workout and restructuring exposures), large exposures and any other emerging risk and direct Management action where deemed necessary;
s. Monitoring all investment decisions taken by Management in the exercise of delegated authority;
t. Regularly review the quality and performance of the Bank's portfolio of investments;
u. Ensuring that the quality and management of the investment portfolio is in accordance with the Investment Policy and Philosophy of the Bank; and
v. Biannually reviewing all investment decisions of the Bank (valuations), and taking such action, or making such recommendations to the Board and Management as it may consider necessary.

The Committee discharged all its responsibilities, but focused in particular on the remediation of NPLs including collections.



## LAND BANK BOARD AND COMMITTEE ATTENDANCE

Attendance of Land Bank Board and Board Committee sessions was as follows:

| Land Bank Board Attendance FY22/23 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Board | AGM | Board Workshops and Strategy Sessions | Risk and Governance | Audit and Finance | Credit and Investment Committee | Land Bank Human Resources Remuneration Committee | Social and Ethics Committee |
| | 15 | 0 | 1 | 9 | 16 | 21 | 12 | 7 |
| **Non-executive Directors** | | | | | | | | |
| Ms R Nkosi | 15 | - | 1 | 1 | - | 3 | 9 | 7 |
| Mr A Makenete | 15 | - | 1 | - | - | 3 | 2 | 7 |
| Ms D Maithufi | 15 | - | 1 | 8 | - | 21 | - | - |
| Prof J Kirsten | 14 | - | 1 | - | - | 19 | - | 1 |
| Dr M Tom | 13 | - | 1 | 1 | 5 | 1 | 10 | - |
| Ms N Motshegoa | 15 | - | 1 | - | - | 16 | 0 | 4 |
| Adv D van der Westhuizen | 14 | - | 1 | 9 | - | 3 | 11 | - |
| Ms E Pillay | 15 | - | 1 | - | 16 | 4 | - | 4 |
| Ms T Mashanda | 14 | - | 1 | 8 | 15 | - | 3 | - |
| Me M E Makgatho | 15 | - | 1 | - | 16 | 21 | - | - |
| | | | | | | | | |
| **Executive Directors** | | | | | | | | |
| Mr A Kanana[1] | - | - | - | - | 1 | 1 | 1 | 1 |
| Ms K Mukhari[2] | 14 | - | 1 | 9 | 16 | 17 | 9 | 7 |
| [1.] *Resigned as a member of the Board of Directors of the Land Bank effective 1 May 2022.* | | | | | | | | |
| [2.] *Ms Mukhari acted as Chief Executive Officer from 1 May 2022 – 31 March 2023.* | | | | | | | | |

A review of Committee memberships was conducted during the course of the financial year. The outcomes of the review were reassignment of Committee duty and changes of membership in some instances. This largely accounts for the less than perfect meeting attendance record for those members that were affected by them.

The Board and its Committees usually meets once a quarter, however, due to the liquidity challenges face the Bank, fallout from the event of default and the urgency to find a liability solution there was a need for the Board and its Committees to meet more frequently.

# LAND BANK INSURANCE BOARD PROFILES

### Ms Egashnee Pillay

Ms Pillay is a Chartered Accountant and holds a BCom (Hon) Accounting and BCom Accounting.

**Committee Membership**
Board Chair and Member Joint LB/LBIC Social and Ethics Committee

### Mr Sakhile Masuku

Mr Masuku is a qualified Chartered Accountant and holds a BCom (Hon) Accounting Science and BCom Accounting

**Committee Membership**
Chairperson of the LBIC/ LBLIC Audit and Risk Committee, Member of Investment and Actuarial Committee

### Mr Krishen Sukdev

Mr Sukdev is an actuary and holds a Master in Business Administration (MBA) and BA Business Science.

**Committee Membership**
Chairman of Actuarial and Investment Committee, Member of Audit and Risk Committee

### Mrs Melanie Bosman

Ms Bosman is a Chartered Accountant (SA) and holds a BCom (Hon) Accounting and BCom Accounting.

**Committee Membership**
Member of Audit and Risk Committee, Actuarial and Investment Committee and Human Resources and Restructuring Committee

### Mrs Deshni Subbiah

Ms Subbiah is a qualified Actuary and holds a BSc Actuarial Science, a Master in Business Administration (MBA) and a PD in Business Administration and General management

**Committee Membership**
Member of Audit and Risk Committee, Actuarial and Investment Committee and Human Resources and Restructuring Committee

### Prof Johann Frederick Kirsten

Prof Kirsten holds a PhD in Agricultural Economics, MSc Agric, BSC Agric (Hon)

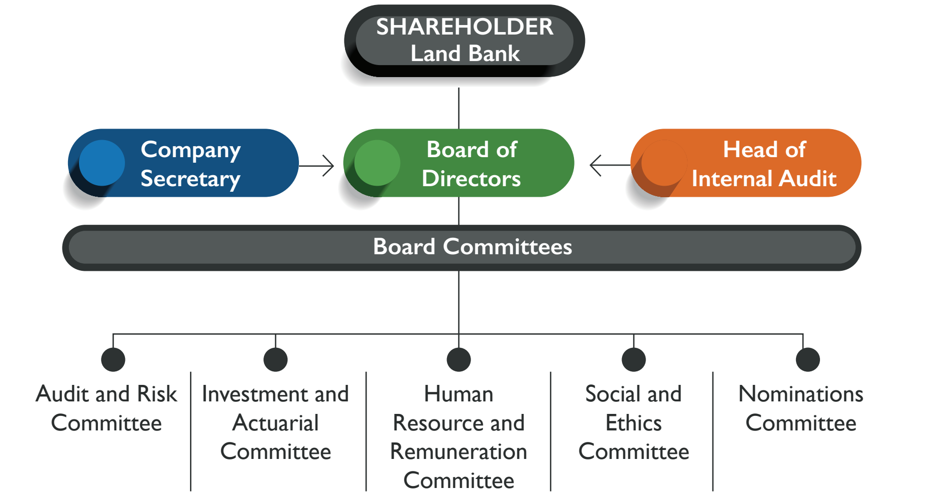
**Committee Membership**
Member of Joint SEC

### Adv Dimitri Wilhelm van der Westhuizen

Advocate van der Westhuizen holds an LLB (PMB) and is an of the High Court of South Africa

**Committee Membership**
Board Sub Committees: Human Resources and Remuneration Committee Member, Risk and Governance Committee Member.

The governance structure of the Land Bank Insurance Board is as set out in the diagram below:




The membership of the Board of Directors of the Insurance Companies during the year under review was as follows:

**Insurance Companies: Board of Directors**

| Non-Executive Directors | M | F | B | I | C | W |
|---|---|---|---|---|---|---|
| Ms EM Pillay | | ✓ | | ✓ | | |
| Mr K Sukdev | ✓ | | | ✓ | | |
| Ms M Bosman | | ✓ | | | | ✓ |
| Ms D Subbiah | | ✓ | | ✓ | | |
| Mr SC Masuku | ✓ | | ✓ | | | |
| Prof JF Kirsten | ✓ | | | | | ✓ |
| Adv DW van der Westhuizen | ✓ | | | | | ✓ |
| Mr AC Kanana | ✓ | | ✓ | | | |
| Ms KH Mukhari | | ✓ | ✓ | | | |

*Ms Mukhari resigned as Non-Executive Director on 29 August 2022.*

| Executive Directors | M | F | B | I | C | W |
|---|---|---|---|---|---|---|
| Mr MA Rakgalakane | ✓ | | ✓ | | | |
| Mr P Siphugu | ✓ | | ✓ | | | |

*The term of office of Mr Rakgalakane as a member of the Board of directors of the Insurance Companies expired on 30 June 2023.*

*Mr Siphugu was appointed as Managing Director and member of the Board of directors of the Insurance Companies effective 1 June 2023.*

## LAND BANK INSURANCE BOARD COMMITTEES

The Board is supported by four standing committees, namely: an Audit and Risk committee, an Investment and Actuarial committee, a Human Resource and Remuneration Committee and a Nominations Committee. It shares a Social and Ethics Committee with the Land Bank. The committees are established in terms of Sections 76(4) (d) and 77 of the PFMA, section 94 of the Companies Act of 2008, Clause 7 of GOI 2 and Section 15 of the Land Bank Act. From time to time, the Board also establish temporary structures such ad hoc committees, project teams and task teams to deal with specific time bound issues.

The Committees and ad hoc structures are governed by Charters or terms of reference approved by the Board. The Charters or terms of reference set out the purpose, authority, responsibilities, composition, constitution of meetings, frequency of meetings, conduct of meetings, decision-making, record keeping, and reporting and communication by a structure on its activities to the Board.

## AUDIT AND RISK COMMITTEE

The primary role of the Committee is to provide oversight over the financial reporting process, the audit process, the Bank's system of internal control, enterprise-wide risk, the financial position of the Bank, and the investments and returns of the Insurance Companies. Its responsibilities among others to:

a. Review and make recommendations to the Board regarding financial risk management in the Insurance Companies;
b. Review and make recommendations to the Board regarding effective liquidity risk management in the Insurance Companies;
c. Review and make recommendations to the Board regarding the capital adequacy of the

Insurance Companies in order to ensure that the Insurance Companies are able to pay their debts as they fall due and able increase its assets through investments;

d. Direct and control the system of internal audit which complies with and operates in accordance with Regulations and Instructions prescribed in terms of sections 76 and 77 of the PFMA and GOI3;
e. Oversee the system of internal controls; The financial and non-financial reporting process and the quarterly and integrated reporting process;
f. Manage the relationship with the AG and other external assurance providers;
g. Facilitate combined assurance by overseeing integration between the external audit, internal audit, compliance and risk management functions;
h. Advise the Board on the strategic alignment of information and technology with the business of the Insurance Companies;
i. Evaluate and advise the Board on the value gained by the Insurance Companies through significant investments in technology and information, including the evaluation of projects throughout their life-cycles;
j. Oversee the development of a risk management framework, strategy and appropriate policies and make recommendations to the Board in that regard;
k. Advise the Board on the implementation and adequacy or otherwise of such risk management frameworks, policies;
l. Oversee the development and implementation of a risk management system;
m. Ensure that enterprise-wide risk assessments are performed annually;
n. Advise the Board on the adequacy and effectiveness of such system;
o. Identify, monitor, and advise the Board on the build-up and concentration of the various risks to which the Insurance Companies are exposed;
p. Identify and monitor all material risks to ensure that the Board's decision-making capability and accuracy of reporting is adequately maintained;
q. Facilitate and ensure the appropriate segmentation of duties of the risk management function from operational business line responsibilities, and ensure that the segregation is observed;
r. Facilitate the introduction of measures to enhance the independence, adequacy, and effectiveness of the risk management function;
s. Oversee risk management on an enterprise-wide and individual business unit basis;
t. Oversee, approve, and report to the Board on the appointment, remuneration, disciplining, evaluation, and removal of the head of the internal audit and risk management function;
u. Review and advise the Board on the information to be included in the integrated report related to risk management;
v. Facilitate the complete, timely, relevant, accurate and accessible disclosure of risks to stakeholders;
w. Annually review the capacity and performance of the risk management function (in respect of the expertise, resource, and experience); and
x. Be available to meet with the Prudential Authority on request.

The Committee discharged all its responsibilities, but its primary focus for the year under review was the resolution of adverse audit findings, the enhancement of the Insurance Companies Information and Technology environment, and the review and strengthening of internal controls.

## INVESTMENT AND ACTUARIAL COMMITTEE

The primary responsibility of the Committee is to

a. Review and advise the Board on compliance with actuarial guidance, ensuring capital adequacy, reviewing embedded value calculations and considering the results of actuarial investigations including, but not limited to, policyholder liability valuations and related earnings;
b. Ensure the reliability and accuracy of any significant and material statutory reporting to the Prudential Authority;
c. Consider the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions.

The duties of the Committee include:

a. Regularly review and recommend to the Board for approval an Actuarial Mandate;
b. Regularly review and recommend to the Board for approval an underwriting policy, re-insurance and other forms of risk transfer policy, a capital management policy, the ORSA policy, the ORSA scenario and planning framework, the credit risk policy and the liquidity risk policy;
c. Ensuring that sound actuarial governance principles and best practices are adhered to and consistently applied;
d. Evaluating of the adequacy and completeness of the annual quantitative regulatory returns to the PA in terms of the applicable laws and regulations;
e. Reviewing the reports of the HAF on the results of actuarial investigations, including the validation of actuarial models;
f. Reviewing reports on compliance with actuarial guidance in the preparation of financial statements;
g. Evaluating the capital adequacy and solvency of the Insurance Companies, including stresses and scenarios to be used for the ORSA process of the Insurance Companies and recommending these to the Board for approval;
h. Monitoring and reviewing underwriting conditions and advising the Board on underwriting strategy and policy;
i. Monitoring and reviewing underwriting and re-insurance arrangements as well as actuarial related audit finding;
j. Recommending investment strategies and policies for the Insurance Companies;
k. Reviewing the investment policy, guidelines, objectives and strategies of the Insurance Companies;
l. Advising on the appointment and delegation to independent investment advisers of the authority to execute individual investment transactions on behalf of the Insurance Companies;
m. Receiving periodic reports from management and/or the independent investment advisers

of the Insurance Companies, on the conformance of the invested assets of the Insurance Companies to its investment policy, strategies and objectives;

n. Reviewing periodic reports on the performance of the invested assets the Insurance Companies;
o. Reviewing periodically compliance with respective requirements;
p. Overseeing the management of the investment portfolio of the Insurance Companies and compliance by management and/or independent investment advisers, if applicable, with applicable investment codes and regulations, and with the investment policies and guidelines of the Insurance Companies;
q. Reviewing and making recommendations to the Board on the Asset-Liability Management, Liquidity Risk, Credit Risk and Investment Policies in terms of prudential standards at least on annual basis;
r. Considering significant actuarial and financial risks and the appropriateness and effectiveness of the management of those risks; and
s. Making recommendations to the Board regarding the appointment and dismissal of the HAF and actuarial fees where applicable.

The Committee discharged all its responsibilities and focused in particular on the development of an actuarial mandate and role clarity of the HAF.

## HUMAN RESOURCE AND REMUNERATION COMMITTEE

The role and responsibilities of the Committee are mutatis mutandis no different from the roles and responsibilities of the Land Bank Human Resources and Remuneration Committee.

## NOMINATIONS COMMITTEE

The role and responsibilities of the Committee are mutatis mutandis no different from the roles and responsibilities of the Land Bank Nominations Committee

## LAND BANK INSURANCE COMMITTEE MEMBERSHIP

Land Bank Insurance Committee membership was the following during the year under review:

| Committee | Audit and Risk Committee | Investment and Actuarial committee | Human Resource and Remuneration Committee | Social and Ethics Committee | Nominations Committee |
|---|---|---|---|---|---|
| Ms EM Pillay | | | | ✓ | ✓ |
| Mr K Sukdev | ✓ | ✓ | | | |
| Mr SC Masuku | ✓ | ✓ | | | ✓ |
| Ms M Bosman | ✓ | ✓ | ✓ | | |
| Ms D Subbiah | ✓ | ✓ | ✓ | | |
| Prof JF Kirsten | | ✓ | | | |
| Adv D van der Westhuizen | | | ✓ | | ✓ |

## LAND BANK INSURANCE BOARD AND COMMITTEE ATTENDANCE

Attendance of LBI Board and Board Committee sessions was as follows:

| | Board | Audit and Risk Committee | Investment and Actuarial committee | Human Resources Remuneration Committee | Social and Ethics Committee | Nominations Committee | Strategy Sessions | AGM |
|---|---|---|---|---|---|---|---|---|
| | 8 meetings | 6 meetings | 4 meetings | 6 meetings | 7 meetings | 2 meetings | 2 meetings | 1 meeting |
| **Non-executive directors** | | | | | | | | |
| Ms EM Pillay[1/2] | 5 | 1 | 1 | - | 4 | - | 1 | 1 |
| Mr S Masuku | 8 | 6 | 4 | 1 | - | - | 2 | 1 |
| Mr K Sukdev | 8 | 6 | 4 | 3 | - | 2 | 2 | 1 |
| Ms M Bosman | 8 | 6 | 4 | 6 | - | 2 | 2 | 1 |
| Ms D Subbiah | 8 | 6 | 4 | 6 | - | 2 | 2 | 1 |
| Prof J Kirsten[2] | 3 | - | 2 | - | - | - | 1 | 1 |
| Adv D van der Westhuizen[2] | 5 | - | - | 3 | - | - | 1 | 1 |
| Mr A Kanana[4] | 1 | | | | | | | |
| **Executive directors** | | | | | | | | |
| Mr A Rakgalakane | 8 | 4 | 4 | 5 | 4 | 2 | 2 | 1 |
| Ms K Mukhari[3] | 2 | - | - | - | 6 | - | - | 1 |

[1] *Board Chairperson from 1 October 2022*

[2] *Newly appointed NED from 9 June 2022*

[3] *Resigned as LBIC-LBLIC Director 29 August 2022*

[4] *Resigned as director 30 April 2022*

## REMUNERATION REPORT

The Bank adheres to a Total Remuneration approach, considering both monetary and non-monetary rewards within the Bank's EVP in alignment with the Corporate Strategy.

The Bank's Remuneration strategy is informed by the State-Owned Entities Remuneration and Incentives Guidelines (2018). Remuneration management at the Bank is integrated into other people management processes such as performance management and talent management, falling within the broader Human Capital policies, and is grounded in a total rewards philosophy and approach. The Remuneration and Compensation policy underwent review during the financial year and was submitted to the Ministry of Finance (MoF) for approval.

The remuneration policy aligns with the King IV Code of Corporate Governance, incorporating its relevant principles for the governance of remuneration and reward. The Integrated Annual Report provides transparency in disclosing the Bank's remuneration policies and practices, along with their implementation. Remuneration guidelines are regulated by the SOCRIG requirements, PFMA, and the 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 MoF.

In accordance with the Act, the MoF determines the remuneration, allowances, and associated benefits of the CEO, and approves the bonuses of the CEO, CFO, and Executive Management. This process represents a deviation from King IV, which states that it is the Board's responsibility to approve CEO and Executive remuneration. The Bank continues to engage with the Minister to find an appropriate resolution that will ensure that the interests of all relevant parties are considered when approving remuneration to give effect to the intention and spirit of the King IV Code, principles, and recommended remuneration policy practices.

For details of the Board remuneration, please refer to the Annual Financial Statements included in this report.

# KING IV CODE™ DISCLOSURES FOR THE YEAR ENDED 31 MARCH 2023

The Bank's Board is committed to alignment with the corporate governance philosophies and principles contained in the King IV Report on Corporate Governance for South Africa (2016) (King IV Report) and to achieving the 17 principles set out in the King IV Code of Corporate Governance (King IV Code) contained in the King IV Report, and 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 Bank's application of each of the King IV Principles towards the 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 Bank's suite of external reports published for the 2023 reporting period, specifically:

These Disclosures include cross-references to where additional or other corporate governance disclosures are available within the Bank's suite of external reports published for the 2023 reporting period, specifically:

1. The 2023 Land Bank Annual Integrated Report;
2. The Land Bank's audited Annual Financial Statements for the year ended 31 March 2023;
3. The Board takes ultimate responsibility for the good governance of the Land Bank Group;
4. The Board has delegated the some of its responsibilities to various structures and functionaries. These include the AFC, the SEC, the RGC, the CIC and the Human Resource Committee, individual Directors and members of Management. All Delegations of Power are in writing and are reviewed and approved by the Board on a n annual basis;
5. All delegations of authority are in terms of the Land Bank Act, the PFMA, Treasury Regulations and best practice;
6. All Board Committees function in terms of a comprehensive written terms of reference (Charter) which is reviewed and annually approved by the Board;
7. 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;
8. The focus areas of each Board Committee are agreed upon by each Committee on an annual basis;

9. Board Committees approve such matters as may have been delegated to them by the Board;
10. 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;
11. 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;
12. 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;
13. Committees also make recommendations to the Board on matters that are reserved for the Board and on such others as it may consider appropriate; and
14. The Board exercises oversight over the functions and activities of 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 when circumstances dictate.

## TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

In the context of IR, the King IV Report provides detail of the organisation's uses and/or effects on all capitals. Within Land Bank, and Agricultural sector at large, the Natural Capital is of significant importance. The King IV Code™ is designed to promote good corporate governance in South African companies. Such governance encompasses the roles and responsibilities of the Board of Directors, strategy, performance, reporting, and stakeholder relationships. Land Bank strives to comply to the Code and ensure that an integrated governance process is instituted.

Acknowledging the governance for Natural capitals with regards to The TCFD is critical. The TCFD is an industry-led initiative created to develop a set of recommendations for voluntary climate-related financial disclosures. These are aimed at all financial actors, from companies and investors to asset owners and managers, as the goal is to provide consistent and transparent information to global markets. The TCFD is aligned to King IV, as a deliberate response to addressing climate adaptation, climate resilience, and sustainable financing as per NT's Handbook on Sustainable Finance. TCFD governance element relates to Disclosing the organisations governance around climate-related risks and opportunities.

The Bank is implementing various action in order to adopt this approach as progress is made towards reporting on Natural Capital elements. Progress to date in this regard is as follows:

| | | |
|---|---|---|
| **Strategic progress** | Draft Development Effectiveness Strategy | This policy provides an integrated approach to funding and reporting, drawing on the Natural Capital elements. |
| | Draft Climate Change Policy | This policy provides a holistic approach to the strategy and operational process to infuse climate adaptation, climate mitigation and climate resilience across the Bank and operations. |
| **Tactical progress** | Land Bank Development Indicator Framework | This indicator framework provides relevant and inclusive indicators for data capturing and reporting purposes. The Natural Capital indicators are included in this document and provides a basis for collection of climate-related data for the Bank. |
| | Principles of Responsible Banking | The Bank became a signatory in September 2019. At a high level the PRB requires all Banks to align their strategy, process and procedures to the Paris Agreement and the SDGs. |
| | Case Study on Climate Services for Land Bank | The study aims to identify through modelling the expected changes in temperature and the results and effect on maize yields for the North West province. This will allow the Bank to start integrating the associated risks into the Banks credit modelling and decision making. |
| | | The study aims to identify through modelling the expected changes in temperature and the results and effect on maize yields for the North West province. This will allow the Bank to start integrating the associated risks into the Banks credit modelling and decision making. |
| **Operational progress** | Understanding climate adaptation responses and needs. | This is a survey understanding by the Bank with clients to assess the effect of climate change on their operations, their response, and their future needs to adapt to climate change. |
| | ESRA | The Environmental and Social Risk Assessment Tool is imbedded as part of due diligence process and tools. This aims to identify the risks that the Bank is exposed through the funding and to enable mitigation of risks through cooperation. |

***References:***
King Committee. 2021. Guidance paper on the responsibilities of governing bodies in responding to climate change.

# 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 by, among others, a Board Charter, a Board Code of Ethics and Business Conduct, a Board Conflict of Interest Policy and a Board Manual. This is over and above the fact that the Board subscribes to the principles advocated in among others, 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 to be 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 Boards will not hesitate to act against employees regardless of their designation or level where it is considered that these standards have been breach. The Land Bank and the Insurance Companies pride themselves on the governance processes in place and that in the face of any corporate governance lapses, the Boards do not hesitate to take disciplinary action and dismiss individuals where necessary.

Board members discloses their financial and external interests annually, and where there are instances of conflict of interests the Board as a collective and/or the relevant Board Committees mitigate the risk appropriately in the best interest of the Bank and of the Insurance Companies. Furthermore, Board members are required to declare their interests with regard to any matters that are on the agenda of that meeting. This promotes accountability and transparency.

### PRINCIPLE 2: The Board Should Govern Land Bank's Ethics in a Way That Supports the Establishment of an Ethical Culture.

The Boards have approved Codes of Ethics and Business Conduct for themselves and for members of staff. Board members and members of staff are duty bound to adhere to the prescripts of the Codes. Implementation of the Codes in all aspects of the Business of the Bank and the Insurance Companies is supervised and enforced through the Joint Social and Ethics Committee of the Bank and the Insurance Companies.

An Ethics Office has been established which, among others, has the responsibility of developing and implementing programmes, guidelines and practices that are in line with the policies of the Bank and the Insurance Companies on ethics. The Social and Ethics Committee of the Bank and the Insurance Companies, and the Risk and Governance Committee of the Bank receive and review reports on the ethics performance of the Bank on a quarterly basis, and make recommendations to the Board on all material risks pertaining to ethics. The reports deal with, among others, AML issues including PIPs (Politically Influential Persons) and PEPs (Politically Exposed Persons). The Risk and Governance Committee of the Bank ensures that ethics risks that have been identified are managed as part of the overall risk management strategies and programmes of the Bank and the Insurance Companies.

### PRINCIPLE 3: The Board Should Ensure That Land Bank Is and Is Seen to Be a Responsible Corporate Citizen

The Board recognises its dependence on the environment and the resources that it provides for the achievement of its objectives. The Board also acknowledges its obligation to act as a responsible corporate citizen.

Towards that end, the Board has adopted the United Nations Principles for Responsible Banking (PRB) and approved an ESS Policy and Programme in support of the initiative. The Board believes that by subscribing to this initiative, the Bank can demonstrate its support for human rights and has an opportunity to play an important role in promoting land stewardship, protecting the environment and the communities impacted by its activities, and help secure the long-term sustainability of natural resources, communities and society in general.

## STRATEGY, PERFORMANCE AND REPORTING

### PRINCIPLE 4: The Board Should Appreciate That 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 seeks 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.

The mandate of the Bank of the Bank includes among others the empowerment of previously disadvantaged communities, the promotion of emergent farmers, the sustainability of commercial agriculture and food security. The Corporate Strategy of the Bank is informed by these imperatives, is prepared by Management for consideration and approval by the Board and seeks among others to ensure that Bank responds to stakeholder expectations and that there is a viable platform for it to create value over the short, medium and long-term.

### PRINCIPLE 5: The Board Should Ensure That the Reports Issued by Land Bank Enable Its Stakeholders to Make Informed Assessments of Land Bank's Performance and Its Short-, Medium-, and Long-term Prospects.

The Board and its Committees have oversight over reporting legislated and regulatory reporting, and the publication of information pertaining to its affairs to third parties.

Reporting is governed by the Land Bank Act, the PFMA, National Treasury Regulations, and National Treasury Guidelines for Annual and Quarterly Reporting. 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 release. Where applicable, such reports are first validated by assurance providers such as the internal audit function and the Office of the Auditor General before they are tabled before the Board and its Committees for consideration and approval.

The Board acknowledges that the regression in audit outcomes from a clean audit to an unqualified audit with findings is undesirable. The findings related to misstatements in the collateral values used as in inputs in the ECL (Expected Credit Loss) Model. These were subsequently corrected and the Auditor General found the models and assumptions used by the Bank to determine the allowance to be reasonable and consistent with its expectations. The Board has resolved that it needs to be more vigilant going forward, ensure that such errors do not recur and commits to the restoration of a clean audit status.

### PRINCIPLE 6: The Board Should Serve As the Focal Point and Custodian of Corporate Governance in Land Bank

The Board has ultimate accountability and responsibility for performance and affairs of the Land Bank, including its adoption and implementation of good governance practices and principles under applicable law and regulation, and the King IV Code.

The Board has assumed this responsibility fully. It has, among others, adopted a Board Charter and other supporting instruments which in conjunction with the requirements of the Land Bank Act, the Public Finance Management Act and other applicable law and regulation defines the governance roles, responsibilities and processes and best practice. The Board also subscribes to the recommendations of the King Report on Corporate Governance for South of 2016 in terms of the principles and practices of good corporate governance.

### 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. The Boards have diverse skills in terms of qualifications, experience and overall strong value add. In addition, the Boards are diverse with different races, ages, and good representation from a gender perspective. To ensure skills are developed a skills matrix has been developed to address the following areas:

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.

It should be noted that regardless of all of the above, in terms of the Land Bank Act the exclusive authority to appoint members of the Board of directors of the Land Bank ultimately resides in the Minister. Members of the Board of directors of the Insurance Companies are appointed by the Board of directors of the Land Bank as representative of the Land Bank, the sole shareholder.

There were no vacancies on the Board of directors of the Land Bank during the reporting period under review, but the term of office of one Board member is due to expire on 7 December 2023. There is one vacancy on the Board of directors of the Insurance Companies which is in the process of being filled.

## 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.

The business and affairs of the Land Bank and the Insurance Companies are managed by or under the direction of the Boards, which have 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 Boards have approved primary 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 in terms of Committee Charters.

The Boards are guided by a skills matrix in its decisions on appropriate committee structures and matters of committee leadership and composition.

## 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 Boards 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 Boards become more effective. It assists in identifying skills and capacity gaps which when filled enables the Boards to be better positioned to deliver on their mandate, goals and strategic objectives.

The assessment of the performance of the Board for the period under review is work in progress.

## 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 Boards have approved a written Delegation of Powers to the Chief Executive Officer of the Bank and the Managing Director of the Insurance Companies. The written Delegations of Powers ensures that there is role clarity and promote effective arrangements for the management of the day-to-day management of the affairs of the Bank and of the Insurance Companies.

The Boards acknowledge the authority vested in the CEO in terms of Section 18 of the Land Bank Act. The section provides firstly that the CEO is responsible for the day-to-day management of the Bank subject to the direction of the Board and secondly that the CEO has control over all the employees of the Bank.

Delegations to the CEO and to the Managing Director are made in the interests of ensuring that the CEO and the Managing Director are able to perform his duties devoid of undue hindrance by the Boards, on the understanding that the CEO and the Managing Director will discharge their duties ethically and with due observance of the law, and are made subject to the limitations imposed in the CEO and the Managing Director in the written delegations of power.

The Delegations of Power are supported by a system of checks and balances to ensure good governance and pre-empt undue concentration of powers. They promote role clarity and effective arrangements for the management of the Bank.

## PRINCIPLE 11: The Board Should Govern Risk in a Way That Supports Land Bank in Setting and Achieving Its Strategic Objectives.

Risk oversight is a primary Board responsibility, and the Boards develop and continuously improve the practices to establish well-defined and effective oversight functions. The Boards play a critical role in influencing Management's processes for monitoring risks, and clearly defines which risks the full Boards should discuss regularly, versus risks that can generally be delegated to a Board Committees. An extensive externally facilitated risk assessment exercise led by the Risk and Governance Committee and the Audit and Risk Committee was undertaken during the year under review.

## PRINCIPLE 12: The Board Should Govern Technology and Information in a Way That Supports Land Bank Setting and Achieving Its Strategic Objectives.

Information and technology governance are the responsibility of the Board and Management. It is an integral part of the overall governance structures of the Land Bank and of the Insurance Companies, and the Boards take an active role in information and technology strategy and governance through the offices of the Audit and Finance Committee and the Audit and Risk Committee.

The Boards ensure 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 Boards govern technology and information in a way that supports the setting and achieving the strategic objectives of the Bank and the Insurance Companies. To this end the Boards have, through the offices of the Audit and Finance Committee, appointed an expert to advise it on information technology focusing in particular on the alignment of the Information and Technology Strategy with the long-term strategy, business objectives and future requirements of the Bank and of the Insurance Companies.

## PRINCIPLE 13: The Board Should Govern Compliance With Applicable Laws and Adopt, Non-binding Rules, Codes and Standards in a Way That Supports Land Bank Being Ethical and a Good Corporate Citizen.

With regard to their responsibility of ensuring and having oversight over compliance, the Boards are supported by the Risk and Governance Committee and the Audit and Risk Committee which provide direction on and oversight over the implementation by Management of Board-approved compliance strategies and policies, ensure that compliance is integrated into the fibre of the Bank, that compliance is used as a lever for the attainment of the goals and strategic objectives of the Bank, and that the compliance systems employed by Management are effective, and conducive to compliance with applicable laws, regulations and best practice.

The Boards recognises that compliance risk is a significant risk category for the Bank and the Insurance Companies due to the highly regulated nature of the environment in which they operate. This requires among others that significant compliance risks should be regularly and systematically monitored and any incidents of non-compliance identified during these regular reviews appropriately addressed.

Compliance is not optional. The Board insists that exceptions permitted by the 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.

## PRINCIPLE 14: The Board Should Ensure That 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 Boards regularly review and approves:

- Remuneration strategies and policies for all members of staff of the Land Bank and of the Insurance Companies.
- 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 terms and conditions of the employment contract of the Chief Executive Officer and the Managing Director
- The remuneration arrangements of the Chief Executive for approval by the Minister.
- The remuneration arrangements of the Managing Director

The Boards consider, and if deemed appropriate, approve.

- The terms and conditions of the contracts of employment of other members of the Executive and Senior Management.
- The remuneration arrangements for other members of the Executive and Senior Management, as recommended by the Chief Executive Officer and the Managing Director.

The Board satisfies itself that:

- All governance, accounting, legal, approval and disclosure requirements in relation to remuneration are complied with.
- Any new or varied contracts with the Chief Executive Officer are disclosed in accordance with any governance, accounting, and legal requirements.

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

The Boards manage engagements and communications with key stakeholders in relation to the content of the Remuneration Report.

### 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 Land Bank's external reports.

The Boards have adopted a Combined Assurance Model which consists of 3 lines of defence, viz.

1. people, systems and controls;
2. risk management and compliance function; and
3. internal audit function

The combined assurance model ensures that there is a coordinated 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; and
4. where this assurance is reported.

The Boards seek to ensure that the assurance which is provided by the 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 and the Audit and Risk 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 and to the Audit and Risk Committee about improvements.

Negative publicity raised by media reports has been addressed to prevent reputational damage and to ensure continuous improvement.

## STAKEHOLDER RELATIONSHIPS

### PRINCIPLE 16: In the execution of its governance role and responsibilities, the Board should adopt a stakeholder–inclusive.

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.

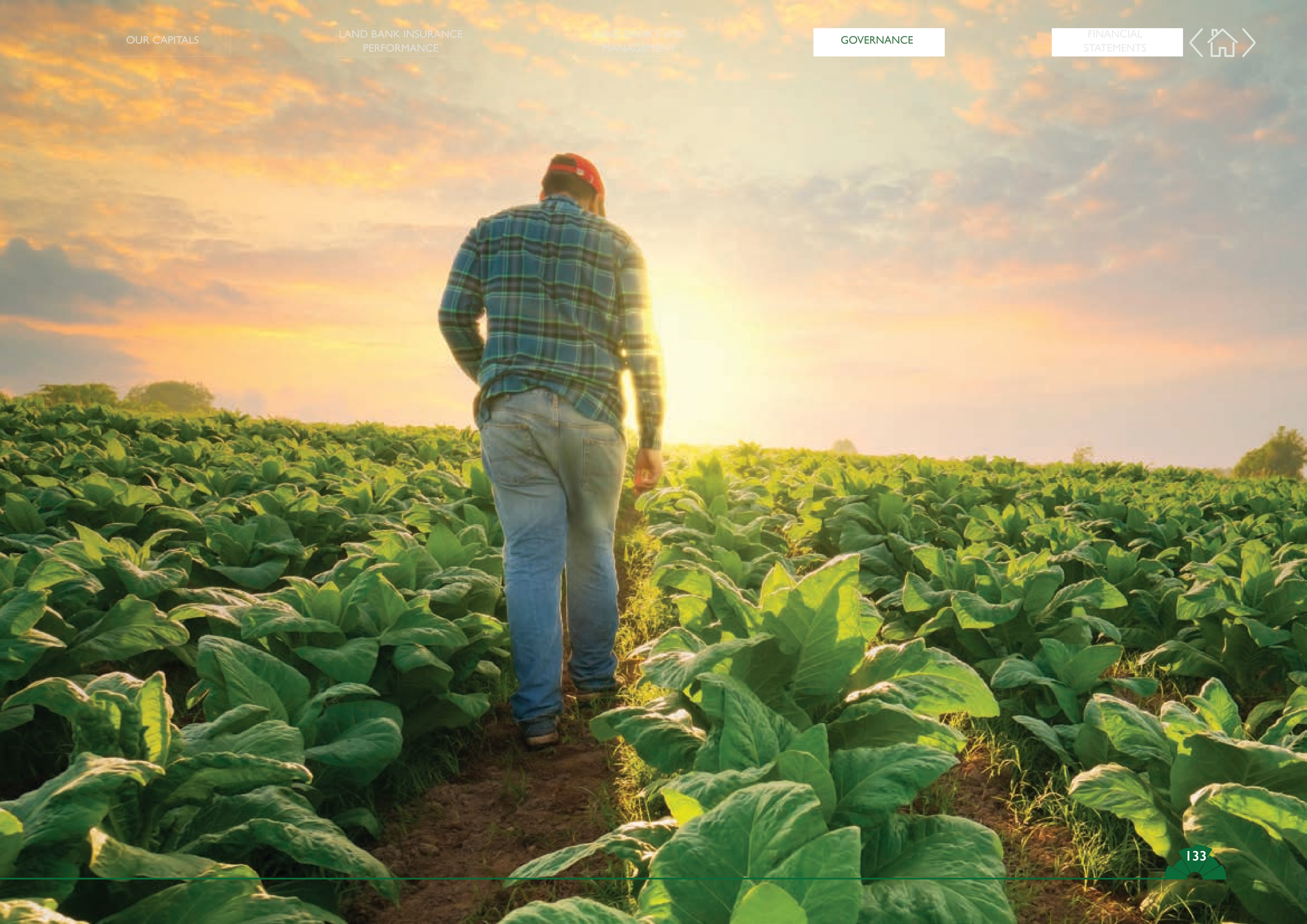
The Board exercises oversight over the Group Communication function through the offices of the Social and Ethics Committee which receives and reviews the following quarterly reports:

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 and Project

The relationship between the Bank and the Insurance Companies is governed by a Group Governance Framework approved by both Boards. The Group Governance Framework has been prepared strictly in accordance with the guidelines provided by the IoD in January 2019 and recognises the independence of the subsidiaries and the corresponding fiduciary duties of the Directors of the Board of Directors.

### PRINCIPLE 17: The Board should ensure that responsible investment is practiced by land bank to promote 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).



# PART II

## FINANCIAL STATEMENTS


100% ORGANIC
FRUITS & VEGETABLES
FRESH EGGS
MEATS & CHEESE
BREADS & PRESERVES
FRESH TOMATO
3 00 LB
ORGANIC POTATO
$4 25 LB

**LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA**
Annual Financial Statements for the year ended 31 March 2023

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# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### General Information

| | |
|---|---|
| Shareholder | National Treasury, Government Department |
| Public entity | Governed by the Land and Agricultural Development Bank Act, 2002 (Act No. 15 of 2002) and is a schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). |
| Country of incorporation and domicile | The Republic of South Africa |
| Nature of business and principal activities | The Land Bank provides retail and wholesale finance to emerging, commercial farmers and Agri-Businesses. In addition to its banking operations, the Land Bank extends its services to the insurance sector through its subsidiaries. |
| Head office physical address | 272 Lenchen Avenue<br>Lakefield Office Park, Building A, First Floor<br>Die Hoewes<br>Centurion |
| Postal address | P. O. Box 375<br>Tshwane<br>0001 |
| Bankers | First National Bank Limited, a division of First Rand Limited<br>ABSA Limited,<br>Nedbank Limited,<br>The Standard Bank of South Africa Limited |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### General Information

| | |
|---|---|
| Funding sponsors | The Standard Bank of South Africa Limited |
| Auditors | The Auditor-General of South Africa |
| Company secretary | Mashumi Mzaidume (appointed 9 October 2017) |
| Land bank subsidiaries | Land Bank Life Insurance Company (SOC) Limited (LBLIC) 1954/003095/06 |
| | Land Bank Insurance Company (SOC) Limited (LBIC) 2012/115426/30 |
| | All of the above entities are incorporated in the Republic of South Africa |
| Holding company | Land and Agricultural Development Bank of South Africa (the Land Bank or the Bank) |
| Nature of business and principal activities | Land Bank Life Insurance Company (LBLIC) and Land Bank Insurance Company (LBIC) operate in the insurance sector.<br>LBLIC offers credit life insurance products and LBIC offers primarily crop insurance products to the wider agricultural sector. LBLIC and LBIC are incorporated in terms of the Companies Act of South Africa, 2008 (Act No. 71 of 2008) and are schedule 2 Public Entities in terms of the PFMA. |
| Head office physical address | 272 Lenchen Avenue<br>Lakefield Office Park, Building A,<br>First Floor Die Hoewes<br>Centurion |
| Postal address | P. O. Box 375<br>Tshwane<br>0001 |
| Bankers | LBLIC: ABSA Bank Limited<br>LBIC: RMB Private Bank, division of First Rand Limited |
| Auditors | The Auditor-General of South Africa |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Directors' Responsibility for Financial Reporting

The Directors are required by the South African Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate annual financial statements satisfy the financial reporting standards as to form and content and present fairly the consolidated and separate statement of financial position, results of operations and business of the Group, and explain the transactions and financial position of the business of the Group at the end of the financial year. The consolidated and separate annual financial statements are based upon appropriate accounting policies consistently applied throughout the Group and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a robust control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that is above reproach in all reasonable circumstances.

The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

In order for the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for the system of internal control and reviews its operation, primarily through the Audit and Finance Committee and various other risk-monitoring committees. Management enables the Directors to meet these responsibilities.

The consolidated financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS) (with consent from the Accounting Standards Board per Directive 12 of 2015) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), applying the accrual basis of accounting, the going– concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies.

The consolidated annual financial statements were prepared under the supervision of the Bank's Chief Financial Officer.

The financial statements set out on pages 155 to 307, which have been prepared on the going concern basis, were approved by the board of directors on 31 July 2023 and were signed on their behalf by:

Nyane Rethabile Nkosi
31/07/2023 21:40:47(UTC+02:00)

**Ms Rethabile Nkosi**
Chairperson of the Board
31 July 2023

Themba Rikhotso
31/07/2023 20:44:47(UTC+02:00)

**Mr Themba Rikhotso**
Chief Executive Officer
31 July 2023

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Directors' Report

The directors have the pleasure of presenting this report on the Annual Financial statements of the Land and Agricultural Bank of South Africa for the year ended 31 March 2023.

The directors would like to highlight the following areas:

### State of default and impact on the going concern of the Bank

The Bank is still operating under a state of default which occurred in April 2020. Unfortunately, the liability solution intended to cure the default has taken longer than initially anticipated to conclude, and remains under negotiation. However, supported by the Shareholder, the Bank continues to work together with lenders to find a solution that is suitable for all stakeholders. Successful closure of the liability solution (curing the event of default) will ensure the Land Bank remains a going concern by allowing the Bank to transition to implementation of the solution. The Shareholder has been very supportive through this process as evidenced by the continued engagements with all stakeholders through the restructuring process as well as by the R10 billion allocated to recapitalise Land Bank. R3 billion was transferred to Land Bank in September 2020, R6 billion was transferred during 2023 and the remaining R1 billion will be transferred during FY23/24. R5,1 billion of the R6 billion transferred in FY22/23, has conditions precedent before it can be utilised by Land Bank and has therefore been ring-fenced in an Escrow account pending compliance with those conditions, the main one being curing the event of default. There are a total of seven conditions attached to these funds, the Bank has already met three and is comfortable that it will meet at least six of them by the end of FY23/24. Engagements are in progress regarding the last condition, which if not revised could negatively impact the debt restructuring process, which could then affect the going concern position of the Bank. The Bank is comfortable that this matter will be successfully addressed. At present, the conditions remain confidential between the Land Bank and the Shareholder. A material uncertainty exists as negotiations to cure the state of default are still ongoing.

The Bank continues to receive support from its lenders. As mentioned in the previous year reports only one lender has to date accelerated their debt. All other lenders remain committed to working with the Bank to find an amicable solution to the default challenge. There has been progress achieved over the past financial year in advancing the liability solution. An agreement on the liability solution is expected to be concluded by 31 March 2024.

Despite its challenges, the Bank has been able to accumulate sufficient cash that enabled the repayment of ~45% of debt outstanding at default, the Bank continues to service interest payments– and capital payments for the Development Finance Institutions (DFIs), pay its suppliers and staff and the Bank has been able to continue to operate. It is on this basis that the directors have a reasonable belief that the Bank has adequate resources to continue as a going concern for the foreseeable future and also based on forecasts and available cash resources. The Land Bank board has approved a fifth capital reduction of R5,4 billion to be paid to the lenders by the 7th of June 2023. This will take the total debt repayment since default to over R23bn which is 58%.

During the FY20/21 financial year, the Minister of Finance has in terms of Section 92 of the Public Finance Management Act No. 1 of 1999, exempted Land Bank from submitting the FY22/23 and FY23/24 Corporate plans as required by Section 52 of the same Act until Land Bank is cured of its default position and more certainty is gained regarding the future structure of the Bank. Owing to the state of default the Bank is still operating under, the exemption remains in place. The Bank however continues to contract with the Shareholder on annual performance targets and to account to Parliament.

### Funding the bank

The Board approved a new strategy of the Bank and operating model. The Bank is working on a new funding model to enable the execution of its development and transformation mandate. This work will be supported by an expert, and will help address a long-standing challenge, in that, to-date the Bank has not been appropriately funded to fulfil its DFI mandate.

### Macro environment

During the year under review and subsequently, the Bank has had to contend with the outbreak of diseases and other macroeconomic challenges to the Agricultural sector. The impact on the Bank is outlined below:

### Avian influenza outbreak – Poultry farming

An outbreak of Avian Influenza was reported in the Western Cape on 25 April 2023 for commercial poultry farmers, 120 000 birds have been destroyed (culled) as a result. Further investigations are being conducted by the South African Poultry Association to ascertain whether there are any more affected cases. The Land Bank's current exposure to the poultry industry as of 31 March 2023 was about R402m, which is under 2% of the total book. No Land Bank client has been affected to-date. The Bank will continue to monitor the developments concerning Avian Influenza Outbreak through client visits and engagements.

### African Swine Fever (ASF)

South Africa is currently facing an outbreak event of ASF. An event was reported in January 2023 affecting the Gauteng province. The spread of the disease seems to have slowed down. Control measures are based on quarantine and movement controls, with

## Directors' Report (continued)

awareness drives to highlight essential biosecurity measures to enable pig owners to prevent infection of their pigs. The impact of this outbreak has been assessed as not significant.

### Heavy rainfall and floods

The past summer season has been characterised by excessive rains in some parts of the country, more so during February 2023. Six provinces have been severely affected by the floods, largely in the urban and semi-urban areas in terms of damage to homes, basic infrastructure, roads and bridges and in certain regions crops and livestock were impacted. These are, KwaZulu -Natal, Eastern Cape, Northern Cape, Limpopo, Mpumalanga and North West. The Provinces that reported impact on clients were North West and Northern Cape. In certain instances, some clients indicated that instalments will not be paid and will require a forbearance program. Although clients have been impacted, the volumes are very low, with some clients having welcomed the rains in the Free State and Gauteng provinces. The financial impact was assessed as not significant.

### Rising input costs

South African farmers have battled higher input costs since the start of 2020. This picture was made worse by the Russia-Ukraine conflict which has exacerbated the situation.

In the April 2023 edition of the Global Commodity Market Outlook, the World Bank indicated that the price of Brent crude oil in U.S. dollars is expected to average $84 a barrel this year, down 16% from the 2022 average. Fertiliser prices are also projected to fall by 37% in 2023, which would mark the largest annual drop since 1976. However, fertiliser prices are still near their recent high last seen during the 2008-09 food crisis. Brent crude oil prices have seen a sustained downward trend from the highs induced by the ongoing Ukraine war. The easing of crude oil prices started in June 2022, and averaged $81.4 per barrel for Q1 2023 compared to $88.4 per barrel for Q4 2022 and $112.7 per barrel for Q2 2022. Fertiliser prices are normally linked to fundamentals of crude oil prices hence we see them benefiting from this trend. Although still high, fertiliser prices have fallen from their 2022 peaks, and we are observing lower averages on the domestic market in 2023. The continued weakening of the rand is likely limiting the extent of the declines of these prices, as weaker currency results in higher prices for imported agricultural inputs such as fertiliser, machinery and fuel. Grain SA has previously confirmed that South African farmers import over 80% of the inputs they require.

With that being said, South Africa's 2022/23 summer grain production planting was aligned with record high input prices and therefore, the recent drop in the grain price overall is negative for farmers. Domestic South African yellow maize prices for example have fallen about 27% since the start of the planting season (October 2022) to an average R3670/t during May 2023. The current declining input costs will bring relief for next season, however, for the current season, many farmers will be left in a tight position due to lower grain prices, if the farmer has an open position or no contract in place, after having paid higher prices for inputs.

The rising cost of inputs has a number of negative effects on our clients. High input costs make it difficult for farmers to generate sufficient revenue to cover their loan payments, potentially leading to loan delinquency or default. Farmers' profit margins are diminished by high input costs, making it harder to repay loans, invest in farm improvements, or expand their operations. This, also considering increases in interest rates in the market recently. Farmers may struggle to manage cash flow, meet financial obligations, and maintain the viability of their farms, increasing financial stress and raising concerns about long-term sustainability. Farmers may require additional support from the Bank, such as loan extensions, refinancing options, or flexible repayment terms, to alleviate the burden of rising input costs. Farmers may even be forced to reduce output. Farmers also have the impact of load shedding which adds extra costs to their operations to keep business running. The ability to invest in new technologies, equipment upgrades, and innovative farming practices may be restricted, limiting their productivity, efficiency, and competitiveness. However, the bank will continue to monitor sector developments and their impact on clients which will inform which risk mitigation strategies to deploy to minimise the increase in non-performing loans and provisions.

### South African Energy crisis

For a while now, South Africa has been experiencing an energy crisis with load shedding being a regular occurrence in the country. This has a huge impact on farmers due to their dependency on technology for farming purposes. The bank assessed the impact of load shedding on its customers, and the key findings were that while in general all clients were affected by load shedding in one way or another, the key industries that were heavily impacted are irrigation farmers, intensive farming units (poultry, piggery) and dairy. At this stage, none of the Banks clients has raised concerns on whether they might not be able to service their loans.

### Ukraine/Russian war

The Russia-Ukraine conflict has exacerbated COVID-19-induced socioeconomic conditions in many countries and limited the contributions of Russia and Ukraine to the global production and trade of fuel, fertilisers, and other food commodities. The war has also limited global food trade, particularly in the Black Sea region, and increased global food prices and price volatility. Although international trade agreements such as the Black Sea Grain Initiative, the EU Solidarity Lanes initiative, and the memorandum of understanding between Russia and the Secretariat of the

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

## Directors' Report (continued)

United Nations have limited trade disruptions, much uncertainty remains. As part of the Black Sea Grain Initiative and the Solidarity Lanes, Ukraine was able to export more than 58 million tonnes of grain, oilseeds, and related goods between May 2022 and the end of March 2023. While these efforts have helped ease high global food prices, their continuation will be critical for the foreseeable future.

In the short run, actions such as the removal of trade restrictions and slower global growth could continue to push food prices lower, but if the Russia-Ukraine conflict continues, along with its many uncertainties, wheat, maize, oilseed, and fertiliser markets could remain unstable. Additionally, on the 17th May 2023, the Black Sea Grain Initiative was extended by another two months. The news came a day before the agreement, first penned in July last year, was due to expire.

The above initiative, better harvests in other major grain-producing countries, and lower energy prices, have helped reduce agricultural commodity prices from their early-2022 peaks, which we also saw spill over in our domestic market. In summary, there has been progress in terms of movement or redirection of trade of key commodity exports from Russia and Ukraine, but there is s-till uncertainly in the market on the way forward.

### Foot and mouth disease

South Africa is currently facing three outbreak events of FMD. South Africa has so far resolved 12 infected premises in three FMD outbreak events and closed them with the World Organisation for Animal Health (WOAH). The FMD outbreak impacted livestock clients in Provinces such as KZN, Limpopo, Gauteng, NW and FS which resulted in restrictions on livestock movements. Due to the short-term nature of the restrictions, clients with instalments falling due during the restriction period were contacted to establish if they will be in a position to settle the instalments. Where applicable, short-term extensions were allowed. Restrictions were largely lifted on the affected Provinces. The latest surveillance report as of 30 April 2023 from the DALRRD shows that South Africa had 200 open FMD outbreaks in the previous FMD free zone. The outbreaks affect Limpopo, NW, Gauteng, Mpumalanga, FS and KZN. Notwithstanding the above, this impact has been assessed as not significant.

### COVID-19

The Land Bank customers that were affected by COVID-19 restrictions were limited to livestock and this impact was not material. There are customers still dealing with the aftermath and recovery, otherwise, normal operations have resumed for all. Most countries have lifted Covid restriction measures and goods are flowing through the ports. To this effect, in addition to measures implemented by Land Bank to assist its clients, the Bank received R100m COVID-19 relief fund from DALRRD in order to support its clients who have been negatively impacted by COVID-19 pandemic. The Bank continues to monitor any new developments in COVID-19 that could negatively impact the agricultural sector.

The above macroeconomic factors impact all clients in some form or the other, but the impact will differ from farmer to farmer based on – the strength of cash flows. The Bank has deployed various risk mitigation strategies, and the Bank continues to monitor the impact on its clients closely, any challenges have already been reported and considered in the financial statements.

### Internal controls and audit outcome

During the past financial year, Land Bank was able to improve the audit outcome from a qualified opinion to an unqualified (clean) audit opinion. This was as a result of the continued focussed and extensive remedial plan under the Audit and Finance sub-committee of the Board, that was implemented by the Bank to address identified control deficiencies. The remedial process was extended to the current financial year to ensure residual gaps in the control environment are closed and to embed the control environment enhancements in business as usual to ensure we sustain the clean audit.

It is on this basis as well as information and explanations received from management that the Directors are of the opinion that the system of internal control provides reasonable assurance that the financial records are reliable for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

### Recommencement of lending

The Bank has recommenced origination in both the commercial and development sector. In the development space, the blended finance project in collaboration with DALRRD was launched in October 2022 and is currently being rolled out.

Furthermore, the Honourable Minister Thoko Didiza of the Department of Agriculture, Land Reform and Rural Development (DALRRD), announced on the 9th of May 2023, the establishment of the Agro Energy Fund worth R2,5 billion in grants, with R500 million allocated to be blended within the Land

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Directors' Report (continued)

Bank, this further demonstrates the government's confidence in the mandate and future of the Land Bank. A memorandum of agreement to effect this allocation is being finalised between the Land Bank and DALRRD.

## Leadership and capacity

Land Bank appointed its new CEO, Mr Themba Rikhotso effective 1 April 2023, following the resignation of its previous CEO who left the Bank at the end of April 2022. Other executive manager roles have become vacant during the year. In addition to interim measures taken by the Bank to close the gap, a recruitment process is underway for these roles. This applies to all critical roles in the organisation. The Board is prioritising addressing matters related to the Human Capital of the Bank, and is currently in the process of appointing an organisational design expert to assist with a fit for purpose organisational structure to enable the strategy of the bank.

## Financial results

**The financial results of the group are fully disclosed on pages 155 to 307 The key financial indicators as are outlined below. The performance of the bank was largely driven by the following factors:**

The Gross Loan Book decreased by 27.2% year-on-year driven largely by customer settlements. This has in turn significantly improved the cash position of the bank, as well as enable further funding debt reduction. This together with improved non-performing loans owing to the NPL remediation programme implemented by the Bank has resulted decreased Expected credit loss provision. The Bank has also continued to implement focused efforts in reducing overall operating expenditure. This resulted in the Bank realising profits, albeit this has reduced year-on-year owing to the loan book starting to stabilise post the event of default.

**The financial indicators are:**

- Expected credit losses on financial assets at amortised cost reduced to R4,0 billion (31 March 2022: R5,3 billion – restated);
- NPL ratio worsened to 51,9% (31 March 2022: 47,8% – restated); nominally the NPL book has decreased by 20.8% year-on-year
- ECL Coverage Ratio increased to 21,6% (31 March 2022: 20,8% – restated);
- Cash flows generated from operations reduced to R6,2 billion (31 March 2022: R11,1 billion – restated), although total cash equivalents increased to R15 billion, inclusive of the ring-fenced capital injection from the shareholder.
- Net interest income increased by more than 21% to R607 million (31 March 2022: R503 million – restated);
- Net profit of R0,482 billion (31 March 2022: R1,2 billion profit – restated);
- Cost to income ratio for the bank improved to 70% (31 March 2022: 96%);
- Banking Gearing Ratio has improved to 706% (31 March 2022: 1152% – restated);
- Solvency Ratio has improved to 88% (31 March 2022: 92% – restated);
- Basel II CAR significantly improved to 13.9% (31 March 2022: 11,4% – restated);
- LCR improved to 68.7% (31 March 2022: 66%);
- NSFR dropped to 94.6% (31 March 2022: 95,7% – restated);

The Land Bank board with its management are still committed to seeing the Land Bank cross over onto the new dawn as it strengthens its control environment and recommences lending towards a sustainable development bank.

Nyane Rethabile Nkosi
31/07/2023 21:40:47(UTC+02:00)

**Ms Rethabile N. Nkosi**
Chairman of the Board
31 July 2023

Themba Rikhotso
31/07/2023 20:44:47(UTC+02:00)

**Mr Themba Rikhotso**
Chief Executive Officer
31 July 2023

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Group Secretary's Certification

In terms of section 88(2)(e) of the Companies Act 71 of 2008, hereafter referred to as the Companies Act, I declare that to the best of my knowledge, for the year ended 31 March 2023, the Land and Agricultural Development Bank of South Africa has lodged with the Registrar of Companies all such returns as are required of a State-Owned Company in terms of the Act and that such returns are true, correct and up to date.

**Mashumi Mzaidume**
Company Secretary
22 December 2021

### Audit & Finance Committee Report

I herewith present the report of the Land Bank Audit and Finance Committee (the Committee) for the financial year ended 31 March 2023. The Committee acts in consultation with other committees of the entity in particular the Risk and Governance Committee.

### The committee is responsible for overseeing:

- Quality and integrity of the entity's integrated planning and reporting, including its financial statements and sustainability reporting;
- Appointment, remuneration, independence and performance of the external auditor and the integrity of the audit process, including the approval of non-audit services;
- Effectiveness of the entity's governance, in particularly, that the internal audit function is adequately resourced and capacitated.
- The entity's information and technology (IT) functions. In this regard, the Committee reviews management's IT reports, IT Governance, and IT systems controls.
- Review and make recommendations to Board about the entity's financial risk, liquidity risk, and capital risk management practices.

The Committee, acting in consultation with the Risk and Governance Committee of the Bank, provided significant oversight and monitoring of the following key areas:

- The volatile macro-economic environment and management's responses thereto;
- Internal controls, risk management and compliance processes, delegations of authority, combined assurance and business continuity; and
- Controls to prevent irregular, fruitless and wasteful expenditure.

### Statutory duties

- The Committee is constituted as a statutory committee of the Land Bank in line with the Principles of King IV, the Companies Act 71 of 2008 and the Public Finance Management Act no.1 of 1999, and is accountable in this regard, to both the Board and the Land Bank representative shareholder, the Ministry of Finance. It is a committee of the board regarding all the duties that the Board assigns to it and has been delegated extensive powers to perform its functions per the Companies Act, and the National Treasury Regulations issued in terms of the Public Finance Management Act.
- The Committee also provides oversight of the entity's information and technology (IT) functions. In this regard, the Committee reviews management's IT reports, IT Governance, and IT systems controls.
- The Committee has adopted appropriate formal terms of reference in our charter, in line with the requirements of section 51(1)(a) of the PFMA and Treasury Regulation 27.1. We further report that we have conducted our affairs in compliance with this charter. which is reviewed annually and approved by the Board.
- The functions of the Committee are outlined in its charter, which is available on the Land Bank website.

The Audit and Finance Committee has continued to include in its audit plan oversight and monitoring of the Board approved remediation plan intended to ensure the Bank sustains an adequate and effective internal control environment. Accordingly, this remained one of the key focus areas for the committee with regular meetings held with management to track and assess progress on implementation of the remediation plan to ensure adequate resolution of any residual risks remaining or that arise during the year, and to ensure embedding of processes of internal controls to avoid a regression in future.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

### Audit & Finance Committee Report (continued)

## Composition

The Committee comprises of independent non-executive directors who are elected annually at the company's Annual General Meeting (AGM). The Committee members are Ms Michelle Pillay (Chairperson), Ms. Mathane Makgatho, and Ms. Thulisile Mashanda. The qualifications of the members are listed in the Land Bank Governance Report. These members collectively possess the experience and expertise needed to execute their duties in relation to the Committee's mandate.

Executive directors comprising of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) are permanent invitees to the Committee meetings but are excluded from the Committee's private sessions with the Auditor-General and the head of Internal Audit. The Committee has met all legal and regulatory requirements in respect of independence and corporate governance experience.

## Annual confirmation of key functions for the year

### Financial control, financial reporting and the Integrated Report

The Committee reviews the Annual Financial Statements, and Integrated Report, and recommends these to the Board for approval. This role includes an assessment of the accounting policies and key assumptions applied in the preparation of the financial statements, as well as dealing with technical reporting matters. In doing so, the Committee also confirmed compliance of the Annual Financial Statements with International Financial Reporting Standards (IFRS).

The Committee confirms that it has assessed and confirms the appropriateness of the going concern basis for the preparation of the Annual Financial Statements. This is based on the on-going discussions that the Bank is having with its lenders to ensure successful conclusion of the liability solution to take Land Bank out of its event of default and the R10 billion recapitalisation of the Bank by the Shareholder, of which R3 billion was received during September 2020 and R6 billion transferred in FY22/23. The remaining R1 billion will be transferred during FY23/24 financial year. The R5 billion transferred in FY22/23 has certain conditions precedent before the bank can utilise the funds. Currently the R5 billion is held in Escrow. The R10 billion capital injection together with the successful conclusion of the liability solution will ensure that the Land Bank continues to operate as a going concern. Despite operating in a state of default the Bank has been able to accumulate sufficient cash reserves amounting to R10,2 billion at year end. Over and above that, the bank was able to repay over R18,1 billion in capital to its lenders to date along with servicing all interest due.

The committee presided over the board instituted remediation plan over the past three financial years. The remedial plan was instituted to address deficiencies identified on the loan book during the FY19/20 and FY20/21 financial years. The committee through its oversight on the work conducted by managements' national task team and the Credit and Investment Committee (CIC) has seen a significant improvement in the internal control environment pertaining to the management of the loan book. In addition, a significant portion of the Land Bank book previously managed by intermediaries has been insourced (under 2% remains outsourced), as part of the remedial work, which has brought management closer to the root cause of the previously identified deficiencies. This insourcing also contributed to the improved control environment and the committee is pleased with the success and is currently monitoring its continued sustainability.

The Committee considered the maturity of combined assurance in the Group and the specific attestations from Internal Audit, External Audit and Risk regarding the adequacy and effectiveness of the internal controls within the Group. We are comfortable that these controls are in place, but there is room for improvement to strengthen the control environment and to realise the full benefits of combined assurance.

## External audit

The Auditor General of South Africa (AGSA) is the external auditor for Land Bank. The Committee nominates the external auditor to the Board for appointment by the shareholder, and the Committee approves the terms of engagement and remuneration for the external audit services. The Committee has assessed the external auditor's independence and has obtained the assurance that the auditor's independence is not impaired.

## Internal audit

The Chief Audit Executive reports to the Committee and the Committee is responsible for the review and approval of the internal audit charter, the internal audit plan as well as the resources of the internal audit department. The Committee evaluated the internal audit function's independence and is satisfied with its independence.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Audit & Finance Committee Report (continued)

A permanent Chief Audit Executive has been appointed and commenced his duties on 01 July 2023, this will further strengthen the internal audit function in the Bank.

### Expertise and experience of the finance function and the Group Chief Financial Officer

The Committee has considered the expertise and experience of the Chief Financial Officer and has concluded that the appropriate requirements have been met.

All critical roles in the Finance function have been filled, with the General Manager – Business Performance having been filled during the current year. Filling of these roles bolsters the control environment in the organisation and ensures adequate skills and focus is given to support and enable the organisation.

### External audit report

#### External audit opinion

Land Bank received an "Unqualified opinion with findings" audit outcome from the Auditor General of South Africa on the FY22/23. This is a regression from the clean audit opinion received in the prior year's audit because of material misstatements identified on the collateral registers. The material misstatements have been corrected. The Board instituted a remediation plan to improve the internal control environment and this will continue being implemented to address any specific residual deficiencies that remain. The committee will continue to monitor progress regarding those matters.

#### Other key audit matters as reported by the external auditors

### Material uncertainty on going concern

The AG highlighted the existence of a material uncertainty with regards to the ability of the Land Bank to continue as a going concern as disclosed in note 3, sighting the cross default as some of the reasons casting doubt on the entity's ability to continue as a going concern. Land Bank is undergoing a restructuring process to take it out of its event of default. A liability solution continues being negotiated with the lenders in this regard. The Committee will continue to monitor progress of the liability solution.

### In conclusion

The Committee acknowledges the unqualified audit outcome with findings. The Committee will continue to ensure there is continuous improvement regarding the controls around overall management of the loan book and its key inputs to ensure that these results are improved towards helping the Land Bank achieve its mandate.

The Committee is satisfied it has fulfilled its responsibilities in terms of its charter during the year under review and believes that it complied with its legal, regulatory and governance responsibilities as set out in the Companies Act and Public Finance Management Act.


**Ms Michelle Pillay**
Chairman Audit and Finance Committee
31 July 2023

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Report of the Auditor-General to Parliament on the Land and Agricultural Development Bank of South Africa**

## I Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated financial statements of the Land and Agricultural Development Bank of South Africa and its subsidiaries (the group) set out on pages 155 to 307, which comprise the consolidated and separate statement of financial position as at 31 March 2023, consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as when as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 31 March 2023, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and sections 27 to 31 of the Companies Act 71 of 2008.

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor general for the audit of the consolidated and separate financial statements section of my report.

4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated and separate financial statements for the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion. I do not provide a separate opinion on these matters.

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| Expected credit losses (ECL) of loans and advances | |
| The group determines the ECL relating to loans and advances in line with the requirements of IFRS 9, Financial instruments (IFRS 9). This determination is complex and requires a high level of judgement and assumptions. | Due to complexity of the calculation of the ECL and uncertainty of the inputs used to calculate it, I had to follow a fully substantive audit approach in the current audit cycle. |
| The group uses various models and assumptions to estimate the EGL. They apply judgement to determine the assumptions used in these models, including assumptions that relate to key credit risk drivers. | I evaluated the design, implementation and operating effectiveness of the following controls:<br>• The governance processes for expected credit models<br>• Accounting authority oversight over ECL |
| The major components of the ECL include the probability of default (PD}, exposure at default (EAD) and loss given default (LGD). The PD is defined as an estimate of the likelihood of default over a given time horizon. The EAD is an estimate of the exposure at a future default date considering expected changes in the exposure after the reporting date. The LGD is an estimate of the loss arising in the case where default occurs at a given time. | My substantive audit approach included detailed testing of the data that is used for EGL inputs such as loan staging, risk ratings, collaterals, loan modification and outstanding balances. I have critically considered the bank's policies and their application on collateral, staging and modification when testing these inputs. |

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| Expected credit losses (ECL) of loans and advances | |
| Given the combination of the inherent subjectivity in the valuation and the material nature of the balance, I considered the audit of the expected credit loss to be a key audit matter in my audit of the financial statements. | I engaged an auditor's expert to assess the appropriateness and reasonableness of the ECL models and assumptions used by the Bank in determining the ECL. Before I placed reliance on the work of an auditors' expert, I assessed their independence, objectivity and competency in line with the requirements of ISA 620 and I was satisfied with this. I assessed the expert's work by evaluating significant assumptions and methods as well as the relevance and reasonableness of those assumptions and methods in the circumstances. |

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| Expected credit losses (ECL) of loans and advances | |
| The disclosures associated with the ECL allowance on loans and advances are set out in the following notes to the financial statements: | The expert's conducted the following procedures:<br><br>• Reviewed the bank's approved ECL calculation methodology documentation for the probability of default (PD), the loss given default (LGD) and exposure at default (EAD) and reviewed this against the requirements of IFRS 9.<br>• Reviewed the bank's EGL model in light of the requirements of IFRS 9 including key elements such as portfolio segmentation, modelling approach adopted, behavioural life including time on book post default, effective interest rate (EIR) and related discounting of cash flows, the use of forward-looking information, default and significant increase in credit risk {SICR), and other key judgements and assumptions relevant for the models.<br>• Independently calculated the EGL estimate based on the approved methodology and data provided by the bank.<br><br>Misstatements were identified on the collateral values used as inputs to the ECL model; however, these were subsequently corrected by management. I found the bank's ECL models and assumptions used to determine the allowance to be reasonable and consistent with my expectations. |

## Material uncertainty relating to going concern

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

8. As disclosed in note 3.2 to the consolidated and separate financial statements, a material uncertainty relating to going concern of the public entity exists due to the default position that has not been cured. Towards the end of April 2020, the bank experienced a liquidity shortfall, which resulted in the bank defaulting on some of its obligations. This triggered a cross default and resulted in de-facto stand still on capital and interest payments to its funders. At the date of this report, the liability solution to cure the default is still in progress and finalisation is dependent on signing the commitment agreements with lenders. These events or conditions as set forth in note 3.2 indicate that a material uncertainty exists that may cast significant doubt on the public entity's ability to continue as a going concern.

## Emphasis of matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Restatement of corresponding figures

10. As disclosed in note 42 to the consolidated and separate financial statements, the corresponding figures for 31 March 2022 have been restated as a result of an error in the financial statements of the public entity at, and for the year ended, 31 March 2023.

## Other matters

11. I draw attention to the matters below.

### National Treasury Instruction Note 4 of 2022-23: PFMA Compliance and Reporting Framework

12. On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised, irregular and fruitless .and wasteful expenditures. Among the effects of this framework is that irregular, fruitless, and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the annual financial statements. Only the current year and prior year figures are required to be disclosed in the notes to the financial statements. Movements in respect of irregular expenditure and fruitless and wasteful expenditure are no longer required to be disclosed in the notes to the annual financial statements. The disclosure of these movements (e.g., condoned, recoverable, removed, written off, under assessment, under determination and under investigation) is now required to be included as part of other information in the annual report of the auditees.

13. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

### Responsibilities of the accounting authority for the consolidated and separate financial statements

14. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of PFMA and Companies Act; and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

15. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

### Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

16. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

17. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

18. The Land Bank is not required to prepare a report on its performance against predetermined objectives, as it was exempt from submitting its corporate plan in terms of section 92 of the PFMA. As a result of the exemption, I did not audit and report on the usefulness and reliability of the performance information for the public entity. The exemption was published in the Government Gazette 44799 dated 2 July 2021.

## Report on compliance with legislation

19. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the public entity's compliance with legislation.

20. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

21. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the public entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

22. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

## Annual financial statements and annual reports

23. The financial statements submitted for auditing were not prepared in accordance with the IFRS, as required by section 55(1) (b) of the PFMA.

24. Material misstatements of loans and advances to customers (expected credit losses) and collateral disclosure items identified by the auditors in the submitted financial statement were subsequently corrected.

25. Material disclosure misstatements were identified on the cash flow statement and financial instrument and risk management note, and these were subsequently corrected by management.

## Other information in the annual report

26. The accounting authority is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report that have been specifically reported on in this auditor's report.

27. My opinion on the consolidated and separate financial statements and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

28. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

29. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other infonT1ation is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

30. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

31. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on compliance with legislation included in this report.

32. Management did not implement adequate internal controls over the preparation and review of collateral registers to ensure that recorded balances are accurate and valid which resulted in material adjustments on the financial statements submitted for audit. These were subsequently corrected by management.

33. Management did not implement adequate internal controls over the preparation and review of financial statements as material misstatements were identified in the cash flow statement and financial instruments and risk management note. These were subsequently corrected by management.

### Other reports

34. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

### Audit related services and special audits

35. As requested by the Land and Agricultural Development Bank of South Africa (SOC) Ltd, a limited assurance engagement in respect of compliance with the National Credit Act 34 of 2005 was conducted for the twelve months ended 31 March 2022. The report was submitted to the accounting authority on 29 September 2022.

Auditor General

Pretoria
31 July 2023

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

# Annexure to the Auditor's Report

## Auditor-General's responsibility for the audit

### Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with selected requirements in key legislation.

### Financial statements

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the public entity and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern.
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### Communication with those charged with governance

I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## Compliance with legislation - selected legislative requirements

The selected legislative requirements are as follows:

| Leglslation | Sections or Regulations |
|---|---|
| Public Finance Management Act 1 of 1999 (PFMA) | Section 50(3); 50(3)(a); 50(3)(b)<br>Section 51(1)(a)(ii); 51(1)(a)(iii); 51(1){a){iv); 51(1)(b); 51(1)(b)(i); 51(1)(b)(ii); 51(1){e)(iii)<br>Section 52{b)<br>Section 54(2} (c); 54(2){d)<br>Section 55{1)(a); 55(1)(b); 55(1)(c)(i)<br>Section 56<br>Section 57(b); 57(d) Section 66(3)(a) |
| Treasury Regulations for departments, trading entities, constitutional institutions and public entities (TR) | Regulation 29.1.1; 29.1.1(a); 29.1.1(c); 29.2.1; 29.2.2; 29.3.1<br>Regulation 31.2.5; 31.2.7(a)<br>Regulation 33.1.1; 33.1.3 |
| Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA) | Section 34(1) |
| Construction Industry Development Board Act 38 of 2000 (CIDB) | Section 18(1)<br>Section 22(3) |
| CIDB Regulations | Regulation 17; 18{1A)1; 25(1}; 25(5) & 25{7A) |
| Preferential Procurement Policy Framework Act 5 of 2000 | Section 1(i); 2.1(a); 2.1(b); 2.1(f) |

**LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA**
Annual Financial Statements for the year ended 31 March 2023

## Compliance with legislation - selected legislative requirements (continued)

| Leglslation | Sections or Regulations |
|---|---|
| Preferential Procurement Regulation 2017 | Paragraph 4.1; 4.2<br>Paragraph 5.1; 5.3; 5.6; 5.7<br>Paragraph 6.1; 6.2; 6.3; 6.5; 6.6; 6.8<br>Paragraph 7.1; 7.2; 7.3; 7.5; 7.6; 7.8<br>Paragraph 8.2; 8.5<br>Paragraph 9.1; 9.2<br>Paragraph 10.1; 10.2<br>Paragraph 11.1; 11.2 Paragraph121and122 |
| Preferential Procurement Regulation 2022 | Paragraph 3.1<br>Paragraph 4.1; 4.2; 4.3; 4.4<br>Paragraph 5.1; 5.2; 5.3; 5.4 |
| PFMA SCM Instruction Note 03 2021/22 | Paragraph 4.1; 4.2; 4.2 (b); 4.3; 4.4; 4.4 (c};4.4(d};<br>4.6<br>Paragraph 5.4 |
| Competition Act 98 of 1998 | Section 4(1)(b)(ii) |
| NT SCM Instruction 4A of 2016/17 | Paragraph 6 |
| NT SCM Instruction Note 03 2019/20 | Paragraph Par 5.5.1{iv); 5.5.1(x) |
| NT SCM Instruction Note 11 2020/21 | Paragraph 3.1; 3.4 (a}; 3.4{b); 3.9; 6.1; 6.2; 6.7 |
| PFMA SCM Instruction 08 of 2022/23 | Paragraph 3.2<br>Paragraph 4.3.2; 4.3.3 |
| NT Instruction Note 4 of 2015/16 | Paragraph 3.4 |
| Second amendment of NTI 05 of 2020/21 | Paragraph 4.8; 4.9; 5.1; 5.3 |
| Erratum NTI 5 of 2020/21 | Paragraph 1 |
| Erratum NTI 5 of 2020/21 | Paragraph 2 |
| NT Instruction Note 5 of 2020/21 | Paragraph 5.1 and 5.3 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Statements of Financial Position

| | Notes | Group | | | Company | | |
|---|---|---|---|---|---|---|---|
| | | 2023 R'000 | *2022 R '000 | *2021 R '000 | 2023 R '000 | *2022 R '000 | *2021 R '000 |
| Assets | | | | | | | |
| Cash/and cash equivalents | 4 | **15 481 241** | 9 983 760 | 5 589 889 | **15 355 038** | 9 845 216 | 5 558 401 |
| Trade and other receivables | 5 | **1 615 811** | 1 353 026 | 1 049 425 | **412 395** | 421 406 | 206 492 |
| Short-term insurance assets | 6 | **341 301** | 266 040 | 159 014 | | – | – |
| Investments | 7 | **2 235 627** | 2 133 387 | 2 318 659 | **1 280 455** | 1 295 063 | 1 431 304 |
| Derivatives | 8 | **1 321** | 9 896 | 11 340 | **1 321** | 9 896 | 11 340 |
| Loans and advances | 9 | **14 765 230** | 20 488 496 | 30 700 438 | **14 765 230** | 20 488 496 | 30 700 438 |
| Non-current assets held-for-sale and assets of disposal groups | 10 | **11 359** | 9 609 | 4 058 | **11 359** | 9 609 | 4 058 |
| Long-term insurance assets | 17 | **1 493** | 4 855 | 4 987 | | – | – |
| Investment property | 11 | **98 010** | 97 400 | 95 100 | **98 010** | 97 400 | 95 100 |
| Property, plant and equipment | 12 | **34 768** | 29 149 | 21 855 | **34 720** | 29 059 | 21 755 |
| Right of use assets | 13.1 | **28 296** | 3 909 | 20 746 | **28 296** | 3 909 | 20 651 |
| Intangible assets | 14 | **1 555** | 1 615 | 2 766 | **1 555** | 1 615 | 2 766 |
| Total assets | | **34 616 012** | 34 381 142 | 39 978 277 | **31 988 379** | 32 201 669 | 38 052 305 |
| | | | | | | | |
| Equity and liabilities | | | | | | | |
| Equity | | | | | | | |
| Accumulated loss | 15 | **(2 690 864)** | (3 192 024) | (4 450 274) | **(3 773 401)** | (4 255 612) | (5 432 709) |
| Capital Fund | 15 | **8 286 785** | 7 397 655 | 7 397 655 | **8 286 785** | 7 397 655 | 7 397 655 |
| Revaluation reserve | 15 | **143 058** | 140 941 | 133 080 | **143 058** | 140 941 | 133 080 |
| Fair Value Through Other Comprehensive Income (FVTOCI) | 15 | **(748 351)** | (737 412) | (682 072) | **(748 351)** | (737 411) | 682 072 |
| Total equity | | **4 990 628** | 3 609 160 | 2 398 389 | **3 908 091** | 2 545 573 | 1 415 954 |
| | | | | | | | |
| Liabilities | | | | | | | |
| Trade and other payables | 16 | **1 100 812** | 833 544 | 770 814 | **138 863** | 171 591 | 116 695 |
| Other financial liability | 16.1 | **5 110 870** | – | – | **5 110 870** | – | – |
| Short-term insurance liabilities | 6 | | | 475 551 | | 373 907 | |
| Long term policyholder's insurance liabilities | 17 | | | 102 298 | | 75 804 | |
| Funding liabilities | 18 | **22 495 625** | 29 162 958 | 36 074 791 | **22 495 625** | 29 162 958 | 36 074 791 |
| Lease liabilities | 13.2 | **28 966** | 4 932 | 23 176 | **28 966** | 4 932 | 23 071 |
| Provisions | 19 | **32 398** | 34 181 | 140 456 | **27 100** | 29 960 | 137 794 |
| Post-retirement obligation | 20 | **278 864** | 286 655 | 284 000 | **278 864** | 286 655 | 284 000 |
| Total Liabilities | | **29 625 384** | 30 771 982 | 37 579 887 | **28 080 288** | 29 656 096 | 36 636 351 |
| Total equity and liabilities | | **34 616 012** | 34 381 142 | 39 978 277 | **31 988 379** | 32 201 669 | 38 052 305 |

*Restated. Refer to note 42 for details.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Statement of Profit or Loss and Other Comprehensive Income

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2023 R'000 | 2022* R'000 | 2023 R'000 | 2022* R'000 |
| Net interest income | | 616 155 | 508 308 | 607 233 | 503 383 |
| Interest income | 21 | 2 765 925 | 2 883 155 | 2 757 002 | 2 878 230 |
| Interest expense | 22 | (2 149 770) | (2 374 847) | (2 149 770) | (2 374 847) |
| Net impairment charges, release, claims and recoveries | 9 | 368 324 | 1 210 050 | 368 324 | 1 210 050 |
| Total income from lending activities | | 984 479 | 1 718 358 | 975 556 | 1 713 433 |
| Non-interest expense | 23 | (13 555) | (75 934) | (13 555) | (71 358) |
| Non-interest income | 24 | 24 366 | 30 781 | 24 366 | 30 781 |
| Operating income from banking activities | | 995 290 | 1 673 205 | 986 367 | 1 672 856 |
| Other income | 24 | 42 412 | 37 209 | 32 386 | 30 668 |
| Net insurance premium income | 25 | 203 742 | 158 299 | – | – |
| Net insurance claims | 25 | (164 289) | (151 139) | – | – |
| Other costs from insurance activities | 25 | (64 384) | (51 063) | – | – |
| Investment income and fees | 26 | 103 326 | 98 596 | 17 909 | 15 357 |
| Interest on post-retirement obligation | 20 | (27 823) | (27 548) | (27 823) | (27 548) |
| Interest on lease liabilities | 13 | (547) | (1 138) | (547) | (1 135) |
| (Losses)/ gains on financial instruments | 27 | (2 933) | 20 821 | (2 933) | 20 821 |
| Fair value (losses)/gains | 27 | (2 778) | 89 394 | (5 297) | 21 667 |
| Operating income | | 1 082 016 | 1 846 636 | 1 000 062 | 1 732 686 |
| Operating expenses | 28 | (553 408) | (562 775) | (499 156) | (530 575) |
| Net operating income | | 528 608 | 1 283 861 | 500 906 | 1 202 111 |
| Non-trading and capital items | 29 | (8 055) | 2 330 | 697 | 2 299 |
| Income before taxation | | 520 553 | 1 286 191 | 501 603 | 1 204 410 |
| – Indirect taxation | 30 | (19 407) | (27 910) | (19 407) | (27 315) |
| Income for the year | | 501 146 | 1 258 .281 | 482 196 | 1 177 095 |
| | | | | | |
| Other comprehensive income | | | | | |
| Items that will not be reclassified into profit or loss | | | | | |
| Revaluation gains of land and buildings | | 2 117 | 7 861 | 2 117 | 7 861 |
| Actuarial Gain on the post-retirement obligation | 20 | 17 811 | 7 582 | 17 811 | 7 582 |
| Total items that will not be reclassified to profit | | 19 928 | 15 443 | 19 928 | 15 443 |
| Items that may be reclassified to profit or loss: | | | | | |
| Net loss on financial assets designated at fair value through other comprehensive income | | (28 752) | (62 922) | (28 752) | (62 922) |
| Total Items that may be reclassified to profit: | | (28 752) | (62 922) | (28 752) | (62 922) |
| Other comprehensive loss | | (8 824) | (47 479) | (8 824) | (47 479) |
| Total comprehensive income for the year | | 492 322 | 1 210 802 | 473 372 | 1 129 616 |

** Restated. Refer to note 42 for details.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Statements of Changes in Equity

| | Capital Fund | Revaluation Reserve | Fair Value through Other Comprehensive Income | Accumulated Loss* | Total Equity* |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| **Group** | | | | | |
| Opening Balance at 30 April 2021 | 7 397 655 | 133 080 | (682 072) | (4 262 872) | 2 585 791 |
| Correction of prior period error* | | | | (187 421) | (187 421) |
| Restated Opening Balance at 30 April 2021 | 7 397 655 | 133 080 | (682 072) | (4 450 293) | 2 398 370 |
| Restated Profit for the year* | – | – | – | 1 258 281 | 1 258 281 |
| Other comprehensive income/(loss) for the year | – | 7 861 | (55 340) | – | (47 479) |
| Total comprehensive income/(loss) for the year | – | 7 861 | (55 340) | 1 258 281 | 1 210 802 |
| Opening Balance at 30 April 2022 | 7 397 655 | 140 941 | (737 412) | (3 192 010) | 3 609 174 |
| Shareholder Equity Injection** | 889 130 | – | – | – | 889 130 |
| Profit for the year | – | – | – | 501 146 | 501 146 |
| Other comprehensive income/(loss) for the year | – | 2 117 | (10 941) | – | (8 824) |
| Total comprehensive income/(loss) for the year | 889 130 | 2 117 | (10 941) | 501 146 | 1 381 452 |
| Balance at 31 March 2023 | 8 286 875 | 143 058 | (748 351) | (2 690 864) | 4 990 628 |
| **Company** | | | | | |
| Opening Balance at 30 April 2021 | 7 397 655 | 133 080 | (682 072) | (5 245 269) | 1 603 375 |
| Correction of prior period error* | | | | (187 421) | (187 421) |
| Restated Opening Balance at 30 April 2021 | 7 397 655 | 133 080 | (682 072) | (5 432 690) | 1 415 973 |
| Restated Profit for the year* | – | – | – | 1 177 095 | 1 177 095 |
| Other comprehensive income/(loss) for the year | – | 7 861 | (55 340) | – | (47 479) |
| Total comprehensive income/(loss) for the year | – | 7 861 | (55 340) | 1 177 095 | 1 129 616 |
| Opening Balance at 30 April 2022 | 7 397 655 | 140 941 | (737 412) | (4 255 595) | 2 545 589 |
| Shareholder Equity Injection** | 889 130 | – | – | – | 889 130 |
| Profit for the year | – | – | – | 482 196 | 482 196 |
| Other comprehensive income/(loss) for the year | – | 2 117 | (10 941) | – | (8 824) |
| Total comprehensive income/(loss) for the year | 889 130 | 2 117 | (10 941) | 482 196 | 1 362 502 |
| Balance at 31 March 2023 | 8 286 875 | 143 058 | (748 351) | (3 773 401) | 3 908 091 |

** Restated. Refer to note 42 for details.*

*** The shareholder repaid guaranteed lenders directly on behalf of the Land Bank during the year. The corresponding debit was a reduction of the funding liabilities. There were no direct cash-flows to the Land Bank. Refer to note 18 for the movement in funding liabilities.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Statements of Cash Flows

| | Group | | Company | |
|---|---|---|---|---|
| | 2023<br>R'000 | *2022<br>R'000 | 2023<br>R'000 | *2022<br>R'000 |
| Income/(Loss) for the year | **501 146** | 1 258 281 | **482 196** | 1 177 095 |
| *Adjustments to reconcile profit to net cash flows:* | | | | |
| | **(898 607)** | (1 468 778) | **(845 011)** | (1 308 161) |
| Interest expense | **2 149 770** | 2 374 847 | **2 149 770** | 2 374 847 |
| Interest income | **(2 765 925)** | (2 883 155) | **(2 757 002)** | 2 878 230 |
| Net impairments raised/ released | **(278 223)** | (854 519) | **(278 223)** | (854 519) |
| Interest on lease liabilities | **547** | 1 138 | **547** | 1 135 |
| Fair value movement (financial instruments) | **(78,943)** | (89 394) | **2 933** | (21 668) |
| (Losses)/gains on financial instruments | **5 297** | (20 821) | **5 297** | (20 821) |
| Dividends received | **(13 184)** | (29 337) | **(13 184)** | (10 034) |
| Interest received | **(4 725)** | (69 259) | **(4 725)** | 5 323 |
| Depreciation and amortisation | **11 772** | 21 246 | **11 736** | 21 132 |
| Loss on transfer of asset | **83** | – | **–** | – |
| Fair value adjustments on properties | **(610)** | 8 073 | **610** | 8 073 |
| Movement in provisions | **(2 755)** | (106 275) | **(2 860)** | 107 834 |
| Movement in post-retirement medical aid liability | **27 832** | 27 548 | **27 823** | 27 548 |
| Profit on properties | **(90)** | (130) | **(90)** | (130) |
| Losses on Foreign exchange | **3** | 7 | **3** | 7 |
| Impairment relating to loan commitments and guarantees | **13 573** | 157 658 | **13 573** | 157 658 |
| Impairment of other assets | **1** | (12) | **1** | 12 |
| Movement in policyholders' liabilities | **36 787** | (6 379) | **–** | – |
| | **144 492** | (184 704) | **87 163** | (160 019) |
| Changes in working capital | | | | |
| (Increase)/decrease in Trade and other receivables | **(262 785)** | (303 601) | **9 011** | (214 915) |
| (Decrease)/Increase in Trade and other payables | **378 828** | 62 730 | **78 152** | 54 896 |
| Increase in short-term and long-term insurance liability | **101 029** | 163 061 | **–** | – |
| (Increase)/Decrease in short-term and long-term insurance assets | **(71 899)** | (106 894) | **–** | – |
| Cash generated from operations | **(252 969)** | 395 201 | **(275 648)** | 291 085 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Statements of Cash Flows (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | *2022 R'000 | 2023 R'000 | *2022 R'000 |
| Cash flows from operations | 6 468 342 | 11 570 402 | 6 468 362 | 11 567 341 |
| Interest expense paid | (2 094 619) | (2 325 392) | (2 094 619) | 2 325 392 |
| Interest income received | 2 965 925 | 2 918 884 | 2 965 946 | 2 915 820 |
| Interest on lease liabilities paid | (547) | (1 138) | (547) | (1 135) |
| Dividends received | 6 041 | 3 750 | 6 041 | 3 750 |
| Decrease in funding to clients | 5 591 542 | 10 974 298 | 5 591 542 | 10 974 298 |
| Cash inflow from operating activities | 6 215 373 | 11 175 201 | 6 192 714 | 11 276 256 |
| | | | | |
| Cash flow from investing activities | | | | |
| Purchase of property and equipment | (6 559) | (1 752) | (6 559) | (1 752) |
| Proceeds from sale of financial instruments | 25 000 | 300 000 | – | – |
| Purchase of financial instruments | (60 000) | (100 000) | – | – |
| Cash inflow/(outflow) from investing activities | (41 559) | 198 248 | (6 559) | (1 752) |
| | | | | |
| Cash flow from financing activities | | | | |
| Decrease in funding received from funders | (5 778 203) | (6 960 124) | (5 778 203) | (6 960 124) |
| Lease liability repaid | (9 000) | (19 454) | (9 000) | (27 565) |
| Equity injection[1] | 5 110 870 | – | 5 110 870 | – |
| Cash outflows from financing activities | (676 333) | (6 979 578) | (676 333) | (6 987 689) |
| Net (decrease) / increase in cash and cash equivalents | 5 497 481 | 4 393 871 | 5 509 801 | 4 286 836 |
| Cash and cash equivalents at beginning of year | 9 983 760 | 5 589 889 | 9 845 216 | 5 558 401 |
| Cash and cash equivalents at end of year | 15 481 241 | 9 983 760 | 15 355 038 | 9 845 216 |

* *Restated. Refer to note 42 for details.*

1 *The equity injection is R5,1 billion received from National Treasury, however, it has certain conditions attached to it that makes it not available for use by Land Bank by 31 March 2023. This results in a financial liability should the conditions not be met; the funds will be returned to National Treasury. Refer to notes 3.2, 4 and 16.1 on the details around the appropriated cash to the Land Bank by the shareholder.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Segment Reporting Business

The Group reports in four distinct segments, grouped according to the nature of products and services provided by the respective business units and divisions. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Operating Officer, supported by the executive committee. The four segments are:

1) Commercial Development Banking, which consists of 9 Regional Offices and 16 satellite branches spread across the country, provides finance to developing and commercial farmers.
2) Corporate Banking, which consists of two branches, provides finance to the corporate agri-related businesses.
3) Group capital consists of the treasury, finance and other central functions.
4) Insurance Operations consists of LBLIC and LBIC which provides Life and Non-Life Crop Insurance respectively.

Reporting to the Board is based on segments which engage in business activities that generate revenues and incur expenditure. None of the operating segments meet the criteria for aggregation.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Segment Reporting Business (continued)

| | Commercial Development and Business Banking R'000 | Corporate Banking and Structured Investment R'000 | Group Capital and Inter–Segment Eliminations[1] R'000 | Total Bank R'000 | Insurance Operations[2] R'000 | Total Group R'000 |
|---|---|---|---|---|---|---|
| **Group – 2023** | | | | | | |
| **Statement of profit or loss and other comprehensive income** | | | | | | |
| Net interest income/(expense) | **394 422** | **212 811** | **–** | **607 232** | **8 923** | **616 155** |
| Interest income | 1 823 306 | 933 697 | – | 2 757 002 | 8 923 | 2 765 925 |
| Interest expense | (1 428 884) | (720 886) | – | (2 149 770) | | (2 149 770) |
| Impairment releases/(charges) on loans and advances | 395 322 | (26 997) | | 368 324 | – | 368 324 |
| Total income from lending activities | **789 744** | **185 813** | **–** | **975 556** | **8 923** | **984 479** |
| Non-interest expense | (13 555) | – | – | (13 555) | | (13 555) |
| Non-interest income | 12 481 | 7 288 | 36 983 | 56 752 | | 56 752 |
| Operating income from banking activities | **788 669** | **193 101** | **36 983** | **1 018 752** | **8 923** | **1 027 675** |
| Other income | | | | – | 10 026 | 10 026 |
| Operating profit from insurance activities | – | – | – | – | (24 931) | (24 931) |
| Investment income | 13 184 | – | 4 725 | 17 909 | 85 417 | 103 326 |
| Interest in Post Retirement Obligation | – | – | (27 823) | (27 823) | | (27 823) |
| Interest on Lease Liability | (211) | (97) | (239) | (547) | | (547) |
| Gains and losses on financial instruments | (2 933) | – | – | (2 933) | | (2 933) |
| Fair value loss | – | – | (5 297) | (5 297) | 2 519 | (2 779) |
| Operating income | **798 710** | **193 004** | **8 349** | **1 000 062** | **81 954** | **1 082 016** |
| Operating expenses | (13 127) | 694 | (128 407) | (140 840) | | (140 840) |
| Staff costs | (71 492) | (13 660) | (261 428) | (346 580) | (54 252) | (400 832) |
| Depreciation and amortisation | (3 000) | (1 809) | (6 928) | (11 736) | | (11 736) |
| Net operating income/(loss) | **711 091** | **178 229** | **(388 414)** | **500 906** | **27 702** | **528 608** |
| Non-trading and capital items | (131) | (0) | 829 | 697 | (8 752) | (8 055) |
| Net profit/(loss) before indirect taxation | **710 960** | **178 229** | **(387 586)** | **501 604** | **18 950** | **520 554** |
| Indirect taxation | – | – | (19 407) | (19 407) | – | (19 407) |
| Net profit/(loss) | **710 960** | **178 229** | **(406 993)** | **482 196** | **18 950** | **501 146** |
| Other comprehensive income | **–** | | **(8 824)** | **(8 824)** | **–** | **(8 824)** |
| Actuarial losses on the post-retirement obligation | – | – | 17 811 | 17 811 | | 17 811 |
| Revaluation of land and buildings | – | – | 2 117 | 2 117 | | 2 117 |
| Profit on financial assets at fair value through other comprehensive income | – | – | (28 752) | (28 752) | – | (28 752) |
| Total comprehensive income/(loss) for the year | **710 960** | **178 229** | **(415 817)** | **473 372** | **18 950** | **492 322** |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Segment Reporting Business (continued)

| | Commercial Development and Business Banking R'000 | Corporate Banking and Structured Investment R'000 | Group Capital and Inter–Segment Eliminations[1] R'000 | Total Bank R'000 | Insurance Operations[2] R'000 | Total Group R'000 |
|---|---|---|---|---|---|---|
| **Group – 2023** | | | | | | |
| Statement of financial position | | | | | | |
| Assets | | | | | | |
| Segment assets | **11 375 059** | **54 093 457** | **(33 480 137)** | **31 988 379** | **2 627 633** | **34 616 012** |
| Working capital (incl. net loans and advances) | 11 343 420 | 53 761 309 | (34 570 745) | 30 533 984 | 1 329 619 | 31 863 603 |
| Investments | – | 136 800 | 1 144 156 | 1 280 455 | 955 172 | 2 235 627 |
| Investment properties | 31 244 | – | 66 766 | 98 010 | – | 98 010 |
| Property and equipment | 396 | 9 560 | 53 060 | 63 016 | 48 | 63 064 |
| Non-current assets held-for-sale | – | – | 11 359 | 11 359 | – | 11 359 |
| Intangible assets | – | – | 1 555 | 1 555 | – | 1 555 |
| Insurance assets | – | – | – | – | 342 794 | 342 794 |
| Liabilities | | | | | | |
| Segment liabilities | **14 485 408** | **7 187 312** | **6 407 567** | **28 080 287** | **1 545 096** | **29 625 383** |
| Working capital (incl. funding liabilities) | 14 473 062 | 7 175 244 | 6 097 052 | 27 745 358 | 961 949 | 28 707 307 |
| Provisions | 9 723 | 2 190 | 15 187 | 27 100 | 5 298 | 32 398 |
| Post-retirement obligation | – | – | 278 864 | 278 864 | – | 278 864 |
| Lease liabilities | 2 622 | 9 878 | 16 464 | 28 965 | 0 | 28 965 |
| Insurance liabilities | – | – | – | – | 577 849 | 577 849 |

*1 Includes reconciliation to Group results in terms of IFRS 8.*
*2 The Insurance Operations consists of LBLIC (Life Insurance) and LBIC (Short term asset and Crop Insurance).*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Segment Reporting Business (continued)

| | Commercial Development and Business Banking R'000 | Corporate Banking and Structured Investment R'000 | Group Capital and Inter–Segment Eliminations[1] R'000 | Total Bank R'000 | Insurance Operations[2] R'000 | Total Group R'000 |
|---|---|---|---|---|---|---|
| **Group – 2022** | | | | | | |
| **Statement of profit or loss and other comprehensive income** | | | | | | |
| Segment assets | **666 738** | **(163 355)** | **–** | **503 383** | **4 925** | **508 308** |
| Interest income | 2 245 223 | 633 007 | – | 2 878 230 | 4 925 | 2 883 155 |
| Interest expense | (1 578 485) | (796 362) | – | (2 374 847) | | (2 374 847) |
| Impairment releases/(charges) on loans and advances | 1 264 059 | (54 010) | | 1 210 049 | | 1 210 049 |
| Total income/(loss) from lending activities | **1 930 797** | **(217 365)** | **–** | **1 713 433** | **4 925** | **1 718 357** |
| Non-interest expense | (71 358) | – | – | (71 358) | (4 576) | (75 934) |
| Non-interest income | 12 076 | 5 144 | 44 229 | 61 449 | 6 541 | 67 990 |
| Operating income/(loss) from banking activities | **1 871 514** | **(212 221)** | **44 229** | **1 703 523** | **6 890** | **1 710 413** |
| Other income | | | – | 0 | | 0 |
| Operating profit from insurance activities | – | – | – | – | (43 903) | (43 903) |
| Investment income | 0 | 4 269 | 11 088 | 15 357 | 83 239 | 98 596 |
| Interest in Post Retirement Obligation | – | – | (27 548) | (27 548) | – | (27 548) |
| Interest on Lease Liability | (487) | (241) | (407) | (1 136) | (3) | (1 139) |
| Gains and losses on financial instruments | 19 090 | 1 731 | – | 20 821 | – | 20 821 |
| Fair value loss | – | – | 21 667 | 21 667 | 67 727 | 89 394 |
| Operating income/(loss) | **1 890 117** | **(206 461)** | **49 030** | **1 732 685** | **113 950** | **1 846 636** |
| Operating expenses | (13 656) | 472 | (160 108) | (173 292) | (14 394) | (187 686) |
| Staff costs | (67 235) | (13 742) | (255 172) | (336 150) | (17 546) | (353 696) |
| Depreciation and amortisation | (4 664) | (1 833) | (14 635) | (21 132) | (260) | (21 392) |
| Net operating (loss)/income | **1 804 561** | **(221 565)** | **(380 886)** | **1 202 111** | **81 750** | **1 283 861** |
| Non-trading and capital items | (75) | (11) | 2 386 | 2 300 | 31 | 2 331 |
| Net profit/(loss) before indirect taxation | **1 804 487** | **(221 576)** | **(378 500)** | **1 204 410** | **81 781** | **1 286 191** |
| Indirect taxation | – | – | (27 315) | (27 315) | (595) | (27 910) |
| Net profit/(loss) | **1 804 487** | **(221 576)** | **(405 815)** | **1 177 095** | **81 186** | **1 258 281** |
| Other comprehensive income | **–** | **–** | **(47 479)** | **(47 478)** | **–** | **(47 478** |
| Actuarial losses on the post-retirement obligation | – | – | 7 582 | 7 582 | – | 7 582 |
| Revaluation of land and buildings | – | – | 7 861 | 7 861 | – | 7 861 |
| Profit on financial assets at fair value through other comprehensive income | | – | | – | (62 922) | (62 922) |
| Total comprehensive income/(loss) for the year | **1 804 487** | **(221 576)** | **(453 294)** | **1 129 616** | **81 186** | **1 210 802** |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Segment Reporting Business (continued)

| | Commercial Development and Business Banking R'000 | Corporate Banking and Structured Investment R'000 | Group Capital and Inter–Segment Eliminations[1] R'000 | Total Bank R'000 | Insurance Operations[2] R'000 | Total Group R'000 |
|---|---|---|---|---|---|---|
| **Group – 2022** | | | | | | |
| **Statement of financial position** | | | | | | |
| Assets | | | | | | |
| Segment assets | **14 207 406** | **9 397 124** | **8 597 140** | **32 201 669** | **2 179 473** | **34 381 142** |
| Working capital (incl. net loans and advances) | 14 175 888 | 9 023 044 | 7 566 082 | 30 765 014 | 1 070 164 | 31 835 178 |
| Investments | – | 141 779 | 1 153 283 | 1 295 063 | 838 324 | 2 133 387 |
| Investment properties | 31 244 | – | 66 156 | 97 400 | – | 97 400 |
| Property and equipment | 274 | 1 263 | 31 430 | 32 967 | 90 | 33 057 |
| Non-current assets held-for-sale | – | – | 9 609 | 9 609 | – | 9 609 |
| Intangible assets | – | – | 1 615 | 1 615 | – | 1 615 |
| Insurance assets | – | – | – | – | 270 895 | 270 895 |
| Liabilities | | | | | | |
| Segment liabilities | **18 944 188** | **9 445 908** | **1 265 999** | **29 656 096** | **1 115 886** | **30 771 982** |
| Working capital (incl. funding liabilities) | 18 930 893 | 9 441 324 | 962 332 | 29 334 549 | 661 954 | 29 996 503 |
| Provisions | 10 156 | 2 791 | 17 013 | 29 960 | 4 221 | 34 181 |
| Post-retirement obligation | – | – | 286 655 | 286 655 | – | 286 655 |
| Lease liabilities | 3 139 | 1 793 | 0 | 4 932 | 0 | 4 932 |
| Insurance liabilities | – | – | – | – | 449 711 | 449 711 |

*1 Includes reconciliation to Group results in terms of IFRS 8.*
*2 The Insurance Operations consists of LBLIC (Life Insurance) and LBIC (Short term asset and Crop Insurance).*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Segmental information

The Group's reportable operating segments are strategic business units that offer products to various classes of clients. These are managed separately since each segment requires different marketing and technical strategies to service a client base with unique needs. The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies. In addition, the cost of funding is allocated based on the monthly average cost of funding for Land Bank and the segment's loan book net of non-performing loan balances as at 31 March 2023. The identified reportable segments are how the Group's businesses are managed and reported to the Chief Operating Decision Maker (CODM).

### Segmental reporting Geographic

According to the client's location, the geographical segments consist of 9 provincial offices and 14 satellite offices within the boundaries of the respective provinces of the Republic of South Africa. Group Capital and Insurance Operations is included in the Northern segment, as the head office is situated in Pretoria. All revenue per geographical segment is attributable to the Republic of South Africa. All non-current assets are located in the Republic of South Africa.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Segmental information (continued)

### Statement of profit or loss and other comprehensive income

| | Interest Income R'000 | Interest Expense R'000 | Net Interest Income R'000 | Impairment (charges)/ Releases, Claims and Recoveries R'000 | Non–interest Income/ (expense) and Other Income R'000 | Operating Income from Insurance Activities R'000 |
|---|---|---|---|---|---|---|
| **Group – 2023** | | | | | | |
| Northern region | 2 032 141 | (2 130 031) | (97 890) | 394 537 | 47 577 | (24 931) |
| Southern region | 733 784 | (19 738) | 714 045 | (26 212) | 5 645 | – |
| Total operations | **2 765 925** | **(2 149 770)** | **616 155** | **368 324** | **53 222** | **(24 931)** |

### Statement of financial position

| | Non-current Assets Held-for-sale, Investments, Intangible Assets, Investment Properties and Property and Equipment R'000 | Working Capital (incl. loans and Advances R'000 | Total Assets R'000 |
|---|---|---|---|
| Assets | | | |
| Northern region | 2 736 805 | 10 800 589 | 13 537 395 |
| Southern region | 15 604 | 21 063 013 | 21 078 617 |
| Total operations | **2 752 409** | **31 863 603** | **34 616 012** |

| | Working Capital (incl. funding) R'000 | Other Liabilities R'000 | Total Liabilities R'000 |
|---|---|---|---|
| Liabilities | | | |
| Northern region | 21 022 019 | 902 716 | 21 924 731 |
| Southern region | 7 685 289 | 15 360 | 7 700 649 |
| Total operations | **28 707 307** | **918 075** | **29 625 380** |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

| | Fair Value Gains, Investment Income and Non–trading and Capital Items R'000 | Operating Expenses and Indirect Taxes Excluding Depreciation and Amortisation R'000 | Interest on Post Retirement Medical Aid and Lease Liability R'000 | Depreciation and Amortisation R'000 | Staff Costs R'000 | Net Profit/ (loss) R'000 | Other Comprehensive Income R'000 | Other Comprehensive Income R'000 |
|---|---|---|---|---|---|---|---|---|
| | 91 423 | (178 141) | (28 118) | (8 461) | (329 374) | (133 374) | (8 824) | (295 967) |
| | (1 864) | (6 357) | (252) | (3 714) | (46 768) | 634 522 | – | 750 141 |
| | **89 559** | **(184 498)** | **(28 370)** | **(12 174)** | **(376 143)** | **501 150** | **(8 824)** | **492 322** |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Segmental information (continued)

## Statement of profit or loss and other comprehensive income

| | Interest Income R'000 | Interest Expense R'000 | Net Interest Income R'000 | Impairment (charges)/ Releases, Claims and Recoveries R'000 | Non–interest income/ (expense) and Other Income R'000 | Operating Income from Insurance Activities R'000 |
|---|---|---|---|---|---|---|
| **Group – 2022** | | | | | | |
| Northern region | 2 285 146 | (1 822 490) | 462 656 | 1 560 128 | 15 705) | (43 903) |
| Southern region | 598 008 | (552 357) | 45 651 | (350 079) | 7 761 | – |
| Total operations | **2 883 155** | **(2 374 847)** | **508 308** | **1 210 049** | **(7 944)** | **(43 903)** |

## Statement of financial position

| Assets | Non-current Assets Held-for-sale, Investments, Intangible Assets, Investment Properties and Property and Equipment R'000 | Working Capital (incl. loans and Advances) R'000 | Total Assets R'000 |
|---|---|---|---|
| Northern region | 2 537 212 | 8 262 430 | 10 799 642 |
| Southern region | 8 751 | 23 572 749 | 23 581 500 |
| Total operations | **2 545 962** | **32 203 260** | **34 381 142** |

| Liabilities | Working Capital (incl. funding) R'000 | Other Liabilities R'000 | Total Liabilities R'000 |
|---|---|---|---|
| Northern region | 20 041 725 | 765 520 | 20 807 245 |
| Southern region | 9 954 777 | 9 960 | 9 964 737 |
| Total operations | **29 996 502** | **775 480** | **30 771 982** |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

| | Fair Value Gains, Investment Income and Non–Trading and Capital Items R'000 | Operating Expenses and Indirect Taxes Excluding Depreciation and Amortisation R'000 | Interest on Post Retirement Medical Aid and Lease Liability R'000 | Depreciation and Amortisation R'000 | Staff Costs R'000 | Net Profit/ (loss) R'000 | Other Comprehensive Income R'000 | Other Comprehensive Income R'000 |
|---|---|---|---|---|---|---|---|---|
| | 208 356 | (202 773) | (28 059) | (16 829) | (318 440) | 1 605 445 | (47 479) | 1 557 966 |
| | 2 755 | (5 330) | (628) | (4 563) | (42 753) | (347 165) | – | (347 165) |
| | **211 111** | **(208 101)** | **(28 687)** | **(21 392)** | **(361 193)** | **1 258 280** | **(47 479)** | **1 210 802** |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

## Accounting Policies

## Corporate information

### 1. Basis of Preparation

The consolidated and separate financial statements have been prepared in accordance with IFRS (with consent from the National Treasury for all Schedule 2 public entities) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), applying the accrual basis of accounting, the going-concern principle, and using the historical-cost basis, except where specifically indicated otherwise in the accounting policies. A summary of significant accounting policies is set out in note 3.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in applying the Group's accounting policies. Accordingly, the notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated group and bank financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Full disclosure relating to the directors' going concern assessment can be found in Note 3.2.

The Annual Financial Statements have been prepared on the historical cost basis, except for the following items, which were measured at fair value:

- Financial instruments held at fair value through profit or loss;
- Financial instruments designated at fair value through profit or loss;
- Derivative financial instruments;
- Equity investments;
- Land and buildings, and/or investment property;
- Non-current assets held for sale
- Post-retirement medical aid benefit investment; and
- Funeral benefit and post-retirement medical aid liability.

The methods used to measure fair values are detailed in notes.

### 2.1 Functional and presentation currency

The consolidated and separate financial statements are presented in South African Rand, the Group's functional currency. All financial information presented in Rand are rounded to the nearest thousand (R'000), unless otherwise stated.

### 2.2 Distinction between current and non-current

The Group presents the assets and liabilities in decreasing order of liquidity as it provides information that is more reliable and relevant than a current/non-current presentation because the Group does not supply goods or services within a clearly identifiable operating cycle. In addition, other similar financial institutions also provide the information in this manner, and hence it is more comparable.

### 3 Summary of Significant accounting policies

The Group has not applied the following new, revised or amended pronouncements that have been issued by the International Accounting Standard Board (IASB) as they are not yet effective for the financial year beginning 1 April 2021. The Board anticipates that the new standards, amendments and interpretations will be adopted in the Group's consolidated financial statements when they become effective. The Group has assessed, where practicable, the potential impact of all these new standards, amendments and interpretations that will be effective in future periods.

### 3.1 New standards and interpretations not yet adopted

The Group has assessed, where practicable, the potential impact of all these new standards, amendments and interpretation that will be effective in future periods.

#### IFRS 17 Insurance contracts

***Introduction***

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020 and December 2021. Following the amendments, IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, with comparatives restated for the 2022 financial period.

***Implementation project progress***

Management together with QED South Africa, the preferred IFRS 17 service provider, are currently in the process of finalising the implementation of the new standard. The implementation project team comprises of senior management from finance, risk and operations who are closely monitoring all technical developments and updates from the IASB, regulatory bodies and the industry to ensure alignment and compliance with the standard.

The IFRS 17 implementation project team will focus on the following key areas during the 2023 reporting period:

- Refine the accounting policy papers and actuarial methodologies that will be applied.
- Finalise the 2022 transition balances.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Accounting Policies

### 3.1 New standards and interpretations not yet adopted (continued)

- Enhance the internal financial controls to ensure accuracy of reporting.
- Complete the IFRS 17 compliant annual financial statements layout and disclosures.
- Finalise the management reporting format and key performance measures.
- ngage external auditors for the sign-off of the comparative results for 2022.
- Finalise and implement future financial and data governance processes and accountabilities.

*Transition approach*

LBLIC will apply IFRS 17 as of 1 April 2023 on a fully retrospective basis for all of its portfolios that are measured using the Premium Allocation Approach (PAA). For life term assurance portfolios which are measured under the General Measurement Method (GMM), the fair value approach will be applied as the fully retrospective method is deemed impractical. Comparative figures for 2022 will be restated as required by the transitional provisions of IFRS 17 and any changes to the carrying amounts of insurance and reinsurance assets and liabilities at the date of transition (being 1 April 2022), will be adjusted in the opening balance of retained earnings.

*Estimated impact of adopting IFRS 17*

The impact that the initial application of IFRS 17 will have on the financial statements as at 1 April 2022 (the transitional impact) is in the process of being finalised. Since the transition assessment has not yet been completed, the expected transitional impact is currently in the tentative stage. The new accounting policies, assumptions, judgements, and estimation techniques used are subject to change until the finalisation of the 31 March 2023 annual financial statements. The new systems and associated internal controls have not been fully operational for a full reporting cycle and may still need more fine-tuning. These factors could cause the actual impact of adopting IFRS 17 to change.

*IFRS 17 Insurance contracts: accounting policy overview relating to insurance and reinsurance liabilities and assets*

This section includes the draft key accounting policies to be applied to contracts within the scope of IFRS 17. These draft accounting policies are subject to change until the publication of the annual financial results for the year ended 31 March 2023.

*Classification and measurement*

LBLIC applies IFRS 17 Insurance contracts to insurance contracts issued and reinsurance contracts held. All references to insurance contracts in financial statements apply to insurance contracts issued or acquired, and reinsurance contracts issued or held, unless specifically stated otherwise. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during the coverage period, unless the terms of the contract are modified. A contract is classified as an insurance contract where the company provides insurance coverage by accepting significant insurance risk when agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary.

The accounting model applied to these insurance contracts, including reinsurance contracts issued and/or held, for liability measurement purposes is the General Measurement Model (GMM) unless the Premium Allocation Approach (PAA) applies. The PAA is a modification of the GMM that allows the use of a simplified approach for measuring the insurance contract liabilities for certain eligible types of contracts. Based on the analysis of insurance policies issued, LBLIC applies the GMM approach to Individual life term assurance products and the PAA approach to Group Credit Life and Reinsurance. Based on assessments performed to date, LBLIC does not expect to have contracts which meet the definition of insurance or investment contracts with discretionary participation features.

Therefore, LBLIC does not anticipate that the variable fee approach (VFA) measurement model will be applied to insurance contracts. Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard also recognises losses earlier on contracts that are expected to be onerous.

*Critical accounting estimates and judgements*

The main changes in the critical estimates and judgements to be made to LBLIC's accounting policies in terms of IFRS 17 – Insurance contracts are summarised below.

#### Contract boundaries

LBLIC used the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance and reinsurance contracts. The assessment is reviewed at each reporting date. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the company can compel the policyholder to pay premiums; or the company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation ends when:

1. the company has the practical ability to reprice the risks of the policyholder or change the level of benefits so that the price fully reflects those risks; or

2. both of the following criteria are satisfied:

## Accounting Policies

### 3.1 New standards and interpretations not yet adopted (continued)

- The company has the practical ability to reprice the contract or a portfolio of contracts so that the price
- the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the company, such as insurance risk and financial risk, are considered. Other risks, such as lapse, surrender and expense risk, are not included. The company considers the legal rights and the commercial substance of the contracts in this assessment. Cash flows outside of the boundary of the insurance contract relate to future insurance contracts and are recognised when those contracts meet the recognition criteria. For the majority of the insurance contracts issued, LBLIC has the practical ability to reassess the risks of a policyholder and set an appropriate premium to reflect those risks on short notice. Consequently, for these insurance contracts, the contract boundary will be shorter than a year. The practical ability to reprice is not removed when management makes a commercial decision to price, or not price, at a certain level.

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

1. has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
2. has a substantive right to terminate the coverage.

Most reinsurance contract boundaries will align with the contract boundary of the underlying direct insurance contracts. Certain risk– attaching treaty reinsurance contracts, however, cover underlying direct business that begins during a one-year coverage period of the reinsurance contract (risk-attaching reinsurance contracts). Because of this feature, the contract boundary of these reinsurance contracts can be more than one year. Such contracts will be subjected to the PAA eligibility test, described below. The contract boundary of stop– loss treaty reinsurance contracts, is equal to the coverage period of the reinsurance contact. That is, losses must occur within the treaty's cover period.

#### *Premium allocation approach (PAA) eligibility assessment*

The company will apply the PAA to measure a group of insurance/reinsurance contracts issued or reinsurance held if, at inception of the group: the coverage period of each contract in the group of insurance contracts is one year or less; or the company reasonably expects that the PAA would produce a measurement of the liability or asset for remaining coverage for a group of insurance contracts that would not differ materially from the measurement that would be achieved by applying the requirements of the GMM. Where the cover period is greater than one year, the company will assess the appropriateness of the PAA measurement model by comparing the results produced for calculating the projected LRC under GMM with PAA to determine in the difference approaches yield large differences.

#### *Unit of account*

The company manages insurance contracts issued by product lines within an operating segment, where each product line includes contracts that are subject to similar risks. All insurance contracts within a product line represent a portfolio of contracts. Each portfolio is further disaggregated into groups of contracts that are issued within a calendar year (annual cohorts and are:

1. contracts that are onerous at initial recognition;
2. ccontracts that at initial recognition have no significant possibility of becoming onerous subsequently; or
3. a group of remaining contracts.

These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. Such groups are not subsequently reconsidered. For each portfolio of contracts, the company determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. This level of granularity determines sets of contracts. The company uses significant judgement to determine at what level of granularity the company has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

#### *Liability for incurred claims*

The best estimate provision for LIC relates to claim events that have occurred before or at the reporting date – whether the claims arising from these events have been reported or not (incurred but not reported – IBNR). All future claim payouts and claim administration costs related to these occurrences are included in the cash flow estimates. Allocated loss adjustment expenditures, which have previously been incurred for historical claims, are implicitly projected into the future with the claims payments. The best estimate liability also includes directly attributable claims management expenditures to account for the cost of managing the final run-off of the claim's provisions. The total of the discounted claims and expenditure provisions is the best-estimate liability.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Accounting Policies

### 3.1 New standards and interpretations not yet adopted (continued)

*Expense allocation methodology*

Acquisition costs can either be expensed as they arise, or capitalised and amortised over the coverage period. For groups containing contracts longer than one year, acquisition costs must be capitalised. Management's preference under IFRS 17 will be to record the acquisition costs straight under insurance service expenses as and when incurred unless the costs are significant, in which case an asset will be created and released with the passage of time. Directly attributable acquisition cashflows for issuing and underwriting costs have been determined and all attributable and non-attributable expenses have been identified and allocated to insurance and reinsurance portfolios. The most appropriate allocation method identified for expense attribution is based on the amount of premium written.

*Discount rates*

The bottom-up approach was applied in the determination of the discount rates for all relevant portfolios. No discounting was applied for PAA as settlements are within one year.

*Risk adjustment for non-financial risk*

The risk adjustment for non-financial risk is the compensation that the company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would require to remove the uncertainty that future cash flows will exceed the expected value amount. A stochastic simulation of reserves was applied for general insurance. LBLIC applies the simplified method based on SAM capital charges.

**2018-2020 annual improvements cycle**

On 14 May 2020, the IASB issued 'Annual Improvements to IFRS Standards 2018–2020'. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

**Non-current Liabilities with Covenants (Amendments to IAS1)**

On 31 October 2022, the IASB issued Non-current Liabilities with Covenants to clarify how conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability. The amendments are effective for reporting periods beginning on or after 1 January 2024.

**Classification of Liabilities as Current or Non-current**

In January 2020 the International Accounting Standards Board issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities in the statement of financial position.

The amendments are effective from annual reporting periods beginning on or after 1 January 2024.

### 3.2 Going Concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The going concern basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Since Land Bank went into default in April 2020, the Shareholder has been very supportive through this process as evidenced by the continued engagements with all stakeholders through the restructuring process as well as by the R10 billion allocated to recapitalise Land Bank. R3 billion was transferred to Land Bank in September 2020, R6 billion was transferred in March 2023 and the remaining R1 billion will be transferred during FY23/24. The Bank continues to receive the support of its lenders. As mentioned in previous year reports only one lender has to date accelerated their debt. All other lenders remain committed to working with the Bank to find an amicable solution to the default challenge. There has been progress achieved over the past financial year in advancing the liability solution. An agreement on the liability solution is expected to have been concluded by 31 March 2024.

It is important to highlight that, R5,1 billion of the R6 billion transferred in FY22/23, has conditions precedent before it can be utilised by Land Bank and has therefore been ring-fenced in an Escrow account pending compliance with those conditions, the main one being curing the event of default. There are a total of seven conditions attached to these funds, the Bank has already met three and is comfortable that it will meet at least six of them by the end of FY23/24. Engagements are in progress regarding the last condition, which if not revised could negatively impact the debt restructuring process, which could then affect the going concern position of the Bank. The Bank is comfortable that this matter will be successfully addressed. At present, the conditions remain confidential between the Land Bank and the Shareholder.

Land Bank received an Unqualified (clean) audit outcome from the AGSA on the 2022 Financial Year Audit, this was an improvement from a Qualified Audit Opinion received on the 2021 Financial Year Audit.

## Accounting Policies

### 3.2 Going Concern (continued)

The Group recorded a net profit of R0,501 billion (2022: R1,2 billion – restated) for the year ended 31 March 2023, mainly driven by material impairment releases as the loan book reduces.

Despite the above challenges, the Bank's business and operational fundamentals remain strong, and further measures have been adopted to manage the Bank's financial sustainability.

Since default, the Bank has achieved the following:

- Board approval of the new strategy of the Bank and operating model. Work to be supported by an expert is currently underway for a strategy refresh and a business case, including a new funding mode l of the Bank. The Bank is currently in the process of appointing a firm to assist with a fit for purpose organisational structure for the Bank.
- Lending has resumed and was signified by the launch of the blended finance scheme in partnership with the DALRRD during October 2022.
- Appointment of a permanent Chief Executive Officer effective 1 April 2023
- Appointment of a permanent Chief Audit Executive effective 1 July 2023
- Appointment of critical senior management roles to strengthen the internal control environment where gaps were identified and to ensure continued operations of the Bank and delivery of services.
- Amidst the attrition of staff, the Land Bank remains committed to attract and retain a skilled workforce, and ensuring that vacant roles are filled at acting capacities whilst recruitment is in progress.
- During March 2023, the Shareholder transferred R6bn of the R7bn appropriated to Land Bank during February 2021, with the remaining R1bn to be transferred during FY23/24. R5.1bn is sitting in an ESCROW account pending fulfilment of attached conditions for the release of the funds for utilisation by the Bank. In total R9bn of the R10bn appropriated to Land Bank since default has been received by the Bank to date.
- Improved liquidity position, through collections, settlements, and capital injection with cash sitting at ~R15 billion at 31 March 2023, of which R5,1 billion is ring-fenced as outlined above. Refer to notes 4 and 16 for additional details.
- The Bank has repaid 45% of debt owing at default, to date, with another debt repayment of R5,4 billion to be made by the 7th June 2023. This will take the total debt repayment since default to over R23bn which is 58%.
- Improved financial performance with FY21/22 and FY22/23 showing profits.
- The NPL remediation strategy yielding results with the nominal number reducing by R2bn YoY.
- It is important to note the loan book attrition since default; the Bank is however rebuilding itself as outlined above.
- The Shareholder has continued to reiterate its support for the Bank and continues to work with the Bank to find an amicable debt restructuring solution with lenders in order to cure the default.
- Lenders remain in support of the Bank with only one lender having called on their debt during FY20/21. The remaining lenders continues to work with Land Bank to find a solution to cure the default.

The directors are of the view that the initiatives reflected above will ensure Land Bank meets the going concern requirement in the foreseeable future, being 12 months from the approval of these annual financial statements, although a material uncertainty exists. Given already received and expected capital injections from National Treasury as well as current cash sources available, Land Bank is expected to have sufficient cash resources to be able to meet its liquidity requirements.

### 3.3 Business combinations

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their value at the acquisition date.

The Group recognise any non-controlling interest in the acquirer on an acquisition-by-acquisition basis, either at fair value or at the non– controlling interest proportionate share of the recognised amounts of acquiree identifiable net assets.

Consolidated financial statements comprise the financial statements of the Land Bank and its subsidiaries, LBLIC and LBIC as at 31 March 2023. Intra-group transactions are eliminated upon consolidation.

Investments in subsidiaries are measured at cost at acquisition and subsequent measurement on each reporting date.

**LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA**
Annual Financial Statements for the year ended 31 March 2023

## Accounting Policies

### 3.3 Business combinations (continued)

The financial statements of LBLIC and LBIC are prepared using consistent accounting policies to the Land Bank. Furthermore, the annual financial statements have been prepared in accordance with the requirements of both the Short– and Long-term Insurance acts respectively.

### 3.4 Critical accounting judgements and key sources of estimation uncertainty

The most significant judgements and estimates are summarised below:

*1) Impairment losses on loans and advances*
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the credit risk of default occurring over the expected life between the reporting and initial recognition. In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in the credit quality of a financial asset. Please refer to note 36 for more details.

*2) Fair value of financial instruments*
The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, the valuation models are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

i) Unlisted investments

The valuation of unlisted shares, as applied by the company's asset managers, comply with International Private Equity and Venture Capital Valuation guidelines. Various valuation techniques are used to arrive at the fair value of investments, including:

- Price of recent investment;
- Earnings multiple;
- Net assets;
- Discounted cash flows;
- Industry benchmarks; and
- Available market prices.

#### Policyholder liabilities in respect of life insurance contracts

**The following process is followed to determine the valuation assumptions:**
- Determine the best estimate for a particular assumption;
- Prescribed margins are then applied; and
- Discretionary margins may be applied as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

The best estimate of future experience is determined as follows:

• Investment return
Future investment return assumptions are derived from market-related interest rates on fixed-interest securities with adjustments for the other asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses and charges for investment guarantees are taken into account.

• Decrements
Assumptions with regard to future mortality and lapse rates are consistent with the experience for the five years up to the current financial year-end. Mortality rates are adjusted to allow for expected deterioration in mortality rates as a result of AIDS.

• Expenses
"Per policy" expenses are based on the latest actual expenses and escalated at the estimated annual expense inflation rate

#### Policyholder liabilities in respect of non-life insurance contracts

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the Group, principally in respect of the insurance liabilities of the Group.

Insurance liabilities include the provisions for unearned premiums, unexpired risk, and outstanding claims and incurred but not reported (IBNR) claims. Unearned premiums represent the amount of income set aside by the Group to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the statement of financial position date. At each statement of financial position date, an assessment is made of whether the provisions for unearned premiums are adequate. When it is anticipated that unearned premiums will be insufficient to cover anticipated costs and fees, unexpired risk is also set aside.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Accounting Policies

### 3.4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Outstanding claims represent the Group's estimate of the cost of settlement of claims that have occurred by the statement of financial position date, but that have not yet been finally settled. In addition to the inherent uncertainty of having to provide for future events, there is also considerable uncertainty concerning the eventual outcome of claims that have occurred but had not yet been reported to the insurer by the statement of financial position date.

#### Process to determine significant assumptions

Insurance risks are unpredictable and the Group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Using historical data, the insurance companies aim to establish provisions that have an above average likelihood of being adequate to settle all contractual insurance obligations.

#### Outstanding claims

Claim provisions are determined based upon previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and experience with similar cases.

The Group's estimates for outstanding claims are continually reviewed and updated as future developments take place and better information becomes available regarding the current circumstances.

The ultimate cost of the claim may therefore vary from this initial estimate. Adjustments resulting through this review are reflected in the statement of profit or loss and other comprehensive income as and when identified.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is carried out to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred and under which reinsurance programme the recovery will be made as well as the size of the claim, and whether there will be a stop loss recovery based on the overall loss ratio of the portfolio.

#### Claims incurred but not reported (IBNR)

The Incurred But Not Reported (IBNR) Claims Provision is held in respect of those claims that have occurred but are yet to be reported by the measurement date. The number IBNR claims are determined with reference to claim reporting delays patterns as per recent claims experience, to which the severity of the claims is applied to arrive at the IBNR Claims Provision. A separate calculation is carried out to calculate the reinsurance portion of the IBNR reserve.

The calculation of insurance liabilities is an inherently uncertain process. The Company seeks to provide adequate levels of insurance provisions by taking into account all known facts and experience from a variety of sources as well as statutory requirements.

Actual experience post valuation date is taken into account and the actuarial estimation is limited (i.e. data to include a month experience following the Valuation Date). The IBNR is further increased by a 75% sufficiency margin, from a joint historic bootstrap of the number of claims and claim amounts.

The IBNR reserve distributions are multiplied by the quota share percentages to set the different quota share reserve distributions. Sine the reinsurance structure is 70% for all crop types, the sufficiency margin is the same for gross of reinsurance and net of reinsurance technical provisions.

#### Premium provisions – short-term

The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. The estimate for unearned premium provision ("UPP") is the portion of claims not incurred as yet by the end of March each year. UPP") is created at the commencement of each insurance contract and is released as the risk covered by the contract expires according to the remaining days method for the assets policies. The unearned premium for crop policies is calculated according to the claims occurring patterns based on an historic claims analysis of claims incurred. Historical data indicates that the premiums for Winter crops are fully end by the 31 March of each year, and therefore no UPP has been historically held. The earnings curve assumption is not entirely critical on its own since an assessment for the need to set-up the Additional Unexpired Risk Provision ("AURP") is more important in ensuring sufficiency of reserves than the earning of written premiums.

At each statement of financial position date an assessment is made of whether the provisions for unearned premium are adequate. If the premium level is deemed to be insufficient based on information available at the statement of financial position date, to cover the anticipated claims and operating expenses, a separate provision ("AURP") is made for any estimated future underwriting losses relating to unexpired risks. This assessment includes estimates of future claims frequency and claims severity and other factors affecting the need for a provision for unexpired risk and performed annually. Actual unexpired risk experience post valuation date is taken into account and the actuarial estimation is limited (i.e. data to include a month experience

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Accounting Policies

### 3.4 Critical accounting judgements and key sources of estimation uncertainty (continued)

following the Valuation Date). Simulations of aggregate claims are done by simulating both the number of claims that may arise from a Poisson distribution as well as the claim amounts thereto (historical bootstrapping), utilising the inflated claims data.

The average of the simulated aggregate claims is the best estimate unexpired risk provision. As per APN 401 of the Actuarial Society of South Africa, for the financial reporting basis a margin is held at a 75% sufficiency margin.

The provision for unearned premiums is first determined on a gross level and thereafter the reinsurance impact is recognised based on the relevant reinsurance contract.

The deferred acquisition cost ("DAC") can be thought of as the amount of commission recoverable from intermediaries if the company had to refund premiums to all its policyholders. The company calculates the DAC based on the premium earnings curve in a similar manner as the UPP calculation, using the percentage of premium payable to. LBIC calculates the DAC based on the Premium Earnings Curve in a similar manner as the UPP calculation, using the percentage of premium payable to UMAs and to brokers. DACs are amortised at incidence of risk basis and are deferred over the period in which the related premiums are earned.

#### Post-employment medical benefits

The cost of defined benefit post-employment medical benefits as well as the present value of the post-retirement medical aid obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and medical cost trends. All assumptions are reviewed at each reporting date.

#### Management expense provisions and accruals

At each statement of financial position date, the Group might be exposed to various liabilities of uncertain timing or amount. Such liabilities are provided for if a present obligation has arisen, payment is probable and the amount can be reliably estimated. Management uses its discretion to estimate the expenditure required to settle the present obligation as at year-end, i.e. the amount that the Group would rationally pay to settle the obligation.

#### Revenue recognition

*Interest income*

In terms of IFRS 9 interest income is recognised in profit or loss using the effective-interest method taking into account the expected timing and amount of cash flows. The effective-interest method is a method of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the relevant period. Interest income include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing financial instrument and its amount at maturity calculated on an effective-interest-rate basis.

*IFRS 15 Revenue from Contracts with Customers*

The group is able to identify the contract when both the client and the group have accepted the terms of the agreement. The contract will also identify all the services (performance obligations) the group will render to the client. Based on this, the transaction price is allocated to each identified performance obligation. The group recognises the revenue once the performance obligation is satisfied, which may occur over time or at a point in time.

(i) Fee and commission income.

Fees and other income which are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate.

Other fee income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, is recognised as the related services are performed. When

a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

(ii) Dividend Income.

Dividends are recognised in the period when the shareholders' right to receive payment is established.

Dividend income from financial assets classified at fair value through profit or loss is recognised on the last date to register.

(iii) Investment surpluses.

Investment surpluses consist of net realised gains and losses on the sale of investments and net unrealised fair value gains and losses on the valuation of investments at fair value, excluding dividend and interest income. These surpluses are recognised in the statement of profit or loss and other comprehensive income on the date of sale or upon valuation to fair value.

(iv) Rental income.

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term and is recorded in the statement of profit or loss and other comprehensive income in 'Non-interest income Revenue recognition.

## Accounting Policies

### 3.4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Realised gains and losses

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate and is recorded in the statement of profit or loss and other comprehensive income.

(v) Unrealised gains and losses

Unrealised gains or losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the year and is recognised in the statement of profit or loss and other comprehensive income.

(vi) Insurance premium income: Refer to accounting policy note 3.20

### 3.5 Expenses

(i) Administration costs

Administration costs on short-term insurance business consist of directly attributable costs payable to the underwriter and are deferred over the period in which the related premiums are earned.

Administration costs that are directly attributable to long-term recurring premium insurance policy contracts are recognised directly to the statement of profit or loss and other comprehensive income.

(i) Commission

Commission is payable to brokers and underwriting managers on non-life insurance business. Commission is recognised for on all in– force policies in the financial period during which it is incurred. Acquisition costs for non-life insurance business is deferred and amortised over the period in which the related premiums are earned.

### 3.6 Fruitless and wasteful and irregular expenditure

Items of expenditure which meet the requirements of the Public Finance Management Act (PFMA) for fruitless and wasteful as well as irregular expenditure are separately disclosed in the notes to the financial statements. "Fruitless and wasteful expenditure" means expenditure which was made in vain and would have been avoided had reasonable care been exercised. "Irregular expenditure" means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation or internal policy.

When discovered, irregular expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either condoned by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of profit or loss and other comprehensive income.

### 3.7 Property, plant and equipment

Items of property and equipment are initially recognised at cost if it is probable that any future economic benefits associated with the items will flow to the group and they have a cost that can be measured reliably.

Land and buildings comprise owner occupied property. Land and buildings are shown at fair value, based on valuations by external independent valuators, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as Revaluation Reserves in the Statement of Changes in Equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against Revaluation Reserves directly in equity; to the extent that decreases exceed the Revaluation reserve the decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income, and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

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### Accounting Policies

#### 3.7 Property, plant and equipment (continued)

Reversals of impairment loss on a revalued asset is recognised in other comprehensive income and increases the revaluation surplus of the asset. However, to the extent that an impairment loss on that asset was recognised directly in profit and loss, that reversal shall be to profit and loss. The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end, the 31 March 2023.

Depreciation is provided on the straight-line basis, which, it is estimated, will reduce the carrying amount of the property and equipment to their residual values at the end of their useful lives.

Items of property and equipment are depreciated from the date that they are installed and available for use. Land is not depreciated as it is deemed to have an indefinite life. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment.

The major categories of property and equipment are depreciated at the following rates:

| | |
|---|---|
| Building | 2.5% per annum |
| Motor vehicles | 20% per annum |
| Computer equipment | 33.3% per annum |
| Leasehold improvements | Equal months in relation to lease period |
| Furniture and fittings | 20% per annum |

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. On derecognition any surplus in the revaluation reserve in t of an individual item of property and equipment is transferred directly to retained earnings in the statement of changes in equity.

#### 3.8 Investment property

Investment properties (properties that are not owner-occupied), are properties which are held to earn rental income and/ or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. All revaluations are performed by independent qualified experts.

Gains or losses arising from changes in the fair values of investment properties are recognised in the statement of profit or loss in the period in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss and other comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use. Owner occupied property is classified as investment property when the owner occupies less than an insignificant portion of the property (less than 50%).

This threshold was set due to the Group's intention to let out any excess office space, which exists at the Group's properties.

#### 3.9 Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

Intangible assets that are acquired and have finite useful lives are initially recognised at cost with subsequent measurement at cost less any accumulated amortisation and any impairment losses. Intangible assets are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

(i) Computer software
Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software license fees are paid for in advance, recognised as a prepayment and expensed to the statement of profit or loss and other comprehensive income over the period of the license agreement. Should the license agreement extend beyond 12 months, the software license would be capitalised as an intangible asset and amortised on a straight-line basis over the period of the license agreement.

## Accounting Policies

### 3.9 Intangible assets (continued)

(ii) Amortisation
Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows: Tier 1 asset – Software relating to core business applications for which any change to a different application suite would require a significant investment in resources and time.

Tier 2 asset – Software that is directly integrated with the core financial systems and additional developments and modules may have be added. Other – Commodity software.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

| Item | Depreciation method | Average useful life |
|---|---|---|
| Tier 1 asset | Straight line | 10 years |
| Tier 2 asset | Straight line | 5 years |
| Other | Straight line | 3 years |

Impairment of non-financial assets
Intangible and tangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non– financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

### 3.11 Financial instruments

#### Classification and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual terms of the instrument. Regular way purchase and sales of financial assets are recognised on trade date, the date on which the group commits to purchase or sell the asset.

At initial recognition, the group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets or financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

(i) Amortised cost and effective-interest rate
The amortised cost of a financial instrument is the amount at which the financial instrument is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective-interest method of any difference between the initial contractual amount and the maturity amount, less any cumulative impairment losses.

The effective-interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider ECLs and includes transaction costs, premiums or discounts, fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate, discounted using the original effective interest rate. Any changes are recognised in profit or loss.

(ii) Fair value
The fair value of a financial instrument is the amount that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of instruments that are quoted in an active market is determined using quoted prices where they represent those at which regularly and recently occurring transactions take place.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Accounting Policies

### 3.11 Financial instruments (continued)

The group uses valuation techniques to establish the fair value of instruments where quoted prices in active markets are not available. For a detailed discussion of the fair value of financial instruments, refer to note 36.

#### Modification
The group modifies the terms of the loans provided to its clients due to commercial renegotiations or in cases of distressed loans, with the aim of maximising recovery. Such restructuring activities include changes in payment frequency, payment date, term, interest rate or consolidation of borrower's loan agreements into a single agreement to mitigate credit risk.

The modified asset is assessed to determine whether it constitutes a substantial or non-substantial modification by considering both quantitative and qualitative features. For example, if the present value of the new contractual cash flows discounted using the original effective interest rate, differs by 10% when compared to the original contractual cash flows, the Land Bank deems the modification to be substantial and results in the de-recognition of the original asset. If the present value is below 10% and the qualitative assessment performed does not deem it so, the Land Bank deems the modification to be non-substantial and does not result in de– recognition of the original asset. The modification gain/loss will then be determined.

The gain/loss shall be derived by comparing the present value of the restructured loan (discounted using the original effective interest rate) to the carrying value at time of modification. derecognition.

#### Financial assets
Debt instruments are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in "Net interest income" in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the statement of profit or loss and other comprehensive income.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

#### Investments in equity instruments:
For equity investments that are held neither for trading nor for contingent consideration the group may irrevocably elect to present subsequent changes in the fair value of these equity investments in

OCI. The cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it is reclassified into equity.

#### Financial liabilities
Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: This classification is applied to derivative financial liabilities, financial liabilities held for trading and other financial liabilities designated as such at initial recognition.
- Financial guarantee contracts and loan commitments.

#### (iii) Derivative financial instruments, strategic trading asset and hedge accounting
The Group elected an accounting policy choice under IFRS 9 "Financial Instruments" to apply the hedge accounting requirements under IFRS 9 "Financial Instruments: Recognition and Measurement".

As part of the requirements to apply hedge accounting, the Group documents, at the inception of the hedge relationship, the relationship between hedging instruments and hedged items, the risk being hedged, the Group's risk management objective and strategy for undertaking hedge transactions, and how effectiveness will be measured throughout the life of the hedge relationship.

All derivatives are recognised in the statement of financial position at fair value and are classified as trading except where they are designated as part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is measured at fair value throughout the life of the contract. Derivatives are disclosed as assets when the fair value is positive and as liabilities when the fair value is negative.

The derivative assets and derivative liabilities are offset and the net position is presented in the statement of financial position as the Group has a legal right to offset the amounts and intends to settle on a net basis. Each swap has the same counterparty and the "net asset/ liability" is as a result of movements in FVTOCI.

All strategic trading asset and repurchase agreements are recognised in the statement of financial position at fair value and are classified as trading. The carrying value of an asset is measured at fair value and are disclosed as assets when the fair value is positive and as liabilities when the fair value is negative.

## Accounting Policies

### 3.11 Financial instruments (continued)

**(iv) Cash held under investments**

The "Cash" held under investments is held with the Asset Managers (external party) to invest on the Group's behalf. At various stages as the markets move, the Asset Managers may buy and sell shares and bonds, and would invariably have cash on hand at certain points in time. This cash is held in the possession of the Asset Managers and is intended to be used for the purpose of purchasing new financial instruments. The cash is not necessarily available to be used as working capital by the Group and therefore is not disclosed as "Cash and cash equivalents". Please refer to note 4.

#### Derecognition of financial asset

Upon derecognition of equity instruments designated at fair value through other comprehensive income, the cumulative fair value gains/ (losses) recognised in other comprehensive income is not subsequently recycled to profit or loss.

#### Financial assets

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

(i) The Group has transferred substantially all the risks and rewards of the asset, or

(ii) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

#### Impairment of financial instruments Impairment of financial assets

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the credit risk of default occurring over the expected life between the reporting date and the initial recognition. In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in the credit quality of a financial asset.

The amount of Expected Credit Loss (ECL) is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the group and all the cash flows that the group expects to receive. The amount of the loss is recognised using a provision for "Expected Credit Loss account".

#### Financial instruments

Key principles of the group's accounting policy for impairment of financial assets are listed below.

The Group assesses at initial recognition of financial assets whether to use a 12-month expected loss approach or a lifetime expected loss approach in order to calculate its impairment provision.

A 12-month expected loss approach is used for the following instruments:

Purchased or newly originated financial assets that are not credit impaired. A lifetime expected loss approach is used for the following instruments: Purchased or newly originated credit impaired financial assets. Although some financial assets within the Bank's portfolio might meet the definition of low credit risk, the Bank opted not to apply this in application of its ECL methodology as given the nature of the Bank's business it is deemed not to be prudent not to consider whether a significant increase in credit risk exits.

For subsequent measurement, the group applies a three-stage approach to measuring expected credit loss (ECL) on debt instruments accounted for at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial *recognition:

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### Accounting Policies

#### 3.11 Financial instruments (continued)

Stage 1: 12months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associate with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired
If the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2.

The group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the group expects to receive. The amount of the loss is recognised using a provision for "Expected Credit Loss account".

The group considers its historical loss experience and adjusts this for current observable data. In additional, the group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macro-economic factors that which include but are not limited to the World.

Food Index as well as the Volume of Imports of Goods and Services, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macro– economic factors will affect ECL. The methodology, assumptions and macro-indices, including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses the previously assessed significant increase in credit risk since origination, then the ECL reverts from lifetime ECL to 12-months ECL.

#### Day 1 profit

Where the transaction price in a non-active market is different from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the statement of profit or loss and other comprehensive income under fair value gains and losses. In cases where use is made of data, which is not observable, the difference between the transaction price and model value is only recognised in the statement of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognised.

#### Collateral

Collateral refers to an asset bonded or pledged under a security document to the Bank by a borrower or surety in support of a loan granted. In the event of a default by a client or surety, collateral is a secondary source of repayment.

All collateral items ceded to the Land Bank shall be valued or revalued within the frequency timelines, failing which will be regarded as stale and in non-compliance to the Collateral Management policy.

Market values for properties (and ultimately fair value) must be conducted in line with industry standards as determined by the South African Council for the Property Valuers Profession (SACPVP), as amended from time to time. This involves the use of comparable sales of similar properties (for Land Bank it's 3 recent comparable sales).

Fair value is determined by limiting collateral reporting to the lower of registered bond/ cession amount or forced sale value (FSV).

The collateral valuation must take into account the forced sale margins (or liquidation cost provision) based on historical recovery and liquidation costs incurred by Land Bank to determine security value and /or forced sale value. These liquidations cost margins must be re-assessed annually.

#### Cash and cash equivalents

Cash comprises cash on hand and at bank and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are stated at carrying amount which is deemed fair value.

## Accounting Policies

### 3.11 Financial instruments (continued)

#### Funds administered on behalf of related parties

The Group manages funds on behalf of related parties. The net position in terms of legal right to offset of these funds administered on behalf of related parties are separately disclosed in the notes to the annual financial statements. These funds are not carried on the statement of financial position of the Group.

#### Trade and other receivables

For trade and other receivables only, the Bank applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables if there is no significant financing component. Under this approach the tracking of changes in credit risk is not required, instead lifetime expected credit losses are recognised. ECLs are recognised in profit or loss. The provision matrix will be used to calculate the impairment for credit losses. The Bank will use the historically observed default rates (actual write-off) over the expected life of the trade and other receivables adjusted as necessary to reflect current conditions to calculate the default rate in the provision matrix. Adjustments will be made for forward-looking information based on economic conditions. The default rate calculated in the provision matrix will be adjusted for economic conditions. The total book debt is segregated into different categories of trade and other receivables and the default percentage is applied on the balance per category to calculate the ECL allowance.

#### Trade and other payables

Trade and other payables, including accruals, are recognised when the Group has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the Group.

#### Funding Liabilities

The carrying values of all funding liabilities are measured at amortised cost in alignment with IFRS 9 requirements.

The arranging fees that are paid upon acquisition of the liability are deferred to the Statement of Other Comprehensive Income over the term of the loan facility and included in the interest expense line as these arranging fees form part of the "Effective Interest Rate" of funding instruments. The prepaid arranging fee is carried as part of the funding liabilities.

### 3.12 Tax

#### Income tax

The Land Bank is exempt from income tax in terms of sections 10(1) (cA) (ii) of the Income Tax Act, 58 of 1962.

The direct subsidiaries of the Land Bank are also exempt from income tax in terms of sections 10(1) (cA) (ii) of the Income Tax Act, 58 of 1962.

### 3.13 Leases

#### Lessee accounting policies

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all major leases. At inception of a contract, the Group assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has elected to apply the practical expedient method to account for each lease component and any non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Lease terms range from 2 to 5 years for offices and vehicles. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The group applies the cost model subsequent to the initial measurement of the right of use assets.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The interest component of the lease liability payment is presented as part of operating activities on the cash flow statement.

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## Annual Financial Statements for the year ended 31 March 2023

### Accounting Policies

### 3.13 Leases (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of– use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short–term leases that have a lease term of 12 months or less. The lease payments associated with these leases is recognised as an expense on a straight-line basis over the lease term.

#### Lessor accounting policies

Leases where the Group is the lessor and retains substantially all the risk and benefits of ownership of the asset are classified as operating leases. The Bank leases out its investment properties as operating leases, thus generating rental income. The rental income is recognised as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term of the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 3.14 Related parties

The Group operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling activities of the Group. All individuals from Executive Management up to the Board of Directors are key management individuals in their dealings with the Group.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management individuals in their dealings with the Group.

Other related party transactions are also disclosed in terms of the requirements of IAS 24. The objective of IAS 24 and the financial statements is to provide relevant and reliable information and therefore, materiality is considered in the disclosure of these transactions.

### 3.15 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. Foreign exchange differences arising on the settlement of monetary items or translating monetary items at rates different from those at which they were translated on initial recognition during the period or in the previous financial statements are recorded in profit and loss in the period in which they arise.

Non-monetary items that are measured in terms of historical-cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### 3.16 Non-current assets (disposal groups) held for sale (NCAHFS) or distribution to owners

In the statement of profit or loss and other comprehensive income of the reporting period, and of the comparable period, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit/(loss) after taxes. Property and equipment and intangible assets once classified as held-for-sale are not depreciated/amortised.

#### Properties in possession

Unsold properties in possession are recognised once ownership has been legally transferred to the Group and the underlying debtor is then derecognised. These properties are included under non-current assets held-for-sale at the outstanding loan balance, which are then valued at the lower of the carrying amount and the fair value less costs to sell. The fair value is determined using a market-based valuation performed by a sworn appraiser at the statement of financial position date. Realisable value is determined using market-based valuations performed by a sworn appraiser at the statement of financial position date. Maintenance costs are expensed in the period incurred. The intention of the Group is to sell these properties to recover the outstanding payments on the defaulted loans.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

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## Accounting Policies

### 3.16 Non-current assets (disposal groups) held for sale (NCAHFS) or distribution to owners (continued)

#### Disposal of properties in possession

It is the Group's policy to dispose of repossessed properties in an orderly fashion on a willing buyer and willing seller basis. The property to be sold is advertised in the market. Upon receipt of offers to purchase, the offers are evaluated and an offer that makes the most economic sense is accepted.

The Group has satisfied the following IFRS 5 conditions to classify the properties as NCAHFS:

- The appropriate level of management must be committed to a plan to sell the asset; and an active programme to locate a buyer and complete the sale must have been initiated.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except where events and circumstances may extend the period to complete the sale beyond one year
- Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

### 3.17 Employee benefits

#### Post-employment benefit plans

The Group provides post-employment benefits through various defined contribution and defined benefit plans.

i) Defined contribution plans.

The Group pays fixed contributions into independent entities in relation to several state plans and insurance for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

#### Retirement fund

The Land Bank Retirement Fund which functions as a defined contribution plan and which is subject to the provisions of the Pension Fund Act, 1956 (Act No.24 of 1956) came into operation on 1 November 1994. Defined obligations such as disability and death in service were completely phased out during the 2007 financial year. The Fund is now accounted for as a defined contribution plan as it no longer has any obligation towards members for defined benefits. Contributions are recognised as an expense and as a liability to the extent that they are unpaid.

The Land Bank Retirement Fund ("LBRF") in an umbrella fund within the Alexander Forbes Retirement Fund (AFRF).

ii) Defined benefit plans.

Under the Group's defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies. The liability recognised in the statement of financial position for defined benefit plans is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets.

Management estimates the DBO annually with the assistance of independent actuaries. This is based on standard rates of inflation, salary growth and mortality. Discount rates are determined by reference to market yields at the end of the reporting periods on government bonds that have terms to maturity approximating to the terms of the related pension liability. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income. They are included as a separate component of equity in the statement of financial position and in the statement of changes in equity. Service cost on the net defined benefit liability is included in employee benefits expense. Net interest expense on the net defined benefit liability is included in finance costs.

#### Medical aid fund

he Bank provides a post-retirement medical aid benefit to all employees who were either employees or pensioners of the Bank at 1 December 2005. The fund functions as a defined benefit scheme. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age. It is the Group's policy to pay the medical fund subscription fees on behalf of all pensioners in full and to fund the total obligation as and when it arises actuarial valuations of the Bank's liability are conducted on an annual basis by an independent qualified actuary on the projected unit credit method. The liability recognised in the statement of financial position in respect of defined benefit medical plan is the present value of the defined benefit obligation at the statement of financial position date. The benefit obligation at the statement of financial position date is not reflected net of assets since these assets are not held in a legally separate entity that is not available to the Bank's own creditors. The past service costs and interest costs are accounted for in the statement of profit or loss. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the statement of profit or loss and other comprehensive income in full.

## Accounting Policies

### 3.17 Employee benefits (continued)

#### Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service on an undiscounted basis. Accruals for employee entitlement to annual leave represents the present obligation, which the Group has to pay as a result of employees' services, provided to the reporting date. The accruals have been calculated at undiscounted amounts based on current salary rates. A liability is recognised for the amount expected to be paid under short-term bonuses in the Group as the Group has a present legal constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably. A present legal constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### 3.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision is made for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

### 3.19 Insurance contracts

Contracts under which the Company accepts significant risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance contracts issued provide personal and commercial benefits under crop and agri-assets policies, which included property, motor, engineering and liability cover.

Insurance contracts are classified into two main categories, depending on the type of insurance risks, namely short-term or long-term.

#### Non-life insurance

##### Gross written premiums

Gross written premiums exclude value added tax. Earned premiums are accounted for as income when the risk related to the insurance policy incepts and are spread over the risk period of the contract by using an unearned premium provision. All premiums are shown before deduction of commission payable to intermediaries.

##### Commission

Commission is payable to brokers and underwriting managers on non-life insurance business. Commission is accounted for on all in– force policies in the financial period during which it is incurred.

Acquisition costs for non-life insurance business is deferred over the period in which the related premiums are earned on a remaining days basis.

##### Fee income

The reinsurance broker pays the brokerage fee they earn on reinsurance premiums to the company in exchange for a flat brokerage fee earned over the period of the treaties. This fee income is earned quarterly on settlement of the accounts to reinsurers.

## Accounting Policies

### 3.18 Provisions (continued)

**Provision for unexpired risk**

Unexpired risks refer to policies that have already been written, but the period for which premium was received or is receivable has not expired as at the measurement date and extends into the following period. The provision for unexpired risk could exceed the UPP if the premium basis upon which the original business was written proves to have been inadequate. In this situation, the UPP is increased to a level consistent with the true risk profile of the business through an AURP. The Unexpired Risk Provision (URP) comprises of the Unearned Premium Provision (UPP) and the Additional Unexpired Risk Provision (AURP). The Unexpired Risk Provision ("URP") is a provision for claims and expenses in respect of future periods for which premiums have already been written/received (unexpired periods of risk cover). If the UPP is likely to exceed LBIC's liabilities on the unexpired cover, then URP = UPP. If the UPP is not sufficient to cover the URP, then the AURP is held.

**Notified Outstanding Claims Provision**

The Notified Outstanding Claims Provision (NOCP) is held in respect of those claims that have been notified but have not been paid or fully settled by the measurement date. NOCP within LBIC include estimates for Pending Claims and Incurred But Not Enough Reported ("IBNER'). These are estimated based on management expert estimation andare actuarially reviewed to be in line with recent historical claims experience. Where relevant, 75% sufficiency margins are held for the IBNER under the financial reporting basis.

The outstanding claims list received from the UMA contains claims which have been adequately assessed and those which are still waiting for an assessment. Case estimates are provided by the UMA. The assessed claims are the "Pending Claims" part of the NOCP. Where a claim has been adequately assessed, it is unlikely that there is further variation to the claim estimate. As the claims are assessed by suitable qualified, trained and competent assessors, there are hardly significant differences between the case estimates and what is eventually paid. The pending claims as reported by the UMA are taken as they and no further actuarial assessment is conducted. In instances where a notified claim is pending assessment and/or has a nil claim provision, it is considered as IBNER. Where there are nil claims provisions, LBIC's actuarial team estimates the IBNER by applying the average cost per claim to the number of IBNER claims.

The IBNER estimate considers claims data post the Valuation Date. Those claims that have been assessed (paid or unpaid) since the Valuation Date are not treated as an IBNER and thus carrying no actuarial assessment. For the claims that remained unassessed, the sufficiency of the IBNER claims provision is tested by applying the average claim cost to the number of IBNER claims. A simulation of the claim amounts is done to test the IBNER at a 75% sufficiency level.

**Deferred acquisition costs (DAC).**

Deferred Acquisition Costs (DAC) consist of commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. Deferred acquisition costs are amortised at incidence of risk basis and are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

The DAC asset is tested for impairment annually and written down when it is not expected to be fully recovered from future income.

**Receivables and payables related to insurance contracts**

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders and are included at amortised cost.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of profit or loss and other comprehensive income. The Group gathers objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables.

The impairment loss is also calculated according to the same method used for these financial assets. These contracts provide long-term life insurance benefits with fixed terms to cover natural persons who are indebted to the Group under mortgage loans, production loans and short-term loans.

#### Recognition and measurement

**Premiums**

Premiums are recognised as revenue when they become payable by the contract holder, viz. at policy inception. Premiums are shown before deduction of commission.

**Fees and commission earned**

Insurance contract policyholders are charged for policy administration services, surrenders and other contract fees. These fees are recognised as revenue over the period in which related services are performed. If the fees are for services provided for future periods, then they are deferred and recognised over those future periods.

## Accounting Policies

### 3.18 Provisions (continued)

**Underwriting benefits**
Life insurance policy claims received up to the last day of each financial period and IBNR claims are provided for and included in underwriting policy benefits. Past claims experience is used as the basis for determining the extent of the IBNR claims. Income from reinsurance policies is recognised concurrently with the recognition of the related policy benefit.

**Liability adequacy test**
At each statement of financial position date, the Group performs a liquidity adequacy test to assess whether its recognised insurance liabilities are adequate in terms of the Financial Soundness Valuation (FSV) basis as described in SAP 104. The FSV basis meets the minimum requirements of the liquidity adequacy test. If this assessment shows that the carrying amount of its insurance liabilities are inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the statement of comprehensive income.

**Reinsurance contracts held**
Contracts entered into with reinsurers under which the Group is compensated for losses on one or more long-term policy contracts issued by the Group are classified as long-term reinsurance contracts. The expected claims and benefits to which the Group is entitled to under these contracts are recognised as assets.

The Group assesses its long-term reinsurance assets for impairment annually. If there is objective evidence that the reinsurance asset is impaired, the carrying amount is reduced to a recoverable amount, and the impairment loss is recognised in the statement of profit or loss and other comprehensive income. Reinsurance liabilities are premium payable for reinsurance contracts and are recognised as expenses when incurred.

**Life insurance liability**
In terms of IFRS 4 – Insurance contracts, defined insurance liabilities are allowed to be measured under existing local practice. The Company used the FSV method, as described in the Standard of Actuarial Practice (SAP) 104 (version 10) issued by the Actuarial Society of South Africa (Actuarial Society), to determine the actuarial value of the policyholders' liabilities. The underlying philosophy is to recognise profits prudently over the term of each contract consistent with the work done and risk borne. In the valuation of liabilities, provision is made for:

- The best estimate assumptions which are guided by past experience and modified for any knowledge of or expectations of future experience;
- The compulsory margins prescribed in the Long-term Insurance Act of 1998; and
- The FSV makes allowance for additional (discretionary) margins where the Actuary believes that the compulsory margins are insufficient for the prudent release of profits or where policy design or company practice so requires. No discretionary margins were set.

The best estimate of future experience is determined as follows:

- The investment return was set as per the implied yield curve issued by the Prudential Authority (PA).
- Assumptions with regard to future mortality rates are consistent with LBLICs recent experience or expected future experience if this would result in a higher liability. In particular, mortality rates are adjusted to allow for expected deterioration inmortality rates as a result of AIDS;
- Persistency assumptions with regard to lapse rate are consistent with LBLIC's recent experience or expected future experience if this would result in a higher liability.
- Expenses are set at a realistic level with reference to the recent expense investigation, making allowance for expected future expenses using an appropriate expense inflation rate that is consistent with the rate of interest rate used.
- The expense inflation rate was set as per the implied inflation curve issued by the Prudential Authority (PA) as at 31 March 2023.

- The interest rate assumption has been updated to correspond to the yield curve as published by the PA as at 31 March 2023.
- The economic basis is consistent with the regulatory valuation basis.

## Notes to the Financial Statements

An Additional Unexpired Risk Reserve (AURR) is held on group business with an operating ratio greater than 100%. An AURR is held if the current unearned premiums are considered to be insufficient to cover the unexpired risk. The additional reserve is set at such a level as to enable the Company to pay all future expected claims in respect of the unexpired risk. There has been no change in the AURR methodology.

The COVID-19 reserve, initially set up 2 years ago, has been released as the Company's target market is the agricultural sector with policyholders distributed geographically. The Company has not seen an increase in claims as a result of the pandemic. The reserve that had been set up was relatively immaterial.

No margins are held on the AURR.

The modelling of reinsurance rates was updated for Group Credit Life in line with the revised reinsurance treaty.

An Incurred but Not Reported (IBNR) reserve is calculated for the Individual and Group business currently underwritten by the Company. The IBNR methodology splits out the average claim delay and average claim amount between Group and Individual business. A margin of 7.5% has been maintained

### Acquisition costs

Referral fees are payable to Land Bank branches on the life insurance business. Referral fees and commission are accounted for on all in– force policies in the financial period during which it is incurred. The portion of the referral fees that is directly attributable to the acquisition of long-term recurring premium insurance policy contracts is recognised directly to the statement of comprehensive income.

## 4. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | *2022 R'000 | 2023 R'000 | *2022 R'000 |
| Bank balances* | **349 006** | 1 007 726 | **222 803** | 869 233 |
| Short term deposits** | **15 132 235** | 8 976 034 | **15 132 235** | 8 975 983 |
| | **15 481 241** | 9 983 760 | **15 355 038** | 9 845 216 |

* *Cash at banks are primarily held to mitigate the Bank's refinancing/liquidity risk. Refer to note 36. for the credit risk ratings of the counterparties where bank accounts are held.*
*Short-term investments are made for one day periods, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates. The average rate earned on invested cash in FY22/23 is 5.56% (FY21/22: 4.21%). Due to the short-term nature of cash and cash equivalents, their carrying amount is considered to be the same as their fair value.*

** *Included in short term deposits is an amount of R5,1 billion, which is an equity injection transferred on the 31 March 2023, by the Shareholder. During 2023, the Shareholder transferred R6bn of the R7bn appropriated to Land Bank during February 2021, with the remaining R1bn to be transferred during FY23/24. Of that R6 billion, R889 million was repaid directly to guaranteed lenders and the remaining R5.1bn is sitting in an ESCROW account pending fulfilment of attached conditions, which include amongst other, the curing of the state of default with lenders. The R5,1 billion is not available for use by the group until all the conditions are met. Refer to note 16 for the corresponding liability as well as note 3.2 for further details on the appropriation including the Directors'' report.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 5. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | *2022 R'000 | 2023 R'000 | *2022 R'000 |
| Trade receivables | **1 242 326** | 1 047 348 | **70 199** | 163 789 |
| Accrued income* | **69 027** | 36 807 | **69 027** | 36 807 |
| Accrued interest – hedging** | **1 172** | 18 944 | **1 172** | 18 944 |
| Receivable – Disposal of equity investment | **–** | 108 038 | **–** | 108 038 |
| Premium receivable*** | **623 754** | 506 143 | **–** | – |
| Reinsurance receivable*** | **548 373** | 377 417 | **–** | – |
| Other receivables**** | **373 485** | 305 677 | **342 196** | 257 618 |
| | **1 615 811** | 1 353 026 | **412 395** | 421 406 |

* *Accrued income comprises of accrued interest on short-term investments and accrued fees from funds under admin.*
** *The accrued interest on the hedging derivatives are offset and the net position is presented as the Group has a legal right to offset the amounts and intends to settle on a net basis.*
*** *The reinsurance and premium receivables have a low probability of default as the recovery is close to 100% year-on-year.*
**** *Other receivables consists of prepaid expenses, staff loans, recovery second loss and sundry debtors. Due to the short-term nature of these assets and historical experience, these assets are regarded as having a low probability of default; therefore, ECL is insignificant on these balances, because recoverability is close to 100%, staff loans are collected from staff salaries month-on-month, second loss recovery is recovered from the SLA partners month-on-month.*

### Classification of trade and other receivables

| | | | | |
|---|---|---|---|---|
| Prepaid expenses | **10 839** | 13 301 | **10 039** | 4 793 |
| Accrued income | **69 027** | 36 807 | **69 027** | 36 807 |
| Accrued interest – hedging | **1 172** | 18 944 | **1 172** | 18 944 |
| Trade and other receivables net of non-financial instruments | **1 504 181** | 1 283 974 | **332 158** | 360 862 |

## 6. Short-term insurance assets and liabilities

| | Group | |
|---|---|---|
| | 2023<br>R'000 | *2022<br>R'000 |
| Short-term insurance liabilities | 475 551 | 373 907 |
| Technical provision | 464 361 | 365 139 |
| Outstanding claims | 398 647 | 314 878 |
| Provision for unearned premiums | 63 333 | 49 492 |
| Provision for unexpired risk reserve | – | – |
| Incurred but not reported claims | 2 381 | 769 |
| Unearned commission income | 11 191 | 8 768 |
| Less: Short-term insurance assets | (341 301) | (266 040) |
| Reinsurers' share of technical provisions | (325 468) | (253 667) |
| Outstanding claims | (279 468) | (218 489) |
| Incurred but not reported claims | (1 652) | (533) |
| Provision for unearned premiums | (44 348) | (34 645) |
| Provision for unexpired risk reserve – ceded portion | – | – |
| Deferred acquisition costs | (15 833) | (12 373) |
| Net short-term insurance technical provisions | 134 250 | 107 867 |

The crop unearned premium provision (UPP) is calculated on the claims occurring basis for the published accounts, based on historical claims occurrence tables, which are reviewed annually. The winter crop premium is fully earned by 31 March. Below are the provisions calculated according to the statutory basis.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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**Notes to the Financial Statements**

## 6. Short-term insurance assets and liabilities (continued)

| | Gross R'000 | Reinsurance R'000 | Net R'000 |
|---|---|---|---|
| Unearned Premium Reserve movement | | | |
| Balance at 31 March 2023 | 49 704 | (35 222) | 14 482 |
| Provision earned | (49 704) | 35 222 | (14 482) |
| New provision raised | 49 492 | (34 645) | 14 847 |
| Balance at 31 March 2022 | 49 492 | (34 645) | 14 847 |
| Provision earned | (49 492) | 34 645 | (14 847) |
| Provision increased | 63 333 | (44 333) | 19 000 |
| Balance at 31 March 2023 | **63 333** | **(44 333)** | **19 000** |

| | Gross R'000 | Reinsurance R'000 | Net R'000 |
|---|---|---|---|
| Deferred acquisition costs | | | |
| Balance at 31 March 2023 | 12 426 | (8 806) | 3 620 |
| Provision earned | (12 426) | 8 806 | (3 620) |
| Provision increased | 12 373 | (8 768) | 3 605 |
| Balance at 31 March 2022 | 12 373 | (8 768) | 3 605 |
| Provision earned | (12 373) | 8 768 | (3 605) |
| Provision increased | 15 833 | (11 191) | 4 642 |
| Balance at 31 March 2023 | **15 833** | **(11 191)** | **4 642** |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

### 6. Short-term insurance assets and liabilities (continued)

**Claims development table**

The following tables show claims paid in the year that it occurred as well as one year thereafter. Historically, no claims have been paid more than one year after the end of each incident year.

| | Group | |
|---|---|---|
| Gross claims paid | 2023 R'000 | *2022 R'000 |
| Incident year | – | – |
| At end of the incident year | (159 399) | (165 913) |
| One year later | (166 603) | (271 128) |
| Current estimate of gross cumulative claims paid | (326 002) | (437 041) |
| | | |
| Net claims paid | | |
| Incident year | – | – |
| At end of the incident year | (47 820) | (49 774) |
| One year later | (49 603) | (81 338) |
| Current estimate of net cumulative claims paid | (97 423) | (131 112) |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 6. Short-term insurance assets and liabilities (continued)

| Outstanding claims movement | Gross R'000 | Reinsurance R'000 | Net R'000 |
|---|---|---|---|
| Balance at 31 March 2023 | (30 167) | 22 757 | (7 410) |
| Movement in outstanding claims provisions | 154 800 | (108 076) | 46 724 |
| Balance at 31 March 2022 | 124 633 | (85 319) | 39 314 |
| Movement in outstanding claims provisions | 83 769 | (58 244) | 25 525 |
| Balance at 31 March 2023 | 208 402 | (143 563) | 64 839 |

| Incurred but not reported movement | Gross R'000 | Reinsurance R'000 | Net R'000 |
|---|---|---|---|
| Balance at 31 March 2023 | (4 858) | 3 479 | (1 379.00) |
| Movement in IBNR | (702) | 419 | (283) |
| Balance at 31 March 2022 | (5 560) | 3 898 | (1 662) |
| Movement in IBNR | 1 610 | (1 119) | 491 |
| Balance at 31 March 2023 | (3 950) | 2 779 | (1 171) |

## 7. Investments

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Investment in LBLIC | – | – | 30 | 30 |
| Investment in LBIC | – | – | 650 000 | 650 000 |
| Unlisted investments | 209 150 | 221 828 | 209 150 | 221 828 |
| Investment – Medical Fund | 352 970 | 337 823 | 352 970 | 337 823 |
| Investment in listed shares | 68 306 | 85 382 | 68 306 | 85 382 |
| Investments held by LBLIC | 1 136 127 | 1 234 694 | – | – |
| Investments held by LBIC | 469 075 | 253 660 | – | – |
| | 2 235 627 | 2 133 387 | 1 280 455 | 1 295 063 |
| Investment held with Coronation | | | | |
| These are investments held with Coronation Asset Managers. | | | | |
| Listed investments | 315 316 | 313 004 | 315 316 | 313 004 |
| Local equity | 126 917 | 173 459 | 126 917 | 173 459 |
| Local bonds | 59 700 | 66 713 | 59 700 | 66 713 |
| Foreign equity | 128 699 | 72 832 | 128 699 | 72 832 |
| Other | 28 110 | 15 786 | 28 110 | 15 786 |
| Commodities | – | 11 586 | – | 11 586 |
| Local Hedge Funds | 3 506 | 3 304 | 3 506 | 3 304 |
| Foreign unit trusts | 14 291 | 896 | 14 291 | 896 |
| Local real estate | 10 313 | – | 10 313 | – |
| Cash | 9 543 | 9 032 | 9 543 | 9 032 |
| Local | 1 952 | 7 866 | 1 952 | 7 866 |
| Foreign | 7 591 | 1 166 | 7 591 | 1 166 |
| | 352 970 | 337 823 | 352 970 | 337 822 |

The funds are entrusted to portfolio managers for investment purposes. The funds are earmarked to fund the future medical aid contributions of retired employees. The investments are classified at fair value through profit or loss and are measured and disclosed at fair value, except for cash which is measured at amortised cost. These investments are exposed to interest rate risk, equity price risk and foreign exchange risk. Refer to note 35 for more information on the related risks and mitigation strategies.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 7. Investments (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Investments held with Coronation are invested as follows: | | | | |
| Local equities | | | | |
| Financial (excl. real estate) | 30% | 26% | 30% | 26% |
| Basic materials | 15% | 26% | 15% | 26% |
| Industrials | 3% | 3% | 3% | 3% |
| Consumer goods | 15% | 8% | 15% | 8% |
| Health care | 3% | 2% | 3% | 2% |
| Consumer services | 16% | 16% | 16% | 16% |
| Telecommunications | 4% | 4% | 4% | 4% |
| Technology | 14% | 11% | 14% | 11% |
| Other securities | 3% | 6% | 3% | 6% |
| Refer to note 20. for the post-retirement obligation disclosure. | | | | |
| Unlisted investments | | | | |
| Fair value | | | | |
| Ordinary shares in Acorn Agri (Pty) Ltd | 72 850 | 78 190 | 72 850 | 78 190 |
| Ordinary shares in Ideafruit (Pty) Ltd | 51 100 | 47 397 | 51 100 | 47 397 |
| Ordinary shares in Afgri Grain Silo Company Pty Ltd | 85 200 | 96 241 | 85 200 | 96 241 |
| | 209 150 | 221 828 | 209 150 | 221 828 |

The above equity investments constitutes neither control, nor significant influence. Land Bank elected to apply its irrevocable right to designate these equity instruments at fair value through other comprehensive income.

#### Acorn Agri & Food Ltd

Land Bank holds 3.37% interest in Acorn Agri & Food Ltd. Acorn Agri & Food Ltd investment was valued as at 31 March 2023. The valuation was based on the market related Net Asset Value (NAV) of the company, resulting in an investment value of R72,8 million (FY21/22: R78 million) for the Bank.

#### Ideafruit (Pty) Ltd

Land Bank holds 19.9% interest in Ideafruit (Pty) Ltd and the investment was valued as at 31 March 2023. The valuation was based on the DCF valuations, resulting in an investment value of R51,1 million (FY21/22: R47 million) for the Bank.

## 7. Investments (continued)

**Afgri Grain Silo Company Pty Ltd**

Land Bank holds 19.9% interest in Afgri Grain Silo Company (Pty) Ltd and the investment was valued as at 31 March 2023. The valuation was based on the DCF and current asset valuations, resulting in an investment value of R85,2 million (FY21/22: R96 million) for the Bank.

**Listed Investment**

Rhodes Food Group Holdings Limited was valued in March 2023 based on the listed share price. The listed share price of Rhodes Food Group Holdings Limited as at 31 March 2023, was R8.80 per share (FY21/22:R11.00), resulting in an investment value of R68,31 million (FY20/21: R85,38 million) for the Bank. The shares are traded daily hence the share price is regarded as a fair share price.

| | Group | |
|---|---|---|
| | 2023<br>R'000 | *2022<br>R'000 |
| Investments held by LBLIC | | |
| Equities | 511 342 | 530 710 |
| Commodities | 30 004 | 22 130 |
| Bonds | 358 111 | 345 614 |
| Collective investment schemes | 141 042 | 131 999 |
| Cash deposits and similar securities | 231 965 | 204 221 |
| | 1 272 464 | 1 234 673 |
| Equities | | |
| Equities comprise: | | |
| Ordinary shares listed on the Johannesburg Stock Exchange (JSE) [1] | 511 342 | 530 710 |
| | 511 342 | 530 710 |
| Commodities | | |
| Exchange traded funds (ETF's) – local [1] | 30 004 | 22 130 |
| | 30 004 | 22 130 |
| Collective investment schemes ("CIS") | | |
| Equity – foreign unit trusts | 110 471 | 105 609 |
| Balanced fund – foreign | 30 571 | 26 389 |
| | 141 042 | 131 999 |

[1] *Investments at market prices per the JSE.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 7. Investments (continued)

| | Group | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| **Investments in interest bearing assets** | | |
| Bonds listed on the JSE Debt Market – at market value | 358 111 | 345 614 |
| Government | 85 495 | 92 114 |
| Corporate | 272 616 | 253 .500 |
| Cash, deposits and similar securities [1] | 231 965 | 204 221 |
| Deposits with banks – local | 122 576 | 119 643 |
| Money market instruments | 109 389 | 84 578 |
| | 590 076 | 549 836 |
| **Classification of investments in interest bearing assets** | | |
| – Amortised cost instruments | 122 576 | 119 643 |
| – Fair value through profit or loss | 467 500 | 430 193 |
| | 590 076 | 549 836 |
| **Other investments** | | |
| Other non-cash | 32 | 17 |

The other investments is classified at fair value through profit or loss.

Investments in foreign equities were made utilising pooled funds.

A register containing details of all investments is available for inspection at the registered office of LBLIC.

| | Group | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| **Investments in interest bearing assets** | | |
| Total investment in interest bearing assets | 332 652 | 253 660 |
| Bonds – valued at fair value through profit and loss | 280 436 | 199 738 |
| Cash – valued at fair value through profit and loss | 52 216 | 53 921 |

## 8. Derivative Assets

The Bank's main driver of earnings is net interest income, which is the difference between interest income received on assets and interest expense incurred on funding liabilities. The Bank is exposed to "basis risk" as a result of different underlying reference rates of interest earning assets and interest incurring liabilities with Prime and Jibar respectively.

To manage the Bank's exposure to "basis risk" and in an effort to protect the Bank's net interest margin, the Land Bank Board approved an Interest Rate Risk Management Strategy during FY17/18; hedging the mismatch moderately between the lending and funding rate.

The Bank's Interest Rate Management Strategy was drafted and is reviewed annually in the context of the Corporate Plan, Risk Appetite Framework, Borrowing and Funding Plan and Treasury Policy Framework.

The table below sets out derivative assets and liabilities by the type of hedge relationship in which they are designated.

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Hedging derivatives | | | | |
| Interest rate swap | 1 321 | 9 896 | 1 321 | 9 896 |
| The nominal amount of derivatives designated in cash flow hedge relationships is as follows. | | | | |
| Interest rate swaps | | | | |
| – Asset | 900 000 | 4 400 000 | 900 000 | 4 400 000 |
| – Liability | (900 000) | (4 400 000) | (900 000) | (4 400 000) |
| | – | – | – | – |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 8. Derivative Assets (continued)

The following tables show the notional amount of derivatives in time bands based on the maturity of the derivatives.

| | 0 to 12 Months R'000 | 1 to 2 Years R'000 | 2 to 3 Years R'000 | 3 to 5 Years R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2023** | | | | | |
| Group and Bank | | | | | |
| Interest rate swaps | | | | | |
| – Pay | – | 800 000 | – | – | 800 000 |
| – Receive | – | | | | |
| **2022** | | 800 000 | – | – | 800 000 |
| Group and Bank | | | | | |
| Interest rate swaps | | | | | |
| – Pay | – | 3 600 000 | – | 800 000 | 4 400 000 |
| – Receive | – | 3 600 000 | – | 800 000 | 4 400 000 |

## 9. Loans and advances

**Group and Company**

| Gross loans per business segment | Gross Loans R'000 | Expected Credit Loss (ECL) R'000 | Net Loans R'000 |
|---|---|---|---|
| **2023** | | | |
| Corporate Banking and Structured Investments (CB&SI) | 6 349 861 | (1 007 578) | 5 342 283 |
| Commercial Development and Business Banking (CDBB) | 12 541 380 | (3 042 929) | 9 498 450 |
| Loan commitments and guarantees | – | (15 321) | (15 321) |
| Loan Modifications4 CB&SI | (35 210) | – | (35 210) |
| Loan Modifications4 CDBB | (24 973) | – | (24 973) |
| | 18 831 058 | (4 065 828) | 14 765 230 |
| **2022** | | | |
| Corporate Banking and Structured Investments | 8 928 203 | (1 194 405) | 7 733 799 |
| Commercial Development and Business Banking | 17 004 357 | (4 012 150) | 12 992 208 |
| Loan commitments and guarantees | – | (180 260) | (180 261) |
| Loan Modifications4 CB&SI | (35 210) | – | (35 210) |
| Loan Modifications4 CDBB | (22 040) | – | (22 040) |
| | 25 875 311 | (5 386 815) | 20 488 496 |

| Loan type | Nature of Interest Rate | Average Term of Repayment | Average Interest Rate 2023 | Average Interest Rate 2022 |
|---|---|---|---|---|
| Short term loans | Variable | 1 year | 11.83% | 8.99% |
| Medium term loans | Variable | 1 to 5 years | 12.62% | 9.20% |
| Long term loans | Variable/ Fixed | > 5 years | 11.25% | 8.39% |

Loans by maturity profile

Refer to note 35 for details about maturity analysis

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

## 9. Loans and advances (continued)

| Loans by credit quality | Performing Loans[1] R'000 | Under Performing Loans[2] R'000 | Non–performing Loans[3] R'000 | Total R'000 |
|---|---|---|---|---|
| **2023** | | | | |
| Corporate Banking and Structured Investments | 3 190 847 | 945 805 | 2 213 208 | 6 349 861 |
| Commercial Development and Business Banking | 4 147 118 | 825 657 | 7 568 604 | 12 541 380 |
| Loan Modifications4 CB&SI | (21 485) | (13 725) | – | (35 210) |
| Loan Modifications4 CDBB | (12 168) | (7 941) | (4 864) | (24 973) |
| Gross loans and advances | 7 304 313 | 1 749 797 | 9 776 948 | 18 831 058 |
| Expected Credit Loss (ECL) | (92 766) | (54 167) | (3 903 574) | (4 050 507) |
| Net loans and advances | 7 211 547 | 1 695 630 | 5 873 374 | 14 780 551 |

| | |
|---|---|
| Guarantees | – |
| Loan commitments***** | 897 558 |
| Gross loan commitments and guarantees | 897 558 |
| Expected Credit Loss (ECL) | (15 321) |
| Net loan commitments and guarantees | 882 237 |

*Performing loans: A significant increase in credit risk could not be recorded. These loans are of an acceptable credit quality. Repayment is expected in compliance with the credit agreement.*

** *Under performing loans: Loans are exposed to a significant increase in credit risk as identified based on probability of defaults (PDs) and warning signals that materialises between origination and reporting. As a minimum, loans that are in arrears for 30 days and more are classified as under performing loans.*

*** *Non-performing loans: Loans that have failed to meet the terms and conditions of the credit agreement and there are further indicators of the unlikeliness to repay the loan. Loans that are as a minimum 90 days in arrears, are classified as non-performing.*

**** *Refer to note 35 for modification disclosure.*

***** *The loan commitments are undrawn balances.*

## Notes to the Financial Statements

### 9. Loans and advances (continued)

| Loans by credit quality | Performing Loans[1] R'000 | Under Performing Loans[2] R'000 | Non–performing Loans[3] R'000 | Total R'000 |
|---|---|---|---|---|
| **2022** | | | | |
| Corporate Banking and Structured Investments | 3 421 602 | 3 027 086 | 2 479 516 | 8 928 203 |
| Commercial Development and Business Banking | 5 137 983 | 1 990 022 | 9 876 352 | 17 004 357 |
| Loan Modifications4 CB&SI | (21 485) | (13 725) | – | (35 210) |
| Loan Modifications4 CDBB | (12 056) | (6 347) | (3 637) | (22 040) |
| Gross loans and advances | 8 526 044 | 4 997 036 | 12 352 231 | 25 875 311 |
| Expected Credit Loss (ECL) | (182 026) | (551 416) | (4 473 113) | (5 206 555) |
| Net loans and advances | 8 344 019 | 4 445 620 | 7 879 118 | 20 668 756 |

| | |
|---|---|
| Guarantees | 4 290 |
| Loan commitments***** | 1 491 686 |
| Gross loan commitments and guarantees | 1 495 976 |
| Expected Credit Loss (ECL) | (180 260) |
| Net loan commitments and guarantees | 1 315 716 |

* *Performing loans: A significant increase in credit risk could not be recorded. These loans are of an acceptable credit quality. Repayment is expected in compliance with the credit agreement.*
** *Under performing loans: Loans are exposed to a significant increase in credit risk as identified based on probability of defaults (PDs) and warning signals that materialises between origination and reporting. As a minimum, loans that are in arrears for 30 days and more are classified as under performing loans.*
*** *Non-performing loans: Loans that have failed to meet the terms and conditions of the credit agreement and there are further indicators of the unlikeliness to repay the loan. Loans that are as a minimum 90 days in arrears, are classified as non-performing.*
**** *Refer to note 35 for modification disclosure.*
***** *The loan commitments are undrawn balances.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 9. Loans and advances (continued)

Expected Credit Loss provision: reconciliation of movement per business unit

| Group and Company | Corporate Banking and Structured Investments R'000 | Commercial Development and Business Banking R'000 | Loan Commitments and Guanrantees R'000 | Total R'000 |
|---|---|---|---|---|
| **2023** | | | | |
| Balance at the beginning of the year[1] | 1 073 411 | 3 186 505 | 180 260 | 4 440 176 |
| Movement for the year | | | | |
| Credit losses written off: | (84 946) | (999 325) | – | (1 084 271) |
| – Statement of financial position write off (utilisation) | (46 183) | (638 914) | – | (685 098) |
| – Statement of comprehensive income write off | (38 762) | (360 411) | – | (399 173) |
| Second loss sharing* | | | | – |
| Net impairment raised to the statement of comprehensive income | 55 282 | (168 566) | (164 939) | (278 223) |
| Balance at the end of the year[1] | 1 043 747 | 2 018 614 | 15 321 | 3 077 682 |
| **2022** | | | | |
| Balance at the beginning of the year[1] | 797 532 | 3 929 320 | 576 924 | 5 303 777 |
| Movement for the year | | | | |
| Credit losses written off: | (1 641) | (7 441) | – | (9 081) |
| – Statement of financial position write off (utilisation) | – | (2 159) | – | (2 159) |
| – Statement of comprehensive income write off | (1 641) | (5 281) | – | (6 922) |
| Second loss sharing* | | | | – |
| Net impairment raised/ (released) to the statement of comprehensive income | 277 520 | (735 375) | (396 664) | (854 519) |
| Balance at the end of the year [1] | 1 073 411 | 3 186 505 | 180 260 | 4 440 176 |

[1] *The balances exclude suspended interest of R988,1 million (FY21/22: R946,6 million).*
* *Second loss sharing is a recovery of losses incurred on loans acquired through the SLA partners.*

## 9. Loans and advances (continued)

Impairment releases/(charges), claims and recoveries

| Group and Company | Corporate Banking and Structured Investments R'000 | Commercial Development and Business Banking R'000 | Loan Commitments and Guarantees R'000 | Total R'000 |
|---|---|---|---|---|
| **2023** | | | | |
| Net impairments raised to the statement of comprehensive income | 55 282 | (168 566) | (164 939) | (278 223) |
| Recoveries in respect of amounts previously written off1 | – | (40 573) | – | (40 573) |
| Second loss sharing* | – | (49 528) | – | (49 528) |
| | 55 282 | (258 667) | (164 939) | (368 324) |
| **2022** | | | | |
| Net impairments raised/ (released) to the statement of comprehensive income | 277 520 | (735 374) | (396 664) | (854 519) |
| Recoveries in respect of amounts previously written off1 | (213 968) | (62 122) | – | (276 090) |
| Second loss sharing* | – | (79 441) | – | (79 441) |
| | 63 552 | (876 938) | (396 664) | (1 210 050) |

1 *Off balance sheet debt collection amounting to R261,6 million (2022 R61,7 million) that was previously written off is still subject to legal action.*
* *Second loss sharing is a recovery of losses incurred on loans acquired through the SLA partners.*

### Collateral held as security

The Group holds collateral which it is entitled to sell in the case of default by the owner of the collateral. The amount and type of collateral held for the exposure depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of the types of collateral. The value of the collateral is determined with reference to the realisable value (recoverable amount) of security under forced-sale conditions.

The Land and buildings is disclosed at the lower of bond value or security value after considering haircuts. The collateral policy of Land bank, is that collateral is valued at inception and in three-year intervals. The collateral is also valued when a facility is renewed or restructured.

## Notes to the Financial Statements

### 9. Loans and advances (continued)

The Group has the following assets held as security against its loan portfolio:

| | Company | |
|---|---|---|
| | 2023<br>R'000 | 2022<br>R'000 |
| Nature of assets* | | |
| Bank Guarantees | **54 854** | 54 854 |
| Biological Assets | **1 753 951** | 1 573 936 |
| Cash Deposits | **217 974** | 214 550 |
| Trade Debtors | **156 014** | 391 883 |
| Inventory | **232 559** | 800 872 |
| Land and Buildings | **19 892 133** | 25 845 594 |
| Office and Computer Equipment | **34** | – |
| Plant and Equipment | **264 357** | 462 410 |
| Shares and investments | **577 167** | 527 591 |
| Vehicles and implements | **66 912** | 132 101 |
| | **23 215 955** | 30 003 791 |

The quality of the collateral has not deteriorated from previous years. The reduction in collateral values is primarily due to the attrition of the loan book through client settlements as Customers have sought assistance from other commercial banks. The Bank is also conducting frequent collateral valuations in line with the updated policies, thereby ensuring that the most recent Market Values, which takes into account prevailing market conditions, are relied upon.

Refer to note 35 for details about the maximum exposure to credit risk for each class of financial instrument exposed to credit risk as at 31 March 2023. At the end of the Financial year ended 31 March 2023, loans where collateral held covered the carrying amount in full amounted to R116,5 million (2022: R113,4 million).

## 9. Loans and advances (continued)

Collateral held as security and other credit enhancements relating to credit impaired financial assets.

| | Gross Exposure R'000 | Impairment Allowance R'000 | Carrying Amount R'000 | Realisable Value of Collateral Held R'000 |
|---|---|---|---|---|
| **2023** | | | | |
| Loans and advances | **9 776 948** | **(3 577 200)** | **6 199 749** | **6 562 008** |
| **2022** | | | | |
| Loans and advances | 12 352 231 | (4 066 978) | 8 285 253 | 9 390 971 |

### Concentration of credit risk

Land Bank's business is exposed to credit concentration risk in the agricultural sector, as well as to certain counterparties / group of connected parties mainly within the Corporate Banking & Structured Investments portfolio. During the year under review, the Land Bank performed a concentration risk analysis to determine acceptable risk absorption capacity considering the current balance sheet size and income statement.

In October 2022, the Board of Directors revised the Credit concentration limits for Corporate Banking and Structured Investments (CB&SI) from a single obligor limit of 7.5% down to 2.5% of the Capital base (excluding National Treasury guarantee). In addition, the Board further reduced the Commercial Development and Business Banking (CDBB) Single/Group Obligor limit from R150 million to 2.5% of the bank's capital base which translates to R73m. The revised concentration limit applies only to new credit facilities. The Board of Directors thus condoned all existing exposures in excess of the approved limit with a strategy to gradually reduce them to the required level using the asset solution or sell down underway.

As at the close of FY22/23, the top 18 CB&SI exposures were above the new Single/Group Obligor limit of R73m (being 2.5% of the Capital Base excluding National Treasury guarantee) and top 9 of the 20 CDBB exposures were above the Single obligor limit. As indicated above, the existing exposures were condoned by the Board as the new single obligor limit applies to new approvals with effect from 1 Nov 2022.

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### Notes to the Financial Statements

## 10. Non-current assets held-for-sale

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Properties in possession | **11 359** | 9 609 | **11 359** | 9 609 |
| | **11 359** | 9 609 | **11 359** | 9 609 |
| Reconciliation of movement | | | | |
| Opening balance | **9 609** | 4 058 | **9 609** | 4 058 |
| Plus: Additions | **1 750** | 5 700 | **1 750** | 5 700 |
| Less: Disposals | **–** | – | **–** | – |
| Re-measurement recognised | **–** | (149) | **–** | (149) |
| Reclassification from Investment Properties* | **–** | – | **–** | – |
| Closing balance | **11 359** | 9 609 | **11 359** | 9 609 |

### Properties in possession

These represent the properties brought in by the Group due to clients defaulting on their loan payments. The intention of the Group is to sell these properties to recover the outstanding payments on the defaulted loans. The Group exclusively hold these properties with a view to dispose of them. These properties in possession are farm holdings and the Group has no intention to occupy them. Some of these properties have been on sale for more than twelve months, and this is beyond the control of the bank, as the Group remains committed to sell these properties and continues to actively advertise them for sale. In view of the current volatile market conditions, the properties in possession will only be disposed of, as and when conditions render it economically viable.

BP 1938 located in Pietermaritzburg
BP 2102 located in East London
BP 2116 located in Theunissen
BP 2118 located in Theunissen
BP 2119 located in Potchefstroom
BP2120 located in Polokwane
BP2121 located in Ventersburg
BP2122 located in Polokwane
BP2123 located in Fauresmith

## 11. Investment property

### Group

| 2023 | Cost or Revaluation | Accumulated Depreciation | Transfers* | Fair Value Adjustments | Carrying Value |
|---|---|---|---|---|---|
| Investment property | **97 400** | **–** | **–** | **610** | **98 010** |

| 2022 | Cost or Revaluation | Accumulated Depreciation | Transfers* | Fair Value Adjustments | Carrying Value |
|---|---|---|---|---|---|
| Investment property | 95 100 | – | – | 2 300 | 97 400 |

| 2023 | Cost or Revaluation | Accumulated Depreciation | Transfers* | Fair Value Adjustments | Carrying Value |
|---|---|---|---|---|---|
| Investment property | **97 400** | **–** | **–** | **610** | **98 010** |

| 2022 | Cost or Revaluation | Accumulated Depreciation | Transfers* | Fair Value Adjustments | Carrying Value |
|---|---|---|---|---|---|
| Investment property | 95 100 | – | – | 2 300 | 97 400 |

The fair value of investment property was determined by using the net income capitalisation method. This is a combination of capitalisation and discounting. The inputs used are gross market rentals, operating costs, the perpetual vacancy, market capitalisation rate and net present value. Refer to note 36.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

## 12. Property, plant and equipment

| Group | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Cost/ Revaluation | Accumulated Depreciation | Carrying Value | Cost/ Revaluation | Accumulated Depreciation | Carrying Value |
| Land | 4 479 | – | 4 479 | 4 383 | – | 4 383 |
| Buildings | 22 488 | (1 267) | 21 221 | 21 378 | (911) | 20 467 |
| Furniture, fittings and office equipment | 18 000 | (15 843) | 2 157 | 17 923 | (15 849) | 2 074 |
| Motor vehicles | 301 | (241) | 60 | 524 | (419) | 105 |
| IT equipment | 42 538 | (36 183) | 6 355 | 38 080 | (36 020) | 2 060 |
| Leasehold improvements | 1 313 | (817) | 496 | 795 | (735) | 60 |
| Total | 89 119 | (54 351) | 34 768 | 83 083 | (53 934) | 29 149 |

| Company | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Cost/ Revaluation | Accumulated Depreciation | Carrying Value | Cost/ Revaluation | Accumulated Depreciation | Carrying Value |
| Land | 4 479 | – | 4 479 | 4 383 | – | 4 383 |
| Buildings | 22 488 | (1 267) | 21 221 | 21 378 | (911) | 20 467 |
| Furniture, fittings and office equipment | 18 000 | (15 843) | 2 157 | 17 664 | (15 636) | 2 028 |
| Motor vehicles | 301 | (241) | 60 | 524 | (419) | 105 |
| IT equipment | 42 179 | (35 872) | 6 307 | 37 743 | (35 728) | 2 015 |
| Leasehold improvements | 1 313 | (817) | 496 | 795 | (735) | 60 |
| Total | 88 760 | (54 040) | 34 720 | 82 487 | (53 429) | 29 058 |

## 12. Property, plant and equipment

Reconciliation of property, plant and equipment – Group – 2023

| | Opening Balance | Additions | Disposals | Revaluations/ Devaluations | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 4 383 | – | – | 96 | – | 4 479 |
| Buildings | 20 467 | – | – | 2 021 | (1 267) | 21 221 |
| Furniture, fittings and office equipment | 2 074 | 262 | (23) | – | (157) | 2 157 |
| Motor vehicles | 105 | – | (45) | – | – | 60 |
| IT equipment | 2 060 | 5 722 | (19) | – | (1 408) | 6 355 |
| Leasehold improvements | 60 | 576 | (59) | – | (81) | 496 |
| Total | 29 149 | 6 560 | (146) | 2 117 | (2 913) | 34 768 |

Reconciliation of property, plant and equipment – Group – 2022

| | Opening Balance | Additions | Disposals | Revaluations/ Devaluations | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 2 200 | – | – | 2 183 | – | 4 383 |
| Buildings | 15 700 | – | – | 5 678 | (911) | 20 467 |
| Furniture, fittings and office equipment | 2 306 | 53 | – | – | (285) | 2 074 |
| Motor vehicles | 105 | – | – | – | – | 105 |
| IT equipment | 1 295 | 1 699 | (11) | – | (923) | 2 060 |
| Leasehold improvements | 249 | – | (184) | – | (5) | 60 |
| Total | **21 855** | **1 752** | **(195)** | **7 861** | **(2 124)** | **29 149** |

## 12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – Company – 2023

| | Opening Balance | Additions | Disposals | Transfers* | Revaluations/ Devaluations | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 4 383 | – | – | – | 96 | – | 4 479 |
| Buildings | 20 467 | – | – | – | 2 021 | (1 267) | 21 221 |
| Furniture, fittings and office equipment | 2 028 | 260 | (23) | 49 | – | (157) | 2 157 |
| Motor vehicles | 105 | – | (45) | – | – | – | 60 |
| IT equipment | 2 015 | 5 722 | (19) | (37) | – | (1 374) | 6 307 |
| Leasehold improvements | 60 | 576 | (59) | – | – | (81) | 496 |
| Total | 29 058 | 6 558 | (146) | 12 | 2 117 | (2 879) | 34 720 |

Reconciliation of property, plant and equipment – Company – 2022

| | Opening Balance | Additions | Disposals | Transfers* | Revaluations/ Devaluations | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 2 200 | – | – | – | 2 183 | – | 4 383 |
| Buildings | 15 700 | – | – | – | 5 678 | (911) | 20 467 |
| Furniture, fittings and office equipment | 2 256 | 53 | – | – | – | (282) | 2 028 |
| Motor vehicles | 105 | – | – | – | – | – | 105 |
| IT equipment | 1 245 | 1 699 | (11) | (28) | – | (890) | 2 015 |
| Leasehold improvements | 249 | – | (184) | – | – | (5) | 60 |
| **Total** | **21 755** | **1 752** | **(195)** | **(28)** | **7 861** | **(2 088)** | **29 058** |

* *These are intercompany transfers of assets from the parent company to the subsidiaries and vice versa as and when a need arises. This does not relate to reclassifying assets from one class to another.*

There are no restrictions on the title of the property and no property has been pledged as security. The Group does not have any contractual commitments for the acquisition of property.

IFRS requires that the carrying values of land and buildings if they had to be carried using the historical cost method should be disclosed. As a result of the buildings being purchased many years ago, the latest being 1998, it is not possible for the Bank to determine and disclose the carrying values of each property and in addition to this the values at which the properties were purchased are negligible in comparison to the current carrying values disclosed using the revaluation method.

Please refer to note 36 for the fair values applied on the valuations.

## 13. Leases

### 3.1 Right of use of assets (ROU)

**Group**

| 2023 | Buildings* R'000 | Motor Vehicles R'000 | Printers R'000 | Total R'000 |
|---|---|---|---|---|
| At 30 April 2022 | 3 909 | – | – | 3 909 |
| Additions | 31 457 | – | 1 028 | 32 485 |
| Depreciation | (8 099) | – | – | (8 099) |
| At 31 March 2023 | 27 268 | – | 1 028 | 28 296 |

| 2022 | Buildings R'000 | Motor Vehicles R'000 | Printers R'000 | Total R'000 |
|---|---|---|---|---|
| At 30 April 2021 | 18 652 | 2 094 | | 20 746 |
| Additions | 2 128 | – | | 2 128 |
| ROU derecognised | (692) | – | | (692) |
| Depreciation | (16 179) | (2 094) | | (18 273) |
| At 31 March 2022 | 3 909 | – | | 3 909 |

**Company**

| 2023 | Buildings* R'000 | Motor Vehicles R'000 | Printers R'000 | Total R'000 |
|---|---|---|---|---|
| At 30 April 2022 | 3 909 | - | - | 3 909 |
| Additions | 31 457 | - | 1 028 | 32 485 |
| Depreciation | (8 099) | - | - | (8 099) |
| At 31 March 2023 | 27 268 | - | 1 028 | 28 296 |

| 2022 | Buildings R'000 | Motor Vehicles R'000 | Printers R'000 | Total R'000 |
|---|---|---|---|---|
| At 30 April 2021 | 18,653 | 1 999 | - | 20,652 |
| Additions | 2,128 | | - | 2 128 |
| ROU derecognised | (693) | | - | (693) |
| Depreciation | (16,179) | (1 999) | - | (18 178) |
| At 31 March 2022 | 3 909 | | - | 3 909 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 13. Leases (continued)

### 13.2 Lease Liabilities

**Group**

| 2023 | Buildings* R'000 | Motor Vehicles R'000 | Printers R'000 | Total R'000 |
|---|---|---|---|---|
| At 30 April 2022 | 4 933 | – | – | 4 933 |
| Additions | 31 457 | – | 1 028 | 32 485 |
| Interest expense | 540 | – | 7 | 547 |
| Lease liability derecognised | - | – | – | – |
| Lease payments | (8 967) | – | (32) | (9 000) |
| At 31 March 2023 | 27 963 | – | 1 003 | 28 966 |

| 2022 | Buildings R'000 | Motor Vehicles R'000 | Printers R'000 | Total R'000 |
|---|---|---|---|---|
| At 30 April 2021 | 20 856 | 2 320 | – | 23 176 |
| Additions | 2 128 | – | – | 2 128 |
| Interest expense | 1 072 | 66 | – | 1 138 |
| Lease liability derecognised | (918) | – | – | (918) |
| Lease payments | (18 206) | (2 386) | – | (20 592) |
| At 31 March 2022 | 4 932 | – | – | 4 932 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 13. Leases (continued)

### 13.2 Lease Liabilities (continued)

**Company**

| **2023** | Buildings* R'000 | Motor Vehicles R'000 | Printers R'000 | Total R'000 |
|---|---|---|---|---|
| At 30 April 2022 | 4 933 | – | – | 4 933 |
| Additions | 31 457 | – | 1 028 | 32 485 |
| Interest expense | 540 | – | 7 | 547 |
| Lease liability derecognised | - | – | – | – |
| Lease payments | (8 967) | – | (32) | (9 000) |
| At 31 March 2023 | 27 963 | – | 1 003 | 28 966 |

| **2022** | Buildings R'000 | Motor Vehicles R'000 | Printers R'000 | Total R'000 |
|---|---|---|---|---|
| At 30 April 2021 | 20 857 | 2 320 | – | 23 176 |
| Additions | 2 128 | – | – | 2 128 |
| Interest expense | 1 072 | 66 | – | 1 138 |
| Lease liability derecognised | (918) | – | – | (918) |
| Lease payments | (18 206) | (2 386) | – | (20 592) |
| At 31 March 2022 | 4 932 | – | – | 4 932 |

Refer to note 35 for details about maturity analysis.

* *In the current year under review the Bank entered into 3 new building lease agreements for Head Office, Bellville and Nelspruit. In addition, the Bank also leased new printers across all the 9 provinces these new leases have resulted in the significant movement in the current year. Refer to note 35 for the lease maturities.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 14. Intangible assets

**Group**

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortisation | Carrying Value | Cost | Accumulated Amortisation | Carrying Value |
| Computer software | 83 032 | (81 477) | 1 555 | 82 335 | (80 720) | 1 615 |

**Company**

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortisation | Carrying Value | Cost | Accumulated Amortisation | Carrying Value |
| Computer software | 83 032 | (81 477) | 1 555 | 82 335 | (80 720) | 1 615 |

Reconciliation of Intangible assets Group – 2023

| | Opening Balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 1 615 | 697 | (757) | 1 555 |

Reconciliation of Intangible assets Group – 2022

| | Opening Balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 2 766 | – | (1 151) | 1 615 |

Reconciliation of Intangible assets Company – 2023

| | Opening Balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 1 615 | 697 | (757) | 1 555 |

Reconciliation of Intangible assets Company – 2022

| | Opening Balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 2 766 | – | (1 151) | 1 615 |

The Group reassessed the useful lives of all the intangible assets at the beginning of the FY21/22 financial year together in order to reflect the most correct estimated useful lives of all intangible assets.

## 15. Distributable and other reserves

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Distributable reserves from continuing operations | | | | |
| Capital fund | **8 286 785** | 7 397 655 | **8 286 785** | 7 397 655 |
| Accumulated loss | **(2 690 847)** | (3 191 993) | **(3 773 418)** | (4 255 614) |
| Total distributable reserves | **6 057 080** | 4 573 718 | **4 973 695** | 3 510 130 |
| FVTOCI | **(748 351)** | (737 412) | **(748 351)** | (737 411) |
| Revaluation reserve | **143 058** | 140 941 | **143 058** | 140 941 |
| | **4 990 645** | 3 609 191 | **3 908 074** | 2 545 573 |

### Accumulated loss
Comprises of accumulated retained loss.

### Capital fund
The Capital fund consists of an initial loan by government, which was converted to equity in 2006 as part of the government commitment to support the Bank as well as further capital injections from the National Treasury in FY14/15 and FY20/21.

### FVTOCI
The reserve relates to the fair value adjustment on the unlisted and listed investments held by the Bank and actuarial gain on the post-retirement obligation.

### Revaluation reserve
The revaluation reserve represents the net surplus arising on the revaluation of owner-occupied properties. The revaluation surplus on a property is transferred to the profit and loss only once that property is disposed of.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

## 16. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Accrued expenses | 36 880 | 50 871 | 33 882 | 44 143 |
| Premiums received in advance | 6 | 6 | – | – |
| Amounts due to reinsurers | 945 649 | 639 425 | – | – |
| Trade payables | 26 911 | 51 894 | 25 391 | 19 818 |
| Deferred Income | 1 288 | 1 176 | 1 288 | 1 176 |
| Loan costs and fees received in advance | 31 402 | 45 402 | 31 402 | 45 402 |
| Other[1] | 20 259 | 35 615 | 15 477 | 22 562 |
| Breakage penalty fee payable | 28 573 | 35 640 | 28 573 | 35 640 |
| Amounts due to SASRIA | 6 993 | 6 634 | – | – |
| Client deposits for approved loans | 2 850 | 2 850 | 2 850 | 2 850 |
| | 1 100 811 | 833 544 | 136 298 | 171 590 |

[1] *Included in other payables is conditional deposits from the sale of repossessed properties.*

### 16.1 Other financial liability

| | | | | |
|---|---|---|---|---|
| Conditional equity injection[1] | 5 110 870 | – | 5 110 870 | – |
| | 5 110 870 | – | 5 110 870 | – |

[1] *The R5,1 billion capital injection was transferred on the 31 March 2023 by the shareholder with certain conditions attached to it. During 2023, the Shareholder transferred R6bn of the R7bn appropriated to Land Bank during February 2021, with the remaining R1bn to be transferred during FY23/24. Of that R6 billion, R889 million was repaid directly to guaranteed lenders and the remaining R5.1bn is sitting in an ESCROW account pending fulfilment of attached conditions, which include amongst other, the curing of the state of default with lenders. The Bank expects to meet these conditions at the end of March 2024. The R5,1 billion is not available for use by the group. Refer to note 3.2 for further details on the appropriation including the Directors' report.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

## 17. Long-term policyholders' liabilities

| | Group | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| Policyholders' liability excluding Incurred But Not Reported (IBNR) and notified claims | | |
| Present value of policy liabilities | 85 947 | 61 488 |
| Plus: present value of future expenses | 71 847 | 51 400 |
| Less: present value of future premiums | (64 229) | (45 950) |
| Liability excluding COVID reserve | 93 565 | 66 938 |
| Plus: Covid reserve | 6 143 | 6 035 |
| Less : reinsurance reserve | (2 735) | (3 223) |
| Total policyholders' liability excluding IBNR and notified claims | 96 973 | 69 750 |
| | | |
| Movement in the long-term policyholders' liability | | |
| Balance at the beginning of the year | 168 096 | 59 932 |
| Movement in the long-term policyholders' liability | (71 123) | 9 818 |
| Balance at the end of the year | 96 973 | 69 750 |

| Movement in the IBNR | Gross R'000 | Ceded R'000 | Net R'000 |
|---|---|---|---|
| **2023** | | | |
| Balance at the beginning of the year | 2 545 | (1 488) | 1 057 |
| Movement in the IBNR | 16 | (5) | 11 |
| Balance at the end of the year | 2 561 | (1 493) | 1 068 |
| | | | |
| **2022** | | | |
| Balance at the beginning of the year | 2 682 | (1 093) | 1 589 |
| Movement in the IBNR | (137) | (395) | (532) |
| Balance at the end of the year | 2 545 | (1 488) | 1 057 |

**Notes to the Financial Statements**

## 17. Long-term policyholders' liabilities (continued)

| Movement in notified (outstanding) claims | Gross R'000 | Ceded R'000 | Net R'000 |
|---|---|---|---|
| **2023** | | | |
| Balance at the beginning of the year | 287 | (144) | 143 |
| Movement in the IBNR | (258) | 130 | (128) |
| Balance at the end of the year | 29 | (14) | 15 |
| **2022** | | | |
| Balance at the beginning of the year | 163 | (82) | 81 |
| Movement in the IBNR | 124 | (62) | 62 |
| Balance at the end of the year | 287 | (144) | 143 |

| Total long-term insurance liabilities | Gross R'000 | Ceded R'000 | Net R'000 |
|---|---|---|---|
| **2023** | | | |
| Long-term policyholders' liability | 99 708 | – | 99 708 |
| Notified claims | 29 | – | 29 |
| IBNR | 2 561 | (1 493) | 1 068 |
| Total long-term insurance liabilities | 102 298 | (1 493) | 100 805 |
| **2022** | | | |
| Long-term policyholders' liability | 72 972 | (3 223) | 69 749 |
| Notified claims | 287 | (144) | 143 |
| IBNR | 2 545 | (1 488) | 1 057 |
| Total long-term insurance liabilities | 75 805 | (4 855) | 70 949 |

## Notes to the Financial Statements

## 18. Funding liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| At amortised cost* | **22 495 625** | 29 162 958 | **22 495 625** | 29 162 958 |

* *Towards the end of April 2020, the Land Bank experienced a liquidity shortfall, which resulted in the Bank defaulting on some of its obligations. This triggered a cross default and resulted in de-facto stand still on capital and interest payments to its funders. The significant movement on funding liabilities between current and the prior year is due to the capital reductions.*

### Analysis of funding

**2023**

| Commercial Funding | Opening Balance | Amortised Cost Re-alignment | Repayment/ Settlements | Accrued Interest | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|
| Commercial Paper | **10 511 469** | **(35 091)** | **(2 077 466)** | **72 422** | **(13)** | **–** | **8 471 322** |
| Bills | 994 421 | 23 009 | (201 756) | 7 447 | – | – | 823 121 |
| Call bonds | 25 809 | (91) | (5 100) | 129 | – | – | 20 747 |
| Floating rate notes – 1 year | 1 259 859 | (5 402) | (220 186) | 4 514 | – | – | 1 038 785 |
| Floating rate notes – 2 to 5 years | 137 044 | (1 970) | (55 358) | 1 455 | (13) | – | 81 158 |
| Promissory notes | 8 094 336 | (50 638) | (1 595 066) | 58 877 | – | – | 6 507 510 |
| "Deposits" | **349 311** | **–** | **(44 798)** | **–** | **–** | **–** | **304 513** |
| Agri-related business deposits | 231 225 | – | (21 502) | – | – | – | 209 723 |
| Forced stock sale deposits | 117 675 | – | (23 359) | – | – | – | 94 316 |
| Small institutional deposits | 52 | – | 4 | – | – | – | 56 |
| Rent deposits | 358 | – | 60 | – | – | – | 418 |
| Facilities | **896 726** | **(5 727)** | **(175 349)** | **5 591** | **–** | **–** | **721 242** |
| Committed | 896 726 | (5 727) | (175 349) | 5 591 | – | – | 721 242 |
| Uncommitted | – | – | – | – | – | – | – |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 18. Funding liabilities (continued)

### Analysis of funding (continued)

**2023**

| Commercial Funding | Opening Balance | Amortised Cost Re-alignment | Repayment/ Settlements | Accrued Interest | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|
| DMTN Issuances | **11 562 523** | **(117 493)** | **(3 055 538)** | **90 155** | **(3 364)** | **(257)** | **8 476 027** |
| Floating rate notes | 9 128 158 | (29 983) | (2 590 157) | 31 056 | 774 | (219) | 6 539 630 |
| – LBK15 | 987 537 | (4 357) | (194 964) | 3 992 | – | – | 792 207 |
| – LBK18 | 525 750 | (2 320) | (103 796) | 2 125 | – | – | 421 759 |
| – LBK22 | 406 664 | (1 794) | (80 286) | 1 644 | – | – | 326 228 |
| – LBK23 | 437 408 | (1 851) | (86 371) | 1 768 | – | – | 350 954 |
| – LBK26 | 175 410 | (774) | (34 630) | 709 | – | – | 140 715 |
| – LBK27 | 1 441 654 | (1 794) | (285 524) | 5 846 | – | – | 1 160 181 |
| – LBK30 | 219 376 | (968) | (43 310) | 887 | – | – | 175 984 |
| – LBK31 | 656 837 | (944) | (130 064) | 1 639 | (153) | (9) | 527 307 |
| – LBK32 | 359 566 | (3 166) | (70 674) | 3 822 | (17) | (6) | 289 525 |
| – LBK33 | 539 703 | (4 132) | (106 204) | 2 843 | 1 340 | (41) | 433 509 |
| – LBK35 | 713 128 | (328) | (141 348) | 736 | (130) | (34) | 572 025 |
| – LBK36 | 143 192 | (632) | (28 270) | 579 | – | – | 114 869 |
| – LBK37 | 570 731 | (490) | (113 079) | 589 | (122) | (45) | 457 584 |
| – LBK38 | 368 707 | (2 791) | (72 561) | 1 486 | – | – | 294 840 |
| – LBK39U | 699 279 | (735) | (684 500) | 33 | (144) | (83) | 13 849 |
| – LBK40U | 299 709 | (333) | (299 376) | – | – | – | – |
| – LBK41U | 583 507 | (2 575) | (115 199) | 2 358 | – | – | 468 092 |
| Fixed rate notes | 2 434 365 | (87 510) | (465 381) | 59 099 | (4 138) | (38) | 1 936 397 |
| – LBK20 | 591,276 | (23,239) | (112,642) | 2,306 | – | – | 457,701 |
| – LBK24 | 600,640 | (26,455) | (113,861) | 22,451 | (992) | (20) | 481,763 |
| – LBK28 | 682,319 | (22,979) | (130,747) | 20,961 | (2,752) | (15) | 546,787 |
| – LBK29 | 560,130 | (14,837) | (108,131) | 13,381 | (394) | (3) | 450,146 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements
## 18. Funding liabilities (continued)

### Analysis of funding (continued)
**2023**

| | Opening Balance | Amortised Cost Re-alignment | Repayment/ Settlements | Accrued Interest | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|
| Term Loans – Amortising | **2 681 497** | **189 287** | **(573 835)** | **8 189** | **94 523** | **(224 732)** | **2 174 929** |
| 7-year syndicated loan (Government guaranteed) | (958) | 958 | – | – | – | – | – |
| 10-year syndicated loan (MIGA supported | 2 682 455 | 188 329 | (573 835) | 8 189 | 94 523 | (224 732) | 2 174 929 |
| Term Loans – Bullet Term | **715 038** | **(2 238)** | **(141 348)** | **2 609** | **–** | **–** | **574 061** |
| 3-year term facility | 715 038 | (2 238) | (141 348) | 2 609 | – | – | 574 061 |
| 6-year syndicated loan (Government guaranteed) | – | – | – | – | – | – | – |
| Step Rate Notes | **744 553** | **(13 038)** | **(145 059)** | **6 508** | **–** | **–** | **592 964** |
| Step Rate Notes | 744 553 | (13 038) | (145 059) | 6 508 | – | – | 592 964 |
| Total Commercial Funding | **27 461 117** | **15 700** | **(6 213 393)** | **185 475** | **91 146** | **(224 989)** | **21 315 056** |
| Multilateral and Development | | | | | | | |
| Term Loans – Amortising | **1 497 181** | **(3 900)** | **(480 549)** | **8 546** | **(1 106)** | **(4 340)** | **1 015 833** |
| 10-year term loan – KFW | 598 200 | 5 081 | (119 500) | 262 | (184) | (4 340) | 479 518 |
| 15-year term loan – AFDB | 503 519 | (3 519) | (90 909) | 5 489 | (778) | – | 413 802 |
| 25-year term loan – World Bank | 395 462 | (5 462) | (270 140) | 2 796 | (144) | – | 122 513 |
| Total Multilateral and Disaster Relief Funding | **1 497 181** | **(3 900)** | **(480 549)** | **8 546** | **(1 106)** | **(4 340)** | **1 015 833** |
| Drought Relief | 204 664 | 394 | (40 663) | 2 215 | – | (1 871) | 164 740 |
| 10-year term loan – IDC | 204 664 | 394 | (40 663) | 2 215 | – | (1 871) | 164 740 |
| Total Disaster Relief | **204 664** | **394** | **(40 663)** | **2 215** | **–** | **(1 871)** | **164 740** |
| Total Funding Liabilities | **29 162 962** | **12 195** | **(6 734 605)** | **196 237** | **90 041** | **(231 200)** | **22 495 629** |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

### 18. Funding liabilities (continued)

#### Analysis of funding
**2022**

| Commercial Funding | Opening Balance | Amortised Cost Re-alignment | Repayment/ Settlements | Accrued Interest | Discount/ Premium | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|---|
| Commercial Paper | **12 906 768** | **27 032** | **(2 457 422)** | **60 682** | **(25 743)** | **152** | **–** | **10 511 469** |
| Bills | 1 164 854 | 91 232 | (238 656) | 2 134 | (25 143) | – | – | 994 421 |
| Call bonds | 31 848 | (97) | (6 033) | 91 | – | – | – | 25 809 |
| Floating rate notes – 1 year | 1 504 806 | (8 894) | (241 455) | 5 402 | – | – | – | 1 259 859 |
| Split Floating rate notes – 2 to 5 years | 222 189 | (2 631) | (84 484) | 1 818 | – | 152 | – | 137 044 |
| Promissory notes | 9 983 071 | (52 578) | (1 886 794) | 51 237 | (600) | – | – | 8 094 336 |
| "Deposits" | **429 260** | **–** | **(79 949)** | **–** | **–** | **–** | **–** | **349 311** |
| Agri-related business deposits | 257 255 | – | (26 030) | – | – | – | – | 231 225 |
| Forced stock sale deposits | 171 607 | – | (53 932) | – | – | – | – | 117 675 |
| Small institutional deposits | 50 | – | 2 | – | – | – | – | 52 |
| Rent deposits | 347 | – | 11 | – | – | – | – | 358 |
| Facilities | **1 459 351** | **(7 351)** | **(559 819)** | **4 545** | **–** | | | **896 726** |
| Split Committed | 1 459 351 | (7 351) | (559 819) | 4 545 | – | | | 896 726 |
| Split Uncommitted | – | – | – | – | – | | | – |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 18. Funding liabilities (continued)

### Analysis of funding (continued)

**2022**

| Commercial Funding | Opening Balance | Amortised Cost Re-alignment | Repayment/ Settlements | Accrued Interest | Discount/ Premium | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|---|
| DMTN Issuances | **14 326 042** | **(196 379)** | **(2 684 636)** | **118 277** | **–** | **–** | **(530)** | **11 562 523** |
| Floating rate notes | 11 285 362 | (53 049) | (2 134 140) | 29 358 | – | 1 086 | (459) | 9 128 158 |
| – LBK15 | 1 233 481 | (19 679) | (230 622) | 4 357 | – | – | – | 987 537 |
| – LBK18 | 647 486 | (1 276) | (122 780) | 2 320 | – | – | – | 525 750 |
| – LBK22 | 501 888 | (2 048) | (94 970) | 1 794 | – | – | – | 406 664 |
| – LBK23 | 540 731 | (3 006) | (102 168) | 1 929 | – | (77) | (1) | 437 408 |
| – LBK26 | 216 483 | (883) | (40 964) | 774 | – | (487) | – | 175 410 |
| – LBK27 | 1 780 947 | (3 343) | (337 745) | 2 287 | – | – | (5) | 1 441 654 |
| – LBK30 | 270 102 | (462) | (51 232) | 968 | – | – | – | 219 376 |
| – LBK31 | 811 612 | (1 868) | (153 851) | 1 122 | – | (151) | (27) | 656 837 |
| – LBK32 | 443 545 | (3 545) | (83 600) | 3 096 | – | 86 | (16) | 359 566 |
| – LBK33 | 665 428 | (4 228) | (125 628) | 2 354 | – | 1 834 | (57) | 539 703 |
| – LBK35 | 882 150 | (2 150) | (167 200) | 486 | – | (90) | (68) | 713 128 |
| – LBK36 | 176 721 | (721) | (33 440) | 632 | – | – | – | 143 192 |
| – LBK37 | 705 342 | (1 342) | (133 760) | 679 | – | (106) | (82) | 570 731 |
| – LBK38 | 454 622 | (2 874) | (85 832) | 2 459 | – | 377 | (45) | 368 707 |
| – LBK39U | 864 331 | (1 931) | (163 856) | 1 084 | – | (223) | (126) | 699 279 |
| – LBK40U | 370 355 | (755) | (70 224) | 442 | – | (77) | (32) | 299 709 |
| – LBK41U | 720 138 | (2 938) | (136 268) | 2 575 | — | – | – | 583 507 |
| Fixed rate notes | **3 040 680** | **(143 330)** | **(550 496)** | **88 919** | **–** | **(1 337)** | **(71)** | **2 434 365** |
| – LBK20 | 758 161 | (56 881) | (133 243) | 18 096 | – | 5 145 | (2) | 591 276 |
| – LBK24 | 744 777 | (35 907) | (134 685) | 27 986 | – | (1 498) | (33) | 600 640 |
| – LBK28 | 845 417 | (31 417) | (154 660) | 26 146 | – | (3 149) | (18) | 682 319 |
| – LBK29 | 692 325 | (19 125) | (127 908) | 16 691 | – | (1 835) | (18) | 560 130 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 18. Funding liabilities (continued)

### Analysis of funding (continued)
**2022**

| Commercial Funding | Opening Balance | Amortised Cost Re-alignment | Repayment/ Settlements | Accrued Interest | Discount/ Premium | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|---|
| Term Loans – Amortising | **3 179 624** | **264 995** | **(573 835)** | **6 388** | **–** | **86 625** | **(282 300)** | **2 681 497** |
| 7-year syndicated loan (Government guaranteed) | (2 368) | 2 368 | – | – | – | – | (958) | (958) |
| 10-year syndicated loan (MIGA supported) | 3 181 992 | 262 627 | (573 835) | 6 388 | – | 86 625 | (281 342) | 2 682 455 |
| Term Loans – Bullet Term | **879 859** | **141** | **(167 200)** | **2 238** | **–** | | **–** | **715 038** |
| 3-year term facility | 881 169 | (1 169) | (167 200) | 2 238 | – | – | – | 715 038 |
| 6-year syndicated loan (Government guaranteed) | (1 310) | 1 310 | – | – | – | – | – | – |
| Step Rate Notes | **916 994** | **(13 889)** | **(171 590)** | **12 832** | **–** | **206** | **–** | **744 553** |
| Step Rate Notes | 916 994 | (13 889) | (171 590) | 12 832 | – | 206 | – | 744 553 |
| Total Commercial Funding | **34 097 898** | **74 549** | **(6 694 451)** | **204 962** | **(25 743)** | **86 732** | **(282 830)** | **27 461 117** |
| Multilateral and Development Funding | | | | | | | | |
| Term Loans – Amortising | **1 724 797** | **(3 329)** | **(228 187)** | **9 824** | **–** | **(715)** | **(5 209)** | **1 497 181** |
| 10-year term loan – KFW | 734 663 | 5 896 | (137 278) | 327 | – | (199) | (5 209) | 598 200 |
| 15-year term loan – AFDB | 594 826 | (3 917) | (90 909) | 3 934 | – | (415) | – | 503 519 |
| 25-year term loan – World Bank | 395 308 | (5 308) | – | 5 563 | – | (101) | – | 395 462 |
| Total Multilateral and Development Funding | **1 724 797** | **(3 329)** | **(228 187)** | **9 824** | **–** | **(715)** | **(5 209)** | **1 497 181** |

## Notes to the Financial Statements

### 18. Funding liabilities (continued)

#### Analysis of funding (continued)

**2022**

| Disaster Relief Funding | Opening Balance | Amortised Cost Re-alignment | Repayment/ Settlements | Accrued Interest | Discount/ Premium | Effective Interest Rate Adjustment | Prepaid Arranging Fees | Closing Balance |
|---|---|---|---|---|---|---|---|---|
| Drought Relief | **252 093** | **1 065** | **(48 100)** | **1 944** | **–** | **–** | **(2 338)** | **204 664** |
| 10-year term loan – IDC | 252 093 | 1 065 | (48 100) | 1 944 | – | – | (2 338) | 204 664 |
| Total Disaster Relief | 252 093 | 1 065 | (48 100) | 1 944 | – | – | (2 338) | 204 664 |
| Total Disaster Relief | **252 093** | **1 065** | **(48 100)** | **1 944** | **–** | **–** | **(2 338)** | **204 664** |
| Total Funding Liabilities | **36 074 788** | **72 285** | **(6 970 738)** | **216 730** | **(25 743)** | **86 017** | **(290 377)** | **29 162 962** |

## Notes to the Financial Statements

## 18. Funding liabilities (continued)

### Reconciliation of notes in issue[1]

| | Company | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| Opening balance | 11 445 026 | 14 129 662 |
| LBK22 Capital Reduction | (80 286) | (94 970) |
| LBK36 Capital Reduction | (28 270) | (33 440) |
| LBK15 Capital Reduction | (194 964) | (230 622) |
| LBK18 Capital Reduction | (103 796) | (122 780) |
| LBK33 Capital Reduction | (106 204) | (125 628) |
| LBK23 Capital Reduction | (86 371) | (102 168) |
| LBK26 Capital Reduction | (34 630) | (40 964) |
| LBK27 Capital Reduction | (285 524) | (337 745) |
| LBK30 Capital Reduction | (43 310) | (51 232) |
| LB41U Capital Reduction | (115 199) | (136 268) |
| LBK28 Capital Reduction | (130 747) | (154 660) |
| LBK31 Capital Reduction | (130 064) | (153 851) |
| LBK29 Capital Reduction | (108 131) | (127 908) |
| LBK32 Capital Reduction | (70 674) | (83 600) |
| LBK20 Capital Reduction | (112 642) | (133 243) |
| LBK39U Capital Reduction | (684 500) | (163 856) |
| LBK40U Capital Reduction | (299 376) | (70 224) |
| LBK24 Capital Reduction | (113 861) | (134 685) |
| LBK35 Capital Reduction | (141 348) | (167 200) |
| LBK37 Capital Reduction | (113 079) | (133 760) |
| LBK38 Capital Reduction | (72 561) | (85 832) |
| Closing balance | 8 389 489 | 11 445 026 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 18. Funding liabilities (continued)

| | | | Company 2023 R'000 | Company 2022 R'000 |
|---|---|---|---|---|
| Notes in default[2] | maturities | | | |
| LBK20 | 8 June 2017 | 8 June 2022 | **455 395** | – |
| LBK23 | 04 September 2017 | 05 September 2022 | **349 187** | – |
| LBK38 | 17 February 2020 | 16 June 2023 | **293 354** | – |
| LBK27 | 23 March 2018 | 23 March 2023 | **1 154 335** | – |
| LBK30 | 20 September 2018 | 20 September 2021 | **–** | (218 408) |
| LBK15 | 12 October 2016 | 12 October 2021 | **–** | (983 179) |
| | | | **2 252 271** | (1 201 587) |

| | | | Company 2023 R'000 | Company 2022 R'000 |
|---|---|---|---|---|
| Reconciliation of notes in issue[1] | | | | |
| Opening balance | | | **731 515** | 903 105 |
| **Notes redeemed:** | | | | |
| SRN 4, capital reduction | 11 May 2017 | 11 May 2022 | **(72 571)** | – |
| SRN 4, capital reduction | 10 May 2017 | 11 May 2022 | **(72 488)** | – |
| **Notes issued:** | | | | |
| SRN 4, capitalised interest | 11 May 2017 | 11 May 2022 | **–** | (85 845) |
| SRN 4, capitalised interest | 10 May 2017 | 11 May 2022 | **–** | (85 745) |
| Closing balance | | | **586 456** | 731 515 |

[2] *Notes that have matured but are in default.*
[1] *Excludes accrued interest, discount premium and prepaid arranging fees.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

## 18. Funding liabilities (continued)

### 18.2 Weighted average interest cost of commercial funding (NACM)

| | 2023<br>* Spread to 3-month Jibar | 2022<br>* Spread to 3-month Jibar |
|---|---|---|
| Short-term: ≤ 1 year | 1% | 2% |
| Medium-term: > 1 year ≤ 5 years | 1% | 3% |
| Long-term: > 5 years | 3% | 6% |
| Total Cost of Funding | 1% | 3% |
| Weighted average interest cost of development and multilateral funding (NACM) | | |
| Long-term: > 5 years** | 1% | 3% |
| Weighted average interest cost of natural disaster relief funding (NACM) | | |
| Long-term: > 5 years | 2% | 1% |

Development and multilateral funding

Land Bank's Multilateral funds are made up of the following:

R1 billion loan with the African Development Bank. the purpose of the loan is was to on-lend to the Land Bank's commercial and Development clients whom meet qualifying usage criteria.

– $93 million funding line with the World Bank. This facility was earmarked to give financial aid to participating financial intermediaries and direct beneficiaries. As at 31 March 2023 R119,860 million has been utilised. The balance of the undrawn facility was cancelled in FY21/22.

– R899 million funding line with KfW Development Bank. This facility is was earmarked to finance small-sized and medium sized agricultural enterprises. The facility has been fully drawn and disbursed to qualifying projects. As at 31 March 2023 the loan balance was R483,780 million.

Disaster relief

The Land Bank had secured a R400 million facility with the Industrial Development Corporation for the sole purpose of providing concessionary loans to drought affected customers and is applicable to declared disaster areas as per the Government Gazette.

The loan was used for:
• Production rehabilitation
• Working capital and operational expenses required minimising further losses to current farming operations
• Re-stocking of live stock
• Preparing for future seasons necessary to continue the farmers' normal sustainable farming operations
• Enabling "carry-over" debt and consolidation of debt.

Loans under this arrangement would only be extended where there is a viable business case with repayment ability, as well as sufficient collateral to cover the potential losses to the Bank. The facility was fully utilised, relief assistance closed on 31 March 2019 and the facility now is amortising.

* *Weighted average libar*
** *Only includes those funding lines for which there has been utilisation*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

## 19. Provisions

Reconciliation of provisions – Group – 2023

| | Opening Balance | Additions | Utilised during the Year | Reversed during the Year | Total |
|---|---|---|---|---|---|
| Staff Incentives* | 2 400 | 3 000 | (2 400) | – | 3 000 |
| Leave pay** | 31 781 | 6 037 | (8 420) | – | 29 398 |
| | **34 181** | **9 037** | **(10 820)** | **–** | **32 398** |

Reconciliation of provisions – Group – 2022

| | Opening Balance | Additions | Utilised during the Year | Reversed during the Year | Total |
|---|---|---|---|---|---|
| Staff Incentives* | 1 201 | 1 199 | – | – | 2 400 |
| Leave pay** | 34 256 | 2 553 | (5 028) | – | 31 781 |
| Litigation and claims* | 104 999 | – | (55 000) | (49 999) | – |
| | **140 456** | **3 752** | **(60 028)** | **(49 999)** | **34 181** |

Reconciliation of provisions – Company – 2023

| | Opening Balance | Additions | Utilised during the Year | Reversed during the Year | Total |
|---|---|---|---|---|---|
| Leave pay** | 29 960 | 3 739 | (6 599) | – | 27 100 |
| | **29 960** | **3 739** | **(6 599)** | **–** | **27 100** |

Reconciliation of provisions – Company – 2022

| | Opening Balance | Additions | Utilised during the Year | Reversed during the Year | Total |
|---|---|---|---|---|---|
| Leave pay** | 32 795 | 2 950 | (5 785) | – | 29 960 |
| Litigation and claims*** | 104 999 | – | (55 000) | (49 999) | – |
| | **137 794** | **2 950** | **(60 785)** | **(49 999)** | **29 960** |

## 19. Provisions (continued)

*Staff incentives
The provision for discretionary performance bonuses is payable to employees and is determined by taking into account both the performance of the Bank as well as the performance of individual employees.

**Leave pay
Accumulated leave is payable to employees upon termination of services. Provision for leave pay is calculated on the leave days outstanding at the end of the year multiplied by the cost to company of the employees in terms of employment contracts.

Litigation and claims***
Provision raised in respect of breakage fees of R50 million which became payable in FY21/22 and was reallocated to payables.

## 20 Post-retirement obligation

### Medical benefit plan

The defined benefit obligation plan is unfunded. The estimated medical aid contributions for the next year effective 1 April 2023 amounts to R19,5 million (FY21/22: R15,9 million). The time value of money has not been taken into account as it is believed that the difference will be insignificant.

| | Group | | Company | |
|---|---|---|---|---|
| | 2023<br>R'000 | 2022<br>R'000 | 2023<br>R'000 | 2022<br>R'000 |
| Post-retirement obligation Medical Benefit Plan Movement in the present value of the: | | | | |
| Defined benefit obligation 1 April | **286 655** | 284 000 | **286 655** | 284 000 |
| Service cost – PRMA | **1 732** | (1 408) | **1 732** | (1 408) |
| Interest cost – PRMA | **27 823** | 27 548 | **27 823** | 27 548 |
| Actuarial losses and (gains) on post retirement obligation | **(17 811)** | (7 582) | **(17 811)** | (7 582) |
| Benefits paid | **(19 535)** | (15 903) | **(19 535)** | (15 903) |
| Defined benefit obligation 31 March 2023 | **278 864** | 286 655 | **278 864** | 286 655 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

## 20 Post-retirement obligation (continued)

Total expenses resulting from the Group's defined benefit plans charged to income statement can be analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Components of net periodic medical benefit cost: | | | | |
| Service cost – PRMA | **(1 732)** | (1 408) | **(1 732)** | (1 408) |
| Interest cost – PRMA | **(27 823)** | (27 548) | **(27 823)** | (27 548) |
| Total included in interest and staff costs | **(29 555)** | (28 956) | **(29 555)** | (28 956) |
| Total expenses recognised in profit or loss | **(29 555)** | (28 956) | **(29 555)** | (28 956) |
| Actuarial gain/(losses) recognised in other comprehensive income | **17 811** | 7 582 | **17 811** | 7 582 |

Total expenses resulting from the Group's defined benefit plans charged to income statement can be analysed as follows:

### 20.1 Maturity profile of members

**2023**

| | Membership Profile | | | |
|---|---|---|---|---|
| Employee status | Number | Average Age (years) | Average Past Service (years) | Average Number of Dependants |
| Active | **55** | **52** | **28** | **2** |
| Pensioners | **234** | **70** | **–** | **1** |
| | **289** | **122** | **28** | **2** |

**2023**

| | Membership Profile | | | |
|---|---|---|---|---|
| Employee status | Number | Average Age (years) | Average Past Service (years) | Average Number of Dependants |
| Active | 92 | 52 | 27 | 2 |
| Pensioners | 244 | 70 | – | 1 |
| | 336 | 122 | 27 | 3 |

The actuarial valuation report complies with the requirements of Advisory Practice Note (APN) 301 of the Actuarial Society of South Africa in all respects that are deemed to be in the context of the exercise undertaken. The valuation is based on the Projected Unit Credit valuation method, as prescribed by IAS19. The actuarial assumptions are unbiased and mutually compatible, as required. The results of the valuation depend on the assumptions used.

**Notes to the Financial Statements**

## 20 Post-retirement obligation (continued)

### 20.1 Actuarial key assumptions used:

Medical inflation

Contribution rates on the benchmark medical option, Bankmed, have increased by, on average, 3% – 4% over the period. This is less than the medical inflation assumptions of 7.8% and 7.5% made at the time of the last valuation. This resulted in a decrease in liability of approximately R2,6 million.

Economic basis

The net discount rate over the period has increased by 0.6% for active members. The average net discount rate has increased by 0.8%. This has caused an increase in liability of approximately R19,8 million.

Mortality

The liability decreased by approximately R3,5 million due to pensioner mortality being higher than expected over the period.

Withdrawals

There were more withdrawals than expected during the valuation year. This has resulted in an actuarial gain of some R17,8 million.

### 20.3 Sensitivity analysis

| In-Service and Continuation Members | Accrued Service Liabilities as at 31.03.2022. (R'000) | % Increase | Accrued Service Liabilities as at 31.03.2021. (R'000) | % Increase |
|---|---|---|---|---|
| Assumptions as above | | | | |
| Discount rate – increases by 1% p.a. | 253,924 | 10% | 257,741 | -9% |
| Discount rate – reduces by 1% p.a. | 308,305 | 10% | 315,285 | 11% |
| Medical inflation – increases by 1% p.a. | 306,940 | -9% | 314,006 | 11% |
| Medical inflation – reduces by 1% p.a. | 253,834 | 1% | 257,624 | -9% |
| Retirement age – 64 | 282,518 | 1% | 287,897 | 1% |
| Retirement age – 66 | 275,566 | -1% | 280,389 | -1% |

### Notes to the Financial Statements

## 21. Interest income

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Measured at amortised cost | | | | |
| Interest from loans and advances* | **2 198 631** | 2 520 860 | **2 198 631** | 2 520 852 |
| Interest on short-term deposits | **536 778** | 334 864 | **536 778** | 334 864 |
| Interest from banks | **30 382** | 26 901 | **21 593** | 22 514 |
| Interest on premiums written | **135** | 530 | **–** | – |
| | **2 765 925** | 2 883 155 | **2 757 002** | 2 878 230 |

* *Included in the interest income is a charge of interest in suspense of R41,51m (FY21/22: charge of R19,69m – restated)*

## 22. Interest expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Commercial funding | **1 948 603** | 2 085 923 | **1 948 603** | 2 085 923 |
| Development and multilateral funding | **94 671** | 115 063 | **94 671** | 115 063 |
| Interest on swaps & debentures | **30 141** | 86 508 | **30 141** | 86 508 |
| Arranging fees – effective interest rate method * | **–** | 63 209 | **–** | 63 209 |
| Other** | **76 355** | 24 144 | **76 355** | 24 144 |
| Total interest expense | **2 149 770** | 2 374 847 | **2 149 770** | 2 374 847 |

* *These arranging fees form part of the "Effective Interest Rate" of funding instruments.*
** *Other consists of interest paid on Drought Relief funding, Government guarantee fee paid.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 23. Non-interest expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Account administration & Net Interest Margin fee expense[1] | 13 555 | 75 934 | 13 555 | 71 358 |

[1] *Account administration & Net Interest Margin fee expense relate to management fees paid to intermediaries in terms of service level agreements relating to the Bank's acquisition loan books. Net interest income (interest income less interest expense) earned from, and impairments incurred on these books are included under note, 21 note 22 and note 9 respectively. Significant movement due to the SLA insourcing.*

These are expenses derived from banking activities

## 24. Non-interest income and Other income

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Fee and commission income (banking activities) | 24 366 | 30 781 | 24 366 | 30 781 |
| Account administration fee income | 13 964 | 16 721 | 13 964 | 16 721 |
| Fund administration fees | 10 402 | 14 060 | 10 402 | 14 060 |
| | 42 412 | 37 209 | 32 386 | 30 668 |
| Other Income (non-banking activities) | | | | |
| Administration fee from LBLIC | | | 1 343 | 1 254 |
| Investment property rentals | 12 740 | 11 753 | 12 740 | 11 753 |
| Sundry income* | 29 672 | 25 456 | 18 303 | 17 661 |

** Net margin fee due to the Bank which was previously overcharged by an SLA partner;*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 25. Operating profit from insurance activities

| | Group | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| Net premium income | | |
| Gross written premium | 783 770 | 611 555 |
| Long-term insurance contracts | 4 333 | 3 895 |
| Short-term insurance contracts | 779 437 | 607 660 |
| Gross written premium | 793 278 | 607 448 |
| Change in the unearned premium reserve | (13 841) | 212 |
| Change in the unexpired risk reserve (URR) | – | – |
| Less: reinsurance premium | 580 027 | 453 256 |
| Long-term insurance contracts | 2 272 | 2 005 |
| Short-term insurance contracts | 577 755 | 451 251 |
| Reinsurance premium written | 587 444 | 450 673 |
| Change in the unearned premium reserve | (9 689) | 578 |
| Change in the unexpired risk reserve (URR) | – | – |
| | 203 742 | 158 299 |
| Net insurance claims | | |
| Long-term insurance contract claims | 931 | (1 228) |
| Claims paid | 1 862 | (2 455) |
| Movement in notified claims (OCR) | (931) | 1 227 |
| Short-term insurance contracts claims | 163 359 | 152 368 |
| Claims & assessment fees paid | 137 342 | 105 927 |
| Movement in IBNR | 491 | (283) |
| Movement in outstanding claim provisions | 25 526 | 46 724 |
| | 164 289 | 151 139 |
| Other costs from insurance activities | | |
| Movement in policyholders' liability | (27 106) | (9 348) |
| Net commission and administration fees | (37 278) | (41 715) |
| | (64 384) | (51 063) |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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## Notes to the Financial Statements

### 26. Investment income and fees

| | Group 2023 R'000 | Group 2022 R'000 | Company 2023 R'000 | Company 2022 R'000 |
|---|---|---|---|---|
| An analysis of revenue is as follows: | | | | |
| Investment income from financial assets classified as at fair value through profit or loss: | **105 590** | 106 749 | **20 132** | 17 507 |
| Dividend income – other investments | **37 600** | 29 337 | **13 184** | 10 034 |
| Interest income1 | **67 989** | 77 412 | **6 948** | 7 473 |
| Investment management and performance fees | **(2 264)** | (8 153) | **(2 223)** | (2 150) |
| | **103 326** | 98 596 | **17 909** | 15 357 |

*1 These are assets invested with asset management companies.*
*2 The are settled on a net basis per the contractual agreement with the asset managers*

### 27. Gains and losses on financial instruments

| | Group 2023 R'000 | Group 2022 R'000 | Company 2023 R'000 | Company 2022 R'000 |
|---|---|---|---|---|
| Losses on financial assets measured at amortised cost* | **(2 933)** | 20 821 | **(2 933)** | 20 821 |
| Fair value (losses) gains | | | | |
| Designated at fair value through profit or (loss) | **(8 576)** | (1 444) | **(8 576)** | (1 444) |
| Interest rate swap** | **(8 576)** | (1 444) | **(8 576)** | (1 444) |
| Investment income | **5 798** | 90 838 | **3 279** | 23 112 |
| Realised gains | **21 819** | 51 237 | **9 463** | 29 101 |
| Unrealised fair value gains (losses) | **(16 021)** | 39 601 | **(6 185)** | (5 989) |
| | **(2 778)** | 89 394 | **(5 297)** | 21 667 |

** These are modifications gains/(losses) on loans and advances.*
*** To manage the Bank's exposure to "basis risk" and in an effort to protect the Bank's net interest margin, the Land Bank Board entered into an interest rate swap arrangement; hedging the mismatch moderately between the lending and funding rate. IFRS 9 require gains and losses on this derivative to be recognised in profit or loss when hedge accounting is not applicable.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 28. Operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Depreciation – Owned assets (Note12) | 2 914 | 2 121 | 2 881 | 2 088 |
| Depreciation – Leased assets (Note 13) | 8 099 | 17 973 | 8 099 | 17 892 |
| Amortisation – computer software (Note 14) | 757 | 1 152 | 757 | 1 152 |
| Auditors remuneration – External auditors | 19 752 | 16 875 | 16 913 | 14 391 |
| Directors' emoluments | 15 437 | 18 400 | 15 025 | 14 748 |
| – Executive | 4 358 | 10 583 | 4 358 | 7 251 |
| – Non-executive | 11 079 | 7 817 | 10 667 | 7 497 |
| Management fees | 6 101 | 117 | – | 117 |
| Professional fees | 19 254 | 27 031 | 13 899 | 24 144 |
| Staff costs | 357 455 | 346 143 | 331 401 | 328 899 |
| – Salaries and contributions | 349 750 | 338 396 | 324 174 | 321 729 |
| – Staff related provisions and other | 7 706 | 7 747 | 7 227 | 7 170 |
| Other operating expenses | 123 639 | 132 963 | 110 181 | 127 145 |
| – Computer and data costs | 24 634 | 31 196 | 21 659 | 29 825 |
| – Repairs and maintenance | 7 018 | 1 301 | 7 018 | 1 301 |
| – Rates and taxes | 6 558 | 7 128 | 6 558 | 7 128 |
| – Travel and accommodation | 7 829 | 2 222 | 7 463 | 2 131 |
| – Corporate social investment | 6 412 | 5 073 | 3 712 | 5 073 |
| – Litigation and claims | 11 651 | 11 014 | 10 735 | 11 014 |
| – Other[1] | 59 537 | 75 029 | 53 036 | 70 672 |
| | 553 408 | 562 775 | 499 156 | 530 575 |

1 *Other operating expenses includes sundry operating expenses such as security, short-term lease, cleaning and marketing amongst others.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 29. Non-trading and capital items*

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Fair value gain/(loss) on investment properties | 610 | 2 300 | 610 | 2 300 |
| Foreign exchange gain / (loss) | (3) | 7 | (3) | 7 |
| Impairment of other assets | (8 739) | 12 | 1 | 12 |
| Non-current assets held-for-sale fair value adjustment | – | (149) | – | (149) |
| Profit on disposal of property and equipment | 77 | 130 | 90 | 130 |
| | (8 055) | 2 300 | 697 | 72 299 |

* *Transactions that are either annually or not periodic/frequent in nature.*

### 30. Indirect taxation

Major components of the tax expense

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Value Added Tax[1] | (19 407) | (27 910) | (19 407) | (27 315) |

[1] *Value-added taxation is levied on all non-interest income of the Land Bank, an input is claimed on an apportionment basis for Land Bank operating expenses*

## 31. Funds under administration

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Asset | **1 823 983** | 1 384 821 | **1 823 983** | 1 384 821 |
| | | | | |
| Liabilities | | | | |
| DALRRD | **1 823 983** | 1 384 821 | **1 823 983** | 1 384 821 |
| | **1 823 983** | 1 384 821 | **1 823 983** | 1 384 821 |
| Funds administered on behalf of DALRRD | | | | |
| Agri-BEE | **363 591** | 321 002 | **363 591** | 321 002 |
| MAFISA Fund | **16 050** | 15 192 | **16 050** | 15 192 |
| Covid 19 | **92 510** | 94 092 | **92 510** | 94 092 |
| Job Fund | **17 083** | 29 570 | **17 083** | 29 570 |
| Emerging Farmers' Support Facility & CGA Primary Project | **155 356** | 161 973 | **155 356** | 161 973 |
| Blended Finance | **1 175 224** | 750 168 | **1 175 224** | 750 168 |
| Kat River Farmers | **4 168** | 12 824 | **4 168** | 12 824 |
| | **1 823 983** | 1 384 821 | **1 823 983** | 1 384 821 |
| Reconciliation of movement in funds under administration | | | | |
| | | | | |
| **Agri-BEE** | | | | |
| Balance at the beginning of the year | **321 002** | 275 563 | **321 002** | 275 563 |
| Receipts | **54 826** | 41 251 | **54 826** | 41 251 |
| Accrued interest | **18 410** | 9 791 | **18 410** | 9 791 |
| Disbursements | **(30 647)** | (5 603) | **(30 647)** | (5 603) |
| Balance at the end of the year | **363 591** | 321 002 | **363 591** | 321 002 |

## LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 31. Funds under administration (continued)

| | Group 2023 R'000 | Group 2022 R'000 | Company 2023 R'000 | Company 2022 R'000 |
|---|---|---|---|---|
| **MAFISA fund** | | | | |
| Balance at the beginning of the year | 15 192 | 13 899 | 15 192 | 13 899 |
| Accrued interest | 858 | 503 | 858 | 503 |
| Transfer from/(to) the fund | – | 790 | – | 790 |
| Balance at the end of the year | 16 050 | 15 192 | 16 050 | 15 192 |
| **COVID-19** | | | | |
| Balance at the beginning of the year | 94 092 | 95 522 | 94 092 | 95 522 |
| Transfer from/(to) Land Bank | – | 388 | – | 388 |
| Accrued interest | 5 096 | 3 260 | 5 096 | 3 260 |
| Disbursements | (6 678) | (5 078) | (6 678) | (5 078) |
| Balance at the end of the year | 92 510 | 94 092 | 92 510 | 94 092 |
| **Job fund** | | | | |
| Balance at the beginning of the year | 29 570 | 33 667 | 29 570 | 33 667 |
| Accrued interest | 1 564 | 934 | 1 564 | 934 |
| Disbursements | (25 189) | (18 252) | (25 189) | (18 252) |
| Transfer from/(to) the fund | 11 138 | 13 221 | 11 138 | 13 221 |
| Balance at the end of the year | 17 083 | 29 570 | 17 083 | 29 570 |
| **Blended Finance** | | | | |
| Balance at the beginning of the year | 750 168 | 645 489 | 750 168 | 645 489 |
| Accrued interest | 50 583 | 14 301 | 50 583 | 14 301 |
| Disbursements | (35 458) | (434 919) | (35 458) | (434 919) |
| Transfer from/(to) the fund | 409 931 | 525 297 | 409 931 | 525 297 |
| Balance at the end of the year | 1 175 224 | 750 168 | 1 175 224 | 750 168 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 31. Funds under administration (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| **Kat River Farmers** | | | | |
| Balance at the beginning of the year | 12 824 | – | 12 824 | – |
| Accrued interest | 359 | 446 | 359 | 446 |
| Receipts | – | 35 000 | – | 35 000 |
| Disbursements | (9 015) | (22 622) | (9 015) | (22 622) |
| Transfer from/(to) the fund | – | – | – | – |
| Balance at the end of the year | 4 168 | 12 824 | 4 168 | 12 824 |

#### Description of the funds under administration

**Agri-BEE Fund**

Parliament approved a sector specific allocation for the Agri-BEE Fund that will allocate grants to promote the rural community-based empowerment groups. The Bank acts as an agent on behalf of the DALRRD in the administration of the Fund. Disbursements amounted to R30,6m (FY21/22:R5,6m). An injection of R54,8 million (FY21/22:R41,3 million) from DALRRD.

**MAFISA fund**

The MAFISA Fund has been set up on request of the DALRRD to invest money in approved projects of the Department through on-lending to individuals. Monies received from the DALRRD for the MAFISA Fund is invested in a separate bank account on behalf of the DALRRD. No on-lending has taken place during the period under review. There were no injections during the current period under review (FY22/23: Rnil).

**Blended Finance**

The Blended Finance fund has been set up on request of the DALRRD to provide blended support to Black Commercial Producers in the agricultural, forestry and fisheries sectors in an attempt to accelerate agricultural development and to transform these sectors. The support will include blended funding, skills and technical support required by these producers. The Land Bank is responsible for the utilisation of its own existing infrastructure and discretion to consider loan applications from Black Commercial Producers, and all funds are received in an interest-bearing account. The DALRRD injected R409,9 million (FY21/22:R525,3 million) which is used to support Black Commercial Producers either in the form of equity contributions or interest rate subsidy, technical support contributions.

**COVID-19**

Sole purpose of the Fund is to provide relief to distressed farmers affected by the COVID-19 pandemic who are involved in the entire food value chain, from farm-related operations, agro-processing, food manufacturing, logistics and related services, wholesale and retail services to all support functions that ensure efficient delivery of the agro-food system, and are existing clients of Land Bank. COVID Relief Fund" is a fund created by DALRRD to be administered by Land Bank with the sole purpose being to address the challenges created for farmers and/or producers by the COVID– 19 Pandemic in South Africa. Disbursements amounted to R 6,7m (FY21/22:R5,1m).

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 31. Funds under administration (continued)

Jobs Fund

The specific goal of the Fund is to provide a mechanism that can identify and fund creative solutions to overcome identified short-term barriers to job creation and a better functioning labour market. Furthermore, the Fund's aim is to catalyse innovation in job creation through structured and strategic Private and Public Sector Partnership. Disbursements amounted to R25,2 million (FY21/22:R18,3 million).

Kat River Farmers

The specific goal of the fund is to assist farmers with crop preparation and related input costs by making the crop preparation facility available for administration by Land Bank which shall be disbursed by the Land Bank to the Farmers Service Providers or the farmers as the case may be, as a grant. There was no injection (FY21/22:R35m) in the current period under review and disbursements amounted to R9m (FY21/22: R22,6m).

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| **CGA Primary Project Facility** | | | | |
| Asset | | | | |
| Cash balance held for the support facilities | – | – | – | – |
| Liabilities | | | | |
| Emerging farmers support facility | 155 355 | 161 973 | 155 355 | 161 973 |
| CGA Primary Project Facility | – | – | – | – |
| | 155 355 | 161 973 | 155 355 | 161 973 |
| Emerging farmers support facility | | | | |
| | 161 973 | 190 811 | 161 973 | 190 811 |
| Balance at the beginning of the year | | | | |
| Accrued interest | 8 383 | 6 162 | 8 383 | 6 162 |
| Transfer from/(to) the fund | (15 000) | (35 000) | (15 000) | (35 000) |
| Balance at the end of the year | 155 356 | 161 973 | 155 356 | 161 973 |

**Description of the emerging farmers support & REM wholesale finance support facility**

The Land Bank received R208 million from the Department of Rural Development and Land Reform on the 17th of August 2011. The transfer received is a guarantee for identified deserving emerging farmers which require rescue packages. The identified farmers all have mortgage loans with the Land Bank and the Bank can only access the guarantee after complying with conditions as set by the Department of Rural Development and Land Reform.

## Notes to the Financial Statements

## 31. Funds under administration (continued)

### CGA Primary Project Facility**

The Land Bank received a total of R150 million from the Department of Rural Development and Land Reform between October 2011 and July 2016 under this facility. The funds are meant to subsidise interest payable to the Land Bank and remunerate appointed intermediaries that identify and provide technical assistance to the Retail Emerging market farmers under this wholesale finance facility. The Land Bank and the appointed intermediaries receive interest of 4% p.a each on the loans disbursed by Land Bank to the intermediaries. The intermediaries charge the REM farmers 4% p.a. on the value of the loans disbursed for their role of supporting the emerging farmers with skills and other facilities that enhance their success. This interest is paid from the aforesaid funds. There were no injections into the fund during the current period under review (FY22/23: Rnil). There were no Disbursements in the current period under review (FY22/23: Rnil).

** *CGA Primary Project Facility previously named REM wholesale finance support facility.*

## 32. Contingencies

### Penalty fee:

The contingent asset relates to an early withdrawal penalty fee charged on an investment that the Land Bank had made with one of the banks during FY19/20. This penalty fee was expensed in FY19/20. A process is underway to recover the R16.5m penalty fee. The recovery is contingent upon successfully litigation of the matter. The matter has been resolved post year-end. Land Bank has been awarded the penalty fee plus interest through an arbitration process. Therefore, an asset shall be recognised in the FY23/24 Financial year-end.

### CCMA and Labour Court cases

During the period under review, there was one dismissal within the Land Bank. The Land Bank dealt with two CCMA cases during the period. One case was carried over from the previous financial year and has been resolved. There are three Labour Court matters that have been carried over from the previous financial years. On one matter an application was made to dismiss the case. As a result of this incidents, the Bank estimated a contingent liability still amounts to R8.7m. The labour court matters had not been resolved as at 31 March 2023 and it is still in progress.

### Default Interest

There is a possible legal claim against Land Bank from National Credit Act (NCA) and non-NCA clients that were previously administered by a Service Level Partners (SLA) of the Land Bank. The possible claim could be that the SLA had charged clients default interest calculated based on the "total outstanding amount" instead of the "outstanding arrear amount". This incident happened before the Bank took over the SLA loan book in February 2021. The clients could pursue this matter further and argue that the SLA did in fact act unlawfully by disregarding the NCA provisions. There are currently differing views between the Land Bank legal team and that of the SLA partner, the SLA partner stems that this is a widely used practice in the banking industry. The matter had not been resolved as at 31 March 2023 and is still in progress as the SLA is still of the view that they are not wrong.

## LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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### Notes to the Financial Statements

## 33. Commitments

### 33.1 Loan commitments and guarantees

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | 2022 R'000 | 2023 R'000 | 2022 R'000 |
| Guarantees[1] | – | 4 290 | – | 4 290 |
| Loan commitments* | 897 558 | 1 491 686 | 897 558 | 1 491 686 |
| | 897 558 | 1 495 976 | 897 558 | 1 495 976 |

[1] *The above guarantees are included in the clients' approved facility limits and it is unknown when the guarantees will be presented for payment.*
* *Loan commitments relates to facilities that are undrawn for clients approved facilities.*

## 34. Related party transactions

| | Ownership Interest | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| The following represents the significant subsidiaries of the Bank: | | |
| Land Bank Life Insurance Company (SOC) Limited (LBLIC) | 100% | 100% |
| Land Bank Insurance Company (SOC) Limited (LBIC) | 100% | 100% |

| | Company | |
|---|---|---|
| Transactions with related parties other than key management personnel | 2023 R'000 | 2022 R'000 |
| Amounts received from related parties during the year | | |
| **i) Land Bank Life Insurance Company (SOC) Limited – Subsidiary[1]** | | |
| Policy administration fees received by Land Bank | 269 | 251 |
| Portion of non-executive directors' emoluments paid by LBLIC | 80 | 80 |
| Property and equipment transferred (from)/ to LBLIC (at NAV) | 48 | – |
| Gross written premiums – Group credit life insurance provided to Land Bank Clients | 2 472 | – |
| | 2 869 | 331 |

## 34. Related party transactions (continued)

| | Company | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| **ii) Land Bank Insurance Company (SOC) Limited – Subsidiary[1]** | | |
| Policy administration fees received by Land Bank | 1 074 | 1 003 |
| Portion of non-executive directors' emoluments paid by Land Bank | 320 | 320 |
| Property and equipment transferred to LBIC (at NAV) | (35) | (28) |
| | 1 429 | 1 295 |
| Capital contribution from Land Bank | | |
| – Cash | – | – |
| **iii) National Treasury – Stakeholder** | | |
| Transactions during the year | | |
| During 2023, the Shareholder transferred R6bn of the R7bn appropriated to Land Bank during February 2021, with the remaining R1bn to be transferred during FY23/24. Of that R6 billion, R889 million was repaid directly to guaranteed lenders and the remaining R5,1bn is sitting in an ESCROW account pending fulfilment of attached conditions, which include amongst other, the curing of the state of default with lenders. The R5,1 billion is not available for use by the group until all the conditions are met. Refer to notes 3.2, 4 and 16 for further details. | 6 000 000 | – |
| **iv) Other related parties** | | |
| The Bank obtains funding from institutions, of which the most significant nominal values are disclosed below: | | |
| Funding received[2] | | |
| Corporation for Public Deposits | 755 745 | 942 678 |
| Industrial Development Corporation | 335 830 | 418 898 |
| National Housing Finance | 68 574 | 85 536 |
| Petro SA | 547 091 | 682 414 |
| Post Bank | 591 967 | 738 390 |
| Public Investment Corporation | 4 291 603 | 5 388 768 |
| Trans-Caledon Tunnel Authority | 58 215 | 72 615 |
| | 6 649 025 | 8 329 299 |
| Other government related parties: | | |
| African Development Bank | 409 090 | 499 999 |
| | 7 058 115 | 8 829 298 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

## 34. Related party transactions (continued)

| | Company | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| **Amounts owed by/(to) related parties** | | |
| Subsidiaries | | |
| Land Bank Life Insurance Company (SOC) Limited (LBLIC) | 401 | – |
| Land Bank Insurance Company (SOC) Limited (LBIC) | 1 604 | 1 522 |
| | | |
| Funds under administration | | |
| DALRRD | 1 646 876 | 1 210 024 |
| Micro-Agricultural Finance Institution | 16 050 | 15 192 |
| Agricultural Broad Based Black Economic Empowerment | 363 590 | 321 001 |
| Blended Finance | 1 157 642 | 750 169 |
| Job Fund | 17 083 | 29 570 |
| Covid 19 | 92 510 | 94 092 |
| | 155 356 | 161 973 |
| | | |
| CGA Primary Project Facility | | |
| Kat River Farmers | 4 168 | 12 824 |
| | 1 806 400 | 1 384 821 |
| **i) Agricultural Broad Based Black Economic Empowerment (Agri-BEE)** | | |
| Bank balances of the Agri-BEE | 363 590 | 321 001 |
| Agri-BEE fund balance | 363 590 | 321 001 |
| | | |
| **ii) Micro-Agricultural Finance Institution (MAFISA)** | | |
| Bank balances of the MAFISA fund | 16 050 | 15 192 |
| MAFISA fund balance | 16 050 | 15 192 |

## Notes to the Financial Statements

### 34. Related party transactions (continued)

| | Company | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| **iii) CGA Primary Project Facility** | | |
| Bank balances of the CGA Primary Project Facility | 155 356 | 161 973 |
| CGA Primary Project Facility fund balance | 155 356 | 161 973 |
| **vi) Blended Finance Facility** | | |
| Bank balances of the Blended Finance Facility | 1 157 642 | 750 169 |
| Cash balance held for the support facilities | 1 157 642 | 750 169 |
| **vii) Blended Finance Facility** | | |
| Total amount owed to related parties | 1 806 400 | 1 384 821 |
| Total cash balance held for the support facilities | 1 806 400 | 1 384 821 |
| Services paid/ (received) to related parties | | |
| LBLIC – Salaries | 21 039 | 14 750 |
| LBIC – Salaries | (21 039) | (14 750) |
| | – | – |
| Remuneration recharge to LBIC | (21 039) | (14 750) |
| Transactions with key management personnel4 | 1 439 | 480 |
| Short-term employee benefits | | |
| Other long-term benefits | – | 5 |
| Termination benefits | 1 155 | – |
| | 2 594 | 485 |

1 *Transactions with subsidiaries are made in the ordinary course of business and on substantially the same terms, as those prevailing at the time for comparable transactions with other third parties. These transactions also did not involve more than the normal risk of collectability or present other unfavourable features. There was no ECL at the statement of financial position date and no bad debt expense in the year (FY21/22: Rnil) relating to this intercompany transaction.*

2 *The funding from related parties are all short-term financial instruments which are repayable within a year. The funding consists mainly of promissory notes and bonds. These transactions were made on terms equivalent to those that prevail in arm's length transactions.*

3 *The intercompany account is held as a trading account between LBIC, LBLIC and its holding company, Land Bank. In terms of the shareholders' agreement the loan is unsecured and has been sub-ordinated by Land Bank. Settlement will take place in cash. A decision was taken by the executive of the holding company that no interest would be charged on the outstanding loan balance during the current and prior financial periods under review.*

4 *Key management personnel comprises of the Group's executive management (including executive directors) and non-executive directors.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group

### Financial risk management Credit risk

Credit risk refers to a loss suffered by a party whereby the counterparty fails to meet its financial obligations to the party under the contract. Credit risk may also arise if there is an increasing risk of default by the counterparty throughout the duration of the contract.

The definition of credit risk includes:

a) Credit evaluation risk: Risk related to the decreased credit worthiness (based on recent financial performance) of a counterparty to a transaction. A creditor may subsequently charge the downgraded entity a higher lending rate to compensate for the increased risk. For a creditor, downgrade risk may eventually lead to default risk.

b) Credit concentration risk: Risk related to any single exposure or group of exposures large enough to cause credit losses which threaten the Bank's capital adequacy or ability to maintain its core operations. It is the risk that a common factor within a risk type or across risk types fails or an event occurs which causes credit losses.

c) Credit default risk: Risk related to the non-payment of interest and/ or capital on a loan by the borrower to the lender.

This translates into a loss to the institution as a result of failure by a counterparty to meet its financial and/or contractual obligations.

d) Counterparty risk: Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered when evaluating a contract. In most financial contracts, counterparty risk is also known as default risk.

As an important partner in the execution of the Bank's development mandate, the bank however needs to comply with statutory and regulatory requirements to ensure that the Bank's activities do not lead over indebtedness in this market segment.

### Policy and responsibility

The key components of the current general credit policy are the following:

- The primary role of the Bank is to provide finance to the agricultural sector;
- In its mandate, the Bank seeks to satisfy the needs of its customer base while maintaining a sound credit portfolio;
- The Bank insists on a thorough assessment of the client's financial position and repayment ability during the loan decision process, resulting in better quality credit decisions which result in timeous loan repayments and reduced losses in the event of a default;
- For the vast majority of the products, credit is granted on the basis of insight into the customer's circumstances and of specific assessments that provide a context for such credits;
- The facilities should match the customer's credit worthiness, capital position or assets, and the customer should be able to substantiate his or her repayment ability, and
- The Group may assume risks only within the limits of applicable legislation and other rules, including the rules of good practice for financial enterprises.

## 35. Financial instruments and risk management of the Group (continued)

### Credit risk management process

The credit risk management process has four stages. The stage can be summarised as follows:

- Credit origination entails gathering of application information, pre-screening for viability and mandate fit, client assessment and validation of business case through a due diligence.
- Credit assessment entails validation of submitted documentation from origination, risk rating and pricing, viability and affordability assessment, risk mitigation and determining appropriate terms and conditions within the Bank's risk appetite.
- Negotiating and contracting entails drafting and signing of legal documentation, ensuring all conditions precedence have been met in order effect disbursement of the loan.
- Portfolio Monitoring entails ongoing monitoring and evaluation, including base line studies, to ensure social impact and financial expectations have been met, board representation, business development support by designated teams (agricultural, financial etc.).

### Risk classification

The Bank monitors the repayment record of its customers on an ongoing basis to ensure that any deterioration in repayment records is detected as early as possible. As part of the collection process, customers are classified according to risk, and the classification is updated on receipt of new information about the customer.

The main objectives of risk classification are to rank the Bank's customer base according to risk so as to estimate the probability of default (PD) of each customer. The risk classifications used in the day-to-day credit process are based on point-in-time estimates. This means that the Bank uses a customer's present general and financial situation as a starting point. A change in the customer's situation or financial position therefore results in an upgrade or downgrade of that customer. The Bank adheres to the principle that all classifications should reflect the customer's current situation to the greatest extent possible.

### Credit risk – insurance activities

LBLIC is exposed to credit risk through its investment portfolios. To counteract this risk, investment portfolios are managed in terms of investment mandates that are aligned to Insurance companies' investment strategy. Investment mandates provide guidelines in terms of the average credit quality of financial instruments in the portfolio as well as limits on concentration risk.

The insurance companies are also exposed to credit risk in respect of their working capital assets from balances owed by counterparties. The following are some of the main credit risk management actions:

The use of reinsurance exposes the Group to credit risk. The counterparty risks of reinsurers are managed through formal contractual agreements which have been set up between the Group and reinsurers. These agreements include terms and conditions which regulates the relationship between the Group and reinsurers. Credit risk in respect of reinsurance is further managed by placing the Group's reinsurance only with companies that have high credit ratings. LBLIC and LBIC has quota share reinsurance treaties with internationally AA rated reinsurance companies. In addition to the proportional reinsurance treaty, another layer of reinsurance in the form of a stop loss is in place to limit the total exposure per individual claim. For overseas reinsurers, LBLIC retains 40% of ceded written premiums under quota share treaties and settles payments with the reinsurers 1 year after the placement in order to reduce the credit risk.

LBIC has a stop loss insurance treaty on the crop business with internationally AA– rated reinsurance companies.

For foreign reinsurers on the crop portfolio, LBIC retains 40% of ceded written premium as deposit premium on the quota share treaty, which is released twelve months later. A portion of the outstanding claims is also retained on the quota share accounts each quarter, which is recalculated the following quarter. For the foreign approved reinsurer, the company is issued with an updated bank guarantee through domestic AA rated bank for outstanding balances each quarter.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

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### Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

The maximum exposure to credit risk is

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Credit Loss Allowance | Amortised Cost/ Fair Value | Gross Carrying Amount | Credit Loss Allowance | Amortised Cost/ Fair Value |
| Asset class with asset credit risk exposure* | **38 389 222** | **(4 065 828)** | **34 330 394** | **39 557 223** | **(5 386 815)** | **34 170 408** |
| Loans and advances | 18 831 058 | (4 065 828) | 14 675 230 | 25 875 311 | (5 386 815) | 20 488 496 |
| Cash at bank | 15 481 241 | – | 15 481 241 | 9 983 760 | – | 9 983 760 |
| Trade and other receivables (excluding prepaid expenses) | 1 504 181 | – | 1 504 181 | 1 283 974 | – | 1 283 974 |
| Short-term insurance assets | 341 301 | – | 341 301 | 269 407 | – | 269 407 |
| Long-term insurance assets | 1 493 | – | 1 493 | 1 488 | – | 1 488 |
| Hedging derivatives | 1 321 | – | 1 321 | 9 896 | – | 9 896 |
| Investments | 2 235 627 | – | 2 235 627 | 2 133 387 | – | 2 133 387 |
| | | | | | | |
| Add off balance sheet items exposed to credit risk | | | | | | |
| Guarantees issued | – | – | – | 4 290 | – | 4 290 |
| Loan commitments | 897 558 | – | 897 558 | 1 491 686 | – | 1 491 686 |
| Operating lease commitments – group as lessor | – | – | – | 716 | – | 716 |
| Maximum credit exposure – selected items | **38 293 780** | **(4 065 828)** | **35 227 952** | **41 050 054** | **(5 386 815)** | **35 663 239** |

Credit exposure is calculated on the basis of selected items on and off the balance sheet (guarantees and loan commitments).

* *This amount excludes the impact of any collateral held or credit enhancements. Refer to note 9 for collateral held against the loans and advances.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Gross loan book exposure by agricultural sector

**2023**

| | Corporate Banking and Structured Investments | | Corporate Banking and Structured Investments | | | Classification by Loan Performance | | | |
|---|---|---|---|---|---|---|---|---|---|
| Agricultural Sector | Direct R'000 | Total R'000 | Direct R'000 | Indirect R'000 | Total R'000 | Total R'000 | Stage 1: Performing R'000 | Stage 2: Under performing R'000 | Stage 3: Non–performing R'000 |
| Agri-Business | 211 399 | 211 399 | 932 658 | – | 932 658 | 1 144 057 | 415 471 | 25 761 | 702 825 |
| Citrus | 49 852 | 49 852 | 192 628 | 7 521 | 200 149 | 250 001 | 128 172 | 28 281 | 93 549 |
| Cotton | – | – | 53 678 | – | 53 678 | 53 678 | 28 864 | – | 24 814 |
| Dairy | – | – | 508 417 | – | 508 417 | 508 417 | 121 677 | 11 714 | 375 026 |
| Deciduous fruit | 289 902 | 289 902 | 143 997 | 47 965 | 191 962 | 481 863 | 182 246 | 23 697 | 275 920 |
| Equipment | – | – | – | – | – | – | – | – | – |
| Feedlot | 94 035 | 94 035 | 31 867 | – | 31 867 | 125 902 | 105 120 | 2 136 | 18 645 |
| Financial Services | 10 142 | 10 142 | 460 242 | – | 460 242 | 470 384 | 319 081 | 54 320 | 96 983 |
| Flowers | – | – | 4 157 | – | 4 157 | 4 157 | 2 457 | – | 1 701 |
| Fodder | – | – | 212 085 | – | 212 085 | 212 085 | 44 391 | 17 921 | 149 773 |
| Game | – | – | 201 357 | – | 201 357 | 201 357 | 49 900 | 2 885 | 148 572 |
| Grain | 3 804 459 | 3 804 459 | 3 641 267 | 17 829 | 3 659 095 | 7 463 554 | 3 470 978 | 926 862 | 3 065 714 |
| Livestock | 238 188 | 238 188 | 2 787 707 | 1 054 | 2 788 761 | 3 026 949 | 1 189 615 | 198 559 | 1 638 775 |
| Nuts | 65 306 | 65 306 | 268 406 | 5 527 | 273 933 | 339 239 | 96 185 | 97 978 | 145 076 |
| Ostriches | – | – | 49 106 | – | 49 106 | 49 106 | 19 072 | 4 471 | 25 563 |
| Other | 481 947 | 481 947 | 813 037 | 32 949 | 845 986 | 1 327 933 | 160 886 | 46 277 | 1 120 770 |
| Pork | 70 553 | 70 553 | 29 064 | – | 29 064 | 99 618 | 74 239 | 20 | 25 359 |
| Poultry | 293 298 | 293 298 | 108 837 | 1 016 | 109 853 | 403 151 | 230 269 | 4 386 | 168 496 |
| Subtropical Fruit | – | – | 22 327 | – | 22 327 | 22 327 | 4 144 | – | 18 183 |
| Sugarcane | 366 653 | 366 653 | 266 876 | – | 266 876 | 633 529 | 168 297 | 31 542 | 433 690 |
| Table grapes | – | – | 310 379 | 50 807 | 361 186 | 361 186 | 103 750 | 8 679 | 248 758 |
| Tea | – | – | 21 932 | – | 21 932 | 21 932 | 18 117 | – | 3 815 |
| Timber | 194 767 | 194 767 | 86 176 | – | 86 176 | 280 943 | 24 986 | 194 835 | 61 122 |
| Tobacco | – | – | 125 776 | – | 125 776 | 125 776 | – | 5 172 | 120 604 |
| Vegetables | 144 150 | 144 150 | 786 312 | 1 290 | 787 602 | 931 752 | 163 325 | 50 680 | 717 747 |
| Wine | – | – | 268 106 | 24 054 | 292 160 | 292 160 | 183 073 | 13 619 | 95 467 |
| Total | 6 314 651 | 6 314 651 | 12 326 396 | 190 010 | 12 516 407 | 18 831 058 | 7 304 313 | 1 749 797 | 9 776 948 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Gross loan book exposure by agricultural sector

**2022**

| | Corporate Banking and Structured Investments | | Corporate Banking and Structured Investments | | | Classification by Loan Performance | | | |
|---|---|---|---|---|---|---|---|---|---|
| Agricultural Sector | Direct R'000 | Total R'000 | Direct R'000 | Indirect R'000 | Total R'000 | Total R'000 | Stage 1: Performing R'000 | Stage 2: Under-performing R'000 | Stage 3: Non–performing R'000 |
| Agri-Business | 206 254 | 206 254 | 1 350 061 | 4 809 | 1 354 870 | 1 561 124 | 194 202 | 280 201 | 1 086 721 |
| Agro-processing | – | – | – | – | – | – | – | – | – |
| Citrus | 74 981 | 74 981 | 249 737 | 18 001 | 267 738 | 342 718 | 180 058 | 3 212 | 159 448 |
| Cotton | 101 445 | 101 445 | 58 784 | 333 | 59 117 | 160 563 | 102 390 | 34 155 | 24 018 |
| Dairy | – | – | 388 714 | 169 990 | 558 704 | 558 704 | 139 576 | 5 754 | 413 374 |
| Deciduous fruit | 271 891 | 271 891 | 185 751 | 61 761 | 247 512 | 519 403 | 89 959 | – | 429 444 |
| Equipment | – | – | – | 20 072 | 20 072 | 20 072 | 13 685 | 249 | 6 138 |
| Feedlot | 127 167 | 127 167 | 34 570 | – | 34 570 | 161 737 | 16 091 | – | 145 646 |
| Financial Services | 264 634 | 264 634 | 526 868 | 556 877 | 1 083 745 | 1 348 379 | 825 046 | 69 764 | 453 569 |
| Flowers | – | – | 4 237 | – | 4 237 | 4 237 | 2 603 | – | 1 634 |
| Fodder | – | – | 224 822 | 15 443 | 240 265 | 240 265 | 66 881 | 7 627 | 165 757 |
| Game | – | – | 195 818 | 1 442 | 197 260 | 197 260 | 53 928 | 8 213 | 135 119 |
| Grain | 5 622 359 | 5 622 359 | 5 013 718 | 229 987 | 5 243 705 | 10 866 063 | 3 514 813 | 3 171 802 | 4 179 448 |
| Inputs supplier | – | – | – | – | – | – | – | – | – |
| Livestock | 220 692 | 220 692 | 2 994 355 | 567 829 | 3 562 184 | 3 782 876 | 1 861 621 | 156 147 | 1 765 108 |
| Logistics | – | – | – | – | – | – | – | – | – |
| Nuts | 45 041 | 45 041 | 284 232 | 32 581 | 316 813 | 361 854 | 185 514 | 1 555 | 174 785 |
| Ostrich/es | – | – | 51 069 | – | 51 069 | 51 070 | 21 963 | 5 311 | 23 796 |
| Other | 444 866 | 444 866 | 1 236 029 | 20 865 | 1 256 894 | 1 701 761 | 58 906 | 307 068 | 1 335 787 |
| Pork | 69 679 | 69 679 | 27 571 | – | 27 571 | 97 251 | 73 527 | 146 | 23 578 |
| Poultry | 389 825 | 389 825 | 181 492 | 25 531 | 207 023 | 596 849 | 345 172 | 78 871 | 172 806 |
| Subtropical Fruit | – | – | 31 321 | 2 236 | 33 557 | 33 557 | 19 471 | – | 14 086 |
| Sugarcane | 337 745 | 337 745 | 291 289 | – 2 | 291 287 | 629 032 | 117 260 | 388 542 | 123 230 |
| Table grapes | – | – | 280 404 | 54 731 | 335 135 | 335 135 | 90 029 | 31 003 | 214 103 |
| Tea | – | – | 26 326 | – | 26 326 | 26 325 | 19 205 | 4 429 | 2 691 |
| Timber | 270 039 | 270 039 | 82 586 | – | 82 586 | 352 624 | 25 448 | 270 039 | 57 137 |
| Tobacco | – | – | 137 300 | – | 137 300 | 137 299 | 6 831 | 4 885 | 125 583 |
| Vegetables | 313 691 | 313 691 | 817 672 | 154 382 | 972 054 | 1 285 744 | 272 865 | 33 484 | 979 395 |
| Wine | 132 683 | 132 683 | 323 167 | 47 560 | 370 727 | 503 410 | 229 001 | 134 579 | 139 830 |
| Total | 8  992 | 8 892 992 | 14 997 893 | 1 984 428 | 16 982 321 | 25 875 311 | 8 526 045 | 4 997 036 | 12 352 231 |

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Credit exposure by geographic/regional distribution

| 2023 | Corporate Banking and Structured Investments R'000 | Commercial Development and Business Banking R'000 | Total R'000 | Total % | Stage 1: Performing R'000 | Stage 2: Under–performing R'000 | Stage 3: Non–performing R'000 |
|---|---|---|---|---|---|---|---|
| Province | | | | | | | |
| Eastern Cape | 176 108 | 1 003 695 | 1 179 802 | 6% | 549 435 | 104 497 | 525 870 |
| Free State | – | 2 215 343 | 2 215 343 | 12% | 686 236 | 163 043 | 1 366 064 |
| Gauteng | 1 791 035 | 906 258 | 2 697 293 | 14% | 469 265 | 5 448 | 2 222 580 |
| KwaZulu-Natal | 366 653 | 536 637 | 903 290 | 5% | 117 816 | 50 414 | 735 059 |
| Limpopo | 156 161 | 1 564 764 | 1 720 925 | 9% | 479 404 | 32 719 | 1 208 802 |
| Mpumalanga | 3 086 769 | 1 524 204 | 4 610 973 | 24% | 2 786 909 | 1 033 835 | 790 230 |
| North West | 118 763 | 2 031 338 | 2 150 100 | 11% | 923 951 | 189 393 | 1 036 757 |
| Northern Cape | 284 803 | 1 598 349 | 1 883 153 | 10% | 707 850 | 94 091 | 1 081 211 |
| Western Cape | 334 360 | 1 135 819 | 1 470 179 | 8% | 583 447 | 76 356 | 810 376 |
| Total | 6 314 651 | 12 516 407 | 18 831 058 | 100% | 7 304 313 | 1 749 797 | 9 776 948 |

| | | | | | Loan Performance | | |
|---|---|---|---|---|---|---|---|
| 2022 | Corporate Banking and Structured Investments R'000 | Commercial Development and Business Banking R'000 | Total R'000 | Total % | Stage 1: Performing R'000 | Stage 2: Under-performing R'000 | Stage 3: Non-performing R'000 |
| Province | | | | | | | |
| Eastern Cape | 403 610 | 1 399 456 | 1 803 067 | 7% | 1 019 962 | 94 808 | 688 297 |
| Free State | 85 570 | 2 926 766 | 3 012 336 | 12% | 947 165 | 211 225 | 1 853 945 |
| Gauteng | 5 661 685 | 1 079 694 | 6 741 379 | 26% | 2 450 296 | 1 768 272 | 2 522 810 |
| KwaZulu-Natal | 337 745 | 705 272 | 1 043 017 | 4% | 131 614 | 8.438 781 | 472 621 |
| Mpumalanga | 101 445 | 1 941 115 | 2 042 560 | 8% | 315 888 | 288 365 | 1 438 308 |
| Northern Cape | 22 664 | 2 133 086 | 2 155 749 | 8% | 600 789 | 427 953 | 1 127 008 |
| Limpopo | 1 085 715 | 3 251 998 | 4 337 713 | 17% | 1 601 207 | 1 236 605 | 1 499 902 |
| North West | 284 094 | 2 228 679 | 2 512 773 | 10% | 603 859 | 253 483 | 1 655 431 |
| Western Cape | 910 465 | 1 316 251 | 2 226 716 | 9% | 855 264 | 277 543 | 1 093 909 |
| Total | 8 892 993 | 16 982 317 | 25 875 311 | 100% | 8 526 044 | 4 997 035 | 12 352 231 |

## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

### Credit risk concentration by credit rating (rated externally)

The table below provides an analysis of the ratings attached to the Group's exposure to instruments subject to credit risk:

| 2023 | Bonds R'000 | Cash Deposits and Similar Securities R'000 | Collective Investment Schemes R'000 | Net Working Capital Assets R'000 | Total R'000 |
|---|---|---|---|---|---|
| AAA | 519 318 | 185 157 | – | – | 704 475 |
| AA+ | 142 017 | – | 147 471 | – | 289 488 |
| AA | 93 475 | 39 769 | – | – | 133 244 |
| AA- | – | 3 808 | – | 1 202 871 | 1 206 679 |
| A | – | 20 860 | – | – | 20 860 |
| BB- | – | 15 355 038 | 14 467 | – | 15 369 505 |
| Other* | – | 14 765 230 | 32 | – | 14 765 262 |
| Not rated** | – | 1 340 540 | | – | 1 340 540 |
| Total | 754 810 | 31 710 402 | 161 970 | 1 202 871 | 33 830 053 |
| **2022** | | | | | |
| AAA | 384 452 | 225 985 | – | – | 610 437 |
| AA+ | 136 435 | – | 141 700 | – | 278 135 |
| AA | 92 076 | 31 886 | – | – | 123 962 |
| AA- | – | 7 163 | – | 930 106 | 937 269 |
| A | – | 6 407 | – | – | 6 407 |
| A- | – | – | – | 2 638 | 2 638 |
| BB- | | 9 845 216 | | | 9 845 216 |
| Other* | – | 20 856 582 | – | – | 20 856 582 |
| Not rated** | – | 1 380 606 | – | – | 1 380 606 |
| Total | 612 963 | 33 353 846 | 141 700 | 932 745 | 34 041 254 |

* This includes clients that are not rated externally. The Bank has its own credit rating system for these clients. The Bank performs a credit assessment by verifying security provision, cash flow forecasts the level of financial leverage which determines the level of financial risk and indicates the extent that debt is covered by assets. Please refer to note 9 and note 4.

** These assets do not have a formal rating and mainly relate to premium debtors.

## 35. Financial instruments and risk management of the Group (continued)

### Credit exposure by line of business – loan book

| | 2023 R'000 | % Total | 2022 R'000 | % Total |
|---|---|---|---|---|
| Gross loan book | | | | |
| Corporate Banking and Structured Investments | 6 349 861 | 34% | 8 928 203 | 35% |
| Commercial Development and Business Banking | 12 541 380 | 67% | 17 004 357 | 66% |
| Loan Modification | (60 183) | | (57 250) | |
| Total gross loan book from continuing operations | 18 831 058 | | 25 875 310 | |
| Less: Expected Credit Loss (ECL) | (4 065 828) | | (5 386 815) | |
| Carrying amount of loans from continuing operations | 14 765 230 | | 20 448 496 | |
| Balance per annual financial statements – total carrying amount | 14 765 230 | 100% | 20 488 496 | 100% |

Balance as per the following notes

The Bank's Commercial Development and Business Banking division, which provides loans to agricultural cooperatives and agribusiness companies, continues to account for the bulk of the Bank's overall credit exposure.

Credit risk management practices in relation to the recognition and measurement of expected credit losses

| Methods used to determine | Method | Inputs | Assumptions | Estimation Techniques |
|---|---|---|---|---|
| 12-month and lifetime expected credit losses | Expected loss methods based on probability at default (PD), loss given default (LGD) and exposure at default (EAD); expected credit losses are discounted to the reporting date using the effective interest rate. | PD, LGD and EAD over the lifetime of the loan. | Current PDs are the output of the calibrated rating model; PDs in subsequent years are determined based on migration, seasoning and cyclicality effects. | PDs: migration matrices for multi–year migration effects, term structure analysis for seasoning effect, macro–economic overlay for cyclicality.<br><br>LGD: LGD model calibrated with own data history.<br><br>EAD: credit conversion factor (CCF) modelling with own data, inclusion of repayment schedules. |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

| Methods used to determine | Method | Inputs | Assumptions | Estimation Techniques |
|---|---|---|---|---|
| | | | The current LGD is the output of the LGD model; analyses showed that the subsequent LGDs are<br><br>The same as the first year's LGD. | |
| | | | Lifetime is the Contractual tenor of the loan;<br><br>No prepayments assumed | |
| Whether a credit Risk has Increased significantly since initial recognition | 1.According to the Stage 2 definition; different Land Bank specific identifiers including the minimum 30 days past due criteria have been selected for the identification of SICR. | Information on single loan Level, such as Loans management risk indicators, arrears information etc. | While each loan is Firstly considered on its own, the final classification Is performed on a client-level, i.e. the worst stage of all loans is assumed to be the correct stage for all loans of the same client. | Stage classification is fact based using current flags and information<br><br>Available in the Land Bank's data base. |
| | Early Warning Indicators (a combination of macroeconomic factors (SA Maize Volatility Index – SAVI, Agricultural GDP, International Food Index, and business rules) have been implemented for the monitoring and classification of SICR. | | | 1. Maximum stage across all loans per client rule applies. |
| Whether a financial asset is a credit-impaired financial asset | According to default definition; in general, unlikeliness to pay as well as >90 days past due are the criteria considered; these criteria are interpreted in terms of Land Bank's identifier e.g. for specific cases of unlikeliness to pay. | Information on single loan level, such as Loans management risk indicators, arrears information, etc. | While each loan is firstly considered on its own, the final classification is performed on a client-level, i.e. if one loan is considered to be credit-impaired (stage 3) then all loans of the same clients are considered to be so as well. | Stage classification is fact based using current flags and information Available in the Land Bank's data base. Maximum stage across all loans per client rule applies. |

#### Macro-economic factors
IFRS 9 introduced the use of macro-economic factors when calculating ECL. The Group has used macro-economic factors in the ECL methodology. Such factors include but are not limited to the World Food Index as well as the Volume of Imports of Goods and Services, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macro-economic factors will affect ECL. The methodology, assumptions and macro-indices, including any forecasts of future economic conditions are reviewed regularly.

For information on financial assets' credit risk exposure, including significant credit risk concentrations please see note 36.

## 35. Financial instruments and risk management of the Group (continued)

### Write off policy

The Group defines bad debt as an irrecoverable debt or uncollectable debt, where all the recovery processes and or steps are exhausted and the client or counter parties do not have any means whatsoever to repay the debt that is due and payable and there are no reasonable prospects of success.

As a development bank, the Land Bank will endeavour to ensure continuity of agricultural production, and the Group shall only write off bad debt when in part or its entirety, when all reasonable steps have been taken to recover the debt.

Land Bank considers the following indicators when determining whether there is no reasonable expectation of recovery:

- Recovery of the debt is not economically justified;
- Trace of the client is unsuccessful where efforts and channels to trace the client have been fully exhausted; or
- It is to the advantage of Land Bank to effect settlement of its claims or to waive the claim; or
- The sheriff has issued a nulla bona return to the effect that there are no further assets available to liquidate; or
- The loan security and/or security documents are defective and no other basis for a claim exists; or
- A shortfall emanating from the agreed settlement discount offered by Land Bank and/or a compromise has been reached between the client and Land Bank and a condition of such compromise is that Land Bank must write off a portion of the outstanding debt; or
- The loan is secured by property where the asset has been "bought-in" following an auction or abandonment process; or
- No security exists at the date of insolvency/liquidation/ or business rescue and/or existing security has been sold and the proceeds thereof received by Land Bank leaves a shortfall;
- A deceased estate where there are no assets and there is no security or spouse married in community of property from which the outstanding balance may be claimed; or
- A deceased estate where there are no assets however:

i) The estate is insolvent and will be administered in accordance with Section 34 of the Administration of Estates Act 66 of 1965; or

ii) If there are insufficient dividends for the estate and the assets within the estate are of minimal value and / or are not dispensable to the debtor's dependants; or

- The debt has prescribed as defined by the Prescription Act (68 of 1969) as amended; or
- Any amount exceeding in-duplum inclusive of interest and costs; or
- All avenues of recovery, including the realisation of security and sureties, have been exhausted and a shortfall exists; or
- Any circumstance which in the opinion of the Chief Executive Office, Chief Financial Officer and/or Executive Manager Legal Services prohibits the recovery of the debt (authorisation in line with the DOP); or
- Any circumstance which is in the public interest or may be required as a result of amendments or enactments of legislation.

From time to time the Group has financial assets that are written off but may still be subject to enforcement activity. Such financial assets are written off when the aforementioned criteria have been met. Any recoveries due to enforcement activities are treated as bad debt recoveries in the year which such recoveries are made. This amounted to R40,5 million (FY21/22: R276,0 million) refer to note 9.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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**Notes to the Financial Statements**

## 35. Financial instruments and risk management of the Group (continued)

### Modification
The gross carrying amount of loans modified and the related gains/(losses) recognised where no derecognition took place:

Loss allowance: expected credit losses

| 2023 | Gross Loans Modified R'000 | Gain/(loss) on Modification R'000 | Change in Expected Credit Loss due to Modification R'000 |
|---|---|---|---|
| Stage 1 | 11 217 | (640) | 96 |
| Stage 2 | 31 132 | (1 065) | 6 104 |
| Stage 3 | 16 225 | (1 227) | 597 |
| Total | 58 575 | (2 933) | 6 797 |

Loss allowance: expected credit losses

| 2022 | Gross Loans Modified R'000 | Gain/(loss) on Modification R'000 | Change in Expected Credit Loss due to Modification R'000 |
|---|---|---|---|
| Stage 1 | 49 850 | 7 566 | 9 292 |
| Stage 2 | 49 871 | 9 993 | 5 894 |
| Stage 3 | 35 192 | 3 262 | 3 455 |
| Total | 134 914 | 20 821 | 18 642 |

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## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

### Stage migration (Gross loans and relating expected credit losses)

| | Note | Stage 1 [1] R'000 | Stage 2 [2] R'000 | Stage 3 [2] R'000 | Total R'000 |
|---|---|---|---|---|---|
| Gross loans as reported for 2023 | 9 | 7 304 313 | 1 749 797 | 9 776 948 | 18 831 058 |
| Net stage migration | | | | | |
| Stage migration – improvements | | **1 416 101** | **(774 001)** | **(642 100)** | |
| - Stage 2 to 1 | | 1 072 754 | (1 072 754) | – | |
| -Stage 3 to 1 | | 343 347 | – | (343 347) | |
| -Stage 3 to 2 | | – | 298 753 | (298 753) | |
| Stage migration – deterioration | | **(435 665)** | **(314 789)** | **750 454** | |
| -Stage 1 to 2 | | (206 786) | 206 786 | – | |
| -Stage 1 to 3 | | (228 879) | – | 228 879 | |
| -Stage 2 to 3 | | – | (521 575) | 521 575 | |
| Net stage migration | | **980 436** | **(1 088 790)** | **108 354** | |
| Expected credit losses as reported for 2023 | 9 | (92 766) | (54 167) | (3 903 574) | (4 050 507) |
| Stage migration – improvements | | **51 673** | **(28 048)** | **(23 625)** | |
| - Stage 2 to 1 | | – | – | – | |
| -Stage 3 to 1 | | 35 674 | (12 049) | (23 625) | |
| -Stage 3 to 2 | | 15 999 | (15 999) | – | |
| Stage migration – deterioration | | **(49 120)** | **(110 615)** | **159 73** | |
| -Stage 1 to 2 | | – | – | – | |
| -Stage 1 to 3 | | (45 609) | (114 126) | 159 735 | |
| -Stage 2 to 3 | | (3 511) | 3 511 | – | |
| Net stage migration | | **2 553** | **(138 663)** | **136 110** | |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

| | Note | Stage 1 [1] R'000 | Stage 2 [2] R'000 | Stage 3 [2] R'000 | Total R'000 |
|---|---|---|---|---|---|
| Gross loans as reported for 2022 | | 8 526 044 | 4 997 035 | 12 352 231 | 25 875 310 |
| Stage migration – improvements | | **2 949 721** | **(1 912 729)** | **(1 036 992)** | |
| - Stage 2 to 1 | | 2 719 609 | (2 719 609) | – | |
| - Stage 3 to 1 | | 230 111 | – | (230 111) | |
| - Stage 3 to 2 | | – | 806 881 | (806 881) | |
| Stage migration – deterioration | | **(835 651)** | **(651 059)** | **1 486 710** | |
| - Stage 2 to 1 | | (169 011) | 169 011 | – | |
| - Stage 3 to 1 | | (666 640) | – | 666 640 | |
| - Stage 3 to 2 | | – | (820 070) | 820 070 | |
| Net stage migration | | **2 114 069** | **(2 563 788)** | **449 718** | |
| Expected credit losses as reported for 2022 | 9 | (182 026) | (551 416) | (4 473 113) | (5 206 555) |
| Stage migration – improvements | | | | | |
| - Stage 2 to 1 | | 26 148 | (15 831) | (10 316) | |
| - Stage 3 to 1 | | 22 709 | (22 709) | – | |
| - Stage 3 to 2 | | 3 438 | – | (3 438) | |
| Stage migration – deterioration | | | | | |
| - Stage 2 to 1 | | (223 923) | (236 900) | 460 823 | |
| - Stage 3 to 1 | | (31 873) | 31 873 | – | |
| - Stage 3 to 2 | | (192 050) | – | 192 050 | |
| Net stage migration | | **–** | **(268 772)** | **268 772** | |

[1] *12 month expected credit losses*
[2] *Life time expected credit losses*

## 35. Financial instruments and risk management of the Group (continued)

Liquidity risk relates to the Bank's possible inability to meet its payment obligations when they fall due. This may be caused by the Bank's possible inability to liquidate assets and/or to obtain funding to meet its liquidity needs.

- The Group is exposed to liquidity risk via its:
- Ability to borrow from the market, at market related interest rates;
- Ability to attract wholesale funders at favourable interest rates;
- Liquid assets ratios are not adequate for prudential requirements;
- Ability to raise long term funding to match long term assets;
- Lack of standby lines of credit.

To manage liquidity risk, the Bank has a treasury policy that takes into account limits to manage its liquidity. The liquidity risk/going concern is being addressed through the restructuring process that is currently underway at Land Bank. The Board instituted a Board Restructuring Committee which monitors progress on Land Bank's restructuring process.

### Control and management

The following control measures are in place:

Corporate finance and legal advisors were appointed to provide expert guidance on the implementation of the liability solution of the bank The going concern is being addressed through the restructuring process that is currently underway at Land Bank. The Board instituted a Board Restructuring Committee which monitors progress on Land Bank's restructuring process. The committee meets on weekly or as required.

The Shareholder is a standing invitee on the committee weekly meetings.

### Monitoring the liquidity position

The going concern is being addressed through the restructuring process that is currently underway at Land Bank. The Board instituted a Board Restructuring

Committee which monitors progress on Land Bank's restructuring process. The committee meets on weekly or as required.

The Shareholder is a standing invitee on the committee weekly meetings. The Land Bank works closely with its lenders to come up with an amenable solution to the event of default of the Land Bank.

## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

### Insurance activities

Liquidity risk is first of all managed by matching the liabilities with assets that have similar maturity profiles. Expected cash flows are taken into account when reviewing the investment strategy annually for the allocation of financial instruments. Most of the insurance company's assets are shareholder's assets, which are held in highly liquid, open-ended instruments. The investment strategy, furthermore allocates assets backing policyholders' liabilities to short-term liquid instruments in the form of cash and bonds in equal proportions.

The insurance companies are exposed to daily calls on their available cash resources from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The companies actively manage their cash resources split between short-term and long-term requirements to ensure that sufficient cash is at hand to settle insurance liabilities and operating expense obligations based on cash flow projections. Reinsurance quota share accounts are settled quarterly, 45 days in arrears. Cash calls can be made to reinsurers for claims in excess of R5 million per risk on the crop cover for LBIC. Both LBLIC and LBIC have sufficient cash resources to cover their obligations.

Liquidity risk is managed by matching the liabilities with assets that have similar maturity profiles.

LBIC invested its surplus cash in a portfolio of short-term interest-bearing assets in the current reporting period. The board decided to adopt a conservative investment strategy for the company considering the volatility of crop business.

#### (i) Asset Liability matching risk

Asset Liability Matching (ALM) risk is the risk that the company's assets are not adequately matched to back the company's insurance contract liabilities and financial liabilities

The main factor effecting the ALM risk is the investment performance of financial assets backing the underlying insurance contract and financial liabilities.

The investment policy allocates assets backing policyholder's liabilities to cash and bonds. The bonds have varying maturities, but are all immediately tradeable on the bond market. The policyholders' liability was calculated using the discounted mean term of the liability in the current year. In the prior year, the liability was calculated using the prevailing average medium and long-term government bond rates less fund manager fees. The risk is that the rate earned on the investments does not match the rate used to calculate the liabilities.

There is a notional allocation of assets to liabilities, with sufficient surplus assets to cover any ALM mismatch.

The remaining financial liabilities, most notably the intercompany loan, are backed by a mixture of cash, bonds and equity.

### 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.

## 35. Financial instruments and risk management of the Group (continued)

### Deviation from the Banking Regulations

Given the unique business model of the Land Bank, including the inability to take deposits and the requirement to have cash available, the Bank deviates from the Banking Regulations in the following areas:

The Land Bank's previous liquidity ratio required the Bank 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 increase the market risk and potential capital losses on cash. The Bank shall therefore deviate from the Banks Act in terms of classifying cash deposits and available facilities as High Quality Liquid Assets.

Acknowledge a deviation from the regulation in terms of assumptions made regarding rollover rates with investors to assess the likelihood of rollover. The Bank will always apply the minimum rollover rate (between historic rollovers and investor discussions) to the calculations of the LCR.

These deviations from the Banking Regulations have been included in the funding agreements as financial loan covenants.

### Net Stable Funding Ratio

The NSFR aims to establish a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one– year horizon. It aims therefore to limit over–reliance on short term wholesale funding during times of buoyant market liquidity and encourage better assessment of liquidity risk across all on and off-balance sheet items.

### Cash at bank

The pool of liquid assets (in cash) is invested with reputable financial institutions as informed by the treasury policy.

### Trade and other receivables

Past trends indicate that payment has been received timeously and that the fair values post year-end fairly reflect the amounts received. The housing loans have been discounted to the present value using the prime interest rate.

### Repurchase agreements, derivative assets, strategic trading assets and investments

The amounts are receivable from reputable institutions and funds invested are managed by reputable asset managers.

Past trends indicate that payment has been received timeously and that the fair values post year-end fairly reflect the amounts received.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 35. Financial instruments and risk management of the Group (continued)

### Maturity analysis is presented on undiscounted cash flows

| Group – 2023 | Notes | Less than 1 Year R'000 | 1 – 5 Years R'000 | > 5 Years R'000 | Total R'000 |
|---|---|---|---|---|---|
| Financial Liabilities | | | | | |
| Trade and other payables | 16 | 1 100 884 | 247 | – | 1 101 131 |
| Other financial liabilities | 16.1 | 5 110 870 | – | – | 5 110 870 |
| Short-term insurance liabilities | 6 | 475 551 | – | – | 475 550 |
| Long-term policyholders' liabilities | 17 | 102 783 | 14 | – | 102 797 |
| Funding liabilities | 18 | 18 710 191 | 4 851 668 | 723 193 | 24 285 052 |
| Lease liabilities | 13 | 6 846 | 22 993 | – | 29 839 |
| Total Financial Liabilities | | 25 404 342 | 4 874 922 | 723 193 | 30 677 244 |

| Group – 2022 | Notes | Less than 1 Year R'000 | 1 – 5 Years R'000 | > 5 Years R'000 | Total R'000 |
|---|---|---|---|---|---|
| | Notes | | | | |
| Financial Liabilities | | | | | |
| Trade and other payables | 16 | 833 545 | 156 | – | 833 701 |
| Short-term insurance liabilities | 6 | 373 907 | – | – | 303 907 |
| Long-term policyholders' liabilities | 17 | 61 196 | 14 906 | – | 75 804 |
| Funding liabilities | 18 | 21 433 111 | 9 662 782 | 1 555 378 | 32 651 271 |
| Lease liabilities | 13 | 4 716 | 455 | – | 5 171 |
| Total Financial Liabilities | | 22 706 474 | 9 678 001 | 1 555 378 | 33 939 853 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

### Interest rate risk
When interest rates are expected to change, the ratio of the interest rate mismatch between fixed and floating interest rates applicable to assets

and liabilities can be adjusted in such a manner that the bank benefits from the expected interest rate view. The current interest rate risk mismatch limit is a maximum of 25%, i.e. that the Bank cannot hold more than 25% fixed rate funding as part of its funding mix. The funding split percentage as at 31 March 2023 was 91.14% floating (FY21/22: 89.54% floating). With the Bank in default, default bonds, FRN's and loans receive fixed interest based on the last interest reset rate. If these default notes and loans are added to open fixed rate bonds, the funding split percentage as at 31 March 2023 was 29.69% fixed and 70.31% floating.

### Interest rate risk monitoring
The Asset and Liability Management Committee (ALCO) consists of the Bank's executive management and it monitors among other things, the implementation of the Bank's interest rate risk policy. ALCO considers and formulates interest rate views as the official forecast of interest rates. Sensitivity analysis is performed by the Risk Management department where the interest rate risk mismatch limit (fixed vs floating) is set.

### Interest rate risk policy
The Bank reviews its interest rate risk policy in line with market practices on an annual basis.

### Sensitivity analysis
Annually an interest rate risk sensitive analysis is performed as part of the Risk Management input to the Annual Financial Statements.

The purpose of the analysis is to indicate the Land Bank's income sensitivity to interest rate changes.

Calculations were performed to determine the Bank's projected net interest income. An interest rate sensitivity analysis was performed by applying a parallel shift of 100 basis points up and down on interest rates to anticipate the projected impact on the Bank's profitability. The expected view with four interest rate hikes concluding with 11.5% prime rate at 31 March 2023.

The calculation includes assumptions that will have a positive or negative impact on the net interest income for Land Bank during the 2022/23 financial year.

### Market risk – Insurance activities
For assets backing policyholders' liabilities, the risk to the company is that the investment returns earned are below the actuary's assumptions. For shareholder's assets, the risk is that capital is not preserved and that investment returns earned are below expectations. The company manages market risk through the following:

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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**Notes to the Financial Statements**

## 35. Financial instruments and risk management of the Group (continued)

I) An Investment and Actuarial Committee. The mandate of this Board sub-committee includes the following:

– Implementation of an investment strategy which sets out the investment objectives of the company, the nature and term of liabilities and the risks to which the assets and liabilities of the company are exposed. Assets backing policyholders' liabilities are limited to interest bearing assets, and are therefore exposed to limited market risks, while shareholders' assets can include equity and are therefore exposed to greater market risks;

– Appointment of investment managers and establishing investment mandates with each investment manager. Investment mandates set out investment guidelines which cover limitations on exposures to volatile assets, the use of derivatives; limits on asset concentration and limits on exposure to particular types of assets such as unlisted equities and property and hedge funds;
– Monitoring of the performance of investment managers against "appropriate benchmarks" as well as compliance with mandates; and
– Ensuring proper governance in the investment process.

ii) Appointment of an independent investment advisor. The responsibilities of the investment advisor are set out below:
– Monitor implementation of investment strategies; and
– Monthly monitoring of and reporting on investment performance.

The investment advisor provides quarterly feedback on the performance of investment managers to the Investment and Actuarial Committee who in turns provides quarterly feedback to the LBLIC Board.

### Interest rate risk policy
The Bank reviews its interest rate risk policy in line with market practices on an annual basis.

### Sensitivity analysis
Sensitivity analysis has been determined based on the exposure to interest rates for derivatives and other financial liabilities and assets at the statement of financial position date. A 100-basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of a reasonably possible change in interest rates on the Group's net interest income.

## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

The effect of a reasonable possible change in interest rates, as explained above, and all other variables held constant, the Bank's profit would be as follows using data as at 31 March 2023:

| | 31 March 2023 | | 31 March 2022 | |
|---|---|---|---|---|
| **Bank** | Net Interest Income R'000 | Effect on Equity R'000 | Net Interest Income R'000 | Effect on Equity R'000 |
| Incremental change in yield | | | | |
| Expected NII | **901 454** | | 568 214 | – |
| Potential movement: 100 Basis point up | **966 067** | **64 612** | 582 548 | 14 335 |
| Potential movement: 100 Basis point down | **836 843** | **(64 612)** | 553 879 | (14 335) |

An interest rate sensitivity analysis was performed by applying a parallel shift of 100 basis points up and down on interest rates to anticipate the projected impact on the

Bank's profitability. The expected view with four interest rate hikes concluding with 11.5% prime rate at 31 March 2023.

The table above is that the expected impact of a 100-basis points up and down shock in interest rates is around R64m (R14m for FY21/22).

The Land Bank implemented an interest rate swaps program in the 2017/18 financial year with the implementation of the program being conducted on an increasing scale over a time period of five years, as per the Bank's Interest Rate Risk Management Policy. The interest rate risk swaps program involves hedging the basis risk that emanates from the mismatch between the Bank's JIBAR-linked funding liabilities and its prime-linked assets. The underlying nominal values of the Bank's swaps remain too small to markedly influence the Bank's interest rate risk sensitivity.

Details of the Bank's hedging program can be found in note 8.

### Interest rate risk – Insurance activities

The company is subject to interest rate risk resulting in the fluctuation of the fair value of future cash flows of interest-bearing assets because of the change in interest rates. Interest rate risk arises primarily from investments in long-term fixed income securities, although the short-term money market instruments are also effected, albeit to a lesser extent. The company's investments are mainly in short dated NCD's and bonds, with a few longer dated corporate bonds. Most of the bonds have floating interest rates, with some carrying fixed interest rates. Exposure to interest rate risk is monitored through various methods including scenario and stress testing which calculates the market exposure based on interest rate movements.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Sensitivity analysis on interest bearing assets
The market exposure that was calculated at 31 March was as follows:

Impact on the statement of profit or loss and other comprehensive income

| | Impact on the Statement of Profit or Loss and other Comprehensive Income | |
|---|---|---|
| | 31 March 2023 R'000 | 31 March 2022 R'000 |
| **LBLIC** | | |
| Incremental change in yield | | |
| 250 Basis Points increase | **(412 611)** | (509 479) |
| 150 Basis Points increase | **(247 566)** | (305 687) |
| 250 Basis Points decrease | **412 611** | 509 479 |
| 150 Basis Points decrease | **247 566** | 305 687 |
| **LBIC** | | |
| Incremental change in yield | | |
| 250 Basis Points increase | **477** | 439 |
| 150 Basis Points increase | **285** | 263 |
| 250 Basis Points decrease | **(477)** | (574) |
| 150 Basis Points decrease | **(285)** | (345) |

A portion of the assets backing policyholders' liabilities are held in bonds and the balance is held in cash and cash equivalents.The sensitivity analysis of the

change in investment returns on the value of the policyholders' liabilities is reflected under the Insurance Risks sensitivity analysis for long-term business.

#### Currency risk
The group is exposed to the risk of fluctuations in foreign currencies, as a result of future transactions and investments in foreign companies.

The group makes use of forward exchange contracts to manage this risk. LBLIC is exposed to currency risk resulting in the fluctuation in the value of foreign financial instruments because of the change in foreign exchange rates.The company's exposure to currency risk is in respect of foreign investments made in alignment with the investment strategy, approved by the Board, for seeking desirable international diversification of Investments.The fund managers make use of currency derivatives to limit the currency exposure of instruments in the pooled funds to United Stated Dollars.The following rand value of assets denominated in foreign currencies are included in the statement of financial position:

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

| Group | United States Dollar US$'000 | South African Rand R'000 |
|---|---|---|
| 31 March 2023 | | |
| Equities – unit trusts (USD base currency) | 6 050 | 110 471 |
| Balanced fund | 1 674 | 30 570 |
| Commodities – metals | 259 | 4 733 |
| Cash on deposit at call | – | – |
| Foreign currency exposure | 7 983 | 145 774 |
| | | |
| Exchange rates (ZAR:USD): | | |
| Closing rate – 31 March 2023 | 17.79 | 0.06 |
| Average rate | 18.26 | 0.05 |

| Group | United States Dollar US$'000 | South African Rand R'000 |
|---|---|---|
| 31 March 2022 | | |
| Equities – USD base currency unit trusts | 6 851 | 105 715 |
| Balanced funds | 1 712 | 26 416 |
| Commodities – metals | 307 | 4 737 |
| Foreign currency exposure | 8 870 | 136 869 |
| Closing rate – 31 March 2022 | 14.90 | 0.07 |
| Average rate | 16.57 | 0.06 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Sensitivity analysis – currency risk
The foreign currency exposure that was calculated at 31 March was as follows:

| | Impact on the Statement of Profit or Loss and other Comprehensive Income | |
|---|---|---|
| LBLIC | 31 March 2023 R'000 | 31 March 2022 R'000 |
| Incremental change in yield * | | |
| USD | | |
| 10% decrease | (14 577) | (13 673) |
| 5% decrease | (7 289) | (6 837) |
| 10% increase | 7 289 | 6 837 |
| 5% increase | 14 577 | 13 673 |

#### Sensitivity analysis
The sensitivity analysis on Expected credit loss has been determined based on the exposure to the percentage of the balance outstanding which the Land Bank expects not to recover when a loan defaults on its payment (loss given default – LGD) at the statement of financial position date. A 5% increase or decrease in the LGD is used when reporting impairment risk and represents management's assessment of a reasonably possible change in impairment expenses on the Group's loans and advances.

| Analysis | ECL R'000 | Loans and Advances R'000 |
|---|---|---|
| 31 March 2023 | | |
| Scaled ECL (-5%) | 3 325 849 | 14 532 219 |
| Scaled ECL (+5%) | 4 343 114 | 13 099 903 |
| | | |
| Analysis | | |
| 31 March 2022 | | |
| Scaled ECL (-5%) | 4 298 840 | 21 576 471 |
| Scaled ECL (+5%) | 5 731 155 | 20 144 156 |

## 35. Financial instruments and risk management of the Group (continued)

### Insurance risk

#### Insurance risk – long-term

LBLIC provides mortgage and credit life insurance for persons who take out loans with the Land Bank. Until 2008, LBLIC only had one product in issue which was a non-profit decreasing term assurance that paid the outstanding amount of a Land Bank mortgage loan at death. Since then, LBLIC in conjunction with its actuaries, has developed and issued a number of new generation mortgage and credit life products.

#### Mortality risk

Mortality risk is the risk to the Group that mortality experience in future is worse than provided for in premium rates. Higher than expected mortality will give rise to losses and will necessitate an increase in valuation assumptions.

This risk is mitigated by the following factors:
- Adequate reinsurance arrangements to limit exposure per individual and manage concentration of risks;
- Adequate pricing and reserving;
- Specific testing for HIV/ AIDS is carried out in cases where applications for risk cover exceed a set limit; and
- Annual reviews of mortality and morbidity experience are conducted by the statutory actuary to ensure that corrective action is taken where necessary

#### Persistency risk

Persistency risk (lapse risk) relates to policies being terminated before their final due dates as a result of an increased number of mortgage loans that are paid up before their final settlement dates and an increasing number of farmers transferring loans to trusts, close corporations and companies which result in the cancellation of policies.

The Group's reserving policy is based on actual experience, adjusted for expected future changes in experience, to ensure that adequate provision is made for lapses.

#### Expense risk

Before expenses are incurred, they are checked for budget availability. For the exceptional expenses, the company has a certain approval process. This is monitored in monthly reporting by comparing actual and budgeted expenses.

#### Reinsurance risk

LBLIC has reinsurance cover to reduce risks proportionally, as well as to limit exposure per risk in order to limit the impact per life on the current year's earnings.
- Reinsurance is the preferred risk transfer mechanism that is placed on a proportional reinsurance share. The structure is such that a significant portion of the risk is ceded to reinsurers relative to what is retained; and
- Furthermore, additional layers of cover that limits the Life insurance company's retention are in place to manage catastrophe risk.

The Board approves the reinsurance renewal process on an annual basis. The reinsurance program is in place with a local reinsurer which has a credit rating of AA-.

## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

**LBLIC makes use of reinsurance to:**

- Access underwriting expertise;
- Enable it to underwrite risks greater than its own risk appetite and
- Protect its risk book against catastrophes.

The use of reinsurance exposes the Company to credit risk. The counterparty risks of reinsurers are managed through formal contractual agreements which have been set up between the Company and Reinsurers.

These agreements include terms and conditions which regulate the relationship between the Company and Reinsurers. Credit risk in respect of reinsurance is further managed by placing the Company's reinsurance only with companies that have high credit ratings. LBLIC has a quota share on both the individual and group credit life business with a domestic AA rated company.

### Claims risk

The risk that the Group may pay out fraudulent claims is mitigated by trained client service staff to ensure that fraudulent claims are identified and investigated thoroughly. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks.

It is also the risk that a change in value caused by the ultimate costs for full contractual obligations which varies from those assumed when these obligations were estimated. Estimated claims are monitored periodically and updated based on the latest information if needed. The company utilises independent assessors who appraise and confirm claims as well as quantification by the Underwriting Manager channel. Furthermore, an actuarial

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2023, the LBLIC believes that its IBNR liability for claims is adequate, as well as outstanding claims reserve and any other additional reserve held such as COVID-19 reserve and AURR.

### Sensitivity analysis

The objective of the sensitivity analysis is to demonstrate the effect on the policyholders' liability for changes in key assumptions underlying the valuation of liabilities.

The sensitivity analysis illustrates the effect of a change in a particular assumption on the value of the policyholders' liability as at 31 March 2023, but this cannot generally be used to determine how future earnings or profitability will be affected. The percentage change in the assumptions chosen for the sensitivity analysis is to illustrate the change in value given the change in assumption and does not represent the possible range of worst– or best-case experience expected.

For a given change in one assumption, all other assumptions are left unchanged. No allowance has been made for any possible management action in response to a particular change. Lapse experience is not included in the analysis as lapses have not been modelled explicitly (the actuarial reserve for any policy that had a negative reserve was increased to zero, and there are no surrender values under any policies. Lapses and other terminations will therefore result in an actuarial surplus at each future valuation). The percentage change in the assumptions chosen for the sensitivity analysis is to illustrate the change in value given the change in assumption and does not represent the possible range of worst– or best-case experience expected.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

For a given change in one assumption, all other assumptions are left unchanged. No allowance has been made for any possible management action in response to a particular change. Lapse experience is not included in the analysis as lapses have not been modelled explicitly (the actuarial reserve for any policy that had a negative reserve was increased to zero, and there are no surrender values under any policies. Lapses and other terminations will therefore result in an actuarial surplus at each future valuation).

### Insurance risk – short-term
LBIC provides indemnity for crops, motor vehicles and property, as well as liability cover. LBIC manages insurance risks through its underwriting strategy and reinsurance arrangements

The LBIC provides indemnity for crops while still on the field, against hail, drought, fire and excessive rain fall. Cover ceases as soon as harvesting has taken place, or when certain date limits have been reached.

Liability covered risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

**Insurance risk arises from:**
- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Inaccurate pricing of risks when underwritten;
- Inadequate reinsurance protection;
- Inadequate reserving; and
- Fraudulent claim

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claims. The principal risks the insurance companies face are that the actual claims and benefit payments exceed the premiums charged for the risks assumed and that the reserves set aside for policyholders' liabilities, whether they are known or still to be reported, provide to be insufficient.

Premium provision tables based on historical claims data are reviewed annually by external actuarial consultants. External assessors assist with quantifying the value of claims reported.

By the very nature of an insurance contract, this risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors, such as patterns of economic and geographical circumstances as well as climate change, may result in unexpected large claims. Insurance events are random and the actual number of claims and benefits will vary from year to year from the estimate established.

### (i) Pricing risk
Both LBLIC and LBIC bases their pricing policy on the theory of probability, with consideration to historical claims data. Acquisition and administration costs, as well as reinsurance costs are included in the pricing considerations as well as a profit loading for the cost of capital.

Underwriting limits are set for the underwriting manager and brokers. Underwriting performance is monitored continuously and the pricing is adjusted accordingly. Risk factors considered as part of the review include factors such as the type of asset covered and the related commodity price, past loss experiences and risk measures taken by the insured.

## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

The net claims ratio for LBIC, which are important in monitoring insurance risk are summarised below:

| Loss history | 2023 | 2022 |
|---|---|---|
| LBIC: Net insurance benefits and claims on short– term business expressed as a % of net earned premiums | 81% | 97% |

Factors that aggravate insurance risk include a lack of risk diversification in terms of type and amount of risk, geographical location, catastrophic events and agricultural sectors covered. A stop loss reinsurance treaty mitigates the risk arising from this by capping the crop loss ratio to 105% for the season.

### Sensitivity analysis

The objective of the sensitivity analysis is to demonstrate the effect on the underwriting result the change is in key assumptions.

The sensitivity analysis illustrates the effect of change in a particular assumption on the underwriting result, but cannot be used to determine how future earnings or profits will be effected. The percentage change in an assumption for the sensitivity analysis is to illustrate the change in value given the change in assumption, but does not represent the possible range of best or worse case experience expected.

For a given change in once assumption, all other assumptions are left unchanged. No allowance has been made for possible management action in response to a particular change.

**2023**

| Underwriting result | | Loss Ratio | Value R'000 | Change R'000 | % |
|---|---|---|---|---|---|
| Reported results | | – | (28 222) | – | – |
| Gross Premium | +10% | | (25 618) | 2 604 | –9.00% |
| | -10% | | (30 285) | (2 604) | 9.00% |
| Gross Claims | +5% | | (36 099) | (7 877) | –28.00% |
| | -5% | | (20 345) | 7 877 | 28.00% |
| Expenses | +15% | | (33 510) | (5 288) | 19.00% |
| | -15% | | (22 394) | 5 288 | –19.00% |

**2022**

| Underwriting result | | Loss Ratio | Value R'000 | Change R'000 | % |
|---|---|---|---|---|---|
| Reported results | | – | (60 595) | – | – |
| Gross Premium | +10% | | (58 599) | 1 996 | –3.29% |
| | -10% | | (62 591) | (1 996) | 3.29% |
| Gross Claims | +5% | | (68 046) | (7 451) | 12.30% |
| | -5% | | (53 144) | 7 451 | –12.30% |
| Expenses | +15% | | (64 237) | (3 641) | 6.01% |
| | -15% | | (56 954) | 3 641 | –6.01% |

## 35. Financial instruments and risk management of the Group (continued)

(i) Claims risk

The risk that the Group may pay out fraudulent claims is mitigated by trained client service staff to ensure that fraudulent claims are identified and investigated thoroughly. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks.

It is also the risk that a change in value caused by the ultimate costs for full contractual obligations which varies from those assumed when these obligations were estimated. Estimated claims are monitored periodically and updated based on the latest information if needed. The Group utilises independent assessors who appraise and confirm claims as well as quantification by the underwriting manager channel. Furthermore, an actuarial valuation is done by an independent actuary annually.

Reserves are maintained at levels that are aligned to statutory requirements. As at 31 March 2023, both LBLIC and LBIC believe that their liabilities for claims are adequate.

(ii) Reinsurance

LBLIC and LBIC have third party reinsurance cover to reduce risks from single events or accumulations of risks that could have a significant impact on the current year's earnings and capital.

This cover is placed on the international reinsurance market. The core components of the reinsurance programme comprise of:

### Long-term insurance contracts

Reinsurance is the preferred risk transfer mechanism that is placed on a proportional reinsurance share. The structure is such that a significant portion of the risk is ceded to reinsurers relative to what is retained; and

- Furthermore, additional layers of cover that limits the Life insurance company's retention are in place to manage catastrophe risk.

### Short-term insurance contracts

- Reinsurance is the preferred risk transfer mechanism that is placed on a proportional reinsurance basis through a Quota Share. The structure is such that a significant portion of the risk is ceded to reinsurers relative to what is retained; and;
- Furthermore, additional layers of non-proportional structures, in the form of a stop-loss are in place to limit retention exposures as well as manage catastrophe risk.

The LBLIC and LBIC Boards approve the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is in place with foreign reinsurers which have a credit rating of no less than A+ for Life Insurance and AA– for short-term insurance.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 35. Financial instruments and risk management of the Group (continued)

### LBIC

**Investment portfolio concentration risk**

The allocation of investment portfolio as at 31 March was as follows:

| | 2023 R'000 | % | 2022 % | % |
|---|---|---|---|---|
| Bonds – local | 280 437 | 100 % | 199 938 | 100% |
| Fixed interest | 100 552 | 36 % | 87 235 | 44% |
| Floating rate | 179 885 | 64 % | 112 703 | 56% |
| Inflation linked | – | 0 % | – | 0 % |
| Cash, deposits and similar securities – local | 52 216 | 100 % | 53 975 | % |
| NCD's | 52 216 | 100 % | 24 801 | 0 % |
| Other | – | 0 % | 29 174 | 0 % |
| Total LBIC | 332 653 | 0 % | 253 913 | 0 % |

Investment manager performance, portfolio and manager allocations are monitored and reported to the company management and Investment and Actuarial Committee on a regular basis by the company's investment consultants. Upper and lower bounds are assigned to each asset class and are reviewed annually, with the investment policy. The upper and lower bounds in effect as at 31 March 2023 are stated below. All classes were within bounds as at 31 March 2023.

| | 2023 | |
|---|---|---|
| **LBIC** | Lower Bound | Upper Bound |
| Asset classes | | |
| Equities – local | | 35% |
| Bonds – local | | 20% |
| Bonds – inflation linked | | 20% |
| Cash, deposits and similar securities – local | 25% | 95% |
| Foreign assets | | 10% |

## 35. Financial instruments and risk management of the Group (continued)

| | 2023 | |
|---|---|---|
| | Lower Bound | Upper Bound |
| **LBIC** | | |
| Asset classes | | |
| Equities – Local | 30% | 50% |
| Bonds – Local | 15% | 15% |
| Cash, deposits and similar securities – Local | | |
| Foreign assets | 10% | 30% |
| | 5% | 25% |

Within the insurance business, concentrations of risk may arise where a particular event or series of events could impact heavily upon the company's resources. The company operates in the long-term insurance business.

### Long-term insurance concentration risk

The long-term insurance portfolio is based on credit life insurance. Although the company does not consider any aggregate concentration for catastrophic risks, the company does, however, consider the age bands of the client base for reinsurance rating purposes.

Long-term insurance gross when written premium class of business by:

| | 2023 R'000 | 2022 R'000 |
|---|---|---|
| Portfolio | | |
| Credit life insurance – Group | 1 555 | 2 163 |
| Credit life insurance – Individual | 2 778 | 1 736 |
| | 4 333 | 3 899 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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**Notes to the Financial Statements**

## 35. Financial instruments and risk management of the Group (continued)

### Long-term insurance gross written premium by age bands

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Number | Value R'000 | Average R'000 | Number | Value R'000 | Average R'000 |
| Portfolio | | | | | | |
| 20 – 29 | 5 | 1 879 | 375 | 2 | 1 585 | 793 |
| 30 – 39 | 13 | 8 954 | 688 | 10 | 8 139 | 814 |
| 40 – 49 | 78 | 25 239 | 328 | 29 | 17 985 | 620 |
| 50 – 59 | 147 | 43 023 | 292 | 40 | 33 196 | 830 |
| 60 – 69 | 158 | 32 007 | 202 | 11 | 5 345 | 486 |
| 70+ | 107 | 173 833 | 1 615 | – | – | – |
| | 508 | 283 935 | 3 500 | 92 | 66 250 | 3 543 |

### Short-term insurance concentration risk – LBIC

Within the insurance business, concentrations of risk may arise where a particular event or series of events could impact heavily upon the short– term company's resources. The company operates on both crop and agri-asset insurance business

Gross written premium by business

| | 2023 R'000 | 2022 R'000 |
|---|---|---|
| Portfolio | | |
| Short-term insurance (crop) | 793 264 | 607 843 |
| Short-term insurance (assets) | 14 | 212 |
| | 793 278 | 608 056 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued

Short-term crop insurance gross written premium by class of business

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Gross Written Premium R'000 | Net Written Premium R'000 | Gross Written Premium R'000 | Net Written Premium R'000 |
| Portfolio | | | | |
| Winter hail | 80 625 | 45 378 | 39 492 | 22 227 |
| Fruits & Nuts | 56 553 | 9 897 | 62 121 | 10 871 |
| Hail summer | 656 085 | 155 000 | 505 262 | 119 368 |
| Multi-peril summer | – | – | 362 | 85 |
| Total | 793 263 | 210 275 | 607 236 | 152 552 |

Short-term asset insurance gross written premium by class of business

| | 2023 R'000 | 2022 R'000 |
|---|---|---|
| Portfolio | | |
| Motor | 4 | 64 |
| Non-motor | 10 | 149 |
| | 14 | 212 |

Short-term crop insurance gross written premium by geographical segment

| | 2023 R'000 | 2022 R'000 |
|---|---|---|
| East | 319 332 | 272 497 |
| Mpumalanga | 161 770 | 143 312 |
| Gauteng | 13 732 | 6 976 |
| Natal | 119 133 | 95 040 |
| Eastern Cape | 24 697 | 27 170 |
| West | 473 932 | 335 346 |
| Free State | 337 041 | 220 515 |
| Limpopo | 23 436 | 27 624 |
| North West | 50 903 | 48 217 |
| Northern Cape | 53 087 | 29 772 |
| Western Cape | 9 465 | 9 219 |
| | 793 264 | 607 844 |

The equity risk exposures arise from the medical aid fund assets and the LBLIC investment portfolio. Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

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### Notes to the Financial Statements

### 35. Financial instruments and risk management of the Group (continued)

#### Price risk – LBLIC
The company is subject to market price risk resulting from daily changes in the fair value of market prices of the instruments within its investment portfolios. The company's objective is to earn competitive returns for the shareholder by investing in a diverse portfolio of high quality, liquid securities. The company holds a variety of equity derivatives for transaction management and hedging purposes. The company does not invest policyholders' funds in equity.

Sensitivity analysis on equity instruments

| | Impact on the Statement of Profit or Loss and other Comprehensive Income | |
|---|---|---|
| Portfolio | 31 March 2023 R'000 | 31 March 2022 R'000 |
| Incremental change in price | | |
| Excluding the impact of derivatives | | |
| 10% decrease | **(51 134)** | (53 071) |
| 5% decrease | **(25 507)** | (26 536) |
| 5% increase | **25 567** | 26 536 |
| 10% increase | **51 134** | 53 071 |
| Including the impact of derivatives | | |
| 10% decrease | **(54 135)** | (55 284) |
| 5% decrease | **(27 067)** | (27 642) |
| 5% increase | **27 067** | 27 642 |
| 10% increase | **54 135** | 55 284 |

## 35. Financial instruments and risk management of the Group (continued)

### Investment strategy

#### LBIC

The table below this shows the Company's strategic and tactical asset allocation limits for the short-term insurance business.

| | Long term target | Lower Bound | Upper Bound | Benchmark Index |
|---|---|---|---|---|
| Local equity | 0 % | 0 % | 5% | JSE Capped SWIX |
| Local Nominal Bonds | 40% | 30% | 50% | All Bond Index (ALBI) |
| Local Inflation Linked Bonds | 0 % | 0 % | 10 % | Inflation Linked Bond Index (ILBI) |
| Local cash | 60% | 40 % | 80 % | STeFI Composite |
| Foreign multi-asset class | 0% | 0% | 5% | 60% MSCI World +40% Citi Group Gov Bonds |

The assets of the fund are short term in nature and the fund therefore only invests in cash and short-term bonds. The fund benchmark is a long-term return objective of CPI + 1.0% net of fees.

#### Fund Performance

The investment was made during the FY17/18 and generated an annual equivalent of 8.35% as return. In the March 2023 year end, the investment reflected 4,4% return with a net disinvestment of R140m being made throughout the financial year. This performance was below the target of CPI + 1.0% which was 5.7%.

The Investment Policy was updated and approved by the Board in 2020. In deriving the investment objective, the Company notionally allocated its assets into three buckets representing different levels of risk (Short-term, medium-term and long-term) as follows:

| Bucket | Matching Assets | Definition |
|---|---|---|
| Short | Cash & Bonds | Policyholder & Current Liabilities plus SCR minus cash needed for Operations as defined in the Cash Management Policy Statement. |
| Medium | Cash & Bonds | Additional capital needed to augment the short-term bucket should the business meets its short-term objectives. |
| Long | Exposure to growth assets such as equities targeting a long-term real return unless there are liabilities requiring a specific matching assets. | Balance of assets to be invested long-term as the business was not likely to draw on these assets. |

The above allocations were consolidated to produce a target real return for the Company assets.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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## Notes to the Financial Statements

## 35. Financial instruments and risk management of the Group (continued)

The Company will firstly aim to match its assets and liabilities and with the excess assets target an appropriate real return. With this in mind, the Company has selected the following investment objective:
A real return, after investment fees and gross of tax of 4.0% per annum measured over rolling 3-year periods. For the purpose of calculating the real return in the primary objective, inflation will be taken as the published Consumer Price Inflation (CPI) rate.

### Investment strategy

The Company has taken a risk-based approach to setting investment strategy. The Company investable assets will be notionally tiered into three buckets representing different levels of market risk. The notional allocation to these buckets will be reviewed at least annually. Each bucket will make use of a strategic asset allocation appropriate for the risk profile it represents.

| | Local Equity | Local Bonds | Local Cash | Foreign | Expected Long-term Real Return |
|---|---|---|---|---|---|
| Short term | – | 80% | 120% | – | 6.1% |
| Medium term | – | 110% | 70% | – | 7.1% |
| Long term | 80% | –42% | 40% | 28% | 10.8% |

To measure the overall investment objective for all investable assets, the buckets will be consolidated into a single strategic asset allocation strategy. To manage the risk of deviation from the benchmark asset allocation, a tactical asset allocation range will be set for each asset class to allow some deviation from the strategic asset allocation. This will also allow managers to add value by making asset allocation decisions. Asset managers will be allowed to deviate outside the tactical limits. In such an event, the reasons for this will be communicated to the Investment Consultant and Investment Committee.

The table below shows the Company's strategic and tactical asset allocation limits for the long-term insurance business.

| | Long Term Target | Lower Bound | Upper Bound | Benchmark Index |
|---|---|---|---|---|
| Local equity | 40% | 30% | 50% J | SE Capped SWIX |
| Local bonds | 25% | 15% | 35% | All Bond Index (ALBI) |
| Local cash | 20% | 10% | 30% | STeFI Composite |
| Foreign multi asset | 15% | 5% | 25% | 60% MSCI World +40% Citi Group Gov Bonds |

### Capital Management

The primary source of capital used by the group is shareholder's equity funds. The amount of capital required is directly linked to risks arising from insurance business underwritten, as well as the group's credit and operational risk. Accordingly, risk management is an important component of effective capital management.

## 35. Financial instruments and risk management of the Group (continued)

### Capital management objectives and approach

The group has established the following capital management objectives and approach to managing the risks that affect its capital position:

- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholder;
- To align the profile of assets and liabilities taking account of risks inherent in the business;
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders and stakeholder;
- To maintain healthy capital ratios in order to support its business objectives; and
- To support the credit rating of the Bank.
- To maintain healthy capital adequacy ratios in order to support its business objectives.
- To comply with the requirements set by the regulator of the insurance markets where the company operates.

The Group's capital management policy for its insurance and non-insurance business is to hold sufficient capital to cover statutory requirements. The following main strategies were applied to achieve capital management objectives:

- Effective management of credit risk;
- Effective management of underwriting risk,
- Effective management of operational risk – a sound internal control framework reduces operational risk, which in turn has a positive effect in the calculation of required capital; and
- Routine forecasts of capital requirements, assessment against both available capital as well as the expected internal rate of return – including risk and sensitivity analyses.

The purpose of the Group's capital management is to ensure an efficient use of capital in relation to risk appetite and business development. The Group does not have to comply with any regulatory capital requirements.

### Capital Adequacy Requirements (CAR) – the Land Bank

The Bank has adopted a Basel-like Total Capital Adequacy Ratio (TCAR) with Board approved deviations from the Regulations to determine the amount of capital needed to ensure solvency and liquidity. The TCAR calculation is underpinned by the Standardised Approach principles. The Bank targets a minimum total capital adequacy ratio of 15%. The Basel Accord requires that banks meet three minimum capital adequacy ratios, in order to ensure that banks have an acceptable mix between high quality, expensive capital and lower quality, less expensive capital, these are:

- Common Equity Tier 1 (CET1) minimum = CET1 / total Risk Weighted Assets (RWA);
- Tier 1 minimum = (CET1 + Additional Tier 1 (AT1)) / total RWA; and
- Total minimum = (CET1 + AT1 + Tier 2) / total RWA.

## 35. Financial instruments and risk management of the Group (continued)

The only deviation from the Banking Regulations with regards to total CAR is:

Land Bank only has Government as shareholder and is not allowed to issue shares in the market to raise capital. Therefore, should the government guarantee be excluded from capital the only other resource of capital would be retained earnings. The Land Bank's funding covenants all include the unutilised portion of government guarantees (those of capital/ sustainability nature) as a source of capital supply.

Risk-weightings are risk sensitive, in other words, riskier assets receive higher weightings and the Basel Capital Accord allows for basic and advanced approaches to determine RWA dependent on the sophistication of a bank.

The Land Bank (Bank) capital adequacy was estimated based on the following approaches:

- Credit risk: The Standardised Approach;
- Operational risk: The Basic Indicator Approach;
- Equity risk in the banking book: The Simple Risk-weight Approach;
- Market risk: Standardised approach; and
- Credit and operational risk have been identified as the major risk types affecting the Land Bank.

It is the intention of the Land Bank to move towards more sophisticated approaches, such as the Foundation Internal Ratings Based (F-IRB) approach for credit risk measurement. In this regard has the Bank already commenced with the development of Internal Ratings Based models.

The Land Bank is a state-owned entity (SOE) and therefore does not have the ability to issue share capital. For this reason, the bank includes Government Guarantees which are not ring-fenced for funding purposes as Tier 1 Capital.

To further strengthen capital management, the Bank adopted the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

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## 35. Financial instruments and risk management of the Group (continued)

| | Company | |
|---|---|---|
| | 2023<br>R'000 | 2022<br>R'000 |
| Capital adequacy | | |
| Total capital adequacy | 13 9% | 11 4% |
| Capital supply | | |
| Ordinary shareholders' equity | 8 286 785 | 7 397 655 |
| Retained earnings | (3 658 981) | (4 188 274) |
| Accumulated other comprehensive income | (652 258) | (635 852) |
| Property revaluation reserve | 143 058 | 140 941 |
| Other reserves | (795 317) | (776 794) |
| Common Equity Tier 1 (CET1) Capital: Instruments and reserves | 3 975 546 | 2 573 528 |
| Common Equity Tier 1 Capital: Regulatory adjustments | (254 156) | (394 424) |
| Distributable reserves relating to the discontinued operation | – | – |
| Threshold deductions (investments in subsidiaries) | (252 601) | (392 809) |
| Intangible assets | (1 555) | (1 615) |
| Total available Common Equity Tier 1 capital | 3 721 390 | 2 179 105 |
| Total available Tier 2 capital | 162 254 | 378 923 |
| General allowance for credit impairment | 162 254 | 378 923 |
| Total available capital | 3 883 644 | 2 558 028 |
| National Treasury guarantee | – | 1 300 000 |

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**Notes to the Financial Statements**

## 35. Financial instruments and risk management of the Group (continued)

| | Company | |
|---|---|---|
| | 2023 R'000 | 2022 R'000 |
| Capital demand | | |
| Risk weighted assets | | |
| Credit risk | **24 520 933** | 30 286 018 |
| Counterparty risk | **11 167** | 27 796 |
| Operational risk | **990 317** | 1 527 595 |
| Equity risk | **544 648** | 568 571 |
| Market risk | **150 151** | 73 728 |
| Other assets risk | **696 928** | 699 031 |
| Threshold items | **993 498** | 642 978 |
| Total | **27 907 643** | 33 825 718 |

## 36. Fair value hierarchy of financial instruments

### Determination of fair value and fair value hierarchy

The group's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by the level of fair value hierarchy.The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement: -

**Level 1:** fair value measured using quoted prices (unadjusted) in active markets for identical financial assets or liabilities;

**Level 2**: fair value measured using inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly; and

**Level 3:** fair value measured using inputs for the financial asset or liability that are not based on observable market data. During the year, the Group had no significant transfers between instruments in Level 1, Level 2 or Level 3.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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### Notes to the Financial Statements

### 36. Fair value hierarchy of financial instruments (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | *2022 R'000 | 2023 R'000 | *2022 R'000 |
| Levels of fair value measurements Level 1* | | | | |
| Financial assets | | | | |
| Bonds | 658 247 | 612 066 | 59 700 | 66 713 |
| Local Equities | 638 259 | 704 169 | 126 917 | 173 459 |
| Foreign equities | – | 72 832 | 128 699 | 72 832 |
| Commodities | 58 114– | 37.916 | 28 110 | 15 786 |
| Listed Shares | – | 85 382 | 68 306 | 85 382 |
| Total financial assets | 1 296 506 | 1 474 486 | 411 732 | 414 173 |
| Level 2* | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 15 481 241 | 9 983 708 | 15 355 038 | 9 845 216 |
| Derivatives | 1 321 | 9 896 | 1 321 | 9 896 |
| Cash deposits and similar securities | – | 267 175 | 9 543 | 9 032 |
| Collective investment schemes | 141 042 | 131 999 | – | – |
| Investment policy | 32 | 17 | – | – |
| Total financial assets | 15 623 636 | 10 392 795 | 15 365 902 | 9 864 144 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 36. Fair value hierarchy of financial instruments (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | *2022 R'000 | 2023 R'000 | *2022 R'000 |
| Level 3* | | | | |
| Recurring fair value measurements | | | | |
| Assets | | | | |
| Financial assets | | | | |
| Loans and advances | **14 765 230** | 20 488 496 | **14 765 230** | 20 488 496 |
| Unlisted shares | **–** | 221 828 | **–** | 221 828 |
| Trade and other receivables | **1 615 811** | 1 353 026 | **412 395** | 421 407 |
| Insurance assets | **–** | 270 895 | **–** | – |
| Total financial assets | **16 381 041** | 22 334 245 | **15 177 625** | 21 131 731 |
| | | | | |
| Liabilities | | | | |
| Financial liabilities | | | | |
| Trade and other payables | **1 100 812** | 833 544 | **138 863** | 171 591 |
| Other financial liabilities | **5 110 870** | – | **5 110 870** | – |
| Insurance Liabilities | **577 849** | 449 711 | **–** | – |
| Funding Liabilities | **22 495 625** | 29 162 958 | **22 495 625** | 29 162 958 |
| Lease Liabilities | **28 966** | 4 932 | **28 966** | 4 932 |
| Total financial liabilities | **29 314 122** | 30 451 145 | **27 774 324** | 29 339 481 |

**Notes to the Financial Statements**

## 36. Fair value hierarchy of financial instruments (continued)

Reconciliation of assets measured at level 3

| | Opening Balance | Fair Value Adjustment for Recognised in the Statement of Profit or Loss | Re-measurement Recognised in OCI | Purchases | Disposals | Reclassification on (to)/from other Category of Property | Closing Balance |
|---|---|---|---|---|---|---|---|
| **Group – 2023** | | | | | | | |
| Assets | | | | | | | |
| Investment property | | | | | | | |
| Investment property | 97 400 | 610 | – | – | – | – | 98 010 |
| Property, plant and equipment | | | | | | | |
| Property, plant and equipment | 24 850 | – | 850 | – | – | – | 25 700 |
| Non-current assets held-for sale | | | | | | | |
| Non-current assets held-for sale | 9 609 | – | – | 1 750 | – | – | 11 359 |
| Equity investments at fair value through other comprehensive income | | | | | | | |
| Unlisted shares | 221 827 | – | (12 678) | – | – | – | 209 150 |
| Total | 353 686 | 610 | (11 828) | 1 750 | – | – | 344 219 |

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 36. Fair value hierarchy of financial instruments (continued)

| | Opening Balance | Gains/losses Recognised in Profit or Loss | Gains/losses Recognised in other Comprehensive Income | Purchases | Sales | Transfers into Level 3 | Closing Balance |
|---|---|---|---|---|---|---|---|
| **Group – 2022** | | | | | | | |
| Assets | | | | | | | |
| Investment property | | | | | | | |
| Investment property | 95 100 | 2 300 | – | – | – | | 97 400 |
| Property, plant and equipment | | | | | | | |
| Property, plant and equipment | 17 900 | – | 6 950 | – | – | | 24 850 |
| Non-current assets held-for sale | | | | | | | |
| Non-current assets held-for sale | 4 058 | (149) | – | 5 700 | – | – | 9 609 |
| Equity investments at fair value through other comprehensive income | | | | | | | |
| Unlisted shares | 387 354 | – | (64 877) | – | (100 650) | – | 221 827 |
| Total | 504 412 | 2 151 | (57 927) | 5 700 | (100 650) | – | 353 686 |

Valuation techniques used to derive level 2 fair values

Level 2 investments are valued using a valuation technique based on assumptions that are supported by prices from observable current market transactions:

- Cash deposits and similar securities: Value of cash deposited
- Commodities: Foreign component at the market value of the investment determined by the asset manager.
- Collective investment schemes (other than unlisted equities) (CIS) and Investment policies: Consists of unit trust that consist of underlying investments in Level 1 investments. The value of the -CIS is the aggregate of the underlying value of each Level 1 instrument at its quoted market price.
- Unlisted equity: Previously listed shares that have been delisted, based on the fair value determined by the respective Asset Managers.
- Money market instruments: The face value of the investment made.

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## Notes to the Financial Statements

## 36. Fair value hierarchy of financial instruments (continued)

### Description of significant unobservable inputs to level 3 valuations

**Group 2023**

| Unquoted Equity | Valuation Technique | Significant Unobservable Inputs | Sensitivity of the Input to the Fair Value |
|---|---|---|---|
| Acorn Agri (Pty) Ltd | The implied Price-to book valuation of ACORN AGRI was calculated using the latest OTC share price information. In addition, similar agricultural companies that also trade OTCP/BV was compared to that of ACORN AGRI. The reasons we have chosen this approach as primary valuation method is due to the fact that ACORN AGRI is an investment holding company and its shares are traded Over-The-Counter ("OTC") as share transactions are negotiated directly and bilaterally between willing buyer and sellers of shares.<br><br>Sensitivity analysis of discount rate are not applicable.<br><br>Based on the calculations, an indicative fair value of 100% of ACORN AGRI as at 28 February 2023 is R 2.1bn. As at 28 February 2023, the fair value of the 3.37% is estimated to be R 72.8m after taking the discounts (marketability and minority) into account. | | |
| Ideafruit (Pty) Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 13.7% and 15.7% | Discount rate:<br>-1%: R62 513 000<br>+1%:R42 705 000 |
| Afgri Grain Silo Company Pty Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 15.0% and 15.5% | Discount rate:<br>-0.2%: R120 970 000<br>+0.2%: R54 431 000 |

| Asset | Valuation Technique | Significant Unobservable Inputs | | Sensitivity of the Input to the Fair Value |
|---|---|---|---|---|
| Property and equipment | Net income capitalisation method | Vacancy rate range:<br>Income/expense ratio range: Capitalisation rates range: | 6% – 12.5%<br>17.9% – 30.5%<br>11% – 12% | Capitalisation rate:<br>+1%: R23 201 332<br>'-1%: R27 615 984 |
| Investment property | Net income capitalisation method | Vacancy rate range:<br>Income/expense ratio range: Capitalisation rates range: | 3% – 7.5%<br>27.9% – 55.3%<br>10.5% – 12.8% | Capitalisation rate:<br>+1%: R90 686 130<br>'-1%: R107 435 677 |
| Properties in possession | Comparable sales method | Natural grazing land per ha.: Irrigated pasture land per ha.: Farm yard land per ha.: Wasteland per ha.:<br>Crop Land Drylands<br>Industrial land per ha.:<br>Construction price for dwellings per $m^{2:}$ | R4 100 – R20 000<br>R7 000 – R30 000 R0<br>R2500 – R90 000 R0<br>R19 000 – R25 000 R4<br>R6 500 – R8 800<br>R2 250 – R5 650 | Market value per ha. of land:<br>+ R1000 p/ha.: R22 043 696<br>– R1000 p/ha.: R16 252 146 |

## 36. Fair value hierarchy of financial instruments (continued)

**Group 2022**

| Unquoted Equity | Valuation Technique | Significant Unobservable Inputs | Sensitivity of the Input to the Fair Value |
|---|---|---|---|
| Acorn Agri (Pty) Ltd | The implied Price-to book valuation of ACORN AGRI was calculated using the latest OTC share price information. In addition, similar agricultural companies that also trade OTCP/BV was compared to that of ACORN AGRI. The reasons we have chosen the NAV approach as primary valuation method is due to the fact that ACORN AGRI is an investment holding company and its shares are traded Over-The-Counter ("OTC") as share transactions are negotiated directly and bilaterally between willing buyer and sellers of shares.<br><br>Sensitivity analysis of discount rate are not applicable.<br><br>Based on the calculations, an indicative fair value of 100% of ACORN AGRI as at 28 February 2022 is R 2.32bn. As at 28 February 2022, the fair value of the 3.37% is estimated to be R 78.191m after taking the discounts into account. | | |
| * Ideafruit (Pty) Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 12.7% and 14.7% | Discount rate:<br>-1%: R57 118 000<br>+1%:R39 786 000 |
| Afgri Grain Silo Company Pty Ltd | DCF. Operating entity, value derived from operating activities of the business (IS approach). | DCF valuation: Discount rates range between 14.7% and 15.2% | Discount rate:<br>-1%: R105 550 000<br>+1%: R84 511 000 |

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## Notes to the Financial Statements

## 36. Fair value hierarchy of financial instruments (continued)

### Group 2022

| Asset | Valuation Technique | Significant Unobservable Inputs | | Sensitivity of the Input to the Fair Value |
|---|---|---|---|---|
| Property and equipment | Net income capitalisation method | Vacancy rate range: | 7.5% – 10% | Capitalisation rate: |
| | | Income/expense ratio range: | 20.9% – 37.2% | +1%: R22 306 360 |
| | | Capitalisation rates range: | 11.0% – 11.8% | '-1%: R26 556 624 |
| Investment property | Net income capitalisation method | Vacancy rate range: | 3% – 7.5% | Capitalisation rate: |
| | | Income/expense ratio range: | 22% – 55.2% | +1%: R91 051 650 |
| | | Capitalisation rates range: | 10.5% – 12.8% | '-1%: R107 957 849 |
| Properties in possession | Comparable sales method | Natural grazing land per ha.: | R4 000 – R20 000 | Market value per ha. of land:<br>+ R1000 p/ha.: R18 635 287<br>– R1000 p/ha.: R13 965 361 |
| | | Irrigated pasture land per ha.:<br>Farm yard land per ha.:<br>Wasteland per ha.:<br>Crop Land<br>Drylands<br>Industrial land per ha.:<br>Construction price for dwellings per m2:<br>Construction price for other structures per m2: | R6 500 – R35 000<br>R0<br>R4 000 – R100 000<br>R0<br>R20 000<br>R33<br>R6 500 – R8 800<br>R2 250– R5 650 | |

## LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
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**Notes to the Financial Statements**

### 37. Fruitless and wasteful expenditure (F&WE)

The F&WE relates to isolated incidences where penalties and interest were levied on late payments of utility accounts.

| | Group | | Company | |
|---|---|---|---|---|
| | 2023 R'000 | *2022 R'000 | 2023 R'000 | *2022 R'000 |
| Reconciliation of amounts transferred to receivables for recovery | | | | |
| Opening balance | **66 932** | 66 868 | **66 909** | 66 845 |
| Expenditure deemed as F&WE relating to prior year discovered in the current year[1 2] | **2 441** | - | **2 441** | - |
| Expenditure deemed as F&WE relating to current year[1 2] | **8** | 82 | **8** | 82 |
| Less: amounts recovered in current year | **(4)** | (18) | **(4)** | (18) |
| Closing balance | **69 377** | 66 932 | **69 354** | 66 909 |

**The financial year 2023 fruitless and wasteful expenditure mainly relates to the following events:**
1) Mainly relates to the purchase of IT Software licenses in 2018/2019. However, these have not been utilised since purchase.

2) Employees received an overpayment an acting allowance amounting R1.7 thousand the total acting allowance overpayment was recovered.

3) Invoice late payment penalty fee amounting to R3.2 thousand.

**The financial year 2022 fruitless and wasteful expenditure mainly relates to the following events:**
4) Mainly relates to a dismissed employee who had an outstanding study amounting of R58 thousand that could not be recovered. Legal is currently in the process of drawing up a repayment agreement.

5) Employees received an acting allowance amounting R18 thousand when the position acting in was filled. The total acting allowance overpayment was recovered.

## 38. Irregular Expenditure

### Reconciliation of irregular expenditure

| Description | 2022/2023 R'000 | 2021/2022 R'000 | 2020/2021 R'000 |
|---|---|---|---|
| Opening balance | 974 962 | 986 082 | 766 380 |
| As Restated | **974 962** | | – |
| Add: Irregular expenditure confirmed | 5 602 | 8 359 | 219 702 |
| Less: Irregular expenditure condoned | – | (19 479) | – |
| Closing balance | **980 564** | **974 962** | **986 082** |

### Reconciling notes to the annual financial statement disclosure

| Description | 2022/2023 R'000 | 2021/2022 R'000 |
|---|---|---|
| Irregular expenditure that was under assessment in 2021/2022 | | 686 |
| Irregular expenditure that relates to 2021/22 and identified in 2022/23 | 5 602 | – |
| Irregular expenditure for the current year | – | 7 673 |
| Total | **5 602** | **8 359** |

(1) During the year ended March 2023, Customisation Software amounting to R298 260 (Excl. VAT). did not have authorisation – Old case identified in FY22/23. (Request for condonation in progress.)

(2) A three-quote procurement amounting to R29 565 (Excl. VAT), Process not followed for the renewal of licenses as per SCM guidelines and policy. (Request for condonation in progress.)

(3) Fees charged for non-compliance amounting to R5 250 000. on utilisation of software license by Land Bank.

(4) The Land Bank insurance company procured accommodation services amounting to R23 130 for students during examination period. However, procurement processes were not followed as three quotations as prescribed by Treasury regulations were not obtained and there was no approval for the deviation amounting to R23 thousand. The matter was referred to Internal Audit and it is under investigation.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

## Notes to the Financial Statements

## 38. Irregular Expenditure (continued)

### b) Details of current and previous year irregular expenditure (under assessment, determination, and investigation)

| Description | 2022/2023 R'000 | 2021/2022 R'000 |
|---|---|---|
| Irregular expenditure under assessment | – | 686 |
| Total | – | 686 |

### c) Details of current and previous year irregular expenditure condoned

| Description | 2022/2023 R'000 | 2021/2022 R'000 |
|---|---|---|
| Irregular expenditure condoned | – | (19 479) |
| Total | – | (19 479) |

## 39. Events after the reporting period

On the 1 April 2023 the CEO of the Land Bank Mr. Themba Rikhotso commenced his duties.

Post year end to date, in addition to the persisting load shedding there has been an outbreak of Avian Influenza in the Western Cape on 25 April with 120 000 birds having been destroyed (culled) so far. Further investigations are being conducted by the South African Poultry Association to ascertain whether there are any more affected areas. The Land Bank's exposure to the poultry industry as at 31 March 2023 was ~R402m, which is under 2% of the total book. There is zero exposure in the affected areas so far. The Bank will continue to monitor developments concerning Avian Influenza Outbreak through client visits and engagements, to determine and quantify the clients that are affected and the impact to the bank.

The bank performed an assessment of the impact of the persistent load shedding on its customers and the key findings were that while in general all clients were affected by load shedding in one way or another, the key industries that were heavily impacted are irrigation farmers, intensive farming units (poultry, piggery) and dairy. At this stage, none of the Banks clients has raised concerns on whether they might not be able to service their loans. Notwithstanding the above, the bank has provided an over-lay on the expected credit losses for the year, as the exposure affected are significant.

The Honourable Minister, Thoko Didiza of the Department of Agriculture, Land Reform and Rural Development (DALRRD), announced on the 9 May 2023, the establishment of the Agro Energy Fund worth R2,5 billion in grants, with R500 million allocated to be blended within the Land Bank, this further demonstrates the governments confidence in the mandate and future of the Land Bank. The memorandum of agreement has not yet been concluded between DALRRD and the Land Bank.

The board of the Bank has approved a 5th capital repayment of R5,4 billion to which was effected on the 7 June 2023.

Post year-end the bank was awarded the contingent asset of the penalty fee with interest through an arbitration process, as disclosed in note 32. The matter has now been closed.

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

## 40. Group remuneration

In accordance with the Land Bank Act, the Minister of Finance determines the remuneration, allowances and associated benefits of all non-executive Board Members and the Chief Executive Officer. The remuneration for Executives and Bank employees is determined through market benchmarking and best practice under the guidance of the Group Human Resources and Remuneration Committee.

Table 1: Remuneration of Land Bank non-executive directors and executive directors for 2023

| Non-Executive Directors | Board | Audit & Finance | Risk & Governance | Credit & Investment | HRRC | SEC | Ad Hoc Meeting | Cash Salary | Retention Payment | Other Benefits3 Fees & Expenses | 2023 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NR Nkosi | 950 | – | 16 | 82 | 197 | 49 | 149 | – | – | – | 1 444 |
| LA Makenete | 375 | – | – | 49 | 82 | 61 | 85 | – | – | – | 653 |
| M Makgatho | 375 | 197 | – | 330 | – | – | 130 | – | – | – | 1 033 |
| D Maithufi | 375 | – | 183 | 296 | – | – | 95 | – | – | – | 948 |
| TN Mashanda | 355 | 197 | 131 | 16 | 16 | – | 38 | – | – | – | 755 |
| JF Kirsten | 355 | – | – | 296 | – | 22 | 47 | – | – | 2 | 723 |
| NP Motshegoa | 375 | – | – | 246 | – | 67 | 104 | – | – | – | 792 |
| EM Pillay | 355 | 279 | – | 82 | – | 33 | 73 | – | – | – | 822 |
| M Tom | 355 | 49 | 16 | – | 183 | – | 57 | – | – | – | 661 |
| D Van Der Westhuizen | 355 | – | 115 | 82 | 115 | – | 102 | – | – | – | 769 |
| Subtotal | 4 228 | 722 | 462 | 1 480 | 593 | 232 | 880 | – | – | 2 | 8 599 |
| **Executive Directors** | | | | | | | | | | | |
| A Kanana (Chief Executive Officer) | – | – | – | – | – | – | – | 308 | – | 10 | 318 |
| K Mukhari (Chief Financial Officer and Acting Executive Officer) | – | – | – | – | – | – | – | 3 536 | 340 | 164 | 4 040 |
| Total Land Bank | **4 228** | **722** | **462** | **1 480** | **593** | **232** | **880** | **3 844** | **340** | **176** | **12 957** |

## LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 40. Group remuneration (continued)

Table 2: Remuneration of Land Bank Insurance Services non-executive directors and executive directors for 2023 (R 000)

| | Board | AGM | HRRC | Audit & Risk | Investment & actuarial | Ad Hoc Meetings | Cash Salary | Retention Payments | Other Benefits Fees & Expenses | 2023 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-Executive Directors | | | | | | | | | | |
| EM Pillay | 268 | 9 | – | 11 | 11 | 28 | | | – | 327 |
| JF Kirsten | 29 | 9 | – | – | 32 | 28 | | | – | 99 |
| D Van Der Westhuizen | 29 | 9 | 56 | – | – | 47 | | | – | 142 |
| K Sukdev | 327 | 9 | 49 | 53 | 105 | 66 | | | – | 611 |
| M Bosman | 147 | 9 | 94 | 53 | 64 | 57 | | | – | 424 |
| D Subbiah | 147 | 9 | 82 | 53 | 74 | 66 | | | – | 432 |
| C Masuku | 147 | 9 | 16 | 119 | 74 | 57 | | | – | 423 |
| NR Nkosi | – | 9 | – | – | – | – | | | – | 9 |
| Subtotal | 1 097 | 76 | 298 | 288 | 360 | 350 | – | – | – | 2 468 |
| Executive Directors | | | | | | | | | | |
| A Rakgalakane – Managing Director | | | | | | | 3 448 | 1 717 | 128 | 5 293 |
| **Total Land Bank Insurance Services** | **1 097** | **76** | **298** | **288** | **360** | **350** | **3 448** | **1 717** | **128** | **7 761** |

## Notes to the Financial Statements

### 40. Group remuneration (continued)

Table 3: Remuneration – Land Bank non-executive directors and executive directors for 2022 (R'000)

| | Board | AGM | Audit & Finance | Risk & Governance | Credit & Investment | HRRC | SEC | Ad Hoc Meetings | Cash Salary | Other Benefits Fees & Expenses | 2022 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-Executive Directors | | | | | | | | | | | |
| MA Moloto | 483 | 9 | – | 49 | 171 | 49 | 49 | 28 | – | – | 839 |
| NR Nkosi | 371 | – | – | 16 | 16 | 16 | 16 | 47 | – | – | 484 |
| DR Hlatshawayo | 138 | 9 | 82 | – | 115 | 73 | 73 | 38 | – | – | 528 |
| LA Makenete | 175 | – | – | – | – | 16 | 16 | 47 | – | – | 255 |
| SA Lund | 138 | 9 | 82 | 73 | – | 33 | 16 | 38 | – | – | 389 |
| D Maithufi | 175 | – | – | 42 | 16 | – | – | 57 | – | – | 289 |
| TN Mashanda | 175 | – | 66 | – | – | 16 | – | 47 | – | – | 304 |
| Prof JF Kirsten | 175 | – | – | – | 49 | – | 25 | 47 | – | 1 | 297 |
| NP Motshegoa | 175 | – | – | – | 49 | – | 16 | 47 | – | – | 288 |
| EM Pillay | 155 | – | 70 | – | 16 | – | – | 47 | – | – | 288 |
| Dr M Tom | 175 | – | 66 | 16 | – | 25 | – | 47 | – | – | 329 |
| D van der Westhuizen | 154 | – | – | 17 | 16 | 16 | – | 47 | – | – | 251 |
| ME Makgatho | 293 | 9 | 186 | 49 | 189 | – | – | 95 | – | – | 822 |
| ST Cornelius | 138 | 9 | 82 | – | 116 | 49 | – | 38 | – | – | 432 |
| ME Makgoba | 138 | 9 | 33 | 49 | 116– | – | 49 | 28 | – | – | 432 |
| Subtotal | 3058 | 54 | 666 | 311 | 870 | 295 | 262 | 710 | – | 1 | 6227 |
| Executive Directors | | | | | | | | | | | |
| A Kanana (Chief Executive Officer) | – | – | – | – | – | – | – | – | 3,700 | 123 | 3,823 |
| K Mukhari (Chief Financial Officer) | – | – | – | – | – | – | – | – | 3,400 | 28 | 3,428 |
| **Total Land Bank** | **3058** | **54** | **666** | **360** | **738** | **278** | **245** | **653** | **7,100** | **152** | **13 478** |

1 *Mr Ayanda Kanana, former CEO resigned and left at the end of April 2022.*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 40. Group remuneration (continued)

Table 2: Remuneration of Land Bank Insurance Services non-executive directors and executive directors for 2022 (R 000)

| | Board | HRRC | Audit & Risk | Investment & Actuarial | Ad Hoc Meetings | Cash Salary | Other Benefits3 Fees & Expenses | 2022 Total |
|---|---|---|---|---|---|---|---|---|
| Non-Executive Directors | | | | | | | | |
| DR Hlatshwayo | 343 | – | – | – | – | | – | 343 |
| ME Makgatho | 29 | – | – | 11 | – | | – | 40 |
| D Subbiah6 | 147 | – | 42 | 42 | 9 | | – | 241 |
| S Masuku | 147 | – | 108 | 42 | 9 | | – | 308 |
| M Bosman | 147 | 74 | 53 | 42 | 9 | | – | 327 |
| K Sukdev | 237 | – | 42 | 84 | 9 | | – | 373 |
| Subtotal | **1 052** | **74** | **246** | **222** | **38** | **–** | **–** | **1 632** |
| Executive Directors | | | | | | | | |
| A Rakgalakane – Managing Director | | | | | | 3 303 | 29 | 3 332 |
| Total Land Bank Insurance Services | **1 052** | **74** | **246** | **222** | **38** | **3 303** | **29** | **4 964** |

## Notes to the Financial Statements

## 40. Group remuneration (continued)

### Table 5: Remuneration – Land Bank executive officers in 2023 (R'000)

| Title | Guaranteed Package | Retention Payments | Cell Phone Allowance | Other Benefits | Total 2023 |
|---|---|---|---|---|---|
| ETM Dlamini – Human Capital | 2 951 | – | 24 | 89 | 3 064 |
| SCE Soundy – Strategy and Communications | 3 026 | 291 | 24 | 93 | 3 434 |
| F Stiglingh – Portfolio Management Services | 3 004 | 289 | 24 | 90 | 3 407 |
| SN Sebueng – Legal Services | 2 380 | 229 | 24 | 69 | 2 702 |
| S Diza – Chief Risk Officer | 2 392 | 230 | 24 | 69 | 2 715 |
| U Magwentshu – Corporate Banking and Structured Investments | 2 445 | – | 22 | 81 | 2 548 |
| | – | – | – | – | – |
| Total | **16 198** | **1 039** | **142** | **491** | **17 870** |

### Table 5: Remuneration – Land Bank executive officers in 2022 (R'000)

| Title | Guaranteed Package | Retention Payments | Cell Phone | Other Benefits | Total 2022 |
|---|---|---|---|---|---|
| ETM Dlamini – Human Capital | 2 838 | – | 24 | 4 | 2 866 |
| SCE Soundy – Strategy and Communications | 2 909 | | 24 | 5 | 2 938 |
| LC Makupula – CDBB | 2 888 | – | 24 | 3 | 2 915 |
| F Stiglingh – Portfolio Management Services | 2 288 | – | 24 | – | 2 312 |
| SN Sebueng – Legal Services | 2 600 | – | 24 | 5 | 2 629 |
| LL Magingxa – Agricultural Economics & Advisory | 1 598 | – | 24 | – | 1 622 |
| U Magwentshu – Corporate Banking and Structured Investments | 2 700 | – | 15 | – | 2 715 |
| Total | **17 821** | **–** | **159** | **17** | **17 997** |

*1 Ms Unathi Magwentshu resigned and left the bank at the end of February 2023*
*2 Mr Lwandiso Makupula resigned and left the bank at the end of January 2023*
*3 Mr Litha Magingxa resigned and left the bank at the end of May 2022*

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA
Annual Financial Statements for the year ended 31 March 2023

**Notes to the Financial Statements**

## 41. Extension and Procurement by other means

This comprises of the reporting required by PFMA Instruction Note 3 of 2021/22.

| Type of Submission | Name of Submission | Proposed Contract Value (R'000) | Original Contract Value (R'000) | Contract Extension Value (R'000) | Contract Percentage | Contract Period | Preferred Bidder |
|---|---|---|---|---|---|---|---|
| Extension | | | | | | | |
| Contract Extension – Time and Value | The Continuation for Financial Advisory Services | - | - | 2 100 | 13.13 | 3 months | Riskworx (Pty) Ltd |
| Contract Extension – Time and Value (above 15%) | Extension for the Riskworx Agreement | 1 014 | 814 | 200 | 25% | 3 weeks | Excalsoft Development Proprietary Limited |
| | Extension of the Head Office furniture storage facility | 432 | 324 | 108 | 33.33 | 3 months | Khomanani X Ray Systems |
| | Extension of contract for Professional Evaluation and Research (PEAR) Media Monitoring | 456 | - | 76 | 17% | 6 months | FNB / RMB ABSA Standard Bank Nedbank |
| Contract Extension – Time and Value (under 15%) | Extension of the Joint Prosperity Agreements | Rates | - | - | | | Lima Rural Development Foundation NPC |
| | Extension of contracts for 21st Century JEasy Paterson Point Job Evaluation System License and Managed Integrity Evaluation Proprietary Limited | Rates based | - | - | | 6 months | RMB |
| | Extension of contract for Monabo Hygiene Services | 9 390 | 9 056 | 334 | 4% | 2 months | Joint Prosperity |
| Contract Extension – Time only | Extension of the time relating to the Service Level Agreement with Lima Rural Development Foundation NPC | - | - | - | | 4 months | S&P |
| | A further 1-year extension of the Marsh Insurance Brokerage Agreement to the Land Bank – (No financial implications) | - | - | - | | 12 months | Farmers Weekly Agri By Agri SA Food for Mzanzi |
| | Extension of Agriseker Onderskrywingsbestuurder (Pty) Ltd Binder Agreement | Rates based | - | - | | | Boss Installation & Transport |
| Contract Extension above 15% | Contract extension for Banking Services Contract For Land Bank | 917 | 2 533 | 917 | 24.67% | 12 months | 21st Century JEasy Paterson Point Job Evaluation System MIE |

## 41. Extension and Procurement by other means (continued)

| Type of Submission | Name of Submission | Proposed Contract Value (R'000) | Original Contract Value (R'000) | Contract Extension Value (R'000) | Contract Percentage | Contract Period | Preferred Bidder |
|---|---|---|---|---|---|---|---|
| Procurement by other means | | | | | | | |
| Single Source | Single source deviation appointment relating for S&P Transition Matrices and Default rate data | USD 25 | – | – | | 12 months | Professional Evaluation and Research(PEAR) |
| | Promotional campaign on the resumption of lending activities | 308 | – | – | | | Monabo Hygiene Services |
| Sole Source | Debt collection system license renewal for a period of 12 months | 895 | – | – | | 12 months | Marsh Insurance Brokerage |
| | Appointing Khomanani X-Ray Systems for the maintenance of the X-Ray machine | 38 | – | – | | 36 months | Agriseker |

## 42. Correction of prior period error

During the year, the Land Bank recorded the following prior period error.

### (1) Loans and advances:

The collateral disclosed in the current and prior periods was duplicated for certain contracts. The error occurred limited only to a group of exposures where multiple contracts are covered by the same collateral. The underlying collateral management system did not contain these duplications. This duplication was only on extraction of a summary report used for the disclosure on the AFS and the year-end ECL calculation. This error was identified to have also occurred in prior years. Consequently, prior year ECL and the disclosure of collateral in the Note 9 needed to be restated.

These corrections have been applied retrospectively.

The Bank corrected this error in the current year and restated the prior year's balances as reflected below. The correction of the error(s) results in adjustments as follows:

Statement of financial position
- 'Loan and advances"
- " Equity"

Statement of profit or loss and other comprehensive income
- "Interest Income"
- "Net impairment charges, claims and recoveries"

# LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA

## Annual Financial Statements for the year ended 31 March 2023

### Notes to the Financial Statements

### 42. Correction of prior period error (continued)

The correction of the error results in the adjustments below:

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Previously Reported R'000 | Correction Of Error R'000 | Restated R'000 | Previously Reported R'000 | Correction of Error R'000 | Restated R'000 |
| **2022** | | | | | | |
| Statement of Financial Position | | | | | | |
| Loans and advances | 20 856 852 | (368 086) | 20 488 496 | 20 856 582 | (368 086) | 20 488 496 |
| Accumulated loss | (2 823 937) | (301 094) | (3 125 031) | (3 887 525) | (368 086) | (4 188 619) |
| Statement of Comprehensive Income | | | | | | |
| Interest income | 2 975 318 | (92 163) | 2 883 155 | 2 970 393 | (92 163) | 2 878 230 |
| Net impairment charges, release, claims and recoveries | 1 298 552 | (88 502) | 1 210 050 | 1 298 552 | (88 502) | 1 210 050 |
| Statement of Changes in Equity | | | | | | |
| Accumulated loss | (2 823 937) | (301 094) | (3 125 031) | (3 887 525) | (368 086) | (4 188 619) |
| **2021** | | | | | | |
| Statement of Financial Position | | | | | | |
| Loans and advances | 30 887 859 | (187 421) | 30 700 438 | 30 887 859 | (187 421) | 30 700 438 |
| Accumulated loss | (4 262 853) | (187 421) | (4 450 274) | (5 245 288) | (187 421) | (5 432 709) |

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